# Fina Enerji Holding
# Anonim Şirketi
# And Its Subsidiaries

Consolidated Financial Statement
As At and For The Year Ended As At
31 December 2019
With
Independent Auditor's Report

30 April 2020

This report includes 3 pages of independent auditor's report and 91 pages of consolidated financial statements together with their explanatory notes.

# Fina Enerji Holding Anonim Şirketi
# and its Subsidiaries

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# Independent Auditor's Report

To the Shareholders of Fina Enerji Holding Anonim Şirketi,

## Report on the Audit of the Consolidated Financial Statements

*Opinion*

We have audited the consolidated financial statements of Fina Enerji Holding Anonim Şirketi (the "Company") and its subsidiaries (together referred as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and 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.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a Turkish corporation and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity

*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 Company'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.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member firm of KPMG International Cooperative

Gökçe Adıgüzel, SMMM
Engagement Partner
30 April 2020
Istanbul, Turkey

**Fina Enerji Holding A.Ş. and Its Subsidiaries**
Consolidated Statement of Financial Position
As at 31 December 2019
*(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated)*

| | *Notes* | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | *5* | 241,041 | 102,044 |
| Trade receivables | *7* | 73,528 | 35,188 |
| *- Due from related parties* | *4* | *1,810* | *343* |
| *- Due from third parties* | | *71,718* | *34,845* |
| Other receivables | *8* | 1,054 | 27,214 |
| *- Due from third parties* | | *1,054* | *27,214* |
| Derivative financial instruments | *17* | 30,618 | 1,170 |
| Prepaid expense | *9* | 16,995 | 13,345 |
| Current tax assets | *25* | 5,411 | 1,473 |
| Other current assets | *16* | 95,898 | 39,135 |
| **Total current assets** | | **464,545** | **219,569** |
| | | | |
| **Non-current assets** | | | |
| Other receivables | *8* | 1,826 | 1,940 |
| *- Due from related parties* | *4* | *333* | *1,387* |
| *- Due from third parties* | | *1,493* | *553* |
| Financial investments | *12* | 50 | 196 |
| Prepaid expense | *9* | 55,035 | 32,197 |
| Property and equipment | *10* | 5,073,166 | 3,433,869 |
| *-Mining assets* | *10* | *1,579,509* | *829,676* |
| *-Other property and equipment* | *10* | *3,493,657* | *2,604,193* |
| Intangible assets | | 104,882 | 50,688 |
| *- Goodwill* | *11* | *11,782* | *11,782* |
| *- Other intangible assets* | *11* | *93,100* | *38,906* |
| Deferred tax assets | *25* | 973,559 | 544,086 |
| Other non-current assets | *16* | 80,503 | 104,984 |
| **Total non-current assets** | | **6,289,021** | **4,167,960** |
| **Total assets** | | **6,753,566** | **4,387,529** |

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

**Fina Enerji Holding A.Ş. and Its Subsidiaries**
Consolidated Statement of Financial Position
As at 31 December 2019
*(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated)*

| LIABILITIES | *Notes* | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **Current liabilities** | | | |
| Short term loans and borrowings | *6* | 409,191 | 442,525 |
| Short term portion of long term loans and borrowings | *6* | 1,349,706 | 705,341 |
| Derivative financial instruments | *17* | 52,454 | 118,129 |
| Trade payables | *7* | 141,344 | 118,260 |
| *- Due to related parties* | *4* | *64* | *283* |
| *- Due to third parties* | | *141,280* | *117,977* |
| Payables due to employee benefits | *15* | 9,577 | 4,138 |
| Other payables | *8* | 25,923 | 7,126 |
| *- Due to related parties* | *4* | *23,105* | *5,124* |
| *- Due to third parties* | | *2,818* | *2,002* |
| Deferred revenue | *9* | 5,277 | 596 |
| Current tax liability | *25* | 2,327 | 451 |
| Short-term provisions | | 3,482 | 2,327 |
| *- Provisions for employee benefits* | *14* | *3,039* | *2,063* |
| *- Other short-term provisions* | | *443* | *264* |
| Other current liabilities | *16* | 10,890 | 10,133 |
| **Total current liabilities** | | **2,010,171** | **1,409,026** |
| **Non-current liabilities** | | | |
| Long term loans and borrowings | *6* | 2,726,629 | 2,115,881 |
| Derivative financial instruments | *17* | -- | 69,346 |
| Trade payables | *7* | 51,542 | -- |
| *- Due to third parties* | | *51,542* | -- |
| Deferred revenue | *9* | 1,329 | 1,920 |
| Long-term provisions | | 15,826 | 9,395 |
| *- Provisions for employee benefits* | *14* | *4,478* | *2,785* |
| *- Other non-current provision* | *14* | *11,348* | *6,610* |
| Deferred tax liabilities | *25* | 450,021 | 264,510 |
| Other non-current liabilities | | 4,722 | 4,602 |
| **Total non-current liabilities** | | **3,250,069** | **2,465,654** |
| | | | |
| **EQUITY** | | | |
| Paid-in capital | *18* | 291,349 | 291,349 |
| Items that will not be reclassified to profit or loss, accumulated | | 1,718,658 | 1,103,026 |
| *- Fair value reserve* | | *1,720,653* | *1,104,579* |
| *- Actuarial effect from defined pension plans* | | *(1,995)* | *(1,553)* |
| Capital reserves | *18* | 189,187 | 189,187 |
| Restricted reserves | *18* | 1,993 | 2,140 |
| Accumulated losses | | (1,241,106) | (800,354) |
| Net profit/(loss) for the year | | 163,983 | (440,801) |
| **Total equity attributable to equity owners of the Company** | | **1,124,064** | **344,547** |
| **Non-controlling interests** | *18* | **369,262** | **168,302** |
| **Total equity** | | **1,493,326** | **512,849** |
| **Total liabilities** | | **6,753,566** | **4,387,529** |

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

## Fina Enerji Holding A.Ş. and Its Subsidiaries

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 31 December 2019

*(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated)*

| | Note | 1 January-31 December 2019 | 1 January-31 December 2018 |
|---|---|---|---|
| **Profit or loss** | | | |
| Revenues | *19* | 866,610 | 568,591 |
| Cost of revenues | *19* | (532,013) | (306,909) |
| **Gross profit** | | **334,597** | **261,682** |
| General administrative expenses | *20* | (31,281) | (23,514) |
| Marketing expenses | *20* | (3,496) | (1,134) |
| Impairment losses on trade and other receivables, net | *24* | (1,583) | (874) |
| Other income | *21* | 3,157 | 3,711 |
| Other expenses | *21* | (7,120) | (1,379) |
| **Operating profit** | | **294,274** | **238,492** |
| Finance income | *23* | 172,786 | 64,152 |
| Finance costs | *23* | (509,326) | (1,019,418) |
| **Net finance costs** | | **(336,540)** | **(955,266)** |
| **Loss before tax for the year** | | **(42,266)** | **(716,774)** |
| **Taxation income** | | **397,389** | **338,697** |
| - Current tax expense | *25* | (2,964) | (1,893) |
| - Deferred tax benefit | *25* | 400,353 | 340,590 |
| **Profit/(Loss) for the year** | | **355,123** | **(378,077)** |
| **Other comprehensive income items that will not to be reclassified to profit or loss** | | | |
| Change in fair value reserve | *10,18* | 782,093 | 1,408,713 |
| Actuarial losses from defined pension plans | | (470) | (129) |
| Deferred tax expense | *25* | (156,391) | (281,717) |
| **Total other comprehensive income** | | **625,232** | **1,126,867** |
| **Total comprehensive income** | | **980,355** | **748,790** |
| | | | |
| **Profit/(Loss) attributable to:** | | | |
| Owners of the Company | | 163,983 | (440,801) |
| Non-controlling interests | *27* | 191,140 | 62,724 |
| **Profit/(Loss) for the year** | | **355,123** | **(378,077)** |
| **Total comprehensive Income attributable to:** | | | |
| Owners of the Company | | 779,615 | 663,675 |
| Non-controlling interests | *27* | 200,740 | 85,115 |
| **Total comprehensive income for the year** | | **980,355** | **748,790** |

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

## Fina Enerji Holding A.Ş. and Its Subsidiaries

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2019

*(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated)*

| | | Items that will not be reclassified to profit or loss | | | | Accumulated Profit/(Losses) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ***Paid in capital*** | ***Fair value reserve*** | ***Actuarial losses from defined pension plans*** | ***Capital reserves*** | ***Restricted reserves*** | ***Previous years' losses*** | ***Net Profit/(Loss) for the year*** | ***Total equity attributable to equity owners of the group*** | ***Non-controlling Interest*** | ***Total equity*** |
| **Balance as at 1 January 2018** | **290,621** | **--** | **(1,450)** | **--** | **971** | **(612,405)** | **(186,780)** | **(509,043)** | **83,187** | **(425,856)** |
| Net loss for the year | -- | -- | | -- | -- | -- | (440,801) | **(440,801)** | 62,724 | **(378,077)** |
| Other comprehensive income/(expense) (Note 18,25) | -- | 1,104,579 | (103) | -- | -- | -- | -- | **1,104,476** | 22,391 | **1,126,867** |
| **Total comprehensive income** | **--** | **1,104,579** | **(103)** | | **--** | **--** | **(440,801)** | **663,675** | **85,115** | **748,790** |
| **Transactions with owners of the Company, recognised directly in equity** | | | | | | | | | | |
| Transfers | -- | -- | -- | -- | 1,169 | (187,949) | 186,780 | -- | -- | -- |
| Capital reserve contribution by the shareholders (Note 18) | -- | -- | -- | 189,187 | -- | -- | -- | **189,187** | -- | **189,187** |
| Capital commitment payment (Note 18) | 728 | -- | -- | -- | -- | -- | -- | **728** | -- | **728** |
| **Balance as at 31 December 2018** | **291,349** | **1,104,579** | **(1,553)** | **189,187** | **2,140** | **(800,354)** | **(440,801)** | **344,547** | **168,302** | **512,849** |
| **Balance as at 1 January 2019** | **291,349** | **1,104,579** | **(1,553)** | **189,187** | **2,140** | **(800,354)** | **(440,801)** | **344,547** | **168,302** | **512,849** |
| Net profit for the year | -- | -- | -- | -- | -- | -- | 163,983 | **163,983** | 191,140 | **355,123** |
| Other comprehensive income/(expense) (Note 18,25) | -- | 616,074 | (442) | -- | -- | -- | -- | **615,632** | 9,600 | **625,232** |
| **Total comprehensive income** | **--** | **616,074** | **(442)** | **--** | **--** | **--** | **163,983** | **779,615** | **200,740** | **980,355** |
| **Transactions with owners of the Company, recognised directly in equity** | | | | | | | | | | |
| Transfers | -- | -- | -- | -- | 256 | (441,057) | 440,801 | -- | -- | -- |
| Capital contribution by NCI in the consolidated subsidiaries (Note 18) | -- | -- | -- | -- | -- | -- | -- | -- | **122** | **122** |
| Capital contribution by the parent company on behalf of NCI in the consolidated subsidiaries (Note 18) | -- | -- | -- | -- | -- | (98) | -- | **(98)** | **98** | -- |
| Dividend distribution through the reserves (Note 18) | -- | -- | -- | -- | (403) | 403 | -- | -- | -- | -- |
| **Balance as at 31 December 2019** | **291,349** | **1,720,653** | **(1,995)** | **189,187** | **1,993** | **(1,241,106)** | **163,983** | **1,124,064** | **369,262** | **1,493,326** |

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

| | *Notes* | **1 January-31 December 2019** | **1 January-31 December 2018** |
|---|---|---|---|
| **A. Cash flows from operating activities** | | **387,705** | **419,470** |
| **Profit/(Loss) for the year** | | **355,123** | **(378,077)** |
| **Adjustments to reconcile cash flow** | | **43,859** | **733,943** |
| Depreciation and amortization charge | *22* | 68,111 | 63,593 |
| Provision for doubtful receivables | *24,7* | 2,050 | 2,367 |
| Write off receivables for the unfeasible projects | *24* | 845 | -- |
| Gain on disposal of tangible and intangible assets, net | *10,21* | (1,994) | (1,163) |
| Write off capitilized costs | *10,21* | 4,077 | -- |
| Derivative transactions | *23* | (56,590) | 414,384 |
| Provision for employee termination indemnities (including interest costs) | *14* | 1,594 | 895 |
| Provision for vacation pay liability | *14* | 976 | 435 |
| Provision for litigation and claims | | 179 | -- |
| Loss from liquidation of non-consolidated entity | *21* | 1,320 | -- |
| Interest income and expense | *23* | 159,294 | 105,292 |
| Unrealized foreign exchange losses | *23* | 252,833 | 475,343 |
| Adjustments to other cash flows from the finance activities | | 8,553 | 11,494 |
| Income tax benefit, net | *25* | (397,389) | (338,697) |
| **Changes in working capital** | | **(39,428)** | **48,488** |
| Change in trade receivables | | (42,547) | (4,095) |
| Change in payables related to employee benefits | | 5,439 | 1,773 |
| Change in other receivables, other current assets and other non-current assets | | (49,759) | (7,895) |
| Change in trade payables | | 23,084 | 48,813 |
| Change in deferred revenue | | 4,681 | 596 |
| Change in other payables and other liabilities related with operating activities | | 19,674 | 9,296 |
| **Cash flows generated from operating activities** | | **28,151** | **15,116** |
| Employee termination indemnity paid | *14* | (454) | (358) |
| Collection received from doubtful receivables | *7* | 1,312 | 1,493 |
| Interest received | | 32,319 | 16,292 |
| Taxes paid | *25* | (5,026) | (2,311) |

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

| | | | |
|---|---|---|---|
| **B. Cash flows used in investing activities** | | **(490,446)** | **(315,019)** |
| Proceeds from sales of tangible and intangible assets | *10* | 2,087 | 7,947 |
| Advance payment for pre-emption rights or share rights | *16* | (8,793) | (51,512) |
| Proceeds from advances received back from pre-emption rights or share rights, upon cancellation | *16* | 57,608 | -- |
| Change in prepayments | | (26,488) | (16,779) |
| Cash outflows from tangible assets recognized through "asset acquisition" | *10* | (2,171) | -- |
| Cash outflows from intangible assets recognized through "asset acquisition" | *11* | (1,882) | -- |
| Acquisition of tangible assets (mining assets included) | *10,6* | (507,690) | (247,786) |
| Acquisition of intangible assets | *11* | (3,117) | (6,889) |
| **C. Cash flows provided from / (used in) financing activities** | | **205,397** | **(103,227)** |
| Proceeds from loans and borrowings | *6* | 1,836,178 | 1,250,511 |
| Change in blocked deposits | | (42,560) | 30,035 |
| Capital reserve contribution by the shareholders | *18* | -- | 189,187 |
| Changes in other receivable and payables due to/from related parties, net | | (4,479) | (1,137) |
| Capital contribution by non controlling interests in the consolidated subsidiaries | *18* | 122 | -- |
| Capital increase and/or commitment payment by the shareholders | *18* | -- | 728 |
| Repayment of loans and borrowings | *6* | (1,309,109) | (1,062,846) |
| Cash flows from derivative transactions, related to investing activities, net | | (107,879) | (389,648) |
| Other finance cost paid | | (8,553) | (11,494) |
| Interest paid | *6* | (158,323) | (108,563) |
| **Net increase in cash and cash equivalents before translation effect of foreign currency (A+B+C)** | | **102,656** | **1,224** |
| **D. Translation effect of foreign currency at cash and cash equivalents** | ***23*** | **(6,219)** | **(449)** |
| **Net increase in cash and cash equivalents (A+B+C+D)** | | **96,437** | **775** |
| **E. Cash and cash equivalents at the beginning of the period** | ***5*** | **43,108** | **42,333** |
| **Cash and cash equivalents at the end of the period(A+B+C+D+E)** | ***5*** | **139,545** | **43,108** |

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

**Notes to the consolidated financial statements**


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# 1 Reporting Entity

Fina Enerji Holding Anonim Şirketi ("Fina Enerji Holding" or "Company") was established for development and construction of energy projects and wholesale and trade of electricity on 2007.

Fina Enerji Holding is owned and managed by Fina Holding A.Ş. ("Fina Holding"). As at 31 December 2019 Fina Enerji Holding has 30 subsidiaries ("Subsidiaries") (2018: 30) (all together will be referred to as "the Group" herein and after).

The nature of the operations of the subsidiaries and effective ownership interest of the Group are listed below:

| Subsidiary | Operation Scope | 2019 Effective ownership Rate (%) | 2018 Effective ownership Rate (%) |
|---|---|---|---|
| Fina Elektrik Enerjisi İthalat İhracat Ve Toptan Satış A.Ş. ("Fina Elektrik") | Electricity wholesale | 99.99 | 99.99 |
| Fina Enerji Mühendislik Mütaahhitlik Dış Ticaret Montaj ve Servis A.Ş. | Engineering and consultancy services | 99.99 | 99.99 |
| Ütopya Elektrik Üretim A.Ş | Power Generation-wind power plants | 84.99 | 84.99 |
| Ziyaret RES Elektrik Üretim Sanayi ve Ticaret A.Ş. | Power Generation-wind power plants | 99.99 | 99.99 |
| Manres Elektrik Üretim A.Ş | Power Generation-wind power plants | 99.99 | 99.99 |
| Çanres Elektrik Üretim A.Ş | Power Generation-wind power plants | 99.99 | 99.99 |
| Öres Elektrik Üretim A.Ş | Power Generation-wind power plants | 99.99 | 99.99 |
| Osres Elektrik Üretim A.Ş(*) | Power Generation-wind power plants | 99.99 | 99.99 |
| Aysu Enerji Sanayi ve Ticaret A.Ş. | Power Generation-wind power plants | 99.99 | 99.99 |
| Serin Enerji Elektrik Üretim Dağıtım Sanayi Ve Ticaret A.Ş. | Power Generation-wind power plants | 99.99 | 99.99 |
| Borares Enerji Elektrik Üretim A.Ş. | Power Generation-wind power plants | 99.99 | 99.99 |
| Kavram Enerji Elektrik Üretim A.Ş. | Power Generation-wind power plants | 100.00 | 100.00 |
| İstres Elektrik Üretim A.Ş.(*) | Power Generation-wind power plants | 99.99 | 99.99 |
| Yares Elektrik Üretim A.Ş.(*) | Power Generation-wind power plants | 99.99 | 99.99 |
| Balres Elektrik Üretim A.Ş. (***) | Power Generation-solar power plants | 99.99 | 99.99 |
| Ovayel Elektrik Üretim A.Ş. (*) | Power Generation-wind power plants | 99.99 | 99.99 |

| Subsidiary | Operation Scope | 31 December 2019 Effective ownership Rate (%) | 31 December 2018 Effective ownership Rate (%) |
|---|---|---|---|
| Polyak Eynez Enerji Üretim Madencilik Sanayi Ve Ticaret A.Ş. ("Polyak") (*) | Power Generation-mine, mine exploration | 51.00 | 51.00 |
| Anres Elektrik Üretim A.Ş.(*) | Power Generation-mine, mine exploration | 99.99 | 99.99 |
| Binres Elektrik Üretim A.Ş.(*) | Power Generation-wind power plants | 99.99 | 99.99 |
| Eceres ElektrikÜretim A.Ş.(*) | Power Generation-wind power plants | 99.99 | 99.99 |
| Geyres Elektrik ÜretimA.Ş.(*) | Power Generation-wind power plants | 99.99 | 99.99 |
| Kıres Elektrik Üretim A.Ş.(*) | Power Generation-wind power plants | 99.99 | 99.99 |
| Sapres Elektrik Üretim A.Ş.(*) | Power Generation-wind power plants | 99.99 | 99.99 |
| Zeres Elektrik Üretim A.Ş.(*) | Power Generation-wind power plants | 99.99 | 99.99 |
| Adayel Elektrik Üretim A.Ş.(***) | Power Generation-solar power plants | 99.00 | 99.00 |
| Beyres Elektrik Üretim A.Ş.(***) | Power Generation-solar power plants | 99.00 | 99.00 |
| Gülres Elektrik Üretim A.Ş.(***) | Power Generation-solar power plants | 99.00 | 99.00 |
| Elayel Elektrik Üretim A.Ş. (***) | Power Generation-solar power plants | 99.00 | 99.00 |
| Fina Energy Trading B.V. ("FETBV") (**) | Electricity trade | -- | 99.99 |
| Girişim Araştırma Geliştirme ve Müşavirlik Hizm. A.Ş. (*) | Investment research and development | 99.99 | 99.99 |
| Ares Elektrik Üretim A.Ş. ("Ares") (****) | Power Generation-wind power plants | 100.00 | -- |

# 1 Reporting entity *(continued)*

(*) Non-operating entities or entities that have just recently started its operations at the reporting dates.

(**) FETBV is kept out of consolidation scope as at 31 December 2018 due to the fact that its effect on the consolidated financial statements has been insignificant. The company liquidation report, which was taken unanimously in the FETBV Company General Assembly Decision dated 25 November 2019, was registered on 19 December 2019 and FETBV numbered with 54251087 was deregistered from the Business Register Extract by Netherlands Chamber of Commerce.

(***) All shares, except one share, of the entities operating in the solar energy sector where Fina Energy Holding had own 99% of direct shares were transferred to the Ziyaret, which is also indirectly owned by the Company by 99%. However, since the Company maintained its 99% interest and control over these transferred companies even subsequent to the transaction, this transfer did not cause any significant difference in terms of consolidated financial statements.

(****) All shares of Ares, which will operate in the Van region, with an installed power capacity of 50 MWe / 53.2 MW, has been acquired by Fina Enerji Holding AŞ during the current year with the decision letter dated 11 July 2019 and numbered 32231 of the Head of Electricity Market Department, which positively evaluates the demand of the Company within the framework of the relevant legislation. In return for the transfer of Ares shares, the Company will have to make cash payments to the seller party for a total consideration of Euro 8.5 million, including Euro 0.75 million in advance on the signature date and Euro 7.75 million totally in installments, within 21 months at the latest after the fully-commissioning of the energy wind powerplant to be constructed.

Legal entity of the acquired entity, Ares, has been evaluated as of the share transfer transaction date and current reporting period within the scope of accounting for business combinations that are also allowed to be applied early within the scope of TFRS 3. Taking into account the phases of inputs and the process that are the basic functions of an enterprise, and the outputs which the process and inputs could have the ability to generate, it was evaluated that the foregoing acquisition was in the form of "asset acquisition" and the "transformation into the business" process has not been completely realized even as of the reporting period.

As at 31 December 2019, 10 wind powerplants with the total capacity of 331.7 MWe (31 December 2018: 319.7, 9 plants) and 4 solar powerplant projects with the total capacity of 24.7 MWe (31 December 2018: 24.7 MWe capacity, 4 projects) are operated by the Group. Additionally, studies for the construction of 4 new wind powerplants with the total planned capacity of 194 MWe have been conducted by the Group on-going basis except that capacity extension plans for the outstanding project of the Group as well. Besides to the operational powerplants, Fina Elektrik was established for wholesale-retail distribution and trade of electricity and Polyak was established for coal mine research and extraction operations.

As at the reporting date, the number of employees of the Group is 1,092 (31 December 2018: 752). Fina Enerji Holding's registered address is as follows ;

Kısıklı Caddesi
Sarkuysan Ak İş Merkezi
No:4, A Blok, Kat:1
34662 İstanbul/Türkiye
Web: http://www.finaenerji.com

# 2 Basis of preparation of financial statements

## 2.1 Basis of preparation

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The consolidated financial statements were approved by the Group management on 30 March 2020. The Company's General Assembly and the other regulatory bodies have the power to amend the consolidated financial statements even after issuance.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.1 Basis of preparation *(Continued)*

**(b) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the derivative financial assets and liabilities measured at fair value and the operating powerplants (as disclosed in note 2.6.4 (ii) in further details) that are measured at fair value prospectively starting from the previous year end.

**(c) Comparative information**

The accompanying consolidated financial statements are prepared comparatively to present the tendency in the financial position, financial performance and cash flows of the Group. If necessary, in order to meet the consistency with the presentation of the financial statements in the current period, comparative information is reclassified and material differences are explained in related notes.

(a) Amount by TL 21,617 reported under interest expenses related to financial borrowings was reclassified as foreign exchange losses. Due to this reclassification made, there has been no change in the consolidated income statements in respect of main captions, however related items have been revized in the consolidated statement of cash flows and credit risk management disclosures as well accordingly.

(b) Regarding the other income and expenses note, gain on sale of scrapped items by TL 718 was presented as new sub-item by extracting from the sub-item"others" previously recorded therein. Accordingly, related items have been revized in the consolidated statement of cash flows.

(c) Amount by TL 24,687 previously recognized as foreign currency loss was reclassified by grossing up to foreign exchange gain from bank deposits and loss on derivative transactions, TL 22,304 and TL 46,991, respectively in finance income and costs note. Accordingly, related items have been revized in the consolidated statement of cash flows.

(d) Amount by TL 4,199 previously recognized as retail service revenue was reclassified to retail and wholesale electricity sales in revenue note.

| | Notes | Reported 1 January-31 December 2018 | Re-classification | Restated 1 January-31 December 2018 |
|---|---|---|---|---|
| Revenues **(d)** | *19* | 568,591 | -- | 568,591 |
| Cost of revenues | *19* | (306,909) | -- | (306,909) |
| **Gross profit** | | **261,682** | -- | **261,682** |
| General administrative expenses | *20* | (23,514) | -- | (23,514) |
| Marketing expenses | *20* | (1,134) | -- | (1,134) |
| Impairment losses on trade and other receivables, net | *24* | (874) | -- | (874) |
| Other income **(b)** | *21* | 3,711 | -- | 3,711 |
| Other expenses | *21* | (1,379) | -- | (1,379) |
| **Operating profit** | | **238,492** | -- | **238,492** |
| Finance income **(c)** | *23* | 41,848 | 22,304 | 64,152 |
| Finance costs **(a) (c)** | *23* | (997,114) | (22,304) | (1,019,418) |
| **Net finance costs** | | **(955,266)** | -- | **(955,266)** |
| **Loss before tax for the year from continuing operations** | | **(716,774)** | -- | **(716,774)** |

# 2 Basis of preparation of financial statements *(Continued)*

## 2.1 Basis of preparation *(Continued)*

### (d) Functional and presentation currency

The financial statements are presented in Turkish Lira ("TL"), which is the Group's functional currency. All other currencies are stated in thousand TL unless otherwise stated.

### *(e)* Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

## 2.2 Changes in accounting policy

The accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its comparative consolidated financial statements as at and for the year ended 31 December 2019 other than explained below.

The Group initially applied IFRS 16 *Leases* starting from 1 January 2019. Besides to this change, many new changes are effective to be applied starting from 1 January 2019. However those new application other than IFRS 16 do not have significant impact on the consolidates financial statements of the Group.

**IFRS 16 First Transition**

The Group applied IFRS 16 using the modified retrospective approach, under which the right-of-use assets and lease liabilities are initially recognized with same amount at 1 January. Accordingly, the comparative information presented for 2018 is not restated in which it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

***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 new definition of a lease as required by IFRS 16.

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.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.2 Changes in accounting policy *(Continued)*

**As a lessee**

As a lessee, the Group leases many assets including some right of easement, machinery&equipments and car rentals.

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

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

The Group could have used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- 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.

*(ii) Leases classified as finance leases under IAS 17*

The Group leases a number of items of solar powerplants and mining. These 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.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.2 Changes in accounting policy *(Continued)*

*(iii) Transition effect*

During the transition to IFRS 16, the Group recognized all right-of-use assets and lease liabilities with the same initial amount of TL 4,563 on 1 January 2019 as a result of new application for the leases previously classified as operating leases.

In addition, regarding the lease contracts within the scope of IFRS 16, the Group started to recognize depreciation charge and interest expenses instead of operating lease expenses. For the year ended 31 December 2019, the Group has recognized amortization expenses of TL 393 and interest expense of TL 1,205, respectively. At the current reporting date, no impairment has been recognized for the right of use assets.

The impact on transition during the current year is summarised in the reconciliation table below.

| **Right-of-use assets** | |
|---|---|
| Initial cost recognized through the intangible assets at 1 January 2019 | 4,563 |
| Items subject to recognition exemption **(C)** | 4,332 |
| **Net book value at 1 January 2019, before exemption (A)** | **8,895** |
| Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group's consolidated financial statements | **4,035** |
| **Discounted using the incremental borrowing rate at 1 January 2019 (A)** | 8,895 |
| **Finance lease liabilities recognised as at 31 December 2018 (B)** | 164,251 |
| **Recognition exemption (C)** | (4,332) |
| **Extension options reasonably certain to be exercised (D)** | -- |
| **Total lease liabilities recognised at 1 January 2019 (D=A+B-C+D)** | **168,814** |

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 which applied is 26-32% as the weighted-average rate having considered the lease lives and scopes.

### 2.3 IFRS amendments and comments

***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.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.3 IFRS amendments and comments *(Continued)*

***Standards issued but not yet effective and not early adopted** (Continued)*

**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 judgment. 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 is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 3.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.3 IFRS amendments and comments *(Continued)*

***Standards and interpretations issued but not yet effective** (Continued)*

**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.

### 2.4 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position 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 to realize the asset and settle the liability simultaneously.

### 2.5 Financial position

The accompanying consolidated financial statements are prepared assuming that the Group will continue as a going concern and those foregoing consolidated financial statements does not indicate any risk related to the going concern principle. The Group has gross revenue and operating profit with the amount of TL 334,597 and TL 294,274, respectively. In the accompanying consolidated financial statements, the Group has total equity attributable to the main equity holders of the Group amounts to TL 1,124,064 as at and for the year ended 31 December 2019. The Group's current assets are less than its current liabilities by TL 1,545,626. In addition, as explained in Note 26, the Group's foreign currency exposure arises mainly from loans and borrowings denominated in foreign currencies. However, electricity sales of power plants within the scope of Renewable Energy Resources Supporting Mechanism ("RERSM") are based in foreign currency and provides natural hedge against the foreign currency risk as well.

The Group management expects that consolidated profitability targets will be reached up in middle term as its start-up operations get matured together with the commissioning of new power plants under construction and development as of the reporting date. As cash flows are generated upon reaching up the targeted profitability levels, those will be directed to repayments of financial debt mostly denominated in foreign currencies, there will also be a reduction in finance costs.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies

Significant accounting policies applied during the preparation of the consolidated financial statements are summarized as follows.

*2.6.1 Basis of consolidation*

The accompanying consolidated financial statements include the accounts of the parent company Fina Enerji Holding and its subsidiaries on the basis set out in sections below. The financial statements of the entities included in the consolidation have been prepared as at the same date of preparation of the consolidated financial statements.

*(i) Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group has control over an entity when the Group has power over the entity, exposure, or rights, to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the amount of the Group's returns. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquire; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Transaction costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Acquisition of legal entity, Ares, has been evaluated as of the share transfer transaction date and current reporting period within the scope of accounting for business combinations that are also allowed to be applied early within the scope of IFRS 3. Taking into account the phases of inputs and the process that are the basic functions of an enterprise, and the outputs which the process and inputs could have the ability to generate, it was evaluated that the acquisition was in the form of "asset acquisition" and the "transformation into the business" process has not been completely realized as of the reporting period.

*(ii) Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls a business when exposure, or rights, to variable returns due to its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

## 2 Basis of preparation of financial statements *(Continued )*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.1 Basis of consolidation (Continued)*

*(ii) Subsidiaries (Continued)*

As of and for the year ended 31 December 2018, Fina Energy Trading, subsidiary of the Group, was still in start up phase and non operating and is not consolidated due to the insignificance of its financial impact on the consolidated financial statements

The liquidation decision of FETBV, which was taken unanimously in the respective General Assembly Decision dated 25 November 2019, was registered on 19 December 2019 and FETBV with commercial registry numbered 54251087 was delisted was deregistered from the Business Register Extract by Netherlands Chamber of Commerce. In the consolidated financial statements for the current period, it has been decided that the accumulated investment amounts together with the receivable balances (including accrued interest) subject to the liquidation thereof was recognized through the profit or loss statement.

*(iii) Non-controlling interest*

Non-controlling interest are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

*(iv) Loss of control*

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

*(v) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

*2.6.2 Financial instruments*

*(i) Recognition and initial measurement*

Trade receivables and payables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised 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, except for those at fair value through the profit or loss statement ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable and payable without a significant financing component is initially measured at the transaction price.

*(ii) Classification and subsequent measurement*

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through the other comprehensive income ("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.

## 2 Basis of preparation of financial statements *(Continued )*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.2 Financial instruments (Continued)*

*(ii) Classification and subsequent measurement (Continued)*

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.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

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 FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

*Financial assets – Business model assessment: Policy*

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. The information considered includes

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- the purpose of the business model; to manage daily liquidity, to sustain the particular interest income or might be to adjust the maturity of financial assets to the maturity of the debts that fund these assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for de-recognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

## 2 Basis of preparation of financial statements *(Continued )*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.2 Financial instruments (Continued)*

*(ii) Classification and subsequent measurement (Continued)*

*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 compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

| | |
|---|---|
| **Financial assets at FVTPL** | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. |
| **Financial assets at amortised cost** | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on de-recognition is recognised in profit or loss. |

## 2 Basis of preparation of financial statements *(Continued )*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.2 Financial instruments (Continued)*

*(ii) Classification and subsequent measurement (Continued)*

At the reporting date, the Group does have financial assets stated as measured at amortized cost such as "cash and cash equivalents" and "trade and other receivables". Besides, the Group also has derivative instrument reclassified as "Financial assets at FVTPL".

***Trade and other receivables***

Short-term trade receivables are measured at the invoice amount unless the effect of imputing interest is significant. In the event that there is a situation that indicates that the Group will not be able to collect all amounts in due course, allowance for impairment is established for the trade receivables. The amount of this allowance is the difference between the carrying amount of the receivable and the amount of the recoverable amount. The recoverable amount is the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the trade receivable.

The Group has preferred to apply the simplified approach defined in IFRS 9 in the context of the impairment calculations of trade receivables, which are accounted for at amortized cost in the consolidated financial statements and which do not include a significant financing component (less than a year). With this approach, the Group measures the allowances for losses on trade receivables from an amount equal to expected lifetime credit losses where trade receivables are not impaired for certain reasons (except for impairment losses). In the measurement of expected credit losses for trade receivables, certain provisioning ratios are calculated based on the number of days that the maturities of trade receivables are exceeded and these rates are reviewed and revised whenever necessary, in each reporting period. Each reporting period is calculated and re-evaluated.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents include cash on hand and demand/time deposits. Deposits under blockage are classified under cash and cash equivalents.

**Financial liabilities**

Financial liabilities of the Group are comprised of loans and borrowings, trade and other payables and derivative instruments.

Financial liabilities are classified as measured at amortised cost or FVTP. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

*(iii) Derecognition*

**Financial assets**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

## 2 Basis of preparation of financial statements *(Continued )*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.2 Financial instruments (Continued)*

*(iii) Derecognition (Continued)*

*Financial assets (Continued)*

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

**Financial liabilities**

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises 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 recognised 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 recognised in profit or loss.

*(iv) Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

*(v) Derivative financial instruments*

The Group involves in derivative transactions mainly so as to manage borrowing cost up to acceptable level. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. The Group engages in currency forward, swap and accumulator options contracts. However, these derivatives are not designated in a hedge relationship that qualifies for hedge accounting and subsequent to initial recognition, all changes in its fair value are recognised immediately in profit or loss. The Group measures non-physical electricity purchase and sales contracts with their fair value.

*(vi) Impairment*

**Financial assets and contractual assets**

The Group recognises loss allowances for expected credit loss ("ECL")s on:

- financial assets measured at amortised cost;

The Group measures loss allowances for trade receivable and contractual assets at an amount equal to lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

## 2 Basis of preparation of financial statements *(Continued )*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.2 Financial instruments (Continued)*

*(vi) Impairment (Continued)*

**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 Group expects to receive).

The cash deficit is the difference between the cash flows to be incurred and the cash flows expected to be received by the entity. As the amount and timing of payments are considered in expected credit losses, a credit loss occurs even if the entity expects to receive the full payment in the contract with the maturity specified in the contract.

ECLs are discounted at the effective interest rate of the financial asset.

**Credit-impaired financial assets**

At each reporting date, the Group assesses whether financial assets carried at amortised cost. 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.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than unexpected duration even after past due;
- the restructuring of a loan advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

**Presentation of allowance for ECL in the statement of financial position**

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

**Write-off**

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

*(vii) Share capital*

*Ordinary Shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of tax effect.

## 2 Basis of preparation of financial statements *(Continued )*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.3 Borrowing costs*

All borrowing costs that cannot be associated with capital expenditures in progress are recognized through the profit or loss in the period which they occur.

*2.6.4 Property and equipment*

*(i) Mining assets*

Mining assets consist of land, land improvements and buildings, mine development costs, and rehabilitation assets including deferred stripping costs whereafter they are measured at cost less accumulated amortisation and impairment. The depreciation starts when the production begins in the mining area. Depreciation of mining assets are included in production costs of related mining areas.

Development costs incurred to evaluate and develop new ore bodies, or to define mineralisation in existing ore bodies, road construction, or to establish or expand productive capacity are capitalised. Mine development costs are capitalised to the extent they provide probable access to reserves, have future economic benefits and they are attributable to an area of interest or those that can be reasonably allocated to the area of interest. Development costs include sinking shafts, construction of underground galleries, roads and tunnels. Costs of producing coal is recognised in the statement of comprehensive income. In cases where it is difficult to separate the development costs from the exploration and evaluation costs, the entire costs are recognised as expense.

The depreciation starts when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Development costs incurred during the production phase are capitalised and depreciated to the extent that they have future economic benefits. The development cost is allocated at initial recognition to its significant components (such as mine fields) and each component is depreciated separately by respective units of production method, considering the attributable area of interest. The major overhauls that extend the future economic benefits throughout the life of mine are capitalised as future benefits will flow to the Group. Other than major overhauls, repairs are expensed as incurred. Depreciation and amortisation of development costs are calculated principally by the units of production method based on estimated proven and probable reserves of attributable area of interests.

Mine development costs at each mine site; The total amount of coal extracted from the relevant mine during the period is depreciated over the amortization rate found by dividing it by the total observable and probable processable remaining coal reserve amount in that mine site. The observable and probable reserves in each mining site represent the known and measurable resource that can be extracted and processed economically in the foreseeable future. The rehabilitation and mine closure costs of the mine sites that arise due to the mine site development activities and the production made; are recognized to the consolidated financial statements of the Group on the basis of discounted cash outflows at the reporting date, stemmed from expenditures that are likely to be made during the closure and rehabilitation of mines. The foregoing provisions are discounted to the value of the reporting date with the discount rate applied which is pre-tax and does not include the risk related to the estimation of future cash flows, taking into account the interest rate and the risk related to the liability, and the calculations are reviewed in each reporting period.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.4 Property and equipment (Continued)*

*(i) Mining assets (Continued)*

The provision for the rehabilitation and mine closure is capitalised in the cost of the related mining asset (recognised as separately as "rehabilitation asset" or "asset retirement obligation"). Changes in estimates of this provision are added to, or deducted from, the cost of the related asset subject to certain limits unless the related mine fields are depleted and the operation of coal mine extraction in the fields is ceased. The rehabilitation assets are depreciated using the lower of their useful life or units of production method which is the ratio of the number of ore extracted from the open pit areas during the period from the respective areas of interest to the remaining proven and probable coal reserves in the respective open pit mine field. The cost of ongoing current programs to prevent and control pollution, and the effect of changes in estimates regarding the provision for the mine field depleted and on which coal mine extraction activity is ceased, is charged against the statements of profit or loss as incurred.

*Exploration and evaluation costs*

Exploration costs are expensed as incurred. When a decision is taken that a mining property is capable of commercial production (when the Group management are able to demonstrate that future economic benefits are probable, which will be the establishment of increased proven and probable reserves at the relevant location) and legal permissions are obtained (e.g. mining license) for a specific area of interest; all further pre-production expenditure, including the costs related to property acquisitions and mineral and surface rights together with evaluation activities such as geological, geochemical studies and drilling for further technical feasibility (such as in-field exploration) in the relevant area of interest, are capitalised.

The Group management considers whether there is an impairment indicator such as significant decrease in resource and reserve, serious mine accidents, expiration or permanent cancellation of rights as at reporting dates.

*(ii) Powerplants (Operating)*

When the Group's power plants (operating) are subject to revaluation, the carrying amount of power plant are adjusted to revalued amount. At the date of revaluation, the accumulated depreciation of powerplant (operating) are eliminated against the gross carrying amount of those power plants. Any increase arising on the revaluation of power plant 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 recognized. A decrease in the carrying amount arising on the revaluation of such power plants 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. Depreciation on power plant is charged through the profit or loss. On the subsequent sale or taken off the operation of a revalued powerplant, the attributable revaluation surplus remaining in revaluation reserve of the asset is transferred directly to retained earnings. Unless the asset is disposed, the revaluation fund is not transferred to the retained earnings.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.4 Property and equipment (Continued)*

*(ii) Powerplants (Operating) (Continued)*

At the reporting date, the Group's powerplants were given with its license maturity information and the subsidiary under which those are under operation as follows. The useful life for the powerplants stated at fair value in valuation report studies prepared in accordance with discounted cash flow ("DCF") approach were used considering the license maturity year as given in the table below.

| Powerplants (Operation) | Entity | Operation area | License maturity |
|---|---|---|---|
| Karadere | Aysu Enerji Sanayi ve Ticaret A.Ş. | Wind energy | 2060 |
| Karova | Borares Enerji Elektrik Üretim A.Ş. | Wind energy | 2060 |
| Şadıllı | Çanres Elektrik Üretim A.Ş. | Wind energy | 2061 |
| Uluborlu | Kavram Enerji Yatırım Üretim ve Ticaret A.Ş. | Wind energy | 2060 |
| Günaydın | Manres Elektrik Üretim A.Ş. | Wind energy | 2060 |
| Salman | Öres Elektrik Üretim A.Ş. | Wind energy | 2060 |
| Ormandıra | Serin Enerji Elektrik Üretim Dağ. Paz. Sanayi ve | Wind energy | 2061 |
| Bergama | Ütopya Elektrik Üretim Sanayi ve Ticaret A.Ş. | Wind energy | 2056 |
| Ziyaret | Ziyaret Res Elektrik Üretim Sanayi ve Ticaret A.Ş. | Wind energy | 2053 |
| Kızılcaterzi | Osres Elektrik Üretim A.Ş. | Wind energy | 2061 |
| Çardak | Balres Elektrik Üretim A.Ş. | Solar energy | Planned life |
| Acıpayam | Balres Elektrik Üretim A.Ş. | Solar energy | Planned life |
| Kocadere | Balres Elektrik Üretim A.Ş. | Solar energy | Planned life |
| Kocabaş | Balres Elektrik Üretim A.Ş. | Solar energy | Planned life |
| Kocabaş | Adayel Elektrik Üretim A.Ş. | Solar energy | Planned life |
| Kocabaş | Beyres Elektrik Üretim A.Ş. | Solar energy | Planned life |
| Kocabaş | Elayel Elektrik Üretim A.Ş. | Solar energy | Planned life |
| Kocabaş | Gülres Elektrik Üretim A.Ş. | Solar energy | Planned life |

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.4 Property and equipment (Continued)*

*(iii) Non-mining assets*

Items of property and equipment other than mining assets including ones under ongoing investment processes, are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- cost of materials and direct labor;
- any other costs directly attributable to bringing the asset to a working condition for its intended use;
- when the Group has an obligation to remove the assets or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the asset) is recognised in "other income" or "other expense" through the profit or loss.

*Subsequent costs*

Subsequent expenditure is capitalized only when it is probable that the future economic benefit associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

*Depreciation*

Items of property and equipment other than mining assets are depreciated from the date that they are available for use, or in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is recognized on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Depreciation is recognized through the profit or loss unless it is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and the useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land and construction in progress (unless it is ready to use) is not subject to depreciation.

The estimated useful lives for the current and comparative periods are as follows:

| | **Useful lives(On Average/Interval)** |
|---|---|
| Powerplants | Remaining licence period |
| Buildings and land improvements | 5-50 year |
| Motor vehicles | 2-5 year |
| Furniture and fixtures | 2-20 year |
| Machinery and equipment | 3-25 year |

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.4 Property and equipment (Continued)*

*(iii) Non-mining assets (Continued)*

*Depreciation (Continued)*

Leasehold improvements are amortized over the shorter of periods of the respective leases and their useful lives, also on a straight-line basis. Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

The useful life of solar power plants are taken into account in the planned and expected service life of the power plants.

*2.6.5 Intangible assets*

*(i) Goodwill and other intangibles*

The excess of cost of the total consideration over the fair value of the identifiable assets, liabilities and contingent liabilities acquired in a business combination was recognized as goodwill. Goodwill is not amortized and is tested for impairment annually or more often when the circumstances indicate that the goodwill is impaired. When the cost of the acquisition is lower than the fair value of the identifiable assets, liabilities and contingent liabilities acquired in a business combination, the difference is recognized as income (gain on a bargain purchase (negative goodwill)).

The initial recognition of the business combination is accounted for provisionally if the fair values of the identifiable assets, liabilities and contingent liabilities acquired in a business combination can only be recognized, or the cost of a business combination is measured, only using provisional amounts. The provisional business combination accounting shall be completed in the 12 months following the date of acquisition and the adjustments, including those on goodwill, shall be recognized retrospectively.

Other intangible assets of the Group have finite useful lives, and are measured at cost less accumulated amortisation and any accumulated impairment losses, if any.

The carrying value of goodwill is reviewed at each reporting date and if necessary, permanent impairment amount are subject to be adjusted. In scope of IFRS 3, the carrying value of goodwill is reviewed at each year end so as to recognize the impairment losses if any.

*License acquired through asset acquisition*

Acquisition of legal entity, Ares, has been evaluated as of the share transfer transaction date and current reporting period within the scope of accounting for business combinations that are also allowed to be applied early within the scope of IFRS 3. Taking into account the phases of inputs and the process that are the basic functions of an enterprise, and the outputs which the process and inputs could have the ability to generate, it was evaluated that the acquisition was in the form of "asset acquisition" and the "transformation into the business" process has not been completely realized as of the reporting period. In return for the transfer of Ares shares, the Company will have to make cash payments cash to the seller party for a total consideration of Euro 8.5 million, including Euro 0.75 million in advance on the signature date and Euro 7.75 million in total, within 21 months in installments at the latest after the fully-commissioning of the energy wind power plant to be constructed. For the subsequent measurements of the license, when the asset acquisition transaction were transferred to business under IFRS 3 scope, an impairment test will be applied upon earlier of each year or in case of triggering event. Although the benefit expected from the license will not be realized unless the process start, amortization of license have been commenced since the acquisition date during the current period over the remaining license period due to the sole discretion of the license owner to plan and start the usage right.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.5 Intangible assets (Continued)*

*(ii) Subsequent expenditures*

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill, is recognized through profit or loss as incurred.

*(iii) Amortization*

Intangible assets are amortized on a straight-line basis in profit or loss over their estimated useful lives, from the date they are available for use.

Purchased software program rights are amortized for 3 to 15 years whereas the amortization of production license are amortized over the remaining license period unless the respective powerplant commence or is almost accepted to be ready commence to operate. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

*2.6.6 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.

*(i) 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.

*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, if any.

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.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.6 Leases (Continued)*

*(i) Policy applicable from 1 January 2019 (Continued)*

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.

The Group presents right-of-use assets in "tangible/intangible assets" and lease liabilities in 'loans and borrowings' in the statement of financial position.

*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.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.6 Leases (Continued)*

*(ii) Policy applicable before 1 January 2019*

*Leased assets*

Assets held by the Group under leases which transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as income by a seller lessee. Instead, it shall be deferred and amortised over the lease term.

Assets held under other leases are classified as operating leases and are not recognized in the Group's statement of financial position.

*Lease payments*

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

*Determining whether an arrangement contains a lease*

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. The following two criteria must be met for a "lease":

- the fulfillment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Group's incremental borrowing rate.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.7 Impairment on assets*

*(i) Financial assets*

The Group's accounting policy related to the impairment of financial assets was given in note 2.6.2.

*(ii) Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-live intangible assets are tested annually for impairment. Since the tangible assets measured at the revaluated value are explained through the accounting policies of other tangible assets, no further disclosure were given herein.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.8 Employee benefits*

*Reserve for employee severance indemnity*

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Group arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. It is computed and reflected in the consolidated financial statements on an accrual basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. Reserve for employee severance indemnity is computed using the ceiling amounts applicable for each year of employment which were TL 6,380 and (31 December 2018: TL 5,434) respectively on the basis of total gross wages of 30 workdays and the other benefits and principals.

In the accompanying consolidated financial statements, the Group has recognized a reserve for employee termination indemnity calculated by using actuarial methods and discounted by using the current market yield at the balance sheet date on government bonds, in accordance with International Accounting Standards (IAS) No.19 "Employee Benefits".

The principal assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at 31 December were as follows:

| | **2019** | **2018** |
|---|---|---|
| | **%** | **%** |
| Expected interest rate | 11.5 | 14 |
| Expected salary / wage increase | 7 | 9.5 |

*Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term vacation pay liability if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. In accordance with the existing labor law in Turkey, the Group is required to pay to the employee, whose employment is terminated due to any reasons, the wage of the deserved and unused vacation days over the gross prevailing wage and other benefits subject to contract at the date the contract is terminated.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.9 Provisions*

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

*Onerous contracts*

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

*Contractual obligations*

Main operations of the Group are to involve in wholesale of electricity to group companies and to other players in the market. The Group involves in commitment with the parties having role of buyer and seller in order to sell/purchase minimum level of electricity for fixed term or specific period. Especially, bilateral agreements with suppliers enable the Group to manage its purchasing position according to estimated electricity sales of related parties.

The electricity agreements includes the terms and conditions in case of either seller or buyer side. Due to the fact that the electricity could not be stored and the impossibility of determination of from whom the Group purchases the electricity used, it is impractical to prepare gross margin analysis on a contractual basis. Instead, the management monitors whether if the Group has an outstanding onerous contract during/at the reporting date through the comparison of the fixed sales price rates with the average current market price buying rates.

*Obligations upon improper estimations*

If the Group management does not reliably estimate the volume of purchasing and selling of electricity, the Group has to involve additional purchase/sell transactions from Enerji Piyasaları İşletme A.Ş. ("EPİAŞ") or other parties in the market leading the Group incur incremental costs in both of sales/purchase transaction to satisfy the contractual commitments.

*Provisions for EMRA regulations*

In case of incompliance with the Electricity Market Act numbered 6446 as well as with the regulations and communiqués promulgated by Energy Market Regulation Authority ("EMRA"), EMRA has the right to send a letter notifying the reason and related penalty fee with payment maturity to the Group. Although those penalties generally are paid in advance, some payments could be delayed until the final confirmation is reached in case of disagreement with EMRA. Based on the final conclusions as a result of assessment made by the Legal Department of the Group and assumption/analysis made by the Group management, required provision is made on the consolidated statement of the financial position as the notification is received.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.10 Revenue*

IFRS 15 requires revenue recognition for all contracts with customers to follow the five-step approach to revenue recognition.

***Step 1: Identifying the contract***

A contract exists only if it is legally enforceable, the collection of the consideration is probable, the rights to goods and services and payment terms can be identified, the contract has commercial substance; and the contract is approved and the parties are committed to their obligations.

If either contracts were negotiated as a single commercial package, or consideration in one contract depends on the other contract or goods or services (or some of the goods or services) are a single performance obligation the Company accounts the contracts as a single contract.

***Step 2: Identifying the performance obligations***

The Company defines 'performance obligation' as a unit of account for revenue recognition. The Group assesses the goods or services promised in a contract with a customer and identifies as:

(a) a performance obligation either a good or service that is distinct;

(b) or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

A contract may contain promises to deliver a series of distinct goods or services that are substantially the same. At contract inception, an entity determines whether the series of goods or services is a single performance obligation.

***Step 3: Determining the transaction price***

In order to determine the transaction price, the Group assesses how much consideration it expects to be entitled to by fulfilling the contract. In arriving at the assessment, the Group considers variable elements of consideration, as well as the existence of a significant financing component.

**Significant financing component**

The Group revises the promised amount of consideration for the effect of a significant financing component to the amount that reflects what the cash selling price of the promised good or service. As a practical expedient, the Group does not adjust the transaction price for the effects of a significant financing component if, at contract inception, the entity expects the period between customer payment and the transfer of goods or services to be one year or less. In cases where advance for the services are received and the payment scheme is broadly aligned with the Group's performance throughout the period, the Company concludes that the period between performance and payment is never more than 12 months, therefore the expedient is applied.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.10 Revenue (Continued)*

**Variable consideration**

The Company identifies items such as price concessions, incentives, performance bonuses, completion bonuses, price adjustment clauses, penalties, discounts, credits, or similar items may result in variable consideration if there is any in a customer contract.

***Step 4: Allocating the transaction price to performance obligations***

If distinct goods or services are delivered under a single arrangement, then the consideration is allocated based on relative stand-alone selling prices of the distinct goods or services (performance obligations). If directly observable stand-alone selling prices are not available, the total consideration in the service contracts is allocated based on their expected cost plus a margin.

***Step 5: Recognition of revenue***

The Company recognizes revenue over-time if any of the following conditions is met:

- Customer simultaneously receives and consumes the benefits as the entity performs, or

-The customer controls the asset as the entity creates or enhances it, or

- Company's performance does not create an asset for which the entity has an alternative use and there is a right to payment for performance to date.

For each performance obligation that is satisfied over time, an entity selects a single measure of progress, which depicts the transfer of control of the goods or services to the customer. The Company uses a method that measures the work performed reliably. The Company uses cost incurred to measure the progress towards to completion of the project where the input method is used and uses units transferred to measure the progress towards to completion of the project where the output method is used. If a performance obligation is not satisfied over time, then the Company recognize revenue at the point in time at which it transfers control of the good or service to the customer. The Company recognizes a provision in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits.

**Contract modifications**

The Company recognizes a contract modification as a separate contract if the modification results in a promise to deliver additional goods or services that are distinct and an increase in the price of the contract by an amount of consideration that reflects the entity's stand-alone selling price of those goods or services adjusted to reflect the circumstances of the contract. If the goods or services are distinct, then the entity accounts for the modification as if it were a termination of the existing contract and the creation of a new contract. If the modification to the contract does not add distinct goods or services, then the entity accounts for it on a combined basis with the original contract, as if the additional goods or services were part of the initial contract.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.10 Revenue (Continued)*

*Electricity sales*

Due to the fact that the electricity could not be stored, the purchase and sales realises at the same time and accordingly revenue and cost of revenue are recognised at the transaction time. Monthly invoicing is made at the month ends, when the Group prepares invoices for rendering services to its customers during one month period. Revenue based on electricity used by the customers, is recognized on an accrual basis when the significant risks and rewards of ownership have been transferred to the buyer, the amount of revenue is measured reliably, and recovery of the consideration and the inflow of economic benefits related with the transaction are probable. Net revenues represent the invoiced value of electricity used less sales discounts.

The Group management monitors closely at period ends and the delays of 5-10 days in electricity usage count do not have a significant impact on the accompanying financial statements. The Group's electricity generation subsidiaries sold electricity to EPİAŞ and Aydem Elektrik Perakende Satış AŞ ("Aydem") with feed-in tariff price of Renewable Energy Resources Support Mechanism ("RERSM"). By nature, this service realizes at the same time which the electricity generated as one transaction and accordingly revenue is recognised at the transaction time.

*2.6.11 Finance income and expenses*

Finance income, mainly comprised of interest income, gains from derivative transactions, foreign exchange gains and proceeds, including those from related parties. Interest income, is recognized in profit or loss on an accrual basis.

Finance expenses mainly comprised of interest expense on borrowings and for right-of-use assets under IFRS 16, losses from derivative transactions, foreign exchange losses, commission expenses, bank charges and similar finance costs.

Borrowing costs of a qualifying asset that is not directly related to purchase, construction or production of the asset is recognized in profit or loss by using the effective interest rate method.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position based on subsidiaries consolidated.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies *(Continued)*

*2.6.12 Corporate income taxes*

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

*(i) Current tax*

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

*(ii) Deferred tax*

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss ;
- Temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset if the required conditions met.

*Mining Investments*

The Group obtained the investment incentive certificate obtained on 16 June 2014 from Ministry of Economy for mining zone in Kınık, İzmir. Due to the fact that the investment subject to the incentive certificate is included in the priority investment, if the investment amount is more than 1 billion Turkish Lira and above, tax incentive is added to the investment contribution rate by 10 points and 50% is applied.

In this context, according to the incentive certificate, 80% tax reduction will be applied for the upcoming taxable income until it reaches 50% of the portion of the investments counted within the scope of the incentive certificate. The tax discount rate shall be applied by 80% over the upcoming taxable income for the portion subject to incentive scope.

In accordance with the article 32/A of Corporate Tax Law, the income generated over the eligible investments through the certificate granted by the Treasury Undersecretary of Turkey will be subject to the discounted tax rate until reaching the total contribution right over the total eligible investment. Besides, according to 2nd article of the communique operation start date is determined as date of completion of the investment or the application date for the visa of licence for the completion of the investment, if earlier.

## 2 Basis of preparation of financial statements *(Continued)*

*2.6* **Significant Accounting Policies** *(Continued )*

*2.6.12 Corporate income taxes (Continued)*

*(iii) Corporate income tax and dividend applications*

According to the Article 91 of the Law numbered 7061 "Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation" which was published on the Official Gazette numbered 30261 on 5 December 2017 and according to the provisional clause 10 added to the Corporate Tax Law numbered 5520; corporate tax rate for the taxation periods of 2018, 2019 and 2020 is amended to 22%, which would later be applied as 20% at the end of these periods. During these periods, Council of Ministers is entitled to decrease the corporate tax rate of 22% to 20%.

Advance tax is declared by the 14th of the second month following each calendar quarter end and is payable by the 17th of the second month following each calendar quarter end. Tax payments that are made in advance during the year are being deducted from the total final tax liability of the fiscal year. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns on the 25th date of the four months following the close of the accounting year to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filling during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

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

75% of the income derived by entities from the sale of participation shares, immovable property, preferential rights, founders' shares and redeemed shares which are carried in assets at least for two years is exempt from corporate tax as of 31 December 2018. However, according to the amendments by Law numbered 7061, this rate for immovable property is reduced from 75% to 50% and tax declarations starting from 2019 will be calculated using 50%.In order to be able to benefit from the exemption, the relevant income should be kept under a fund account in the liabilities and should not be withdrawn from the enterprise for 5 years. The receivable amount from those sales should be collected by the end of the second calendar year following the year of sale.

*(iv) Witholding tax application*

As per the decision no, 2006/10731 of the Council of Ministers published in the Official Gazette no,26237 dated 23 July 2006, certain duty rates included in the articles no,15 and 30 of the new Corporate Tax Law no,5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, increased from 10 percent to 15 percent.

There is a withholding tax liability when making dividend distributions and this liability is accrued at the time of dividend payment. The dividends distribution to the entities other than resident taxpayer and limited taxpayer entities which earn income through its office operating in Turkey or through permanent representative office are subject to withholding tax liability by 15%. When applying the withholding rates regarding the dividend distributions made to limited taxpayers entities and persons, the withholding rates included in the relevant Double Tax Prevention Agreements are also taken into consideration. The transfer of previous years' profits to the capital is not regarded as dividend distribution, so it is not subject to withholding tax.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies *(Continued )*

*2.6.12 Corporate income taxes (continued)*

*(v) Tax exposures*

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

The provisions concerning to the "thin capitalization" are stated in the Article 12 of new corporate tax law. According to the Article 12, if the borrowings obtained directly or indirectly from the shareholders of the companies or persons related to shareholders exceeds three times of the shareholders' equity of the Group at the beginning of the related year during the current year, the exceeding portion of the borrowing will be treated as thin capital.

The financial borrowings were regarded as thin capitalization provided with;

- The borrowings obtained directly or indirectly from the shareholders of the companies or related entities defined therein foregoing legislation,

- Used for/in the entity,

- Borrowings exceeds three times of the beginning of the related year shareholders' equity of the Group at any time during the related year.

*(vi) Transfer pricing*

Transfer pricing is disclosed in the 13th clause of the Corporate Tax Law under the heading "veiled shifting of profit" via transfer pricing. The application details are stated in the "general communiqué regarding veiled shifting of profits via transfer pricing" published on 18 November 2007.

If the tax payer involves in transactions with related parties relating to trading of products or goods not performed within the framework of the principals regarding to pricing according to peers, then it will be considered that the related profits are shifted in a veiled way via transfer pricing. Such veiled shifting of profits via transfer pricing will not be deducted from tax assessment for the purposes of corporate tax.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies *(Continued )*

*2.6.13 Subsequent events*

Subsequent events represents the events after reporting date comprising any event between the reporting date and the date of authorization for the financial statements' issue to the benefit or loss of the entity. Conditions of subsequent events are as follows:

- to have new evidences of subsequent events as of reporting date (adjusting events after reporting date); and

- to have evidences of showing related subsequent events occurred after reporting date (non adjusting events after reporting date).

The Group adjusts its consolidated financial statements according to the new condition if adjusting events arise subsequent to the reporting date. If it is not necessary to adjust the consolidated financial statements according to subsequent events, these subsequent events must be disclosed in the notes to the consolidated financial statements.

*2.6.14 Expenses*

Expenses are accounted on an accrual basis. Activities related expenses are recognized when incurred.

*2.6.15 Related parties*

Parties are considered related to the Company (or Group) if:

(a) directly, or indirectly through one or more intermediaries, the party:

(i) controls, is controlled by, or is under common control with the Group (this includes parent, subsidiaries and fellow subsidiaries);

(ii) has an interest in the Group that gives it significant influence over the Group; or

(iii) has joint control over the Group;

(b) the party is an associate of the Group ;

(c) the party is a joint venture in which the Group is a venture;

(d) the party is member of the key management personnel of the Group as its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled or significantly influenced by, or for which significant voting power in such entity resides with directly or indirectly, any individual referred to in (d);

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

A related party transaction is a transfer of resources, services or obligation between related parties, regardless of whether a price is charged..

## 2 Basis of preparation of financial statements *(Continued)*

### 2.6 Significant Accounting Policies *(Continued )*

*2.6.16 Dividends*

Dividend receivables are recognized as income in the period that they are declared. Dividends payable as an element of profit, the General Assembly decided to distribute dividends are recognized in the financial statements in the period that they are declared.

*2.6.17 Statement of cash flows*

In the consolidated cash flow statement, cash flows are classified as operating, investing and financing activities.

Cash flows from operating activities shows the cash flows from main operations of the Group including electricity wholesales, electricity retail sales and sales of electricity produced.

Cash flows from investing activities represent the cash flows used in / provided from investing activities (tangible and intangible investments).

Cash flows from financing activities represent the funds used in and repayment of the funds during the period.

Cash and cash equivalents are cash, bank deposits and other short term investments whose maturity are less than 3 months after purchasing date, having high liquidity without having risks of significant change of value.

### 2.7 Significant accounting estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

## 2 Basis of preparation of financial statements *(Continued)*

### 2.7 Significant accounting estimates and assumptions *(Continued)*

Information about critical judgement together with assumptions that might have significant effect through the consolidated financial statements of the Group are included in the following notes:

*Note 4- Other payables to related parties*

Group management has classified the short and long term liabilities for other payables to related parties, based on forecasted cash flows.

*Note 7–Impairment of trade receivables*

*Note 8– Other receivable and payables to third parties*

When the Group re-assesses the "value added taxes ("VAT") to be refunded" presented in the short term receivables in the previous period, in the light of recent developments with its tax advisors, the Group changed the assumption so that this receivable will be collected back only through offset mechanism like in usual deduction manner for other VAT receivables. Therefore, for the current period-end, the Group management has concluded that it is presented as deductable VAT under other current assets, whereas the comparative financial statements were not restated due to the fact that this is regarded as change in assumption.

When the Group evaluated term for return of receivable from EMRA its legal advisers in the light of recent developments, the Group management has concluded with reclassification of this receivable under other long-term receivables starting from the current year-end, whereas the comparative financial statements were not changed due to the fact that this is regarded as change in assumption.

*Note 10– Research and development expenses*

*Note 10-11 – Useful lives of tangible and intangible fixed assets and impairment*

*Note 10-14 – Provision for cost of Asset Retirement Obligation ("ARO") for mining investments*

*Note 14 – Provision for employee benefits*

*Note 16 – Advance payment*

Group management has evaluated the foreign currency denominated advances given for pre-exemption rights to obtain shares to the extent that its respective terms of contract together with the outstanding case at the reporting date makes more reasonable to state those at their recoverable value.

*Note 25 – Deferred tax assets and liabilities*

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

*Note 10– Fair value measurement of operating powerplants*

The valuation report was issued by the independent valuation company as accredited by Capital Market Board of Turkey on 31 December 2019 (31 December 2018: valuation report with release date of 1 March 2019)

The valuation techniques and parameters used in foregoing valuation studies were given as follows:

## 2 Basis of preparation of financial statements *(Continued)*

### 2.7 Significant accounting estimates and assumptions *(continued)*

*Note 10– Fair value measurement of operating powerplants (continued)*

| Powerplants (Operation) | Entity | Operation area | Method | Discount rate (Euro) | Capacity factors (Gross) Interval % | Unit sale price interval (Per Mw) | Period used in INAs |
|---|---|---|---|---|---|---|---|
| Karadere | Aysu Enerji Sanayi ve Ticaret A.S. | Wind energy | INA | 7.76% | 38-42% | 53-88 Euro | 2020-2060 |
| Karova | Borares Enerji Elektrik Üretim A.S. | Wind energy | INA | 7.76% | 29-33% | 56-88 Euro | 2020-2060 |
| Şadıllı | Çanres Elektrik Üretim A.S. | Wind energy | INA | 7.76% | 36-40% | 53-90 Euro | 2020-2061 |
| Uluborlu | Kavram Enerji Yatırım Üretim ve Ticaret A.S. | Wind energy | INA | 7.76% | 28-32% | 55-88 Euro | 2020-2060 |
| Günaydın | Manres Elektrik Üretim A.S. | Wind energy | INA | 7.76% | 29-33% | 52-88 Euro | 2020-2060 |
| Salman | Öres Elektrik Üretim A.S. | Wind energy | INA | 7.76% | 31-35% | 53-88 Euro | 2020-2060 |
| Ormandıra | Serin Enerji Elektrik Üretim Dağ. Paz. Sanayi ve Ticaret A.Ş. | Wind energy | INA | 7.76% | 35-39% | 54-88 Euro | 2020-2061 |
| Bergama/ Düzova | Ütopya Elektrik Üretim Sanayi ve Ticaret A.S. | Wind energy | INA | 7.76% | 30-34% | 54-90 Euro | 2020-2056 |
| Ziyaret | Ziyaret Res Elektrik Üretim Sanayi ve Ticaret A.S. | Wind energy | INA | 7.76% | 37-42% | 48-80 Euro | 2020-2053 |
| Kızılcaterzi | Osres Elektrik Üretim A.S. | Wind energy | INA | 7.76% | 30-34% | 57-91 Euro | 2020-2061 |
| Çardak | Balres Elektrik Üretim A.S. | Solar energy | INA | 7.76% | 19-21% | 54-118 Euro | 2020-2043 |
| Acıpayam | Balres Elektrik Üretim A.S. | Solar energy | INA | 7.76% | 22-24% | 55-118 Euro | 2020-2043 |
| Kocadere | Balres Elektrik Üretim A.S. | Solar energy | INA | 7.76% | 16-18% | 56-118 Euro | 2020-2043 |
| Kocabaş | Balres Elektrik Üretim A.S. | Solar energy | INA | 7.76% | 20-22% | 56-118 Euro | 2020-2043 |
| Kocabaş | Adayel Elektrik Üretim A.S. | Solar energy | INA | 7.76% | 20-22% | 56-118 Euro | 2020-2043 |
| Kocabaş | Beyres Elektrik Üretim A.S. | Solar energy | INA | 7.76% | 20-22% | 56-118 Euro | 2020-2043 |
| Kocabaş | Elayel Elektrik Üretim A.S. | Solar energy | INA | 7.76% | 20-22% | 56-118 Euro | 2020-2043 |
| Kocabaş | Gülres Elektrik Üretim A.S. | Solar energy | INA | 7.76% | 20-22% | 59-118 Euro | 2020-2043 |

## 3 Segment reporting

Segment results that are reported to the Group's Board of Directors (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Group has not disclosed segment information since it mainly operates in the energy sector in the field of electricity production including the related construction services together with the wholesale/retail within the borders of Turkey. The Group has not yet also started mine production and sales as of 31 December 2019.

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## 4 Related party disclosures

For the purpose of consolidated financial statements, the shareholders, key management personnel and the Board members, and in each case, together with their families and companies controlled by/affiliated with them; and associates, investments and joint venture partners are considered and referred to as the related parties. A significant portion has been eliminated and remaining after the elimination of transactions with related parties is not material to the Group. These transactions were carried out during the normal course of business in accordance with the market conditions.

### (a) Balances due from/to related parties

***Current term- trade receivables from related parties***

As at 31 December, due from the related parties are as follow:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Fiba CP Gayrimenkul Yönetim Hizmetleri | 988 | -- |
| Fiba Summa Adi Ortaklığı | 510 | -- |
| Özyeğin Üniversitesi | 149 | 104 |
| Marka Mağazacılık A.Ş. | 110 | 189 |
| Güven Varlık Yönetimi A.Ş. | 40 | 40 |
| Other | 13 | 10 |
| | **1,810** | **343** |

Trade receivables from related parties comprised of electricity retail sales to the Group companies. There is no collateral given or received from related parties for trade receivables and payables. Average collection period of the trade receivables is between 15-30 days. Interest rate as average by 19.1% and 3% during the current year, for TL and Euro denominated receivables respectively, have been applied (2018:18.2% and 3.0%, respectively).

***Long-term other receivables from related parties***

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Fina Energy Trading B.V. (*) | -- | 1,086 |
| Other | 333 | 301 |
| **Total** | **333** | **1,387** |

(*)Upon receipt of the liquidation decision of FETBV, which was taken unanimously in the respective General Assembly Decision dated 25 November 2019, was registered on 19 December 2019 it has been decided that the accumulated investment amounts together with the receivable balances including accrued interest thereon subject to the liquidation thereof was recognized through the profit or loss statement.

## 4 Related party disclosures *(Continued)*

### (a) Balances due from/to related parties *(Continued)*

***Other payables to related parties***

As at 31 December, other payables to related parties are as follow:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Fina Holding A.Ş. | 23,082 | 2,869 |
| Other | 23 | 2,255 |
| **Total** | **23,105** | **5,124** |

These balances consist of the remaining amounts provided to the Group from its related parties for financing. An annual interest rate of 10.00-22.70% in TL inter-company balance was applied during 2019 (2018: 12.5-24.4 %% annually). There is no collateral received or given to the related parties within the scope of these balances.

As at 31 December, trade payables to related parties are as follow:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Fiba Holding A.Ş. | 54 | 270 |
| Other | 10 | 13 |
| **Total** | **64** | **283** |

There is no collateral received or given to the related parties within the scope of these balances. As at 31 December, cash and cash equivalents from related parties are as follow:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Credit Europe NV (Time deposit) | 97,289 | -- |
| Fibabanka A.Ş. (Time deposit) | 62,563 | 669 |
| **Subtotal for time deposits** | **159,852** | **669** |
| Fibabanka A.Ş. (Demand deposit) | 676 | 260 |
| Credit Europe SA (Demand deposit) | 25 | 231 |
| **Subtotal for demand deposits** | **701** | **491** |
| **Grand total** | **160,553** | **1,160** |

## 4 Related party disclosures *(Continued)*

### (a) Balances due from/to related parties *(Continued)*

| Time deposits details in related parties | Maturity | Interest rate | 31 December 2019 |
|---|---|---|---|
| TL | January 2020 | 12.00% | 97,289 |
| EUR | January 2020 | 0.01% | 62,563 |
| **Total** | | | **159,852** |
| **Time deposits details in related parties** | **Maturity** | **Interest rate** | **31 December 2018** |
| TL | January 2019 | 21.50% | **669** |

At the reporting dates, the loan positions from the related parties were given with the terms details as follows:

| Related parties | Maturity | Interest rate range | 31 December 2019 |
|---|---|---|---|
| Fibabanka - EUR | 2024 | % 5.00 - % 7.00 | 137,217 |
| CEB NV – TL | 2020 | % 11.00 - % 13.00 | 97,309 |
| Fibabanka – TL | 2020 | % 12.00 | 25,559 |
| **Related parties** | **Vade** | **Interest rate range** | **31 December 2018** |
| Fibabanka TL | 2019 | % 19.00 - % 23.00 | 208,900 |
| Fibabanka USD | 2020 | % 8.00 - % 10.00 | 31,801 |

At the reporting dates, the derivative positions from the related parties operating in banking were given as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Fibabanka A.Ş. | 3,688 | 59 |
| Credit Europe S.A | -- | 1,111 |
| **Derivative instruments** | **3,688** | **1,170** |
| Fibabanka A.Ş. | (24,653) | (55,643) |
| Credit Europe S.A | (428) | (306) |
| **Derivative instruments** | **(25,081)** | **(55,949)** |

## 4 Related party disclosures *(Continued)*

### (b) Transactions with related parties

For the years ended 31 December, income recognized from the related parties were given as follows:

| Income from related parties | Nature of transaction | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| Fiba CP Gayrimenkul Yönetim Hizmetleri | Electricity sales | 7,596 | -- |
| Fibabanka A.Ş. | Derivative transactions | 5,596 | -- |
| Fiba Summa Adi Ortaklığı | Electricity sales | 3,804 | 2,232 |
| Özyeğin Üniversitesi | Electricity sales | 1,967 | 95 |
| Marka Mağazacılık A.Ş. | Electricity sales | 1,417 | 1,556 |
| Fibabanka A.Ş. | Interest from time deposits | 1,230 | 4,490 |
| Güven Varlık Yönetimi A.Ş. | Electricity sales | 335 | 247 |
| Credit Europe N.V. | Interest from time deposits | 289 | -- |
| Fibabanka A.Ş. | Electricity sales | 2 | 2,107 |
| Other | Miscallenaus | 84 | 79 |
| **Total** | | **22,320** | **10,806** |

For the years ended 31 December, expense recognized (including cost capitalized) from the related parties were given as follows:

| Expense due to related parties | Nature of transaction | 2019 | 2018 |
|---|---|---|---|
| Fibabanka A.Ş. | Finance cost &derivative transactions | 39,067 | 99,851 |
| Fiba Holding A.Ş. (Note 23) (*) | Intercompany charges (excluding from Banks) | 11,632 | 209 |
| Credit Europe S.A | Finance cost &derivative transactions | 658 | 1,292 |
| Credit Europe N.V. | Interest expense | 309 | -- |
| Girişim Alacak Yönetim A.Ş. | Consultancy services | 115 | -- |
| Fiba Emeklilik ve Hayat A.Ş. | Insurance services | 371 | -- |
| Fina Holding A.Ş.(Note 23) | Intercompany charges (excluding from Banks) | -- | 928 |
| | | **52,152** | **102,280** |

(*)The amount of TL 4,479 of interest expenses incurred in 2019 was recognized in the finance costs, whereas the remaining part was capitalized through the construction in progress.

There is no collateral received or given to the related parties within the scope of these transactions.

### (c) Transactions with key management personnel

As of the current reporting date, benefits provided for key management personnel amounted TL 15,916 (31 December 2018: TL 11,113).

## 5 Cash and cash equivalents

As at 31 December, cash and cash equivalents comprised the following:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Bank deposit | 237,228 | 102,009 |
| *- Time deposit* | *231,388* | *99,406* |
| *- Demand deposit* | *5,840* | *2,603* |
| Other cash and cash equivalents (*) | 3,791 | -- |
| Cash | 22 | 35 |
| **Cash and cash equivalents** | **241,041** | **102,044** |
| Restricted cash at banks | (101,496) | (58,936) |
| **Cash and cash equivalents- for statement of cash flows** | **139,545** | **43,108** |

As of 31 December, interest rates and maturity dates of time deposits is as follows:

| 31 December 2019 | Maturity | Interest rate interval | 31 December 2019 |
|---|---|---|---|
| **TL** | January 2020 | 8.50% - 12.00% | 172,616 |
| **EUR** | January 2020 | 0.01% | 62,563 |
| | | | **235,179** |
| **31 December 2018** | **Maturity** | **Interest rate interval** | **31 December 2018** |
| **TL** | January 2019 | 21.50% - 23.85% | 99,406 |

(*) These are cash equivalents which are liquid assets securing the futures exchange transactions to be performed in Derivatives Market of Turkey ("VIOP").

As at 31 December 2019, bank accounts include a blockage amounting to TL 251 on the Takasbank accounts due to electricity sales and purchase transactions (31 December 2018: TL 50 ) and TL 10 on various bank accounts for direct debiting systems ("DDS") (31 December 2018: TL 14) together with TL 155 on other blocked accounts (31 December 2018: TL 180). Other than those mentioned herein, the Group's time deposit accounts with less than 3 months maturity and amounting to TL 97,289 were pledged to secure the loans utilized from the same financial institution with same maturity at 31 December 2019 (31 December 2018: TL 58,692). The Group has a deposits of TL 3,791 securing the futures exchange transactions performed in VIOP starting within the current period.

The Group's exposure to interest, credit, currency risk for cash and cash equivalents are disclosed in Note 26.

## 6 Loan and borrowings

As at 31 December, financial liabilities comprised the following:

| **Short term liabilities** | **31 December 2019** | **31 December** |
|---|---|---|
| Short term bank borrowings | 409,191 | 442,525 |
| Short term portion of long term financial liabilities | 1,349,706 | 705,341 |
| *Short term portion of long term bank borrowings* | *1,293,103* | *682,321* |
| *Short term portion of long term finance lease liabilities* | *55,176* | *23,020* |
| *Short term portion of long term finance lease liabilities (IFRS 16 Effect)* | *1,427* | -- |
| **Total short term liabilities** | **1,758,897** | **1,147,866** |
| **Long term financial liabilities** | | |
| Long term bank borrowings | 2,393,379 | 1,974,650 |
| Long term finance lease liabilities | 329,457 | 141,231 |
| *Long term finance lease liabilities (IFRS 16 Effect)* | 3,793 | -- |
| **Total long term financial liabilities** | **2,726,629** | **2,115,881** |
| **Total financial liabilities** | **4,485,526** | **3,263,747** |

As of 31 December, the terms and conditions of outstanding short term loans comprised the following:

| | **31 December 2019** | | | | |
|---|---|---|---|---|---|
| | **Currency** | **Nominal interest rate range** | **Maturity** | **Nominal value** | **Carrying amount** |
| Secured borrowings | EUR | 2.50% - 7.00% | 2020 | 100,025 | 101,584 |
| Secured borrowings | TL | 11.00% - 25.00% | 2020 | 286,450 | 307,607 |
| | | | | **386,475** | **409,191** |

| | **31 December 2018** | | | | |
|---|---|---|---|---|---|
| | **Currency** | **Nominal interest rate range** | **Maturity** | **Nominal value** | **Carrying amount** |
| Secured borrowings | EUR | %6.5 - %7.0 | 2019 | 220,593 | 220,593 |
| Secured borrowings | TL | %17.25 - %26.60 | 2019 | 218,515 | 221,932 |
| | | | | **439,108** | **442,525** |

As at 31 December 2019, Fina Holding A.Ş. and/or Fiba Holding A.Ş. are the guarantors for loans and borrowings, whereas in rare cases secured only by Fina Enerji Holding AŞ as being its sole guarantor for the loans utilized by its subsidiaries. Other than those mentioned herein, the Group's time deposit accounts with less than 3 months maturity and amounting to TL 97,289 were pledged to secure the loans utilized from the same financial institution with the same maturity at 31 December 2019 (31 December 2018: TL 58,692).

As of the reporting date, on the sake of further security purposes contemplated from the loans agreements of all wind power plants, pledge has been established in favor of lenders except for Osres/Kızılcaterzi powerplant (recently started to be operated during last quarter of the current year), and on the other hand, there are partial financial leases established within the scope of the sell- lease back transactions made in 2018 based on some equipment to be re-financed in such manner.

As at 31 December, the Group has complied with its covenants.

## 6 Loans and borrowings *(Continued)*

According to the share pledge agreement on 28 December 2016, 180,000 shares of Kavram pledged against loans utilized from KfW IPEX-Bank GmbH ("KFW") and guarantee obtained from Yapı Kredi Bankası AŞ for loans obtained from European Investment Bank ("EIB") in proportion to credit risk incurred. Share pledge process was put in effective upon endorsement of shares together with delivery by hand to the pledgers. At the reporting date, Kavram has guarantee obligation by the amount of EUR 29,817,857 (2018: EUR 35,239,286) to Yapı Kredi Bankası A.Ş. to secure EIB project finance loan.

According to the share pledge agreement on 10 August 2017, 7,200,000 shares of Borares pledged against loans utilized from KFW and guarantee obtained from Yapı Kredi Bankası AŞ for loans obtained from EIB in proportion to credit risk incurred. Share pledge process was put in effective upon endorsement of shares together with delivery by hand to the pledgers. At the reporting date, Borares has guarantee obligation by the amount of EUR 19,320,000 (2018:EUR 19,320,000) to Yapı Kredi Bankası A.Ş. to secure EIB project finance loan.

As of 31 December, the terms and conditions of long-term loans and borrowings are given below:

| | 31 December 2019 | | | | |
|---|---|---|---|---|---|
| | **Currency** | **Nominal interest rate** | **Maturity** | **Nominal Value** | **Carrying amount** |
| Secured bank borrowings | EUR | Euribor + 0.55% - Euribor + 8.0% | 2020-2032 | 2,169,758 | 2,092,865 |
| Secured bank borrowings | TL | 10.55% - 24.50% | 2020-2023 | 805,529 | 967,792 |
| Secured bank borrowings | USD | 4.62% - Libor + 6.15% | 2020-2026 | 620,830 | 625,825 |
| Financial lease | EUR | 3.70% - 5.50% | 2020-2025 | 381,272 | 382,230 |
| Financial lease | TL | 29.24% | 2020-2025 | 2,376 | 2,403 |
| Financial lease (IFRS 16) | TL | 26-32% | 2021-2050 | 5,220 | 5,220 |
| | | | | **3,984,985** | **4,076,335** |

| | 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | **Currency** | **Nominal interest rate** | **Maturity** | **Nominal Value** | **Carrying amount** |
| Secured bank borrowings | EUR | Euribor + 0.55% - Euribor + 8.0% | 2019-2032 | 1,523,073 | 1,436,439 |
| Secured bank borrowings | TL | 14.30% - 23.00% | 2019-2021 | 871,814 | 1,008,928 |
| Secured bank borrowings | USD | 4.28% - 10.00% | 2019-2022 | 201,887 | 204,336 |
| Unsecured bank borrowings | EUR | 1.79% | 2019 | 7,268 | 7,268 |
| Financial lease | EUR | 3.70% - 5.50% | 2019-2025 | 164,053 | 164,251 |
| | | | | **2,768,095** | **2,821,222** |

## 6 Loans and borrowings *(Continued)*

As at 31 December, net carrying value based on repayment plans on bank borrowings is presented at the table below.

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Between 0-6 months | 841,404 | 615,432 |
| Between 6-12 months | 860,890 | 509,414 |
| Between 1-2 years | 927,534 | 982,855 |
| Between 2-5 years | 1,089,556 | 523,108 |
| More than 5 years | 376,289 | 468,687 |
| **Total** | **4,095,673** | **3,099,496** |

As at 31 December, net carrying value based on repayment plans on lease liabilities (including IFRS 16 effect during the current year) is presented at the table below.

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Between 0-6 months | 23,496 | 9,663 |
| Between 6-12 months | 33,107 | 13,357 |
| Between 1-2 years | 89,956 | 34,455 |
| Between 2-5 years | 231,886 | 95,970 |
| More than 5 years | 11,408 | 10,806 |
| **Total** | **389,853** | **164,251** |

The movement of the loans and borrowing for the year ended 31 December 2019 for statement of consolidated cash flow purposes were given as follows:

| | Opening | Cash flows from borrowings, net(*) | Opening Effect through IFRS 16 | Interest expense | Borrowing cost capitalized | Interest payment | Unrealized exchange losses(**) | Closing |
|---|---|---|---|---|---|---|---|---|
| **Bank borrowings** | **3,099,496** | 566,004 | -- | 174,290 | 166,836 | (140,958) | 230,005 | **4,095,673** |
| **Financial lease** | **164,251** | 204,402 | 4,563 | 12,844 | -- | (17,365) | 21,158 | **389,853** |
| **Total** | **3,263,747** | **770,406** | **4,563** | **187,134** | **166,836** | **(158,323)** | **251,163** | **4,485,526** |

The movement of the loans and borrowing for the year ended 31 December 2018 for statement of consolidated cash flow purposes were given as follows:

| | Opening | Cash flows from borrowings, net(*) | Interest expense | Borrowing cost capitalized | Interest payment | Unrealized exchange losses(**) | Closing |
|---|---|---|---|---|---|---|---|
| **Bank borrowings** | 2,307,952 | 202,712 | 115,128 | 104,108 | (103,675) | 473,271 | **3,099,496** |
| **Financial lease** | 54,855 | 85,966 | 5,319 | -- | (4,888) | 22,999 | **164,251** |
| **Total** | **2,362,807** | **288,678** | **120,447** | **104,108** | **(108,563)** | **496,270** | **3,263,747** |

The Group's exposure to interest, liquidity, currency risk for loans and borrowings are disclosed in Note 26.

(*) During the current year, the Group purchased tangible assets acquired through finance lease amounting to TL 243,337 (TL 204,402 on net basis considering repayment amounting to TL 38,935) under tangible assets and recognized opening effect through IFRS 16 amounting to TL 4,563 under intangible assets. During the previous year, the Group purchased tangible assets acquired through finance lease amounting to TL 101,013 (TL 85,966 on net basis considering repayment amounting to TL 15,047).

(**) Recognized directly through profit or loss (Note 23).

## 7 Trade receivables and payables

### Short term trade receivables

As at 31 December, short term trade receivables comprised the following:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Trade receivables | 71,718 | 34,630 |
| Doubtful receivables | 12,353 | 11,830 |
| Trade receivables from related parties (Note 4) | 1,810 | 343 |
| Allowance for doubtful receivables | (12,353) | (11,615) |
| **Total** | **73,528** | **35,188** |

Provision for doubtful receivables are determined by considering the uncollectible receivables related with previous periods. Trade receivables of the Group mainly comprise of receivables related with electricity wholesaling and retailing and sale of electricity production transactions.

At the reporting date, the Group has income accrual for electricity sales made to EPİAŞ and Aydem, but not yet invoiced, amounting to TL 16,355 and TL 1,504, respectively (31 December 2018: TL 15,969 only for EPİAŞ). The Group's subsidiary, FET, recognized income accrual for electricity sales to the other customers by the total amount of TL 12,419 (31 December 2018: TL 312) as recognized under trade receivables.

The average collection period of the trade receivables is 15-30 days whereas it varies depending upon the contracts made with the customers (31 December 2018: 15-30 days).

Movement of impairment for doubtful receivables for the years ended at 31 December is as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Balance as at 1 January** | **11,615** | **10,741** |
| Collected during the year (Note 24) | (1,312) | (1,493) |
| Allowance for the year (Note 24) | 2,050 | 2,367 |
| **Total** | **12,353** | **11,615** |

### Short term trade payables

As at 31 December, short term trade payables comprised the following:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Türkiye Elektrik İletim AŞ ("TEİAŞ") | 11,888 | 10,529 |
| Payables to electricity distribution firms | 7,345 | 3,048 |
| Payables to electricity wholesale firms | 6,112 | 7,471 |
| Other trade payables (*) | 115,999 | 97,212 |
| **Total** | **141,344** | **118,260** |

(*) Other trade payables mainly comprised of balances due to investment purchases, but not yet paid at the reporting date.

At the reporting date, the Group has expense accrual recognized through trade payables by the amount of TL 23,356 (31 December 2018: TL 11,369 ).

The further disclosures of credit, liquidity and currency risk that the Group is exposed to with respect to the trade receivables and payables are included in Note 26.

## 7 Trade receivables and payables *(Continued)*

**Long term trade payables**

At the current reporting date, the Group has long term trade payable amounting to TL 51,542 due to asset acquisition of Ares (31 December 2018: None). In return for the transfer of Ares shares, the Company will have to make cash payments cash to the seller party for a total consideration of Euro 8.5 million, including Euro 0.75 million in advance on the signature date and Euro 7.75 million, within 21 months in installments totally at the latest after the fully-commissioning of the energy wind power plant to be constructed.

The balance is comprised of TL equivalent of the remaining installments due to acquisition of Ares.

## 8 Other receivables and payables

As at 31 December, other short and long term receivables comprised the following:

| **Other short term receivables** | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Receivables from personnel | 319 | 364 |
| VAT receivables (*) | 103 | 25,248 |
| Receivables from EMRA (**) | -- | 1,007 |
| Other receivables | 632 | 595 |
| **Total** | **1,054** | **27,214** |

| **Other long term receivables** | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Receivables from EMRA (**) | 1,000 | -- |
| Deposits and guarantees given | 493 | 553 |
| Due from related parties (Note 4) | 333 | 1,387 |
| **Total** | **1,826** | **1,940** |

* When the Group re-assesses VAT to be refunded presented in the short term receivables in the previous period, in the light of recent developments with its tax advisors, the Group changed the assumption so that this receivable will be collected back only through offset mechanism like in usual deduction manner for other VAT receivables. Therefore, for the current period-end, the Group management has concluded that it is presented as deductable VAT under other current assets, whereas the comparative financial statements were not restated due to the fact that this is regarded as change in assumption.

** When the Group evaluated term for return of receivable from EMRA its legal advisers in the light of recent developments, the Group management has concluded with reclassification of this receivable under other long-term receivables starting from the current year-end, whereas the comparative financial statements were not changed due to the fact that this is regarded as change in assumption.

As at 31 December, other short term payables comprised the following:

| | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Due to related parties (Note 4) | 23,105 | 5,124 |
| Municipal consumption tax | 1,591 | 1,193 |
| Payable for Türkiye Radyo ve Televizyon Kurumu ("TRT") and energy fund | 697 | 348 |
| Other payables | 530 | 461 |
| **Total** | **25,923** | **7,126** |

The further disclosures of credit, liquidity and currency risk that the Group is exposed to with respect to the other receivables and payables are included in Note 26.

## 9 Prepaid expenses and deferred revenue

### Prepaid expenses

As at 31 December, prepaid expenses under current assets comprised the following:

| Current assets | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Prepaid insurance and services expenses | 7,056 | 3,752 |
| Advances given to suppliers | 6,220 | 7,309 |
| Other prepaid expenses | 3,719 | 2,284 |
| **Total** | **16,995** | **13,345** |

As at 31 December, prepaid expenses under non-current assets comprised the following:

| Non-current assets | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Advances given for properties and equipment purchases (*) | 55,020 | 32,081 |
| Other prepaid expenses | 15 | 116 |
| **Total** | **55,035** | **32,197** |

(*) Advances given for properties and equipment purchases are mainly comprised of advance payments made for ongoing wind powerplant constructions and mining investment by the Group.

### Deferred revenue

As at 31 December, short term portion of deferred revenue comprised the following:

| Short term | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Advances received(*) | 4,686 | 5 |
| Deferred revenue (**) | 591 | 591 |
| **Total** | **5,277** | **596** |

(*) Increase in advance balances are mainly stemmed from newly customers of FET during the current year with a specific collection policy working on partially prepaid basis so as to manage credit risk.

(**)The deferred portion of excess of sales proceeds over the carrying amount as a result of sale and lease back transaction made during 2018.

As at 31 December 2019, the non-current term portion of the deferred revenue is TL 1,329 which is arising from the sale and lease back (31 December 2018: TL 1,920).

## 10 Property and equipment

As at 31 December, the net book value of property and equipment are disclosed below;

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Mining assets | 1,579,509 | 829,676 |
| Non-mining assets | 3,493,657 | 2,604,193 |
| | **5,073,166** | **3,433,869** |

**Mining assets**

At 31 December, mining assets consist of land, asset retirement obligation ("ARO") costs upon mining operation terminated and mining site development cost including deferred stripping costs and the net book value of those were disclosed as follows:

| | Land | ARO costs | Mining site development cost | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **Balance at 1 January 2018** | **7,904** | **5,824** | **452,577** | **466,305** |
| Additions | 2,014 | 786 | 360,571 | 363,371 |
| **Balance at 31 December 2018** | **9,918** | **6,610** | **813,148** | **829,676** |
| Additions | 317 | 4,738 | 744,778 | 749,833 |
| **Balance at 31 December 2019** | **10,235** | **11,348** | **1,557,926** | **1,579,509** |

As at 31 December, because of that fact that production being not yet started so the Group has not started to depreciate mining assets.

Mining site development costs include personnel expenses capitalized, attributable depreciation charges, direct material, service costs and capitalized borrowing cost.

## 10 Property and equipment *(Continued)*

### Non-mining assets

Movement of cost and related accumulated depreciation for non-mining assets, during the years ended 31 December were as follows:

| | Power plant (in operation) | Land, land improvements and buildings | Vehicles | Furniture and fixtures | Machinery and equipment | Construction in progress | Leasehold improvements | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| **Balance at 1 January 2018** | **--** | **150,896** | **1,528** | **4,759** | **1,089,237** | **54,177** | **501** | **1,301,098** |
| Additions | -- | 4,329 | 13 | 918 | 77,431 | 15,664 | 45 | 98,400 |
| Transfers | -- | 3,080 | -- | 8 | 36,686 | (39,774) | -- | -- |
| Disposals | -- | (2,627) | (209) | -- | (4,565) | (484) | -- | (7,885) |
| Transfers between the tangible assets (*) | 1,230,851 | (139,503) | (742) | (1,385) | (1,094,001) | 4,798 | (18) | -- |
| Transfers from intangible assets (Note 11) (*) | 68,028 | -- | -- | -- | -- | -- | -- | 68,028 |
| Settlement off depreciation | (232,031) | -- | -- | -- | -- | -- | -- | (232,031) |
| Change in fair value reserve (Net basis disclosure) (Note 18) | 1,408,713 | -- | -- | -- | -- | -- | -- | 1,408,713 |
| **Balance at 31 December 2018** | **2,475,561** | **16,175** | **590** | **4,300** | **104,788** | **34,381** | **528** | **2,636,323** |
| Additions | 2,149 | 34,044 | 379 | 680 | 121,076 | 26,302 | 837 | 185,467 |
| Transfers | -- | 4 | -- | -- | 4,592 | (4,596) | -- | -- |
| Additions through Asset Acquisitions | -- | -- | -- | 335 | -- | 1,991 | -- | 2,326 |
| Disposal | -- | (127) | (68) | -- | -- | (4,077) | -- | (4,272) |
| Transfers between the tangible assets (*) | 89,542 | (9,396) | -- | (48) | (79,275) | -- | (823) | -- |
| Transfers from intangible assets (Note 11) (*) | 2,451 | -- | -- | -- | -- | -- | -- | 2,451 |
| Settlement off depreciation | (66,841) | -- | -- | -- | -- | -- | -- | (66,841) |
| Change in fair value reserve (Net basis disclosure) (Note 18) | 782,093 | -- | -- | -- | -- | -- | -- | 782,093 |
| **Balance at 31 December 2019** | **3,284,955** | **40,700** | **901** | **5,267** | **151,181** | **54,001** | **542** | **3,537,547** |
| | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | |
| **Balance at 1 January 2018** | **--** | **29,029** | **794** | **2,582** | **162,750** | **--** | **428** | **195,583** |
| Current year depreciation | -- | 10,117 | 327 | 583 | 56,862 | -- | 49 | 67,938 |
| Disposals | -- | (513) | (162) | -- | (426) | -- | -- | (1,101) |
| Transfers between the tangible assets (*) | 230,290 | (36,425) | (565) | (693) | (192,586) | -- | (21) | -- |
| Transfers from intangible assets (Note 11) | 1,741 | -- | -- | -- | -- | -- | -- | 1,741 |
| Settlement off depreciation | (232,031) | -- | -- | -- | -- | -- | -- | (232,031) |
| **Balance at 31 December 2018** | **--** | **2,208** | **394** | **2,472** | **26,600** | **--** | **456** | **32,130** |
| Current year depreciation | 66,058 | 855 | 114 | 521 | 10,923 | -- | 44 | 78,515 |
| Additions through Asset Acquisitions | -- | -- | -- | 155 | -- | -- | -- | 155 |
| Disposals | -- | (34) | (68) | -- | -- | -- | -- | (102) |
| Transfers between the tangible assets (*) | 750 | (97) | -- | (5) | (644) | -- | (4) | -- |
| Transfers from intangible assets (Note 11) | 33 | -- | -- | -- | -- | -- | -- | 33 |
| Settlement off depreciation | (66,841) | -- | -- | -- | -- | -- | -- | (66,841) |
| **Balance at 31 December 2019** | **--** | **2,932** | **440** | **3,143** | **36,879** | **--** | **496** | **43,890** |
| | | | | | | | | |
| **Balance at 1 January 2018** | **--** | **121,867** | **734** | **2,177** | **926,487** | **54,177** | **73** | **1,105,515** |
| **Balance at 31 December 2018** | **2,475,561** | **13,967** | **196** | **1,828** | **78,188** | **34,381** | **72** | **2,604,193** |
| **Balance at 31 December 2019** | **3,284,955** | **37,768** | **461** | **2,124** | **114,302** | **54,001** | **46** | **3,493,657** |

## 10 Property and equipment *(Continued)*

**Non-mining assets**

(*)The effects stemmed from the first transition from cost model to fair value model only for the operating powerplants regarding measurement approach were presented under transfer line in the movement given for the previous period ended. Current year transfers were presented due to transition approach from cost model to fair value so as to be consistent with the Group accounting policies upon fully commissioning of Osres/Kızılcaterzi project.

As of the reporting date, on the sake of further security purposes contemplated from the loans agreements of all wind power plants, pledge has been established in favor of lenders except for Osres/Kızılcaterzi powerplant (recently started to operate during last quarter of the current year), and on the other hand, there are partial financial leases established within the scope of the sell- lease back transactions made in 2018 based on some equipment to be re-financed in such manner. At 31 December, the reconciliation for acquisition of tangible assets for the consolidated statement of cash flows is presented as follows:

| **Acquisition of tangible assets (mining assets included)** | **2019** | **2018** |
|---|---|---|
| Mining assets | 749,833 | 363,371 |
| Non-mining assets | 185,467 | 98,400 |
| **Additions presented in the cost movement** | **935,300** | **461,771** |
| **Adjustment for statement of cash flows purposes, during the year** | **(427,610)** | **(213,985)** |
| *Capitalized borrowing costs(Note 6)* | *(166,836)* | *(104,108)* |
| *ARO costs the (Note 14)* | *(4,738)* | *(786)* |
| *Lease additions during the year (Further disclosure given below)* | *(243,337)* | *(101,013)* |
| *Capitalized amortization and depreciation charge (Note 22)* | *(12,699)* | *(8,078)* |
| **Additions presented for statement of cash flows** | **507,690** | **247,786** |
| Capitalized personnel costs | (79,842) | (34,226) |
| **Total cost of purchase excluding the personnel costs** | **427,848** | **213,560** |

Depreciation and amortization expenses according to their nature are explained in Note 22. The Group has capitalized depreciation expense amounting TL 12,699 (31 December 2018: TL 8,078 ) over the construction in progress at the reporting date.

The Group has capitalized borrowing costs amounting to TL 384,799 which were directly attributable to the acquisition, construction, or production of a qualifying asset in the consolidated financial statements as at 31 December 2019 (31 December 2018: TL 217,963).

During the current year, the Group purchased tangible assets acquired through finance lease amounting to TL 243,337 (TL 204,402 on net basis considering repayment amounting to TL 38,935) under tangible assets and recognized opening effect through IFRS 16 amounting to TL 4,563 under intangible assets. During the previous year, the Group purchased tangible assets acquired through finance lease amounting to TL 101,013 (TL 85,966 on net basis considering repayment amounting to TL 15,047).

The Group has capitalised personnel costs amounting to TL 79,842 which were directly attributable to the construction, or production of a qualifying asset in the consolidated financial statements as at 31 December 2019 (31 December 2018: TL 34,226).

Transfers in 2019 were related to completed wind powerplant constructions for Osres whereas transfers in 2018 were related to the completed solar plant constructions. If cost model was sustained for the measurement of powerplant (in operation) of the Group during the current year, the total net book value thereof at 31 December 2019 would be amounting to TL 1,060,560.

## 10 Property and equipment *(Continued)*

**Non-mining assets** *(Continued)*

As of reporting dates, the reconciliation table for disposal of tangible assets for the consolidated statement of cash flows statements is presented as follows:

| **Disposal of tangible assets** | **2019** | **2018** |
|---|---|---|
| Cost of disposals | 4,272 | 7,885 |
| Accumulated depreciation of disposals | (102) | (1,101) |
| **Net book value of disposals presented in the movement** | **4,170** | **6,784** |
| **Adjustment** | **(4,077)** | **--** |
| *Write off capitalized costs for the unfeasible projects (Note 24)* | *(4,077)* | -- |
| **Net book value of disposals, adjusted (A)** | ***93*** | ***6,784*** |
| Gain on sale of tangible assets (Note 21) | 142 | 445 |
| Sale of scrapped items (Note 21) | 1,852 | 718 |
| **Gain on sale for statement of cash flows (B)** | **1,994** | **1,163** |
| **Proceed from disposals for statement of cash flows (C=A+B)** | **2,087** | **7,947** |

During the current period, the inflows and outflows stemmed from the sale and lease back transaction applied in unlicensed solar power plants is not included within the movement schedule for the tangible asset disclosed above.

As of reporting dates, the Group has all-in risk insurance policies and/or cover letters with  to cover all the operation powerplants of the Group.

Upon Osres/Kızılcaterzi project's fully commissioning and commencement to operate during the current year, the effects coming from the same transition approach from cost model to fair value only for this powerplant was presented under transfer line so as to be consistent with the Group accounting policies.

The reconciliation table for cash flows regarding Ares' share transfer was given as follows:

| **Reconciliation table** | **Current Period** |
|---|---|
| Tangible assets **(D)** | 2,171 |
| *Cost (Note 10)* | *2,326* |
| *Accumulated depreciation (Note 10)* | *(155)* |
| Intangible assets | 51,227 |
| *Cost (Note 11)* | *51,227* |
| *Accumulated amortization (Note 11)* | *--* |
| **Net book value of addition through asset acquisition, total (A)** | **53,398** |
| | |
| Contingent consideration to be paid, recognized through trade payable(Note 7) | 51,542 |
| Unrealized currency exchange losses (Not 23) | (2,197) |
| **Contingent liability stated at transaction date (B)** | **49,345** |
| | |
| Net book value of addition through asset acquisition, total (A) | 53,398 |
| Contingent liability stated at transaction date (B) | 49,345 |
| **Net cash out flow (C)=(B)-(A)** | **(4,053)** |
| Cash outflows from tangible assets recognized through asset acqusition **(D)** | (2,171) |
| Cash outflows from intangible assets recognized through asset acqusition | (1,882) |
| **Net cash out flow** | **(4,053)** |

## 11 Intangible assets

Movement of cost and related accumulated amortization of intangible assets during the years ended 31 December were as follows:

| | *Other intangibles* | *Total* |
|---|---|---|
| **Net book value at 1 January 2018** | **102,037** | **102,037** |
| Additions | 6,889 | 6,889 |
| Transfer to tangible assets (Note 10) | (66,287) | (66,287) |
| Current year charge | (3,733) | (3,733) |
| **Net book value at 31 December 2018** | **38,906** | **38,906** |
| Additions through Asset Acquisition, (cost value) | 51,227 | 51,227 |
| Additions | 3,117 | 3,117 |
| Initial cost of right-of-use assets under IFRS 16 | 4,563 | 4,563 |
| Transfer to tangible assets (Note 10) | (2,418) | (2,418) |
| Current year charge of right-of-use assets under IFRS 16 | (393) | (393) |
| Current year charge | (1,902) | (1,902) |
| **Net book value at 31 December 2019** | **93,100** | **93,100** |

Current year transfers were presented due to transition approach from cost model to fair value so as to be consistent with the Group accounting policies upon fully commissioning of Osres/Kızılcaterzi project.

*(i) License Acquired Through Asset Acquisition*

Share transfer of the acquired entity, Ares, has been evaluated as of the transaction date and current reporting period within the scope of accounting for business combinations that are also allowed to be applied early within the scope of TRFS 3. Taking into account the phases of inputs and the process that are the basic functions of an enterprise, and the outputs which the process and inputs could have the ability to generate, it was evaluated that the acquisition was in the form of "asset acquisition" and the "transformation into the business" process has not been completely realized as of the reporting period. In return for the transfer of Ares shares, the Company will have to make cash payments cash in installments to the seller party for a total consideration of Euro 8.5 million, including Euro 0.75 million in advance on the signature date and Euro 7.75 million within 21 months totally at the latest after the fully-commissioning of the energy wind power plant to be constructed. This license acquired through asset acquisition was recognized at its historic cost amounting to TL 51,225 and the depreciation thereof was charged during the current year subsequent to the initial recognition.

Besides, the Group recognized the other intangibles acquired through asset acquisition with the amount of TL 2.

**Goodwill**

| *Company* | Purchase method | Purchase cost | Fair value (at the transaction's date) | Purchase date | Percentage of shares purchased (%) | 2019 | 2018 |
|---|---|---|---|---|---|---|---|
| Aysu | Cash basis | 12,832 | 4,131 | May 2012 | 100 | 8,701 | 8,701 |
| Ütopya | Cash basis | 3,760 | 846 | February 2009 | 80 | 3,081 | 3,081 |
| | | | | | | **11,782** | **11,782** |

## 11 Intangible assets *(Continued)*

**Key assumptions used in discounted cash flow projections**

***Annual Impairment testing for CGU's***

Fair value of two cash generating unit's powerplants have been calculated by the Group Management based upon report together with the sub-works prepared by the independent expert (note 2.7). All CGU's impairment tests were based on value in use as at the reporting date which was determined using discounted cash flow method.

Financial projections prepared by the management were used in "value in use" analysis of each CGU.

As a result of the impairment testing performed on CGU basis, no impairment loss was recognised as at the reporting date.

**Key assumptions used in discounted cash flow projections**

Key assumptions used in calculation of recoverable amounts are discount rates. These assumptions which were based on the Group's business plans approved by the Board of Directors are as follows:

| | **Discount rate (Euro Cash Flows) %** |
|---|---|
| Aysu | 7.76 |
| Ütopya | 7.76 |

The discount rate used in discounted cash flows is determined as the weighted average cost of capital ("WACC") for the respective CGUs .The cash-flows figures used for the year 2020 which is the first year of projection period in line with the Group's financial budget as approved by Board of Directors.

The estimated recoverable amounts of CGUs exceed their respective carrying amounts. Thus, the Group management concluded that there is no indication of impairment due to an expected or probable change in key assumptions such as EBITDA growth and discount rates. Recoverable amounts of CGU's are not sensitive to the reasonable changes in key assumptions.

## 12 Financial investment

**Long term financial investments**

As at 31 December, long term financial investments comprised the following:

| | **2019 Carrying amount** | **2019 Ownership rate%** | **2018 Carrying amount** | **2018 Ownership rate%** |
|---|---|---|---|---|
| EPİAŞ | 50 | 0.08% | 50 | 0.08% |
| FETBV | -- | -- | 146 | 100% |
| **Total** | **50** | | **196** | |

FETBV is kept out of consolidation scope as at 31 December 2018 due to the fact that its effect on the consolidated financial statements has been insignificant. The company liquidation report, which was taken unanimously in the FETBV Company General Assembly Decision dated 25 November 2019, was registered on 19 December 2019 and FETBV numbered with 54251087 was deregistered from the Business Register Extract by Netherlands Chamber of Commerce.

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## 13 Commitments

### Guarantees, Pledges and Mortgages

As at the reporting date, the guarantees, pledges and mortgages ("GPM") given by the Group are as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Bank guarantees used in project financing (*) | 326,796 | 328,883 |
| Guarantees given to government authorities (**) | 78,931 | 48,559 |
| Guarantees given to suppliers (**) | 35,837 | 60,827 |
| **Total** | **441,564** | **438,269** |

(*)According to the share pledge agreement on 28 December 2016, 180,000 shares of Kavram pledged against loans utilized from KFW and guarantee obtained from Yapı Kredi Bankası AŞ for loans obtained from EIB in proportion to credit risk incurred. Share pledge process was put in effective upon endorsement of shares together with delivery by hand to the pledgers. At the reporting date, Kavram carries guarantee obligation by the amount of EUR 29,817,857 (2018:EUR 35,239,286) to Yapı Kredi Bankası A.Ş. to secure EIB project finance loan.

According to the share pledge agreement on 10 August 2017, 7,200,000 shares of Borares pledged against loans utilized from KFW and guarantee obtained from Yapı Kredi Bankası AŞ for loans obtained from EIB in proportion to credit risk incurred. Share pledge process was put in effective upon endorsement of shares together with delivery by hand to the pledgers. At the reporting date, Borares carries guarantee obligation by the amount of EUR 19,320,000 (2018:EUR 19,320,000) to Yapı Kredi Bankası A.Ş. to secure EIB project finance loan.

(**) At the reporting date, whilst Group's subsidiary in mining approaches starting operation cycle, the volumes of guarantee letters given to the government institutions have increased by nature of business whereas the volume of guarantee letters given to the supplier companies decreased as a result of less transactions in respect of investment.

### Regulatory environment

As of reporting date, there is no violation of the Group's generation licensed wind energy and unlicensed solar energy subsidiaries within the scope of the respective legislations.

### Financial covenants

As at 31 December, there is not any breach of financial covenants.

## 14 Provision, contingent assets and liabilities

### Short term provision

As at 31 December, the details of other short-term provisions comprised the following:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Vacation pay liability | 3,039 | 2,063 |
| Provision for litigation and claims | 443 | 264 |
| **Total** | **3,482** | **2,327** |

### Short term provisions for employee benefits

Short term provisions for employee benefits comprise of vacation pay liabilities. As at 31 December, vacation pay liabilities comprised the following:

| **Vacation pay liability** | **2019** | **2018** |
|---|---|---|
| Balance at January 1 | **2,063** | **1,628** |
| Change during the year, net | 976 | 435 |
| **Balance at December 31** | **3,039** | **2,063** |

*Litigation and claims related unintentional missing and illegal usage*

At the reporting date, there have been outstanding lawsuits filed by some customers against the Group upon return demand regarding with the unintentional missing and illegal usage fees charged over the electricity sales. The unintentional missing and illegal usage fees charged to all subscribers by the Group are repaid to electricity distribution firms without adding any margin over those amounts. Although such amounts were reclaimed from the Group through lawsuits, as a natural result of being the only counter-party to the electricity sales contracts, electricity distribution firms are legally notified to attend the relevant lawsuits as a participant. Law Code 6719 "Regarding The Amendments Brought About Some Laws Through Electricity Market Law" promulgated by the Trade Registry Gazette dated 17 June 2016 and numbered 29745 restricted the rights and authorization of related courts and arbitration committee down to only performing compliance audit in relation to the lawsuits initiated regarding the technical and non-technical losses. Since the issuance date of the code amendment, most of the pending lawsuits have been concluded in favor of the Group. Therefore, at the reporting date assessing the relevant lawsuits against the Group as a whole, it is not foreseen to be exposed to any material loss.

## 14 Provision, contingent assets and liabilities *(Continued)*

***Long term provision***

As at 31 December, the details of other long-term provisions comprised the following:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| ARO expenses (Note 10) | 11,348 | 6,610 |
| Provision for severance payment | 4,478 | 2,785 |
| **Total** | **15,826** | **9,395** |

**Employee provisions for long-term benefits**

***Provision for severance payment***

As at 31 December, provision for severance payment comprised the following:

| | 2019 | 2018 |
|---|---|---|
| **Balance at January 1** | **2,785** | **2,119** |
| Service cost | 1,227 | 695 |
| Actuarial loss (*) | 553 | 129 |
| Interest cost | 367 | 200 |
| Payment made during the year | (454) | (358) |
| **Balance at December 31** | **4,478** | **2,785** |

(*) For the year ended 31 December 2019 actuarial loss amounting to TL 83 was capitalized through the investment, whereas remaining loss amounting to TL 470 was recognized through the comprehensive income statement.

## 15 Payables due to employee benefits

As at 31 December, payables related to employee benefits are as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Payables due to employee | 6,712 | 2,668 |
| Social security premiums payable | 2,865 | 1,470 |
| **Total** | **9,577** | **4,138** |

## 16 Other assets and liabilities

**Other assets**

As at 31 December, other current assets are as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Deferred VAT | 95,832 | 39,084 |
| Other | 66 | 51 |
| **Total** | **95,898** | **39,135** |

## 16 Other assets and liabilities *(continued)*

### Other assets *(continued)*

As at 31 December, other non-current assets are as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Share pre-emption advances (*) | 62,915 | 104,984 |
| Deferred VAT | 17,588 | -- |
| **Total** | **80,503** | **104,984** |

(*) As at 31 December 2017, the Group made advance payment for pre-emption rights of Tekno Rüzgar Enerji Yatırım Üretim ve Ticaret A.Ş ("Pazarköy") which is located in Balıkesir, Balya region with a total planned installed capacity of 44 MW and Uygun Enerji Yatırım Üretim ve Ticaret A.Ş ("Adapazarı ") which is located in both Sakarya (Taraklı region) and Bolu (Göynük) regions with a total installed capacity of 80 MW amounting to Euro 1,892,000 and Euro 5,216,000 respectively, with the total consideration amount of Euro 7,108,000.

During 2018, the Group has signed agreement of pre-emption rights to acquire the shares of Barkan Enerji Yatırım Üretim ve Ticaret A.Ş. ("Şapdağı") which is located in Balıkesir, Havran region with a total planned installed capacity of 55 MW. Besides to that, Adapazarı project process as one of the previous year projects was ended up with cancellation as agreed reciprocally in compliance with the termination protocol and as a result, the total consideration paid until the termination date with the amount of Euro 9,128,000 were assigned to the outstanding projects in according to the referred amendment protocols thereof, Pazarköy and Şapdağı, Euro 5,633,556 and Euro 3,494,444, respectively. At the reporting date, including the total transfers during the current year, the Group has kept total advance receivable position for Pazarköy and Şapdağı projects with the total consideration amount of Euro 8,009,167 and Euro 9,406,944, respectively, totally up to Euro 17,416,111.

In accordance with the current developments and contractual rights in the project, the Group has unilaterally exercised its right to terminate the contract for Şapdağı project. The termination protocol was co-signed between the parties on 23 December 2019 regarding the respective pre-emption rights contract dated 22 November 2017, a total consideration amount of Euro 9,406,944 was refunded to the Group on 24 December 2019 by the seller company in cash. As of the reporting date, the Group has a total advance balance of Euro 9,460,000 considering the advance payment of Euro 1,450,833 for Pazarköy project during the current year.

In return for total advance payment made, the Group has received the personal guarantee of the current shareholder of those foregoing entities to secure the credit risk until the final financial close.

## 16 Other assets and liabilities *(Continued)*

For the current period ended, the movements of advance for pre-emption rights were given as follows;

| | 2019 | 2018 |
|---|---|---|
| **At 1 January** | **104,984** | **32,096** |
| Addition during the year | 8,793 | 51,512 |
| Unrealized foreign exchange losses (Note 23) | 6,746 | 21,376 |
| Repayment from cancelled project | (57,608) | -- |
| **At 31 December** | **62,915** | **104,984** |

At the reporting date, the share transfer to the Group was realized on 12 March 2020 upon the production license granted by EMRA on 6 February 2020. Besides, Pazarköy wind powerplant is planned to be fully-commissioned by last quarter of the year 2020.

**Other liabilities**

As at 31 December, other liabilities are as follows:

| Other short-term liabilities | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Taxes and funds payables | 10,849 | 10,120 |
| Other | 41 | 13 |
| **Total** | **10,890** | **10,133** |

## 17 Derivatives

As at 31 December, derivative instruments are as follows:

| Assets | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Foreign currency swaps | 20,251 | 59 |
| Forward contracts | 10,367 | -- |
| Other | -- | 1,111 |
| **Total** | **30,618** | **1,170** |
| **Liabilities** | | |
| Foreign currency swaps | (32,980) | (114,365) |
| Forward contracts | (19,474) | (73,110) |
| **Total** | **(52,454)** | **(187,475)** |
| **Current portion** | **(52,454)** | **(118,129)** |
| **Non-current portion** | **--** | **(69,346)** |

## 18 Capital reserves

### Paid-in capital[1]

As at 31 December, the Company's nominal share capital and share structure is as follows:

| | % | 31 December 2019 (Number of shares) | % | 31 December 2018 (Number of shares)) |
|---|---|---|---|---|
| Fina Holding A.Ş. | 87.64% | 276,045,000 | 87.46% | 275,505,000 |
| Ayşe Can Özyeğin Oktay | 6.33% | 19,950,000 | 6.33% | 19,950,000 |
| Murat Özyeğin | 6.03% | 19,005,000 | 6.03% | 19,005,000 |
| Karani Güleç | -- | -- | <1% | 540,000 |
| **Total** | **100%** | **315,000,000** | **100%** | **315,000,000** |
| Unpaid capital | | (23,651,250) | | (23,651,250) |
| **Paid in capital** | | **291,348,750** | | **291,348,750** |

As of 31 December 2019, nominal capital of the Company amounting to TL 315,000,000 comprised 315,000,000 shares and each has a value of TL 1 (31 December 2018:TL 315,000,000 comprised 315,000,000 shares and each has a value of TL 1).

***Previous period***

***Capital reserves and commitment payment***

During the current period Fina Holding A.Ş. as the main shareholder entity has released transfer with the total consideration amount of TL 189,915,655 to the Company's account on step-by basis so as to strengthen the equity finance structure of the Company. In compliance with the Board of Directors' Resolution Minute dated with 19 November 2018 held by Fina Holding A.Ş. side, amount by TL 727,878 was considered as partial performance of capital commitment liability, whereas the remaining balance amounting to TL 189,187,777 was recognized as capital reserve in line with the respective provision 9 set in "Legislation about principles and procedures relating the application of article 376 of Turkish Commercial Code numbered 6102" which was put in effective with the issuance of trade registry gazette dated 15 September 2018.

***Current period***

The shares of 540,000 which were previously owned by Karani Güleç, one of the Company's real person shareholders, was transferred to the main shareholder, Fina Holding AŞ, through the not exercise by the other owners of their pre-emptive right and this transfer was registered on the date of 7 November 2019.

[1] All figures were presented in full under this caption.

## 18 Capital and reserves *(Continued)*

**Paid-in capital** *(Continued)*

**Restricted reserves**

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Group's historical paid-in share capital. The second legal reserve is appropriated at the rate of 1/10 per annum of all cash distributions for the companies made dividend payment according to Capital Market Board ("CMB") regulations and 1/11 per annum of all cash distributions for the companies made dividend payment according to statutory regulations in excess of 5% of the historical paid-in share capital. Under TCC, the legal reserves are not available for distribution unless they exceed 50% of the historical paid-in share capital but may be used to offset losses in the event that historical general reserve is exhausted.

During the current period, if the total of the first and second legal reserves exceeded 50 percent of the Company's capital, in accordance with the provisions set out in Article 519 of the TCC, which regulates general restricted reserves, the reserves in the subsidiaries of the Company, total amounting to TL 403 was re-distributed through set off with accumulated gains losses. At the same time, as a result of dividend distributions made in some of the subsidiaries of the Group during the current year, additional restricted reserves amounting to TL 256 have been distributed, and at the reporting date, the Group's restricted reserve amount on consolidated level has been at TL 1,993 (31 December 2018: TL 2,140).

***Actuarial losses from defined pension plans:***

All actuarial losses are recognized through other comprehensive income under the financial statement caption of "Actuarial losses from defined pension plans" as a result of IAS 19 (2011).

**Non-controlling interest**

The interests not controlled directly or indirectly by the parent company was reclassified under "non-controlling interest" item in the consolidated statement of financial position.

The movement of non-controlling interest ("NCI") for the year ended 31 December was given as follows:

| | 2019 | 2018 |
|---|---|---|
| **Balance at 1 January** | **168,302** | **83,187** |
| Net profit for the year attributable to non controlling interest | 191,140 | 62,724 |
| Net change in fair value reserve for the year attributable to non-controlling interest | 9,600 | 22,391 |
| Capital contribution by NCI in the consolidated subsidiaries | 122 | -- |
| Capital contribution by the parent company on behalf of NCI in the consolidated subsidiaries | 98 | -- |
| **Balance at 31 December** | **369,262** | **168,302** |

## 18 Capital and reserves *(Continued)*

**Fair value reserve**

Any increase arising from revaluation of power plant 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 recognized. A decrease in the carrying amount arising on the revaluation of such power plants 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. Depreciation on power plant is charged through the profit or loss. On the subsequent sale or taken off the operation of a revalued property, the attributable revaluation surplus remaining in revaluation reserve of the asset is transferred directly to retained earnings. Unless the asset is disposed, the revaluation fund is not transferred to the retained earnings.

Since starting from 31 December 2018, the cost model of the application methods in IAS 16 has been left and the revaluation model has been selected in order to reflect more reliable value of the power plants in operation of the Group. The movements related to the revaluation fund for the period ended 31 December are given below.

| | 2019 | 2018 |
|---|---|---|
| Change in fair value reserve (Note10) | 782,093 | 1,408,713 |
| Tax effect (Note 25) | (156,419) | (281,743) |
| **Effect over total equity** | **625,674** | **1,126,970** |
| Non-controlling interest (Note 18-NCI Movement) | 9,600 | 22,391 |
| **Effect over total equity attributable to the equity owners of the Group, net off tax** | **616,074** | **1,104,579** |

## 19 Revenue and cost of revenue

For the years ended 31 December, revenue and cost of revenue comprised the following:

| | 2019 | 2018 |
|---|---|---|
| Retail and wholesale electricity sales | 550,455 | 157,743 |
| Electricity sales of powerplant (**) | 491,589 | 410,124 |
| Retail service sales (*) | 110 | 139 |
| Other sales | 635 | 762 |
| **Gross sales before elimination** | **1,042,789** | **568,768** |
| Eliminated sales (Intra-group sales from powerplant entities to FET) (**) | (175,371) | -- |
| **Gross sales** | **867,418** | **568,768** |
| Sales returns | (715) | (49) |
| Sales discounts | (93) | (128) |
| **Net sales** | **866,610** | **568,591** |
| Cost of electricity purchased out of the Group(**) | (354,784) | (147,491) |
| Cost of electricity sold of powerplant | (106,313) | (93,330) |
| Amortization &depreciation charge | (67,783) | (62,729) |
| Other costs | (3,133) | (3,359) |
| **Cost of sales** | **(532,013)** | **(306,909)** |
| **Gross profit** | **334,597** | **261,682** |
| **Gross profit, excluding amortization& depreciation charge** | **402,380** | **324,411** |

## 19 Revenue and Cost of Revenue *(Continued)*

(*) The amount comprised of other revenues generate from various retail service activities. "Retail service activities" are defined as various services such as invoicing and collection activities provided for the customers except for electricity purchase and sales in accordance with the regulation by "EMRA". The charge price is determined on basis of cost of services.

(**) The Group's electricity production companies started to sell electricity to Fina Elektrik starting from second half of the year 2019. The elimination effect of those sales as a result of consolidation accounting leads the current period figures to be presented as being diminished compared to corresponding previous period. Therefore on the sake of more reasonable and fair presentation way, the details for revenue and cost of sales was given as before and after elimination adjustment.

| **Cost of revenues** | **2019** | **2018** |
|---|---|---|
| Cost of retail sales | (354,784) | (147,491) |
| Amortization and depreciation charges | (67,783) | (62,729) |
| Service expenses | (51,696) | (42,338) |
| System usage expenses | (21,257) | (16,300) |
| Personnel expenses | (11,493) | (9,945) |
| Insurance expenses | (4,365) | (4,864) |
| Others | (20,635) | (23,242) |
| **Total** | **(532,013)** | **(306,909)** |

## 20 General administrative expenses and marketing expenses

For the years ended 31 December, general administrative expenses comprised the following:

| **General administrative expenses** | **2019** | **2018** |
|---|---|---|
| Personnel expenses | (18,611) | (12,849) |
| Consultancy and outsourced expenses | (5,959) | (3,506) |
| Travel expenses | (1,999) | (1,737) |
| Rent expenses | (1,260) | (1,720) |
| Taxes and other duties | (830) | (1,156) |
| Depreciation and amortization expenses | (328) | (864) |
| Communication expenses | (309) | (342) |
| Insurance expenses | (27) | (36) |
| Other expenses | (1,958) | (1,304) |
| **Total** | **(31,281)** | **(23,514)** |

For the years ended 31 December, marketing expenses comprised the following:

| **Marketing expenses** | **2019** | **2018** |
|---|---|---|
| Sponsorship expenses | (2,719) | -- |
| Remote sales service expenses | (527) | (795) |
| Promotion expenses | (132) | (187) |
| Dealer expenses | (118) | (108) |
| Others | -- | (44) |
| **Total** | **(3,496)** | **(1,134)** |

## 21 Other income and expenses

For the years ended 31 December, other income comprised the following:

| | 2019 | 2018 |
|---|---|---|
| Gain on sale of scrapped items | 1,852 | 718 |
| Gain on disposal of tangible and intangible assets | 142 | 445 |
| Insurance reimbursement income | -- | 1,095 |
| Others | 1,163 | 1,453 |
| **Total** | **3,157** | **3,711** |

For the years ended 31 December, other expenses comprised the following:

| | 2019 | 2018 |
|---|---|---|
| Write off capitalized costs for the unfeasible projects | (4,077) | -- |
| Loss from liquidation of non-consolidated entity* | (1,320) | -- |
| Donations | (919) | (518) |
| Others | (804) | (861) |
| **Total** | **(7,120)** | **(1,379)** |

(*) Upon receipt of the liquidation decision of FETBV, which was taken unanimously in the respective General Assembly Decision dated 25 November 2019, was registered on 19 December 2019 it has been decided that the accumulated investment amounts together with the receivable balances (accrued interest) subject to the liquidation thereof was recognized through the profit or loss statement.

## 22 Expenses by nature

For the years ended 31 December, expenses by nature of depreciation and amortization expenses comprised the following:

| **Depreciation and amortization expenses** | **2019** | **2018** |
|---|---|---|
| Cost of sales | (67,783) | (62,729) |
| Capitalized over construction in progress (Note 10) | (12,699) | (8,078) |
| General administrative expenses (Note 20) | (328) | (864) |
| **Total** | **(80,810)** | **(71,671)** |
| Tangible assets (Note 10) | (78,515) | (67,938) |
| Intangible assets (Note 11) | (1,902) | (3,733) |
| Effect through IFRS 16 (Note 11) | (393) | -- |
| **Total** | **(80,810)** | **(71,671)** |

**Personnel expenses**

For the years ended 31 December, expenses by nature of personnel expenses comprised the following:

| | **2019** | **2018** |
|---|---|---|
| Capitalized over construction in progress (Note 10) | (79,842) | (34,226) |
| General administrative expenses (Note 20) | (18,611) | (12,849) |
| Cost of sales (Note 19) | (11,493) | (9,945) |
| **Total** | **(109,946)** | **(57,020)** |

| | **2019** | **2018** |
|---|---|---|
| Gross salary | (76,309) | (38,422) |
| Social security premiums | (13,218) | (6,307) |
| Bonus payments | (5,804) | (3,621) |
| Overtime charges | (5,779) | (2,610) |
| Social and other supportive payments | (4,387) | (3,184) |
| Others | (4,449) | (2,876) |
| **Total** | **(109,946)** | **(57,020)** |

## 23 Finance income and finance cost

For the years ended 31 December, finance income and costs comprised the following:

| **Finance income** | **2019** | **2018** |
|---|---|---|
| Income from derivative transactions | 113,776 | 213 |
| Interest income | 32,319 | 16,292 |
| Foreign exchange gains | 26,691 | 47,623 |
| Other | -- | 24 |
| **Total** | **172,786** | **64,152** |

| **Finance costs** | **2019** | **2018** |
|---|---|---|
| Foreign exchange losses | (249,777) | (471,743) |
| Interest expense on borrowings (Note 6) | (185,929) | (120,447) |
| Loss from derivative transactions | (57,186) | (414,597) |
| Commissions expenses and bank charges | (7,295) | (4,594) |
| Interest expense due to related parties operating other than banking (Note 4) | (4,479) | (1,137) |
| Currency losses due to payable for the asset acquisition of Ares | (2,197) | -- |
| Interest expense for right-of-use assets under IFRS 16 (*) (Note 6) | (1,205) | -- |
| Other finance cost | (1,258) | (6,900) |
| **Total** | **(509,326)** | **(1,019,418)** |

(*) It composed of effect through the first transition of IFRS 16 during the current year.

For the year ended 31 December, unrealized foreign exchange gains and losses recognized through the profit or loss statement were given by source for statement of cash flows purposes as follows:

| | **2019** | **2018** |
|---|---|---|
| Loans and borrowings (Note 6) | (251,163) | (496,270) |
| Payable due to the asset acquisition of Ares (Note 23 presented above) | (2,197) | -- |
| Translation effect of foreign currency at cash and cash equivalents | (6,219) | (449) |
| Valuation of advances given for share pre-emption rights (Note 16) | 6,746 | 21,376 |
| **Total unrealized losses, net** | **(252,833)** | **(475,343)** |

## 24 Impairment losses

For the years ended 31 December, the Group incurred impairment losses for receivable as follows:

| | **2019** | **2018** |
|---|---|---|
| Allowance during the year (Note 7) | (2,050) | (2,367) |
| Write off receivables | (845) | -- |
| Collection made during the year (Note 7) | 1,312 | 1,493 |
| **Total** | **(1,583)** | **(874)** |

## 25 Taxation

For the years ended 31 December, the recognized taxes for the Group were given as follows:

| Recognized through income and expense | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Current tax expenses:** | | |
| Current corporation taxes expense | (2,964) | (1,139) |
| Tax amnesty expense | -- | (754) |
| **Deferred tax income:** | | |
| Deferred taxes income arising from temporary differences and tax losses | 400,353 | 340,590 |
| **Total taxation income** | **397,389** | **338,697** |

| Recognized in other comprehensive income | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Fair value effect | 782,093 | 1,408,713 |
| Actuarial difference | (470) | (129) |
| **Total current year effect** | **781,623** | **1,408,584** |
| **Income tax on reported profit per domestic tax rate (%22)** | **(171,957)** | **(309,888)** |
| Corporate income tax rate change effect | 15,632 | 28,171 |
| Unrecognized deferred tax over actuarial difference | (66) | -- |
| **Total taxation expenses directly in comprehensive income** | **(156,391)** | **(281,717)** |

**Current tax assets/liabilities**

As of 31 December, current tax assets and liabilities as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Current tax assets | 5,411 | 1,473 |
| Current tax liabilities | (2,327) | (451) |
| **Net** | **3,084** | **1,022** |

The reconciliation of current tax position for the year ended 31 December was given as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **At 1 January, net** | **1,022** | **604** |
| Current tax expense during the period | (2,964) | (1,893) |
| Tax payment during the period | 5,026 | 2,311 |
| **At 31 December, net** | **3,084** | **1,022** |

**Tax income/ (expenses)**

*The reconciliation of the effective tax rates*

The reported income tax expense for the years ended 31 December are different than the amounts computed by applying statutory tax rate to loss before tax as shown in the following reconciliation:

## 25 Taxation *(Continued)*

**Tax income/ (expenses)** *(Continued)*

| | % | 2019 | % | 2018 |
|---|---|---|---|---|
| **Profit/(Loss) for the year** | | **355,123** | | **(378,077)** |
| Less: Total tax benefit | | **397,389** | | **338,697** |
| **Loss before taxes** | | **(42,266)** | | **(716,774)** |
| **Income tax on reported profit per domestic tax rate** | **(22)** | **9,298** | **(22)** | **157,690** |
| Tax benefit for the investment incentives | (1,001) | 423,149 | (41) | 293,869 |
| Effect of change in unrecognised deferred tax assets | 71 | (30,080) | 14 | (97,391) |
| Non-deductible expenses | 15 | (6,470) | 1 | (7,035) |
| Income subject to tax exemptions | (6) | 2,358 | <1 | 2,261 |
| Corporate income tax rate change effect | 2 | (724) | 1 | (5,604) |
| Expiration of tax losses, of which were previously recognized | <1 | -- | <1 | (4,190) |
| Tax amnesty | <1 | -- | <1 | (754) |
| Previous year tax losses write off subject to tax base increase, of which were previously recognized | <1 | -- | <1 | (133) |
| Others | <1 | (142) | <1 | (16) |
| **Tax benefit for the years** | **(941)** | **397,389** | **(47)** | **338,697** |

**Deferred tax asset/liabilities**

Deferred tax is provided in respect of taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for the differences relating to goodwill not deductible for tax purposes and the initial recognition of assets and liabilities which affect neither accounting nor taxable profit.

**Unrecognised deferred tax assets and liabilities**

As of 31 December, unrecognised deferred tax assets and liabilities as follows:

| | 2019 | 2018 |
|---|---|---|
| Tax losses carried forward | 144,122 | 113,894 |
| Temporary differences | 14,255 | 14,403 |
| **Total** | **158,377** | **128,297** |

**Tax losses**

The distribution of tax losses by years based on their exemption schedule is as follows;

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Expiration year** | **Recognized** | **Unrecognized** | **Recognized** | **Unrecognized** |
| 2019 | -- | -- | 29,545 | 15,019 |
| 2020 | 32,720 | 29,979 | 41,770 | 46,435 |
| 2021 | 56,810 | 37,846 | 66,647 | 37,964 |
| 2022 | 88,907 | 57,557 | 115,750 | 38,310 |
| 2023 | 163,942 | 455,709 | 224,172 | 431,743 |
| 2024 | 91,209 | 139,519 | -- | -- |
| **Total** | **433,588** | **720,610** | **477,884** | **569,471** |

## 25 Taxation *(continued)*

### Deferred tax assets and liabilities *(continued)*

***Recognised deferred tax assets and liabilities***

As of 31 December, deferred tax assets and deferred tax liabilities are attributable to the items detailed in the table below.

| | Assets | | Liabilities | | Net Amount | |
|---|---|---|---|---|---|---|
| | **31 December 2019** | **31 December 2018** | **31 December 2019** | **31 December 2018** | **31 December 2019** | **31 December 2018** |
| Investment incentives | 907,950 | 484,801 | -- | -- | **907,950** | **484,801** |
| Tax losses carried forward | 94,628 | 98,846 | -- | -- | **94,628** | **98,846** |
| Derivative financial instruments | 3,665 | 52,836 | -- | -- | **3,665** | **52,836** |
| Employee severance indemnity | 200 | 366 | -- | -- | **200** | **366** |
| Vacation pay liability | 148 | 90 | -- | -- | **148** | **90** |
| Tangible and intangible assets | -- | -- | 483,587 | 357,317 | **(483,587)** | **(357,317)** |
| Other temporary differences | 534 | -- | -- | 46 | **534** | **(46)** |
| **Sub total** | **1,007,125** | **636,939** | **483,587** | **357,363** | **523,538** | **279,576** |
| Set off of tax | (33,566) | (92,853) | (33,566) | (92,853) | -- | -- |
| **Deferred tax assets/(liabilities), net** | **973,559** | **544,086** | **450,021** | **264,510** | **523,538** | **279,576** |

## 25 Taxation *(Continued)*

**Deferred tax assets and liabilities** *(continued)*

Deferred tax assets and liabilities and their movements during the years ended 31 December, those have been recognised in respect of the following items:

| | 1 January 2018 | Recognized through profit/(loss) | Recognized through other comprehensive income | 31 December 2018 | Recognized through profit/(loss) | Recognized through other comprehensive income | 31 December 2019 |
|---|---|---|---|---|---|---|---|
| Investment incentives | 190,932 | 293,869 | -- | **484,801** | 423,149 | -- | **907,950** |
| Tax losses carried forward | 63,936 | 34,910 | -- | **98,846** | (4,218) | -- | **94,628** |
| Derivative financial instruments | 5,709 | 47,127 | -- | **52,836** | (49,171) | -- | **3,665** |
| Employee severance indemnity | 144 | 196 | 26 | **366** | (194) | 28 | **200** |
| Vacation pay liability | 129 | (39) | -- | **90** | 58 | -- | **148** |
| Tangible and intangible assets | (40,619) | (34,955) | (281,743) | **(357,317)** | 30,149 | (156,419) | **(483,587)** |
| Other temporary differences | 472 | (518) | -- | **(46)** | 580 | -- | **534** |
| **Total** | **220,703** | **340,590** | **(281,717)** | **279,576** | **400,353** | **(156,391)** | **523,538** |

# 26 Nature and level of risks related to financial instruments (including the fair value disclosures)

## 26.1 *Capital risk management*

The Group is trying to balance the debt to equity ratio in the normal course of the business, in the most effective way and aims to increase its profitability.

Cost of capital and the risks associated with each class of capital, are assessed by the top management together. Top management is trying to balance the capital structure by acquisition of new debt or repayment of existing debt as well as dividend payments, issuance of new shares. The general strategy of the Group is consistent as in previous years.

As of 31 December, rates of net debt/ paid-in capital are as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Total loans and borrowings | 4,485,526 | 3,263,747 |
| Less: Cash and cash equivalents | (241,041) | (102,044) |
| **Net financial debt position** | **4,244,485** | **3,161,703** |
| Total paid-in capital | 291,349 | 291,349 |
| **Net financial debt/paid-in capital** | **14.57** | **10.85** |

## 26.2 Financial Risk Management

The Group has exposure to the following risks from its operations:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors, are responsible of the creation of the Group's risk management framework and supervision in general. Fina Holding and Fiba Holding, the shareholders, strengthened corporate risk management processes by centralizing and determining the methodology to be applied on the risk management activities.

## 26 Nature and level of risks related to financial instruments (including the fair value disclosures) *(Continued)*

### 26.2 Financial Risk Management *(Continued)*

#### 26.2.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The management of the Group covers these risks by limiting the average risk for counter party (except related parties) in all contracts and receiving guarantees if necessary.

**Trade and other receivables**

Since, within the scope of the YEKDEM tariff, the Group's generated electricity sales are made to Aydem and EPİAŞ of which invoicing-collection processes are regulated in accordance with the respective legislation, the credit risk of the Group's trade receivables is at rather acceptable level. In addition, the fact that one of the main partners of EPİAŞ, which is the market operator, is a state-owned enterprise (TEİAŞ) which constitutes a significant part of its sales volume, also supports keeping the credit risk process related to sales at a manageable level.

In monitoring customer credit risk, the other customers of which the Group made electricity sales on credit basis through Fina Elektrik are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. The Group's review includes external ratings, when available, and in some cases bank references. The Group accepts some customers provided with them make payment through direct debit system ("DDS") system so as to monitor their credit risk processes closely (especially in the electricity market as highly active player in form of a buyer). The Group also takes a letter of guarantee or on prepayment basis when it deems necessary to reduce the credit risk that may arise from customers with bilateral agreements.

The ownership rights of financial assets have the risk of counterpart's indebtness. Credit risk is distributed because of the high number of customer base, individually or collectively. Also the Group takes guarantee letters from the free consumers. If at the end of 3 months of due date, the related invoice is still unpaid, the Group claims against the debtors.

The Group changed the methodology of impairment analysis for trade and other receivables from customers in compliance with the credit loss model tailored to IFRS 9 starting from 1 January 2018. The Group recognized expected credit losses not only for doubtful receivables, but also all receivable position including undue balances, as weighted by probability of default over the whole lifecycle during.

**Cash and cash equivalents**

As at the reporting date, the Group has cash and cash equivalents position by the amount of TL 241,019 (31 December 2018: TL 102,009 ). Cash and cash equivalents are held in the reputable banks operating in Turkey.

## *26* Nature and level of risks related to financial instruments (including the fair value disclosures) *(Continued)*

### 26.2 Financial Risk Management *(Continued )*

### 26.2.2 Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due and to fund the increase in assets and the risk that is originating from transactions in illiquid markets.

The Group performs its liquidity management through regular collections within the scope of RERSM and short-medium term financing loans when necessary. As of the reporting date, the Group plans to refinance all of the remaining amount of the financial borrowings followed under current liabilities after making payment with the net working capital generated during the following year by using contractual rights.

### 26.2.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

*Foreign Currency Risk*

The Group is exposed to currency risk on investment purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies in which these transactions primarily are denominated are Euro and USD.

As at the reporting period, the Group's net position due to the foreign currency risk is disclosed further in Note 26.3.3.1.

Electricity sales of the Group's powerplant entities within the scope of RERSM are based in foreign currency and this provides naturally hedge for the foreign currency position risk in some portion.

*Interest rate risk:*

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprise at different times or in differing amounts. In the case of floating rate liabilities the Group is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as six-months euribor/libor and different types of interest. Risk management activities are aimed at optimizing net interest exposure, given market interest rate levels consistent with the Group's business strategies.

### 26.2.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

## 26 Nature and level of risks related to financial instruments (including the fair value disclosures) *(Continued)*

### 26.2 Financial Risk Management *(Continued)*

### 26.2.4 Operational risk *(Continued )*

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas.

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of emergency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Fiba Holding and Fina Holding Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to senior management of the Group.

### 26.3 *Risk management disclosures*

#### *26.3.1 Credit risk*

| | **Receivables** | | | | **Deposits in Banks** | **Derivatives** | **Total** |
|---|---|---|---|---|---|---|---|
| | **Trade Receivables (*)** | | **Other Receivables (**)** | | | | |
| **Current period** | **Related Party** | **Third Party** | **Related Party** | **Third Party** | | | |
| **Maximum credit risk exposure at reporting date (A+B+C+D)** | **1,810** | **71,718** | **333** | **1,735** | **241,019** | **30,618** | **347,233** |
| - Portion of maximum risk covered by guarantees | -- | 30,669 | -- | -- | -- | -- | **30,669** |
| A. Net book value of financial assets that are neither past due nor impaired | 1,810 | 71,718 | 333 | 1,735 | 241,019 | 30,618 | **347,233** |
| B. Carrying value of financial assets that are past due but not impaired | -- | -- | -- | -- | -- | -- | -- |
| C. Net book value of impaired assets | -- | -- | -- | -- | -- | -- | -- |
| - Past due (gross carrying amount) | -- | 12,353 | -- | -- | -- | -- | **12,353** |
| - Impairment (-) | | (12,353) | -- | -- | -- | -- | **(12,353)** |
| - The part of net value under guarantee with collateral etc. | -- | -- | -- | -- | -- | -- | -- |
| - Not past due (gross carrying amount) | -- | -- | -- | -- | -- | -- | -- |
| - Impairment (-) | -- | -- | -- | -- | -- | -- | -- |
| - The part of net value under guarantee with collateral etc. | -- | -- | -- | -- | -- | -- | -- |
| D. Elements including credit risk on off balance sheet | -- | -- | -- | -- | -- | -- | -- |

## 26 Nature and level of risks related to financial instruments (including the fair value disclosures) *(Continued)*

### *26.3 Risk management disclosures (Continued)*

### *26.3.1 Credit risk (Continued)*

| | Receivables | | | | Deposits in Banks | Derivatives | Total |
|---|---|---|---|---|---|---|---|
| | Trade Receivables (*) | | Other Receivables (**) | | | | |
| **Previous period** | **Related Party** | **Third Party** | **Related Party** | **Third Party** | | | |
| **Maximum credit risk exposure at reporting date (A+B+C+D)** | **343** | **34,845** | **1,387** | **26,850** | **102,009** | **1,170** | **166,604** |
| - Portion of maximum risk covered by guarantees | -- | 570 | -- | -- | -- | -- | **570** |
| A. Net book value of financial assets that are neither past due nor impaired | 343 | 34,630 | 1,387 | 26,850 | 102,009 | 1,170 | **166,389** |
| B. Carrying value of financial assets that are past due but not impaired | -- | -- | -- | -- | -- | -- | -- |
| C. Net book value of impaired assets | -- | **215** | -- | -- | -- | -- | **215** |
| - Past due (gross carrying amount) | -- | 11,830 | -- | -- | -- | -- | **11,830** |
| - Impairment (-) | -- | (11,615) | -- | -- | -- | -- | **(11,615)** |
| - The part of net value under guarantee with collateral etc. | -- | -- | -- | -- | -- | -- | -- |
| - Not past due (gross carrying amount) | -- | -- | -- | -- | -- | -- | -- |
| - Impairment (-) | -- | -- | -- | -- | -- | -- | -- |
| - The part of net value under guarantee with collateral etc. | -- | -- | -- | -- | -- | -- | -- |
| D. Elements including credit risk on off balance sheet | -- | -- | -- | -- | -- | -- | -- |

*As at the reporting period, trade receivables by the total amount of TL 17,859 was comprised of balance due from EPİAŞ and Aydem of which collection process was regulated by the respective legislation and in the subsequent period (due course) respective collection was realized (31 December 2018: TL 15,969).

**As at 31 December 2019, other receivables by the amount of TL 103 was comprised of balance due from the respective tax offices, in the subsequent period (due course) respective collection was realized. (31 December 2018: TL 25,248, reclassified due to the change in estimate during the current year regarding the collection way and timing as well). Besides, receivable from personnel and deposits and guarantees given are not considered in this financial caption per presentation purposes.

**Impairment losses**

At the end of reporting period, the maturity analysis of trade receivables and doubtful receivable movement are as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Gross** | **Impairment** | **Gross** | **Impairment** |
| Neither past due nor impaired | 73,528 | -- | 34,973 | -- |
| Overdue 90 days | 12,353 | (12,353) | 11,830 | (11,615) |
| | **85,881** | **(12,353)** | **46,803** | **(11,615)** |

## 26 Nature and level of risks related to financial instruments (including the fair value disclosures) *(Continued)*

### *26.3* Risk Management Disclosures *(Continued)*

### *26.3.2* Liquidity risk

As of 31 December, the maturities of financial liabilities including estimated interest payments are as follows:

| Current period | Carrying amount | Total contractual cash flows (=I+II+III+IV+V) | Less than 6 months (I) | 6-12 months (II) | 1-2 years (III) | 2-5 years (IV) | More than 5 years (V) |
|---|---|---|---|---|---|---|---|
| **Non derivative financial liabilities** | **(4,704,335)** | **(5,175,514)** | **(1,062,534)** | **(1,011,265)** | **(1,134,321)** | **(1,460,906)** | **(506,488)** |
| Loans and borrowings (*) | **(4,485,526)** | (4,956,705) | (895,267) | (1,011,265) | (1,101,069) | (1,442,616) | (506,488) |
| Trade payables (**) | **(192,886)** | **(192,886)** | (141,344) | -- | (33,252) | (18,290) | -- |
| Other payables | **(25,923)** | **(25,923)** | (25,923) | -- | -- | -- | -- |
| **Derivative financial liabilities** | **(21,836)** | **4,842** | **18,007** | **(13,165)** | **--** | **--** | **--** |
| Inflows | **30,618** | **981,829** | 643,646 | 338,183 | -- | -- | -- |
| Outflows | **(52,454)** | **(976,987)** | (625,639) | (351,348) | -- | -- | -- |
| **Total** | **(4,726,171)** | **(5,170,672)** | **(1,044,527)** | **(1,024,430)** | **(1,134,321)** | **(1,460,906)** | **(506,488)** |

| Previous period | Carrying amount | Total contractual cash flows (=I+II+III+IV+V) | Less than 6 months (I) | 6-12 months (II) | 1-2 years (III) | 2-5 years (IV) | More than 5 years (V) |
|---|---|---|---|---|---|---|---|
| **Non derivative financial liabilities** | **(3,389,133)** | **(3,848,649)** | **(776,751)** | **(577,175)** | **(1,210,770)** | **(697,900)** | **(586,053)** |
| Loans and borrowings (*) | **(3,263,747)** | **(3,723,263)** | (656,489) | (572,051) | (1,210,770) | (697,900) | (586,053) |
| Trade payables | **(118,260)** | **(118,260)** | (118,260) | -- | -- | -- | -- |
| Other payables | **(7,126)** | **(7,126)** | (2,002) | (5,124) | -- | -- | -- |
| **Derivative financial liabilities** | **(186,305)** | **(102,184)** | **(72,089)** | **(16,035)** | **(14,060)** | **--** | **--** |
| Inflows | **1,170** | **973,981** | 687,659 | 68,139 | 218,183 | -- | -- |
| Outflows | **(187,475)** | **(1,076,165)** | (759,748) | (84,174) | (232,243) | -- | -- |
| **Total** | **(3,575,438)** | **(3,950,833)** | **(848,840)** | **(593,210)** | **(1,224,830)** | **(697,900)** | **(586,053)** |

(*) The Group performs its liquidity management through regular collections within the scope of RERSM and short-medium term financing loans when necessary. As of the reporting date, the Group plans to refinance all of the remaining amount of the financial borrowings followed under current liabilities after making payment with the net working capital generated during the following year by using contractual rights.

(**) Other payables mainly comprised contingent payables due to the seller because of Ares acquisition provided that the seller performs all terms and conditions required in due and satisfied course to the share transfer agreement. The cash-out flows from payables in foreign currency denominated are presented through converting at the current period-end rates and assumed that those cash out flows presented herein approaches the book value thereof.

## 26 Nature and level of risks related to financial instruments (including the fair value disclosures) *(Continued)*

### *26.3* Risk Management Disclosures *(Continued)*

### *26.3.3* Market risk

#### *26.3.3.1 Currency risk*

At 31 December, the foreign currency exposure of the Group because of the open position is as follows:

**Current Period**

| | **TL Equivalent** | **USD** | **Euro** |
|---|---|---|---|
| 1. Trade receivables | 2,740 | 103 | 320 |
| 2a. Monetary financial assets (included cash and bank accounts) | 66,783 | 59 | 9,989 |
| 2b. Non-monetary financial assets | 62,915 | -- | 9,460 |
| 3. Other | -- | -- | -- |
| **9. Total assets (1+2+3)** | **132,438** | **162** | **19,769** |
| 10. Trade payables | 118,339 | 7,745 | 10,876 |
| 11. Financial liabilities | 3,202,504 | 105,354 | 387,436 |
| 12a. Other monetary financial liabilities | 32 | -- | 5 |
| 12b. Other non-monetary financial liabilities | -- | -- | -- |
| **18. Total liabilities (10+11+12)** | **3,320,875** | **113,099** | **398,317** |
| **19. Statement of financial position net of derivative instruments denominated in foreign currency asset / (liability) position (19a-19b)** | **(725,254)** | **(62,500)** | **(53,227)** |
| **19a. Off-balance sheet derivative assets denominated in foreign currency** | 125,635 | 21,150 | -- |
| **19b. Off-balance sheet derivative liabilities denominated in foreign currencies** | 850,889 | 83,650 | 53,227 |
| **20. Net foreign currency asset / (liability) position (9-18+19)** | **(3,913,691)** | **(175,437)** | **(431,775)** |
| **21. Net foreign currency asset / (liability) (position of monetary items) (IFRS 7.B23) (=1+2a-10-11-12a)** | **(3,251,352)** | **(112,937)** | **(388,008)** |
| **22. Fair value of financial instruments used for foreign currency hedging** | -- | -- | -- |
| **23.Hedged portion of foreign currency assets** | -- | -- | -- |
| **24. Hedged portion of foreign currency liabilities** | -- | -- | -- |

## 26 Nature and level of risks related to financial instruments (including the fair value disclosures) *(Continued)*

### *26.3* Risk Management Disclosures *(Continued)*

### *26.3.3* Market risk

#### *26.3.3.1 Currency risk (Continued)*

**Previous Period**

| | TL Equivalent | USD | Euro |
|---|---|---|---|
| 1. Trade receivables | 2,484 | 3 | 410 |
| 2a. Monetary financial assets (included cash and bank accounts) | 1,773 | 21 | 276 |
| 2b. Non-monetary financial assets | 104,984 | -- | 17,416 |
| 3. Other | -- | -- | -- |
| **9. Total assets (1+2+3)** | **109,241** | **24** | **18,102** |
| 10. Trade payables | 62,311 | 8,325 | 3,071 |
| 11. Financial liabilities | 2,032,887 | 38,841 | 303,343 |
| 12a. Other monetary financial liabilities | 56 | -- | 9 |
| 12b. Other non-monetary financial liabilities | -- | -- | -- |
| **18. Total liabilities (10+11+12)** | **2,095,254** | **47,166** | **306,423** |
| **19. Statement of financial position net of derivative instruments denominated in foreign currency asset / (liability) position (19a-19b)** | **(1,076,165)** | **(61,300)** | **(125,028)** |
| **19a. Off-balance sheet derivative assets denominated in foreign currency** | -- | -- | -- |
| **19b. Off-balance sheet derivative liabilities denominated in foreign currencies** | 1,076,165 | 61,300 | 125,028 |
| **20. Net foreign currency asset / (liability) position (9-18+19)** | **(3,062,178)** | **(108,442)** | **(413,349)** |
| **21. Net foreign currency asset / (liability) (position of monetary items) (IFRS 7.B23) (=1+2a-10-11-12a)** | **(2,090,997)** | **(47,142)** | **(305,737)** |
| **22. Fair value of financial instruments used for foreign currency hedging** | -- | -- | -- |
| **23.Hedged portion of foreign currency assets** | -- | -- | -- |
| **24. Hedged portion of foreign currency liabilities** | -- | -- | -- |

## 26 Nature and level of risks related to financial instruments (including the fair value disclosures) *(Continued)*

### *26.3* Risk Management Disclosures *(Continued)*

### *26.3.3* Market risk

#### *26.3.3.1 Currency risk*

*Foreign currency sensitivity analysis*

A 10 percent weakening / strengthening of the TL against the following currencies as at 31 December would have affect over the equity or the profit or loss performance by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| **Current period** | | | | |
|---|---|---|---|---|
| | **Profit/loss** | | **Equity** | |
| | **Profit/loss** | **Equity** | **Profit/loss** | **Equity** |
| 1- Net USD assets/liabilities | (104,213) | 104,213 | -- | -- |
| 2- Hedged portion against USD risk (-) | -- | -- | -- | -- |
| **3- Net effect of USD (1+2)** | **(104,213)** | **104,213** | -- | -- |
| 4- Net Euro assets/liabilities | (287,156) | 287,156 | -- | -- |
| 5- Hedged portion against Euro risk (-) | | | -- | -- |
| **6- Net effect of Euro (4+5)** | **(287,156)** | **287,156** | -- | -- |
| **TOTAL (3+6)** | **(391,369)** | **391,369** | -- | -- |

| **Previous period** | | | | |
|---|---|---|---|---|
| | **Profit/loss** | | **Equity** | |
| | **Profit/loss** | **Equity** | **Profit/loss** | **Equity** |
| 1- Net USD assets/liabilities | (57,050) | 57,050 | -- | -- |
| 2- Hedged portion against USD risk (-) | -- | -- | -- | -- |
| **3- Net effect of USD (1+2)** | **(57,050)** | **57,050** | -- | -- |
| 4- Net Euro assets/liabilities | (249,167) | 249,167 | -- | -- |
| 5- Hedged portion against Euro risk (-) | -- | -- | -- | -- |
| **6- Net effect of Euro (4+5)** | **(249,167)** | **249,167** | -- | -- |
| **TOTAL (3+6)** | **(306,217)** | **306,217** | -- | -- |

## 26 Nature and level of risks related to financial instruments (including the fair value disclosures) *(Continued)*

### *26.3* Risk Management Disclosures *(Continued)*

### *26.3.3* Market risk *(Continued)*

#### *26.3.3.2 Interest rate risk*

At the reporting date, the interest rate profile of the Group's interest bearing financial instruments was:

| Interest rate profile | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Fixed rate instruments** | **(3,050,140)** | **(1,874,858)** |
| Financial assets (Time deposits and other cash equivalents) | 235,179 | 99,406 |
| Financial liabilities | (3,262,214) | (1,969,140) |
| Other payables due to related parties | (23,105) | (5,124) |
| **Variable rate instruments** | **(1,223,312)** | **(1,294,607)** |
| Financial liabilities | (1,223,312) | (1,294,607) |

*Fair value sensitivity analysis for fixed rate instruments*

At the reporting date, the Group does not have any financial liability classified as at fair value through profit or loss. Therefore, a change of 100 basis points in interest rates as at 31 December 2019 would not have any effect over the profit or loss (31 December 2018: none).

*Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates as at 31 December 2019 would have increased / (decreased) profit or loss by amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as at 31 December 2018.

| | Profit/loss | | Equity (*) | |
|---|---|---|---|---|
| | %1 increase | %1 decrease | %1 increase | %1 decrease |
| **2019** | | | | |
| Variable rate instruments | (448) | 378 | (448) | 378 |
| **Cash flow sensitivity (net)** | **(448)** | **378** | **(448)** | **378** |
| **2018** | | | | |
| Variable rate instruments | (570) | 657 | (570) | 657 |
| **Cash flow sensitivity (net)** | **(570)** | **657** | **(570)** | **657** |

(*) (*) Changes in equity includes the changes in profit or loss.

## 26 Nature and level of risks related to financial instruments (including the fair value disclosures) *(Continued)*

### *26.3.3* Market risk *(Continued)*

***Fair value information***

The table below discloses the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| | Financial instruments measured at amortized cost | | Financial instruments measured at FVTP | | Fair value hierarchy | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| **Financial assets** | | | | | | | | |
| Trade receivables | 73,528 | 35,188 | -- | -- | | | **73,528** | **35,188** |
| Other receivables (*) | 2,068 | 28,237 | -- | -- | | | **2,068** | **28,237** |
| Cash and cash equivalents | 241,041 | 102,044 | -- | -- | | | **241,041** | **102,044** |
| Derivative instruments | -- | -- | 30,618 | 1,170 | **Level 2** | **Level 2** | **30,618** | **1,170** |
| | **316,637** | **165,469** | **30,618** | **1,170** | | | **347,255** | **166,639** |
| **Financial liabilities** | | | | | | | | |
| Loans and borrowings (**) | (4,485,526) | (3,263,747) | -- | -- | | | **(4,485,526)** | **(3,263,747)** |
| Trade payables | (192,886) | (118,260) | -- | -- | | | **(192,886)** | **(118,260)** |
| Other payables | (25,923) | (7,126) | -- | -- | | | **(25,923)** | **(7,126)** |
| Derivative instruments | -- | -- | (52,454) | (187,475) | **Level 2** | **Level 2** | **(52,454)** | **(187,475)** |
| | **(4,704,335)** | **(3,389,133)** | **(52,454)** | **(187,475)** | | | **(4,756,789)** | **(3,576,608)** |

(*) Receivable from personnel and deposits and guarantees given are not included in this financial caption per presentation purposes.

(**) At the reporting dates, the Group does not have any loans and borrowings stated at fair value because of the repayment made during the previous year.

## 26 Nature and level of risks related to financial instruments (including the fair value disclosures) *(Continued)*

### *26.3.3* Market risk *(Continued)*

***Fair value information** (Continued)*

**Classification of fair value measurement**

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: This category includes inputs that are quoted market prices (unadjusted) in active markets for identical instruments. These are instruments where the fair value can be determined directly from prices which are quoted in active, liquid markets and where the instrument observed in the market is representative of that being priced in the Group's portfolio;

Level 2: This category includes inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data;

Level 3: This category includes all instruments where the valuation technique uses inputs based on unobservable data, which could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant, unobservable adjustments or assumptions are required to reflect differences between instruments. Unobservable in this context means that there is little or no current market data available from which the price at which an arm's length transaction would be likely to occur can be derived.

| **Financial instrument** | **Financial instruments measured at FVTP** | | | | **Fair value hierarchy** | **Valuation technique** | **Significant observable inputs** | **Relation of significant observable inputs with fair value** |
|---|---|---|---|---|---|---|---|---|
| | **Current period** | | **Previous period** | | | | | |
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** | | | | |
| Derivative instruments | 30,618 | 52,454 | 1,170 | 187,475 | 2 | Discounted cash flow method: Estimated future cash flows using forward exchange rates (observable forward exchange rates at the end of the reporting period) and contract rates are discounted using a rate that reflects the credit risk of various parties. | -- | -- |

**Fair value measurement**

*Measurement methods and important non-observable market data*

"Peer comparison method" is used for the valuation of the open position resulting from forward and swap contracts that are measured at fair value and classified as "Level 2" in the fair value hierarchy. Accordingly, the fair values of these instruments per peer comparison method are determined based on the quotation of the intermediaries indicating the prices of the recently realised transactions of the similar contracts that are traded in an active market. In determining the fair values of the respective transactions, no significant unobservable market input is used.

Operating powerplants even if those not under financial instruments were recognized at their fair value at the reporting date by using discounted cash flow methods. Considering the assumptions and methodology used, those powerplants would have been classified as level 3 upon fair value measurement hierarchy.

## 27 Non-controlling interests

The following tables summarise the information relating to NCI as at 31 December:

| | Current period | | |
|---|---|---|---|
| | **Polyak** | **Ütopya** | **Total** |
| **NCI percentage (beginning of period)** | **49.00%** | **15.00%** | |
| Non current assets | 2,759,906 | 370,098 | **3,130,004** |
| Current assets | 114,989 | 10,065 | **125,054** |
| Non current liabilities | (1,379,779) | (153,725) | **(1,533,504)** |
| Current liabilities | (791,994) | (61,555) | **(853,549)** |
| **Net assets** | **703,122** | **164,883** | **868,005** |
| **NCI percentage (end of period)** | **49.00%** | **15.00%** | |
| **Carrying amount of NCI** | **344,530** | **24,732** | **369,262** |
| Revenue | -- | 60,961 | **60,961** |
| Profit or loss | 386,184 | 12,731 | **398,915** |
| Other comprehensive income (*) | (333) | 64,022 | **63,689** |
| **Total comprehensive income** | **385,851** | **76,753** | **462,604** |
| **Profit or loss allocated to NCI** | 189,230 | 1,910 | **191,140** |
| **Other comprehensive income or expense allocated to NCI** | -- | 9,600 | **9,600** |
| **Total comprehensive income or expense allocated to NCI** | **189,230** | **11,510** | **200,740** |

| | Previous period | | |
|---|---|---|---|
| | **Polyak** | **Ütopya** | **Total** |
| **NCI percentage (beginning of period)** | **49.00%** | **15.00%** | |
| Non current assets | 1,510,975 | 298,029 | **1,809,004** |
| Current assets | 68,559 | 2,997 | **71,556** |
| Non current liabilities | (700,376) | (141,054) | **(841,430)** |
| Current liabilities | (562,338) | (72,902) | **(635,240)** |
| **Net assets** | **316,820** | **87,070** | **403,890** |
| **NCI percentage (end of period)** | **49.00%** | **15.00%** | |
| **Carrying amount of NCI** | **155,242** | **13,060** | **168,302** |
| Revenue | -- | 51,379 | **51,379** |
| Profit or loss | 136,276 | (27,009) | **109,267** |
| Other comprehensive income (*) | 17 | 149,277 | **149,294** |
| **Total comprehensive income** | **136,293** | **122,268** | **258,561** |
| Profit or loss allocated to NCI | 66,775 | (4,051) | **62,724** |
| NCI percentage (beginning of period) | -- | 22,391 | **22,391** |
| **Other comprehensive income or expense allocated to NCI** | **66,775** | **18,340** | **85,115** |

(*) The non-controlling interest has not been recognized over the actuarial effect associated with other comprehensive income considering the significance level.

## 28 Subsequent events

As of the reporting date, advance recognized by Euro 9,460,000 in the statement of financial position was accepted as conditional acquisition consideration amount (saved the Group's reimbursement right in case of any incompliance with the contract's terms) and was registered in the share book of the acquirer subsidiary of the Group following the share transfer transactions on 12 March 2020.

Osres / Kızılcaterzi project, which started operating in the last quarter of 2019, has signed off a loan agreement by USD 8.5 million with a maturity of 15.5 years on 10 January 2020, as Export Credit Facility ("ECA") in respect of Euler Hermes Cover. The respective security documents contemplated by the loan agreement are expected to be executed within second quarter of 2020 with registration/declaration notification processes to the relevant institutions.

In our project financing processes, Ares/Baglama project, with the installed capacity of 50 MWe, which is planned to be commissioned earlier than the other projects in 2020, has signed a commercial loan of USD 25 million (committed line) with a maturity of 8 years in January 2020 and ECA loan with the related lender in respect of Euler Hermes Cover in April 2020 with 15.5 years' maturity and committed line of USD 30.2 million (including Hermes Premium).

The Covid-19 epidemic and precautions taken in the world and in our country cause disruptions in operations in all countries exposed to the epidemic and affect the economic conditions negatively both globally and locally. Since the economic effects of this outbreak are uncertain to be measured at the reporting date, its effects on the operations and therefore cash flows at the level of the financial statements cannot be reasonably estimated.

Between 31 December 2019 and the issuance date of this report, the Turkish Lira depreciated significantly against major foreign currencies. This depreciation was 17% against the USD and 14% against the Euro.

In accordance with the provisional article, it is decreed for companies that, only 25% of net profit for the year 2019 could be paid until 30 September 2020, retained earnings and free reserves would not be distributed and general assembly would not authorise the board of directors to pay any advance dividends. The duration of these limitations and restrictions may be extended or shortened for three months by the decision of the President. Ministry of Trade is authorised to determine the exceptions on the provisional article for the companies by consulting with the Ministry of Treasury and Finance. Since this regulation is effective on the date of, excluding exceptions determined by the Ministry of Trade's, companies shall comply with this provision for the dividend distribution decisions and to determine the dividend amount to be distributed.