

**ŞOK MARKETLER TİCARET A.Ş.
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of
Şok Marketler Ticaret A.Ş.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Şok Marketler Ticaret A.Ş. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of balance sheets as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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 *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
<p><i>Purchase discounts from suppliers</i></p> <p>The Group receives purchase discounts based on supplier agreements and mutual agreements. Purchase discounts considered in cost of inventory as of 2018. Total amount of discounts received is material considering the financial statements as of 2018.</p> <p>Amounts of discounts are determined based on the agreed upon purchase targets.</p> <p>Discounts may not be recorded accurately in the correct period. Therefore, aforementioned discounts which are in line with the agreements and recorded in the correct period is a key audit matter for the aim of our audit.</p> <p>Please refer to notes 2.5 for summary of significant accounting policies.</p>	<p>We performed the following procedures in relation to the test of purchase discounts during our audit;</p> <p>Understanding and evaluating the design and implementation of controls in relation to purchase discounts that the Group has established to be in line with supplier agreements,</p> <p>Evaluating the agreements whether they were in line with selected agreements by using sampling method and checked data which is the base of discount calculation whether they were complete and accurate with the supporting documents to determine whether discount amounts recognized were accurate and recorded in the correct period,</p> <p>In addition to that, checking whether amounts of all sales discounts considered during the reconciliation of supplier confirmations selected by sampling method.</p>
<p><i>Impairment test of goodwill arising from intangible assets with indefinite useful lives</i></p> <p>As of 31 December 2018, goodwill recognized as indefinite useful life intangible assets in the consolidated financial statements amounting to 578.942.596 TL. In accordance with IAS 36 requirement, indefinite useful life intangible assets are subject to impairment tests annually.</p> <p>Goodwill amount is material for consolidated financial statements. In addition, significant estimates and assumptions were used during the impairment analysis performed by management. These assumptions on goodwill impairment analysis are earning before interest, depreciation, amortization and interest (EBITDA), the fair value and Market Multipliers Approach - Similar Companies Analysis and grouping of cash generating units. These estimates and assumptions are highly sensitive to future market conditions. By considering these reasons, the impairment test of the goodwill</p>	<p>During our audit, we performed the following procedures in relation to the impairment test of goodwill:</p> <ul style="list-style-type: none"> - Evaluating the appropriateness of the cash-generating units (“CGUs”) identified by the Management; - Evaluating management forecasts and explanations within the framework of macroeconomic situations by inquiry with the Group Management - Evaluating the reasonableness of the key assumptions used in the calculations against the rates used in the retail sector, including involvement of our valuation experts, - Testing set-up and mathematical accuracy of the model of the impairment calculation, - Evaluating appropriateness of the managements assumptions against market conditions, - Evaluating the explanations in the

<p>is a key audit matter for the aim of our audit.</p> <p>The disclosures of the accounting policies and sensitivity analysis for measuring the impairment of goodwill from intangible assets with indefinite useful life are presented in Notes 2.7-8, 13.</p>	<p>accompanying financial statement disclosure notes of deferred tax asset from prior year losses and assessing the adequacy of these disclosures under IFRS.</p>
<p><i>Deferred tax asset from prior year losses</i></p> <p>Deferred tax assets from prior year losses are explained in note 25 and Total amount is material considering the financial statements as at 31 December 2018.</p> <p>The partial or complete recoverable amounts of deferred tax assets are predicted under current circumstances. The recoverability of this deferred tax asset from prior year losses is dependent on the generation of sufficient future taxable profit. Significant judgement is required in forecasting future taxable profit of the Group.</p> <p>Significant accounting policies of deferred tax asset and critical judgments in applying the entity's accounting policies are explained in notes 2.7 and 2.8 respectively.</p>	<p>We performed the following procedures in relation to recoverability of the deferred tax asset from prior year losses during our audit;</p> <ul style="list-style-type: none"> - Evaluating forecasts and future profit projections, current year's losses and profit, unused losses and the expiration dates of other tax assets, and if necessary tax planning strategies in the light of macroeconomic situations and sector assumptions by inquiring with the management, - Checking setup and mathematical accuracy of future profit projection model, - Checking the analysis of the Management whether assumptions used in model are in line with compatibility of market conditions' sensitivity, - Evaluating the explanations in the accompanying financial statement disclosures notes of goodwill impairment tests and their results and assessing the adequacy of these disclosures under IFRS.

Other Information

Management is responsible for the other information, which is presented in Appendix 1. The other information comprises non-IFRS measures.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



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 IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's 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 auditor's 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.



We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 ("TCC"), the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 6 March 2019.

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Group's set of accounts and financial statements prepared for the period 1 January-31 December 2018 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

In accordance with paragraph four of the Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

The engagement partner on the audit resulting in this independent auditor's report is Zere Gaye Şentürk.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Zere Gaye Şentürk
Partner

İstanbul, 6 March 2019

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ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018, 2017 AND 2016**

(Amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

ASSETS

		31 December	31 December	31 December
	Note	2018	2017	2016
Current Assets				
Cash and cash equivalents	5	296,387,148	92,091,962	60,831,032
Trade receivables	7 - 2.9	127,240,392	267,634,215	337,738,587
Due from related parties	24	27,362,610	86,872,480	71,477,129
Other trade receivables	2.9	99,877,782	180,761,735	266,261,458
Other receivables	8	3,639,920	36,899,176	22,168,652
Due from related parties	24	-	32,148,945	18,790,466
Other receivables		3,639,920	4,750,231	3,378,186
Inventories	9	872,461,203	636,247,122	503,380,085
Prepaid expenses	10	10,467,177	8,433,138	8,967,499
Other current assets	17	5,138,881	36,714,541	10,155,617
Total Current Assets		1,315,334,721	1,078,020,154	943,241,472
Non Current Assets				
Other receivables	8	13,380,154	5,695,390	4,033,882
Property and equipment	11	977,595,003	849,530,114	607,626,432
Intangible assets		684,705,993	677,027,576	672,144,581
Goodwill	13	578,942,596	578,942,596	578,942,596
Other intangible assets	12	105,763,397	98,084,980	93,201,985
Other non current assets		274	8,601	64,438
Deferred tax assets	23	270,915,382	-	-
Total Non-Current Assets		1,946,596,806	1,532,261,681	1,283,869,333
TOTAL ASSETS		3,261,931,527	2,610,281,835	2,227,110,805

Accompanying notes form an integral part of these consolidated financial statements.

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018, 2017 AND 2016

(Amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

LIABILITIES AND EQUITY

	Note	31 December 2018	31 December 2017	31 December 2016
Current Liabilities				
Short term borrowings	6	75,397,282	1,402,437,385	1,099,639,232
Obligations under finance leases	6	101,967,392	102,412,883	57,145,299
Trade payables	7 - 2.9	2,484,528,147	2,193,083,265	1,664,900,340
Due to related parties	24	357,587,212	457,458,758	393,330,371
Other trade payables	2.9	2,126,940,935	1,735,624,507	1,271,569,969
Other payables	8	555,874	645,718,799	600,900,136
Due to related parties	24	-	610,682,298	572,993,627
Other payables		555,874	35,036,501	27,906,509
Payables regarding employee benefits	16	88,640,962	79,106,917	48,516,643
Deferred income	10	14,365,832	8,665,160	2,579,680
Other short term provisions		52,303,456	43,049,962	36,736,311
Provision for short term employee benefits	16	15,007,661	12,193,626	9,344,963
Other provisions	14	37,295,795	30,856,336	27,391,348
Other current liabilities	17	27,359,064	19,115,088	15,776,360
Total Current Liabilities		2,845,118,009	4,493,589,459	3,526,194,001
Non current liabilities				
Obligations under finance leases	6	106,879,422	204,161,039	153,540,438
Provision for long term employee benefits	16	41,587,275	40,146,612	30,459,964
Deferred tax liabilities	23 - 2.9	-	47,093,901	46,333,139
Deferred income	10	4,472,693	9,531,906	-
Other payables	8	885,105	728,760	605,112
Total Non-Current Liabilities		153,824,495	301,662,218	230,938,653
EQUITY				
Share capital	18	611,928,571	360,000,000	360,000,000
Repurchased shares		(199,789,445)	-	-
Accumulated other comprehensive income or expense that will not be reclassified to profit or loss:				
Actuarial loss		(11,519,461)	(15,317,761)	(9,022,805)
Restricted reserves appropriated from profits	18	260,000	260,000	220,000
Effect of transactions under common control		(602,824,230)	(438,284,421)	(156,558,499)
Retained earnings / (Accumulated losses)		397,169,153	(1,538,988,319)	(1,245,254,004)
Net profit / (loss) for the year	2.9	66,598,899	(390,190,707)	(360,755,627)
Shareholder's equity	2.9	261,823,487	(2,022,521,208)	(1,411,370,935)
Non-controlling interest		1,165,536	(162,448,634)	(118,650,914)
Total Equity		262,989,023	(2,184,969,842)	(1,530,021,849)
TOTAL LIABILITIES AND EQUITY		3,261,931,527	2,610,281,835	2,227,110,805

Accompanying notes form an integral part of these consolidated financial statements.

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

	Note	1 January- 31 December 2018	1 January- 31 December 2017
Revenue	19 - 2.9	12,060,771,860	8,920,324,690
Cost of sales (-)	19	<u>(9,126,780,915)</u>	<u>(6,865,792,278)</u>
Gross profit		2,933,990,945	2,054,532,412
Marketing and selling expenses (-)	20 - 2.9	(2,432,466,837)	(1,809,788,792)
General administrative expenses (-)	20 - 2.9	(71,753,605)	(63,861,971)
Other income from operating activities	21	5,648,109	2,169,618
Other expenses from operating activities (-)	21	<u>(33,282,023)</u>	<u>(36,776,391)</u>
Operating profit		402,136,589	146,274,876
Financial expense	22 - 2.9	(728,859,956)	(623,139,504)
Financial income	22 - 2.9	<u>78,501,882</u>	<u>42,815,240</u>
Loss from continuing operations before taxation		(248,221,485)	(434,049,388)
Income tax expense	23	(3,240,264)	(2,090,951)
Deferred tax income / (expense)	23 - 2.9	<u>319,043,399</u>	<u>(2,338,773)</u>
Profit / (Loss) from continuing operations for the period		67,581,650	(438,479,112)
Discontinued operations			
Profit / (Loss) for the period from discontinuing operation	28	<u>(547,114)</u>	<u>4,507,771</u>
PROFIT / (LOSS) FOR THE PERIOD		67,034,536	(433,971,341)
Attributable to:			
Equity holders of the parent		66,598,899	(390,190,707)
Non-controlling interests		435,637	(43,780,634)
Profit / (Loss) per share	27	0.1288	(1.0839)
Other Comprehensive Income and Loss			
Items that will not be reclassified to profit or loss		4,130,413	(6,312,042)
Define benefid plans remeasurement losses	16	5,164,529	(7,890,052)
Tax Expense / Income related to other comprehensive income items			
Deferred Tax Income / Expense	23	<u>(1,034,116)</u>	<u>1,578,010</u>
OTHER COMPREHENSIVE INCOME		4,130,413	(6,312,042)
TOTAL OTHER COMPREHENSIVE INCOME		71,164,949	(440,283,383)
Allocation of Total comprehensive Income			
Non-Controlling Interests		445,076	(43,797,720)
Equity Holders of the Parent		<u>70,719,873</u>	<u>(396,485,663)</u>
PROFIT FOR THE YEAR		71,164,949	(440,283,383)

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

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017**

(Amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

			Accumulated other comprehensive income or expense that will not be reclassified to profit or loss			Retained Earnings / Accumulated Losses				
	Share capital	Repurchase of share	Actuarial loss	Restricted reserves	Effect of transactions under common control	Profit / (Loss) for the year	Retained earnings / Accumulated Losses	Shareholder's equity	Non-controlling interest	Equity
Balance as of 1 January 2017 (Note 2.9)	360,000,000	-	(9,022,805)	220,000	(156,558,499)	(360,755,627)	(1,245,254,004)	(1,411,370,935)	(118,650,914)	(1,530,021,849)
Transfer to retained earnings	-	-	-	40,000	-	360,755,627	(360,795,627)	-	-	-
Effect of transactions under common control (*)	-	-	-	-	(281,725,922)	-	67,061,312	(214,664,610)	-	(214,664,610)
Total comprehensive loss	-	-	(6,294,956)	-	-	(390,190,707)	-	(396,485,663)	(43,797,720)	(440,283,383)
Balance as of 31 December 2017	360,000,000	-	(15,317,761)	260,000	(438,284,421)	(390,190,707)	(1,538,988,319)	(2,022,521,208)	(162,448,634)	(2,184,969,842)
Balance as of 1 January 2018	360,000,000	-	(15,317,761)	260,000	(438,284,421)	(390,190,707)	(1,538,988,319)	(2,022,521,208)	(162,448,634)	(2,184,969,842)
Transfer to retained earnings	-	-	-	-	-	390,190,707	(390,190,707)	-	-	-
Effect of transactions under common control (*)	-	-	(322,674)	-	(164,539,809)	-	292,389	(164,570,094)	163,169,094	(1,401,000)
Capital increase and share issue (Note 18)	251,928,571	-	-	-	-	-	2,326,055,790	2,577,984,361	-	2,577,984,361
Repurchase of shares	-	(199,789,445)	-	-	-	-	-	(199,789,445)	-	(199,789,445)
Total comprehensive income / (loss)	-	-	4,120,974	-	-	66,598,899	-	70,719,873	445,076	71,164,949
Balance as of 31 December 2018	611,928,571	(199,789,445)	(11,519,461)	260,000	(602,824,230)	66,598,899	397,169,153	261,823,487	1,165,536	262,989,023

(*) Effect of transactions under common control explained in Note 3.

Accompanying notes form an integral part of these consolidated financial statements.

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017**

(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

	<u>Note</u>	<u>1 January- 31 December 2018</u>	<u>1 January- 31 December 2017</u>
A. Cash Generated by Operating Activities			
Profit / (loss) for the year		67,034,536	(433,971,341)
<u>(Loss) / Profit from discontinued operations</u>		<u>(547,114)</u>	<u>4,507,771</u>
Profit / (loss) from continued operations		67,581,650	(438,479,112)
Adjustments related to reconciliation of net profit / (loss) for the year			
-Depreciation of property and equipment	11	195,467,385	163,011,875
-Amortization of intangible assets	12	4,936,386	1,999,012
-Provision for retirement pay	16	17,160,235	3,489,425
-Provision for doubtful receivables	7	250,307	901,920
-Provision for unused vacation	16	12,986,404	12,303,139
-Lawsuit provisions	14	10,761,687	4,238,469
-Discount (income) / expenses		(19,661,785)	(35,449,954)
-Allowance for / reversal of impairment on inventories, net	9	5,088,509	(4,777,171)
-Loss on sale of property and equipment, net	21	5,821,905	3,876,315
-Loss on disposal of fixed assets	11-12	(5,261,400)	14,832,338
-Tax income / expenses	23	(315,803,135)	4,429,723
-Interest income	22	(19,180,318)	(2,480,102)
-Interest expenses	22	250,510,043	362,958,489
Cash generated by / (used in) operations before changes in working capital		210,657,873	90,854,366
Changes in working capital :			
Changes in trade receivables		139,425,258	69,171,415
Changes in inventories		(241,302,590)	(128,089,866)
Changes in other receivables and current assets		24,806,600	(28,628,257)
Changes in trade payables		312,185,396	593,421,852
Changes in other payables and expense accruals		8,670,825	(11,478,917)
Changes in employee benefits		9,534,045	30,590,276
Changes in prepaid expenses		(1,392,580)	534,361
Cash used in operations		462,584,827	616,375,231
Income taxes paid		(2,785,330)	(2,999,334)
Collections from doubtful receivables	7	16,331	155,739
Payments for lawsuits	14	(4,322,228)	(773,481)
Retirement benefits paid	16	(14,297,571)	(5,857,632)
Unused vacation provision paid	16	(6,429,841)	(5,289,673)
Net cash generated by operating activities:		434,766,188	601,610,850
B. INVESTING ACTIVITIES			
Interest received	22	19,180,318	2,480,102
Purchases of property and equipment	11	(324,207,194)	(255,082,266)
Purchases of intangible assets	12	(12,677,105)	(7,270,847)
Proceeds from the sale of property and equipment		176,717	1,080,564
VAT paid for acquisition of brands		(252,000)	(29,930,760)
Net cash used in investing activities		(317,779,264)	(288,723,207)
C. FINANCING ACTIVITIES			
Public offering and capital increase		2,577,984,361	-
Payables for finance leases	6	(98,103,910)	(73,345,485)
Interest paid		(295,262,806)	(328,891,779)
Changes in other payables to related parties		(613,284,484)	(414,059,813)
Cash paid for repurchase of company shares under price stability	18	(199,789,445)	-
Cash paid for common control transaction related to acquisitions		(1,401,000)	261,431,150
Repayments / proceeds of borrowings	6	(1,282,287,340)	268,731,443
Net cash (used in) / generated from financing activities		87,855,376	(286,134,484)
NET CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C)		204,842,300	26,753,159
Cash flows of discontinued operation		(547,114)	4,507,771
D. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD			
	5	92,091,962	60,831,032
E. CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D)			
	5	296,387,148	92,091,962

Accompanying notes form an integral part of these consolidated financial statements.

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARY

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

(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

1. GROUP'S ORGANISATION AND NATURE OF OPERATIONS

Şok Marketler Ticaret Anonim Şirketi ("Şok" or the "Company") was established in 1995 to operate in the retail sector, selling fast moving consuming products in Turkey. The registered address of the Company is Kısıklı mah. Hanımseti sok No:35 B/1 Üsküdar and continues its activities in 81 provinces of Turkey. The number of personnel is 27,135 as of 31 December 2018 (31 December 2017:24,255).

Şok and its subsidiaries (together the "Group"), are comprised of the parent, Şok and three subsidiaries in which the Company owns the majority share of the capital or which are controlled by the Company.

On 25 August 2011, Şok 's shares were transferred from Migros Ticaret A.Ş..

The Group acquired 18 stores of Dim Devamlı İndirim Mağazacılık A.Ş between February 21, 2013 and March 28, 2013. The purchase was not made through the purchase of shares but through the purchase of the assets in stores.

On 19 April 2013, the Group signed share transfer agreement for the purpose of purchasing 100% of the DiaSA Dia Sabancı Süpermarketleri Tic. A.Ş ("DiaSA"). All of DiaSA's shares were transferred to Şok Marketler A.Ş. on 1 July 2013. On 8 July 2013, 100% of the shares of Onur Ekspres Marketçilik A.Ş. was purchased by Şok. DiaSA and OnurEx merged with Şok on 1 November 2013 and 19 December 2013, respectively.

On 29 May 2015, the Group acquired 80% share of Mevsim Taze Sebze Meyve San. ve Tic. A.Ş. ("Mevsim").

On 26 December 2017, the Group acquired 55% share of Teközel Gıda Temizlik Sağlık Marka Hizmetleri Sanayi ve Ticaret A.Ş. ("Teközel") from Yıldız Holding A.Ş.. The Group acquired the remaining 45% shares of Teközel on 2 July 2018. Teközel holds 100% share of "UCZ" Mağazacılık Ticaret A.Ş. ("UCZ").

With the Capital Market Board's approval of the public offering, the shares of Şok Marketler Ticaret A.Ş. started to be trade on 18 May 2018 on Yıldız Market with the "SOKM" code which was offered to public on 8-11 May 2018, with a nominal value of TL 218,500,000 issued due to the increase from TL 360,000,000 to TL 578,500,000 with 10.5 base price.

Within the framework of the registered capital system,with the completion of the public offering with restricting the rights of the existing shareholders to purchase new shares, total capital of the Company increased by TL 33,428,571 to TL 611,928,571. All of the shares issued within the framework of capital increase mentioned above are allocated to Yıldız Holding A.Ş.. On 16 May 2018 capital increase completed by depositing the relevant amount to the Company account at base price of 10.5 TL.

As of 31 December 2018, the Group has a total of 6,364 stores 6,100 units ("Şok" sales store), 264 units ("Şok Mini" sales store) (31 December 2017: "Şok" sales store: 5,100, "UCZ" sales store: 498).

The Group's internet address is www.sokmarket.com.tr.

Dividend Payable:

Management did not propose any dividend per share related with current year. Dividend payables are subject to approval in the annual General Assembly meeting.

Approval of consolidated financial statements:

The Board of Directors has approved the consolidated financial statements and given authorization for the issuance on 6 March 2019. The General Assembly has the authority to amend the financial statements.

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of the presentation

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared on the historical cost basis except for financial assets and financial liabilities that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.1 Basis of the presentation (Continued)

The Group considers the features of the related asset or liability when calculating the fair value of an asset or liability, if the market participants consider these features when determining the prices of those assets or liabilities. The calculations and disclosures related to the fair value of the financial statements in this consolidated financial statements have been determined in accordance with this standard, except for the financial leasing transactions included in the scope of IAS 17 and other measures similar (e.g. the net realizable value as defined in IAS 2 or the value of use as defined in IAS 36).

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

2.2 Functional Currency

The financial statements of the Group are presented in the currency of the primary economic environment in which the Group operates. The results and financial position of the entity are expressed in TL, which is the functional currency of the Company, and the presentation currency for the Group's financial statements.

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

Subsidiaries	31	31	31	31
	December	December	December	December
	2018	2017	2018	2017
	Direct Ownership Rate %		Group Efficiency Rate %	
Mevsim Taze Sebze Meyve San. Ve Tic. A.Ş.	%80	%80	%80	%80
Teközel Gıda Tem. Sađ. Mark. Hizm. A.Ş. (*)	%100	%55	%100	%55
UCZ Mađazacılık Tic. A.Ş. (**)	-	-	%100	%60

2.3 Basis of Consolidation

The details of the Group's subsidiaries at 31 December 2018 and 2017 are as follows:

(*) The Group acquired 550,000 shares with par value of TL 1 each representing 55 percent shares of the total capital of TL 1,000,000 of Teközel on 26 December 2017. The Group has completed the purchase of the remaining shares of Teközel on 2 July 2018. The Group applied to the CMB for the merger of Teközel with Şok by the financials of 30 September 2018 and the approval of the CMB. As of the report date, CMB approval process continues.

(**) On 25 December 2017, Teközel acquired 21,000,000 shares of UCZ, each representing a nominal value of TL 1, representing 60% of the total capital of TL 35,000,000 for a consideration of TL 1,000 and gained control of UCZ. On 30 January 2018, the Group purchased the remaining shares of UCZ and UCZ became a 100% subsidiary of the Group.

Consolidated financial statements include financial statements of entities controlled by the Group and its subsidiaries. Control is obtained by the Group, when the following terms are met;

- having power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns),
- having exposure, or rights, to variable returns from its involvement with the investee
- having the ability to use its power over the investee to affect the amount of the investor's returns

If a situation or event arises that could cause any change in at least one of the criteria listed above, the Group will reevaluate the control power over the Group's investment.

Profit or loss and other comprehensive income are attributable to the equity holders of both the parent company and non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of the subsidiaries in relation to accounting policies so that they conform to the accounting policies followed by the Group. All cash flows from in-group assets and liabilities, equity, income and expenses, and transactions between Group companies are eliminated in consolidation.

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.4 Changes in Accounting Policies

Significant changes in the accounting policies are accounted retrospectively and prior period's financial statements are restated.

The Group has applied the IFRS 9 Financial Instruments and IFRS 15 Revenue From Customer Contracts for the accounting period beginning on 1 January 2018.

In the application of IFRS 9 Financial Instruments Standard, the Group has analyzed the financial assets and liabilities as of 31 December 2018 taking into consideration the circumstances and conditions. The Group has determined that IFRS 9 has no significant impact on the consolidated financial statements as of 31 December 2018.

The effect of the first application of IFRS 15 Revenue From Contracts with Customers on 1 January 2018 has been retrospectively applied by the Group. Group management has applied retrospectively for each past reporting period presented in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in transition to IFRS 15. The effect of the application of IFRS 15 on the consolidated balance sheet as of 31 December 2018 and consolidated statement of income for the nine month period ended at the same date is presented in Note 2.9.

Approximately 68% of total revenue was made in cash and 32% in credit card in the financial reporting period ending on 31 December 2018. At the same reporting period the Group collected receivables from sales with credit cards which originally have 32 days maturity by bearing the relevant financing cost in 1 day approximately.

The Group management has concluded that there is no significant financing component for transactions identified as credit card and sales contracts. There is no difference between the promised consideration and the cash sale price of the goods or services promised and as a result it is concluded that discounted credit sales pursuant to IAS 18 will not be discounted by the application of IFRS 15.

2.5 Changes in Accounting Estimates and Errors

Following changes in key estimates:

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(Amounts are expressed as Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.6 Application of new and revised IFRSs

a) Amendments to IFRSs that are mandatorily effective for the current year

IFRS 9	<i>Financial Instruments</i>
IFRS 15	<i>Revenue from Contracts with Customers</i>
IFRS Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Annual Improvements to IFRS Standards 2014–2016 Cycle	<i>IFRS 1 , IAS 28</i>

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. As a result of the first-time adoption of IFRS 9, the cumulative effect due to the first time adoption of IFRS 9 by the Group is recognised in retained earnings as of 1 January 2018 and the comparatives haven’t been restated accordingly.

IFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets,

Details of these new requirements as well as their impact on the Group’s consolidated financial statements are described below.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.6 Application of new and revised IFRSs (Continued)

a) Amendments to IFRSs that are mandatorily effective for the current year (Continued)

Impact of initial application of IFRS 9 Financial Instruments (continued)

(a) Classification and measurement of financial assets (continued)

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

The directors of the Company reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement:

Financial assets that their fair value difference is reflected in other comprehensive income are non-derivative financial assets held for the purpose of collecting contractual cash flows and selling the financial asset. Gains or losses arising from the related financial assets are recognized in other comprehensive income, except for impairment losses or gains and losses. In case of sale of such assets, the valuation differences classified in other comprehensive income are classified as prior years' profits.

None of the other reclassifications in financial assets has any effect on the Group's financial position, profit or loss, other comprehensive income or total comprehensive income.

Changes regarding the classification of financial assets and liabilities in terms of IFRS 9 are summarised below. Related changes in classification do not result in changes in measurement of the financial assets and liabilities.

	<u>Classification under IAS 39</u>	<u>Classification under IFRS 9</u>
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade receivables	Loans and receivables	Amortized cost
Other Receivables	Loans and receivables	Amortized cost

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.6 Application of new and revised IFRSs (Continued)

a) Amendments to IFRSs that are mandatorily effective for the current year (Continued)

Impact of initial application of IFRS 9 Financial Instruments (continued)

b) Impairment of financial assets

IFRS 9 replaces the "loss incurred" model in IAS 39 with the "expected credit losses" model. The new impairment model is applied to financial assets and contract assets measured at amortized cost, but not to investments in equity instruments.

The Group management measures the expected credit loss and expected credit loss over the life of these receivables ("ECL"), after deducting any provision for trade receivables as a result of a specific event. The calculation of expected credit losses is based on the Group's past experience and expectations based on macroeconomic indicators. Increases and decreases in expected credit losses are recognized in other operating losses and income.

The Group has made amendments to the IFRS 9 methodology for allocating impairment of financial assets in accordance with the newly expected credit loss model. The related amendments does not have significant impact on the Group's consolidated financial statements.

The Group uses the simplified approach in IFRS 9 to calculate the expected credit losses of such financial assets. This method requires the recognition of expected life-time losses for all trade receivables. The carrying value of financial assets and liabilities does not have a material impairment effect arising from the application of IFRS 9.

(c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

	<u>Classification under IAS 39</u>	<u>Classification under IFRS 9</u>
Financial liabilities		
Borrowings	Amortized cost	Amortized cost
Trade payables	Amortized cost	Amortized cost
Other payables	Amortized cost	Amortized cost

Impact of application of IFRS 15 Revenue from Contracts with Customers

Impact on the Financial Statements

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Group's consolidated financial statements are described below.

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(Amounts are expressed as Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.6 Application of new and revised IFRSs (Continued)

a) Amendments to IFRSs that are mandatorily effective for the current year (Continued)

Impact of application of IFRS 15 Revenue from Contracts with Customers (Continued)

Impact on the Financial Statements (Continued)

IFRS 15 uses the terms ‘contract asset’ and ‘contract liability’ to describe what might more commonly be known as ‘accrued revenue’ and ‘deferred revenue’, however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position.

The accounting policies of the Group's revenue items are explained in detail in Note 2.7. The application of IFRS 15 did not have a significant impact on the financial position and / or financial performance of the Group. The corrections arising from the application of IFRS 15 are applied retrospectively in accordance with IAS 8.

The impact of the application of IFRS 15 is explained in detail in Note 2.9. The application of IFRS 15 did not have a significant impact on the financial position and / or financial performance of the Group.

Annual Improvements to IFRS Standards 2014–2016 Cycle

- **IFRS 1:** Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
- **IAS 28:** Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Annual improvements to IFRS Standards 2014-2016 cycle have no impact on the Group's consolidated financial statements.

IFRS Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

IFRS Interpretation 22 has no impact on the Group's consolidated financial statements.

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(Amounts are expressed as Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.6 Application of new and revised IFRSs (Continued)

b) New and revised IFRSs in issue but not yet effective (Continued)

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 16	Leases
IFRS 17	Insurance Contracts
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 (amendments)	<i>Sale of Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IAS 19 <i>Employee Benefits</i>	<i>Plan Amendment, Curtailment or Settlement</i> ¹
Annual Improvements to IFRS Standards 2015–2017 Cycle	<i>Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs</i> ¹

¹ Effective from periods on or after 1 January 2019.

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

IFRS 16 Leases

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 January 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.6 Application of new and revised IFRSs (Continued)

b) New and revised IFRSs in issue but not yet effective (Continued)

IFRS 16 Leases (Continued)

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

- a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of 46,414,652.

According to the preliminary assessments, the Group is expected to have TL 1.5 Billion of right of use and TL 1.5 billion of leasing liability related to these leases. As of the date of this report, the Group's assessment of the effects of IFRS 16 on its consolidated financial statements continues.

Finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17.

Based on an analysis of the Group's finance leases as at 31 December 2018 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed that the impact of this change will not have an impact on the amounts recognised in the Group's consolidated financial statements.

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(Amounts are expressed as Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.6 Application of new and revised IFRSs (Continued)

b) New and revised IFRSs in issue but not yet effective (Continued)

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

This amendment clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

IFRS Interpretation 23 Uncertainty over Income Tax Treatments

This interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture.

Annual Improvements to IFRS Standards 2015–2017 Cycle

Annual Improvements to IFRS Standards 2015–2017 Cycle include amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements in when a party that participates in, but does not have joint control of, IAS 12 Income Taxes; income tax consequences of dividends in profit or loss, and IAS 23 Borrowing Costs in capitalized borrowing costs.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position).

The directors of the Group assess the possible impacts of the application of the amendments on the Group’s consolidated financial statements.

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.7 Summary of Significant Accounting Policies

Revenue

Revenue is recognized in the consolidated financial statements at the transaction price. The transaction fee is the amount that the entity expects to receive in return for transferring the goods or services that it has committed to the customer, except for the amounts collected on behalf of third parties. When the control of the goods or services is transferred to the customers, the related amount is reflected to the financial statements as revenue. Net sales are presented by deducting returns and discounts from sales of goods.

The Group recognizes revenue from the following main sources:

i) Retail revenues

The Group sells non-food and non-food fast-moving consumer goods through cash, credit card or customer cards (IBB Social Card, Şok Card) and sells it to retail customers in retail stores. and revenue is recognised when the ownership of the goods is transferred to the customer.

ii) Turnover premiums and discounts from sellers

The Group recognizes turnover premiums and discounts received from sellers on an accrual basis over the period in which the sellers benefit from the services.

iii) Wholesale revenues

The Group sells its non-food and non-food fast-moving consumer goods directly to its commercial customers directly from its own warehouse or to the customer. When the shipment is completed and the goods are delivered to the customer they are recognised as revenue.

Financing component of revenue

Approximately 68% of total revenue was made in cash and 32% in credit card in the financial reporting period ending on 31 December 2018. At the same reporting period the Group collected receivables from sales with credit cards which originally have 32 days maturity by bearing the relevant financing cost in 1 day approximately.

The Group management has concluded that there is no significant financing component for transactions identified as credit card and sales contracts. There is no difference between the promised consideration and the cash sale price of the goods or services promised and as a result it is concluded that discounted credit sales pursuant to IAS 18 will not be discounted by the application of IFRS 15.

Revenue recognition

Revenue Recognition Group recognises revenue based on the following five principles in accordance with the IFRS 15 - "Revenue from Contracts with Customers" standard effective from 1 January 2018:

- Identification of customer contracts
- Identification of performance obligations
- Determination of the transaction price in the contracts
- Allocation of transaction price to the performance obligations
- Recognition of revenue when the performance obligations are satisfied

Other income gained by the Group is reflected by the basis mentioned below:

- Interest income – accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.7 Summary of Significant Accounting Policies (Continued)

Inventories

Inventories are stated at the lower of cost and net realizable value as of balance sheet date. Cost is calculated as the average cost over the month. Net realizable value represents the estimated selling price less all estimated costs incurred in marketing and selling.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Other expenses are accounted under expense items in consolidated income statement in the period in which they are incurred.

Depreciation is charged on a straight-line basis over the assets' estimated useful lives. Based on the average useful lives of property and equipment, the following depreciation rates are determined as stated below:

Machinery and equipment	4-50 years
Vehicles	5 years
Fixtures and Furniture	4-15 years
Leasehold improvements	5-20 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in consolidated profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Business combinations

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

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(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.7 Summary of Significant Accounting Policies (Continued)

Business combinations (Continued)

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

Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

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

Shares in Other Entities

For each subsidiary that the Group has a non-controlling interest in accordance with IFRS 12 the Group discloses (a) for each subsidiary that has a non-controlling interest, (a) the name of the subsidiary, (b) the place where the subsidiary operates mainly (and the country where the company is located), (c) the share of ownership held by non-controlling interests, and (d) the share of the voting rights held by non-controlling interests in the event of a change from the ownership interest rate; (f) Disclose non-controlling interest in the subsidiary as of the end of the reporting period; and (g) financial information related to the subsidiary.

Goodwill

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

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

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

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(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.7 Summary of Significant Accounting Policies (Continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy, stated above, on borrowing costs.

Operating lease payments (including rent incentives which are collected or will be collected from the lessor) are recognized as an expense on a straight-line basis over the lease term. Contingent rents under operating leases are recognized as an expense in the period they are incurred.

Impairment of tangible and intangible assets other than goodwill

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

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(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.7 Summary of Significant Accounting Policies (Continued)

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Financial Instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

The Group classifies its financial assets as (a) Business model used for managing financial assets, (b) financial assets subsequently measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss based on the characteristics of contractual cash flows. The Company reclassifies all financial assets effected from the change in the business model it uses for the management of financial assets. The reclassification of financial assets is applied prospectively from the reclassification date. In such cases, no adjustment is made to gains, losses (including any gains or losses of impairment) or interest previously recognized in the financial statements.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

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

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

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

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset; the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met.

(i) Amortised cost and effective interest method

Interest income on financial assets carried at amortized cost is calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. This income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset:

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.7 Summary of Significant Accounting Policies (Continued)

Financial assets (Continued)

(i) Amortised cost and effective interest method (Continued)

(a) Credit-impaired financial assets when purchased or generated. For such financial assets, the Company applies the effective interest rate on the amortized cost of a financial asset based on the loan from the date of the recognition in the financial statements.

(b) Non-financial assets that are impaired at the time of acquisition or generation but subsequently become a financial asset that has been impaired. For such financial assets, the Company applies the effective interest rate to the amortized cost of the asset in the subsequent reporting periods.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI.

Interest income is recognised in profit or loss and is included in the “finance income – interest income” line item (Note 22).

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically, for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as financial guarantee contracts. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group utilizes a simplified approach for trade receivables, contract assets and lease receivables that does not have significant financing component and calculates the allowance for impairment against the lifetime ECL of the related financial assets.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.7 Summary of Significant Accounting Policies (Continued)

Financial assets (Continued)

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities

Financial liabilities are classified as at FVTPL on initial recognition. On initial recognition of liabilities other than those that are recognised at FVTPL, transaction costs directly attributable to the acquisition or issuance thereof are also recognised in the fair value.

A financial liability is subsequently classified at amortized cost except:

- Financial liabilities at FVTPL: These liabilities including derivative instruments are subsequently measured at fair value.
- Financial liabilities arising if the transfer of the financial asset does not meet the conditions of derecognition from the financial statements or if the ongoing relationship approach is applied: When the Group continues to present an asset based on the ongoing relationship approach, a liability in relation to this is also recognised in the financial statements. The transferred asset and the related liability are measured to reflect the rights and liabilities that the Company continues to hold. The transferred liability is measured in the same manner as the net book value of the transferred asset.
- A contingent consideration recognized in the financial statements by the entity acquired in a business combination where IFRS 3 is applied: After initial recognition, the related contingent consideration is measured as at FVTPL.

The Company does not reclassify any financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

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(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.7 Summary of Significant Accounting Policies (Continued)

Earnings per share

Earnings per share disclosed in the consolidated income statement are determined by dividing net income attributable to equity holders of the parent by the weighted average number of shares outstanding during the period concerned.

Foreign Currency Transactions

Transactions in foreign currencies (currencies other than Turkish Lira) in the legal books of the Group are translated into Turkish Lira at the rates of exchange prevailing at the transaction dates. Assets and liabilities in balance sheet denominated in foreign currencies are translated at the rates prevailing at the balance sheet date. Gains and losses arising on settlement and translation of foreign currency items are included in the consolidated statements of profit or loss.

Events After the Reporting Period

Events after the reporting period cover the events which arise between the balance sheet date and the date when the financial statements are authorized for issue, even if they occur after an announcement related with the profit for the year or disclosure of other selected financial information.

The Company restates its financial statements if such subsequent events arise which require to adjust financial statements.

Provisions, Contingent Assets and Liabilities

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of receivable can be measured reliably.

Related Parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this standard referred to as the 'reporting entity')

(a) A person or a close member of that person's family is related to a reporting entity if that person:

Related party,

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity) Transactions with the related parties: Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been transactions between them.

The transactions of resources, services or obligations between reporting entity and related party are transfers whether there is consideration of price or not.

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.7 Summary of Significant Accounting Policies (Continued)

Business combinations under common control

The Group recognizes business combinations under common control by using pooling of interest method in the consolidated financial statements. Accordingly:

- No goodwill is recognized in the financial statements
- Goodwill recognized from the acquisition of an acquiree has not been reflected in the consolidated financial statements.
- While application of the pooling of interest method financial statements are restated as if the business combination was effected and presented comparatively as of the beginning of the reporting period when the common control existed;
- As it would be appropriate for parent company to consider the inclusion of business combinations under common control to consolidated financial statements, for consolidation purposes, financial statements including combination accounting are restated in accordance with IAS as if the consolidated financial statements are prepared in accordance with IAS prior and subsequent to the date that Company’s controlling party has common control over entities.
- In order to eliminate potential assets-liabilities difference arising from business combinations within the scope of under common control transactions, “Effect of transactions under common control” account has been used as an offset account.

Taxation

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

Current tax

Taxable profit/loss differs from ‘profit/loss before tax’ as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and it excludes items that are never taxable or deductible. The Group’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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(Amounts are expressed as Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.7 Summary of Significant Accounting Policies (Continued)

Deferred tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Employee Benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) “Employee Benefits” (“IAS 19”).

The retirement benefit obligation recognized in the consolidated balance sheet represents the present value of the defined benefit obligation. The actuarial gains and losses are recognized in consolidated other comprehensive income.

Statement of Cash Flows

In statement of cash flows, cash flows are classified according to operating, investment and finance activities.

Cash flows from operating activities represent cash flows generated from fast-moving consuming goods sales of the Group.

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(Amounts are expressed as Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.7 Summary of Significant Accounting Policies (Continued)

Share capital and dividends

Common shares are classified as equity. Dividends on common shares are recognized in equity in the period in which they are approved and declared.

2.8 Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the process of applying the Group’s accounting policies, which are described in Note 2.7, management has made the following judgments that have significant effect on the amounts recognized in the financial statements (apart from those involving estimations), which are dealt with below:

Critical judgments in applying the entity’s accounting policies

Deferred tax asset

The Group recognizes deferred tax asset and liability on the differences between the carrying amounts of assets and liabilities in the financial statements prepared in accordance with IFRS and the corresponding tax bases which are used in the computation of taxable profit. Under current circumstances, the partial or complete recoverable amounts of deferred tax assets are predicted. During the evaluation, future profit projections, current year’s losses, unused losses and the expiration dates of other tax assets, and if necessary tax planning strategies are considered. In accordance with the data obtained, if the Group’s taxable profit, which will be obtained in the future, is not sufficient to utilize the deferred tax assets, an allowance is recognized either for the whole or for a portion of the deferred tax assets.

The Group’s expects net profit in 2019 and following years after its public offering in 2018 with the improvement in equity structure. Accordingly, the Group recorded deferred tax assets due to its losses in previous years amounting TL 1,474,050,589. The Group recorded deferred tax assets with 22% ratio by using its losses in 2019 and 2020 due to the fact that the corporate tax rate is 22% in related years.

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

(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.8 Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Allowance of inventory

The Group has recognized an allowance for net realizable value of non-food inventory that is not expected to be used and/or slow moving over 90 days. The Group has identified inventories for which the net realizable value is less than carrying value. Based on the management analysis, an allowance amounting to TL 10,297,215 is recognized for net realizable value of inventories (31 December 2017: TL 5,208,706).

Impairment of goodwill

The goodwill is tested for impairment in accordance with the accounting policy in Note 2.7 by the Group. The goodwill is not impaired in the current period.

In accordance with the accounting policy stated in Note 2.7, goodwill is annually tested by the Group for impairment. The recoverable value of cash generating units is determined on the basis of fair value.

The Group performed an impairment analysis of goodwill for the year ended 31 December 2018, as described below:

Recoverable amount of each cash generating unit is determined based on fair value ("FV") less cost to sell of each cash generating unit that is determined according to relative valuation techniques by applying combination of multiples FV/EBITDA and FV/Sales by 40% and 60% respectively. Group management has applied 14.0X multiple for FV/EBITDA and 0.75X multiple for FV/Sales in the impairment model which is consistent with benchmarks and market conditions. Based on calculations above the management concludes that there is no impairment of goodwill associated with cash-generating units.

Provisions

In accordance with the accounting policy in Note 2.7, provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Accordingly as of 31 December 2018 and 2017 the Group evaluated the current risks and booked the required provisions (Note 14). As of 31 December 2018, the provision for the related lawsuits amounted to TL 37,295,795 (2017: TL 30,856,336).

Useful life of property and equipment and intangible assets

The Group calculates depreciation for its tangible and intangible fixed assets over their expected useful lives as disclosed in Note 2.7.

Şok brand value is determined by independent valuation specialists during the purchase of Şok which is mentioned in Note 1. Because the useful life of brand value is not limited by any special agreement or regulation and it keeps generating cash flows; it is assumed that the brand value has an indefinite useful life. The brand which is considered as indefinite useful life is annually reviewed by the Group for impairment.

The brand value is determined by the calculation amount generated from the operations. These calculations are based on estimates of cash flows after tax based on the financial budget covering five-year period. Estimates of EBITDA (earnings before interest, tax, depreciation and amortization) are an important part of these calculations. As a result of estimations and calculations made by the Group management, Group management concluded that there is no impairment on brand value as of 31 December 2018. If the life of the brands was determined as 20 years, loss before tax would increase by TL 4,270,000 (31 December 2017: TL 4,270,000, 31 December 2016: TL 4,270,000) due to the extinguishment of the brands.

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.9 Comparative Information and Restatement of Prior Period Financial Statements

The financial statements of the Group are prepared comparatively with the prior period to allow for the determination of the financial position and performance trends. The Group management has considered the inclusion of financing component of customer contracts, which are explained in detail in IFRS 15 "Revenue from Contracts with Customers", by taking into account various conditions of sales operations (due date, market conditions, cash and term cost difference) starting from 1 January 2017.

The effects of the relevant adjustments and classifications are presented below:

	Previously Reported 31 December 2017	Restatement Effect of IFRS 15	Restated 31 December 2017
Trade receivables	267,185,835	448,380	267,634,215
Other trade receivables	180,313,355	448,380	180,761,735
Deferred tax liabilities	47,004,225	89,676	47,093,901
Accumulated losses	(1,539,724,663)	736,344	(1,538,988,319)
Net loss for the year	(389,843,353)	(347,354)	(390,190,707)
Shareholder's equity	(2,022,910,198)	388,990	(2,022,521,208)
Non-controlling interest	(162,418,348)	(30,286)	(162,448,634)
Total Equity	(2,185,328,546)	358,704	(2,184,969,842)

	Previously Reported 31 December 2016	Restatement Effect of IFRS 15	Restated 31 December 2016
Trade receivables	336,931,035	807,552	337,738,587
Other trade receivables	265,453,906	807,552	266,261,458
Deferred tax liabilities	46,171,628	161,511	46,333,139
Accumulated losses	(1,245,254,004)	-	(1,245,254,004)
Net loss for the year	(361,491,971)	736,344	(360,755,627)
Shareholder's equity	(1,412,107,279)	736,344	(1,411,370,935)
Non-controlling interest	(118,560,612)	(90,302)	(118,650,914)
Total Equity	(1,530,667,891)	646,042	(1,530,021,849)

As of 31 December 2017 prepaid taxes amounting to TL 1,416,561 in the consolidated financial statements have been reclassified to other current liabilities.

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.9 Comparative Information and Restatement of Prior Period Financial Statements (Continued)

As of 1 January 2018 due to change in Teközel’s shareholder structure the Group management decided to gradually discontinue Teközel’s wholesale and export operations associated with customers other than Şok Marketler Ticaret A.Ş. (“Non-Şok Operations”) and discontinued the related activities on 30 June 2018. Teközel’s Non-Şok profits and losses are classified in profit / loss from discontinued operations line in accordance with IFRS 15 in the statement of profit or loss. The relevant footnote is detailed in Note 28.

	Previously Reported		Restatement	Restated
	1 January- 31 December 2017	Discontinued Operations	Effect of IFRS 15	1 January- 31 December 2017
Revenue	9,512,254,042	(620,044,180)	28,114,828	8,920,324,690
Cost of sales (-)	(7,478,663,120)	612,870,842	-	(6,865,792,278)
Gross profit	2,033,590,922	(7,173,338)	28,114,828	2,054,532,412
Marketing and selling expenses	(1,811,399,486)	1,610,694	-	(1,809,788,792)
General administrative expenses	(65,203,987)	1,342,016	-	(63,861,971)
Other income from operating activities	2,169,618	-	-	2,169,618
Other expenses from operating activities	(36,776,391)	-	-	(36,776,391)
Operating profit / (loss)	122,380,676	(4,220,628)	28,114,828	146,274,876
Finance expenses	(645,609,591)	23,016,810	(546,723)	(623,139,504)
Financial income	94,046,470	(23,303,953)	(27,927,277)	42,815,240
Loss from operations before taxation	(429,182,445)	(4,507,771)	(359,172)	(434,049,388)
Income tax expense	(2,090,951)	-	-	(2,090,951)
Deferred tax expense	(2,410,607)	-	71,834	(2,338,773)
Loss from continuing operations period	(433,684,003)	(4,507,771)	(287,338)	(438,479,112)
Discontinued operations				
Profit for the period from discontinuing operation	-	4,507,771	-	4,507,771
LOSS FOR THE PERIOD	(433,684,003)	-	(287,338)	(433,971,341)
Owners of the parent	(389,843,353)			(390,190,707)
Non-controlling interests	(43,840,650)			(43,780,634)
Loss per share	(1.0829)			(1.0839)

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3. TRANSACTIONS UNDER COMMON CONTROL

The Group purchased 55% shares of Teközel from Yıldız Holding A.Ş. on 26 December 2017 and bought the remaining 45% shares on 2 July 2018. Due to fact that the acquisition is considered to be a transaction under common control, consolidated financial statements have been presented as if the acquisition had occurred since 1 January 2015, which is opening date of the earliest period as presented in the shareholder's equity movement. Loss from the acquisition amounting to TL 443,559,619 is evaluated as under common control transaction, excluded from the consolidated profit / loss for the period and booked under the equity in " Effect of mergers involving undertakings or businesses subject to common control" account.

	31 December 2018
	Fair value
Consideration paid	56,800,000
Percentage of the company purchased (Note 2.3)	100%
<u>Consideration paid</u>	
Paid in cash and cash equivalents	56,800,000
	<u>56,800,000</u>
Net assets acquired	
Cash and cash equivalents	1,749,334
Trade receivables	745,811,171
Other receivables	23,286,849
Inventories	20,247,954
Prepaid expenses	1,685,390
Other current assets	10,257,070
Property, plant and equipment	7,420,910
Deferred tax assets	3,566,307
Short term borrowings	(1,585)
Trade payables	(795,684,153)
Employee benefits	(3,890,766)
Other payables	(389,840,995)
Provisions	(4,412,775)
Other short term liabilities	(2,923,017)
Long term provisions	(1,832,157)
Deferred income	(954,007)
Deferred tax liabilities	(1,245,149)
Total net assets	<u>(386,759,619)</u>
Consideration paid (A)	(56,800,000)
Non-controlling interest (B)	-
Fair value of net assets acquired (C)	(386,759,619)
Effect of business combinations under common control (A+B+C)	<u>(443,559,619)</u>

The Group has acquired brands from Yıldız Holding A.Ş. and subsidiaries for the consideration paid TL 166,282,000 and TL 1,400,000 on 29 December 2017 and 12 February 2018 respectively. The Group has been paying royalty in previous years for use of these brands. The amount paid for acquisition of such brands is considered to be a transaction between entities under common control and accounted under shareholder's equity. Additionally the Group has recharged royalty expenses amounting to TL 8,418,389 to Yıldız Holding A.Ş. in 2017 and related recharge amount has been accounted as transactions under common control under shareholder's equity. On 18 January 2018, the Group acquired the remaining 40% shares of UCZ for a consideration of TL 1,000. Non-controlling interests amounting to TL 163.169.094 at the acquisition date has been accounted as transactions under common control under shareholder's equity.

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4. SEGMENT REPORTING

The Group's operating segments are identified based on the information provided to and analyzed by the CEO, which represents the chief operating decision maker (CODM), making decisions regarding the allocation of resources and assessing performance. For the purposes of IFRS 8, the activities performed by the Group are identified as belonging to a single operating segment, given that the Group's business consists of retail stores selling fast moving consumer products in Turkey and that the CODM reviews the Group's stores as a whole.

5. DISCLOSURES RELATED TO STATEMENT OF CASH FLOWS

	31 December 2018	31 December 2017
Cash on hand	70,270,822	63,175,127
Cash at banks	226,116,326	28,916,835
Time deposits	220,374,000	-
Demand deposits	5,742,326	28,916,835
Cash and cash equivalents	<u>296,387,148</u>	<u>92,091,962</u>

As of 31 December 2018 the Group has blocked deposits amounting to TL 3,358,712 (31 December 2017: None).

As of 31 December 2018 the Group's average interest rate on overnight time deposits is 23.25%. Explanations about the nature and level of risks related to cash and cash equivalents are provided in Note 25.

6. FINANCIAL BORROWINGS

Financial Borrowings	31 December 2018	31 December 2017
a) Bank Borrowings	75,397,282	1,402,437,385
b) Leasing Payables	208,846,814	306,573,922
	<u>284,244,096</u>	<u>1,709,011,307</u>

Group management believes that the fair value of the Group's debts approximate to the carrying value of such debts due to their short term nature.

a) Bank Borrowings:

Details of bank borrowings are as follows:

Currency Type	Weighted Average Effective Interest Rate	31 December 2018	
		Current	Non-current
TL	% 24,02	75,397,282	-

Currency Type	Weighted Average Effective Interest Rate	31 December 2017	
		Current	Non-current
TL	% 17,61	1,402,437,385	-

	31 December 2018	31 December 2017
To be paid within 1 year	75,397,282	1,402,437,385
	<u>75,397,282</u>	<u>1,402,437,385</u>

As of 31 December 2018 there are no Yıldız Holding A.Ş. provided guarantee on bank borrowings (31 December 2017: TL 1,182,437,385).

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

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6. FINANCIAL BORROWINGS (Continued)

b) Leasing Payables

	Minimum Leasing Payable		Minimum Leasing Payable	
			Net Present Value	
	31 December	31 December	31 December	31 December
	2018	2017	2018	2017
Leasing Payables				
Within 1 year	125,301,302	136,628,653	101,967,392	102,412,883
Between 1-5 years	119,622,007	234,006,266	106,879,422	204,161,039
Less: future financial expense	(36,076,495)	(64,060,997)	-	-
Leasing obligation net present value	<u>208,846,814</u>	<u>306,573,922</u>	<u>208,846,814</u>	<u>306,573,922</u>
Less : liabilities to paid within 12 months (presented in short term liabilities)			(101,967,392)	(102,412,883)
Liabilities to paid after 12 months			<u>106,879,422</u>	<u>204,161,039</u>

As of 31 December 2018 net book value of property and equipment acquired by financial lease is TL 207,754,161 (31 December 2017: TL 274,285,574). The interest rate is between 13% and 14%. Ownership of such property and equipment will be transferred to Şok if payments are made regularly throughout the remaining 4 years. The Group’s obligations under finance leases are secured by the lessors’ title to the leased assets.

c) Reconciliation of obligations arising from financing activities:

The table below details changes in the Group’s liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group’s consolidated statement of cash flows as cash flows from financing activities.

	1 January 2018	Financing cash flows	Non cash		31 December 2018
			Interest accrual	Other	
Bank borrowings	1,402,437,385	(1,282,287,340)	(44,752,763)	-	75,397,282
Leasing payables	306,573,922	(98,103,910)	-	376,802	208,846,814
	<u>1,709,011,307</u>	<u>(1,380,391,250)</u>	<u>(44,752,763)</u>	<u>376,802</u>	<u>284,244,096</u>

	1 January 2017	Financing cash flows	Non cash		31 December 2017
			New financial leases	Interest accrual	
Bank borrowings	1,099,639,232	268,731,443	-	34,066,710	1,402,437,385
Leasing payables	210,685,737	(73,345,485)	169,233,670	-	306,573,922
	<u>1,310,324,969</u>	<u>195,385,958</u>	<u>169,233,670</u>	<u>34,066,710</u>	<u>1,709,011,307</u>

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7. TRADE RECEIVABLES AND PAYABLES

	31 December 2018	31 December 2017
<u>Current trade receivables</u>		
Trade receivables	85,459,908	119,376,380
Trade receivables from related parties (Note 24)	27,362,610	86,872,480
Credit card receivables	22,677,729	69,803,732
Allowance for doubtful receivables (-) (Note 25)	(8,259,855)	(8,418,377)
	<u>127,240,392</u>	<u>267,634,215</u>

The Group makes retail sales for cash or credit card. Moreover, in 2017, the Group collected receivables from sales with credit cards by bearing the relevant financing cost in 1 day approximately. The Group's average period for collection of receivables is 4 days when wholesale revenue is taken into consideration (31 December 2017:11 days).

As of 31 December 2018 the Group provided allowance for doubtful receivables amounting to TL 8,259,855 based on reference to past default experience (31 December 2017: TL 8,418,377).

There are no guarantee letters obtained for trade receivables as of 31 December 2018 and 2017.

As of 31 December 2018 and 2017 the movements of allowance for doubtful receivables are as follows:

	1 January- 31 December 2018	1 January- 31 December 2017
<u>Movement of Allowance for Doubtful Receivables</u>		
Balance at beginning of the period	(8,418,377)	(7,548,223)
Charge for the year (Not 21)	(250,307)	(901,920)
Foreign exchange gain / (loss)	392,498	(123,973)
Collections	16,331	155,739
Closing balance	<u>(8,259,855)</u>	<u>(8,418,377)</u>

A simplified approach is applied for the impairment of trade receivables that are accounted at amortized cost in the consolidated financial statements and do not include a significant financing component (less than 1 year). In cases where the trade receivables are not impaired due to certain reasons (except for the realized impairment losses), the provisions for losses related to trade receivables are measured by an amount equal to life long expected credit losses.

Allowance matrix is used to measure expected credit losses for trade receivables. Provision rates are calculated based on the number of days that maturities of trade receivables are exceeded and in each reporting period such rates are reviewed and revised whenever necessary. The change in expected credit losses provisions is accounted under other operating income / expenses.

The Group has concluded that, with the discontinuation of Teközel's Non-Şok operations in 2018, there is no need to make an additional provision in accordance with IFRS 9 due to fact nearly all of the group sales are collected by cash or credit card in store cash registers.

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7. TRADE RECEIVABLES AND PAYABLES (Continued)

	31 December 2018	31 December 2017
<u>Short term trade payables</u>		
Trade payables	2,126,940,935	1,735,624,507
Due to related parties (Note 24)	357,587,212	457,458,758
	<u>2,484,528,147</u>	<u>2,193,083,265</u>

The interest rate used for discount of trade payables is 23.49% (31 December 2017: 18.80%), weighted average maturity is 99 days (2017: 117 days).

As of 31 December 2018 and 2017, the Group does not have any long term trade payables.

Explanations about the nature and level of risks related to trade receivables are provided in Note 25.

8. OTHER RECEIVABLES AND PAYABLES

	31 December 2018	31 December 2017
<u>Short term other receivables</u>		
Other receivables from related parties (Note 24)	-	32,148,945
Insurance receivables	1,835,927	1,709,591
VAT receivables	1,236,422	64,496
Receivables from social security premium	3,605	3,605
Other receivables	563,966	2,972,539
	<u>3,639,920</u>	<u>36,899,176</u>

	31 December 2018	31 December 2017
<u>Other short term payables</u>		
Due to related parties (Note 24)	-	610,682,298
Other	555,874	35,036,501
	<u>555,874</u>	<u>645,718,799</u>

As of 31 December 2018 there is no other payables from non related parties (31 December 2017 TL 34,751,131).

	31 December 2018	31 December 2017
<u>Other long term receivables</u>		
Guarantee and deposits given	13,380,154	5,695,390
	<u>13,380,154</u>	<u>5,695,390</u>

	31 December 2018	31 December 2017
<u>Other long term payables</u>		
Deposits and guarantees received	885,105	728,760
	<u>885,105</u>	<u>728,760</u>

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9. INVENTORIES

	31 December 2018	31 December 2017
Trade goods	868,276,701	635,205,901
Allowance for diminution in value of inventories (-)	(10,297,215)	(5,208,706)
Other inventory	14,481,717	6,249,927
	<u>872,461,203</u>	<u>636,247,122</u>
	1 January 31 December 2018	1 January 31 December 2017
<u>Movement of allowance for net realizable value of inventories (-)</u>		
Balance at beginning of the year	5,208,706	9,985,877
Allowance released	(5,208,706)	(4,777,171)
Charge for the year	10,297,215	-
Closing balance	<u>10,297,215</u>	<u>5,208,706</u>

Allowance for net realizable value of inventories is allocated for inventories and recognized in the cost of goods sold.

The Group has identified inventories that net realizable value lower than cost in the current period. Accordingly allowance for net realizable value of inventories amounting to TL 10,297,215 has been booked as of 31 December 2018 (31 December 2017 TL 5,208,706), net realizable value of inventories is TL 17,162,025 (31 December 2017: TL 7,882,324).

10. PREPAID EXPENSES AND DEFERRED INCOME

	31 December 2018	31 December 2017
<u>Short term prepaid expenses</u>		
Prepaid expenses	10,449,212	6,666,661
Work advances given	17,965	1,766,477
	<u>10,467,177</u>	<u>8,433,138</u>
	31 December 2018	31 December 2017
<u>Short term deferred income</u>		
Unearned revenues	5,649,718	5,544,290
Received advances	8,716,114	3,120,870
	<u>14,365,832</u>	<u>8,665,160</u>
	31 December 2018	31 December 2017
<u>Long term deferred income</u>		
Unearned revenues	4,472,693	9,531,906
	<u>4,472,693</u>	<u>9,531,906</u>

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11. PROPERTY AND EQUIPMENT

	<u>Machinery and Equipment</u>	<u>Vehicles</u>	<u>Furniture and Fixture</u>	<u>Leasehold Improvements</u>	<u>Construction in Progress</u>	<u>Total</u>
<u>Cost</u>						
Opening balance as of 1 January 2018	87,791,540	-	988,509,735	386,076,618	-	1,462,377,893
Additions	18,750	-	241,976,325	82,212,119	-	324,207,194
Disposals	(25,331)	-	(7,838,107)	(14,283,465)	-	(22,146,903)
Closing balance as of 31 December 2018	<u>87,784,959</u>	<u>-</u>	<u>1,222,647,953</u>	<u>454,005,272</u>	<u>-</u>	<u>1,764,438,184</u>
<u>Accumulated Depreciation</u>						
Opening balance as of 1 January 2018	82,010,078	-	380,627,844	150,209,857	-	612,847,779
Charge of the year	1,723,335	-	150,907,097	42,836,953	-	195,467,385
Impairment	-	-	(1,296,898)	(3,964,502)	-	(5,261,400)
Disposals	(23,068)	-	(6,528,677)	(9,658,838)	-	(16,210,583)
Closing balance as of 31 December 2018	<u>83,710,345</u>	<u>-</u>	<u>523,709,366</u>	<u>179,423,470</u>	<u>-</u>	<u>786,843,181</u>
Carrying value as of 31 December 2018	<u>4,074,614</u>	<u>-</u>	<u>698,938,587</u>	<u>274,581,802</u>	<u>-</u>	<u>977,595,003</u>

There is insurance coverage amounting to TL 906,580,360 on the furniture & fixtures and machinery. (31 December 2017: TL 748,876,662). No furniture and fixture was purchased via financial leasing for the year 2018 (31 December 2017: TL 169,233,670) Net book value of leased property and equipment is TL 207,754,161 (31 December 2017: TL 274,285,574).

Current depreciation expense related to fixed assets amounting to TL 193,446,277 (2017: TL 161,298,346) booked in marketing and selling expenses and TL 2,021,108 booked in general administrative expenses (2017: TL 1,713,529) (Note 20).

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(Amounts are expressed as Turkish Lira (“TL”) unless otherwise stated.)

11. PROPERTY AND EQUIPMENT (Continued)

	Machinery and Equipment	Vehicles	Furniture and Fixture	Leasehold Improvements	Construction in Progress	Total
<u>Cost</u>						
Opening balance as of 1 January 2017	86,936,443	640,800	644,945,120	284,968,966	29,545,776	1,047,037,105
Transfer	-	-	29,545,776	-	(29,545,776)	-
Additions	897,974	-	316,293,182	107,124,778	-	424,315,934
Disposals	(42,877)	(640,800)	(2,274,343)	(6,017,126)	-	(8,975,146)
Closing balance as of 31 December 2017	<u>87,791,540</u>	<u>-</u>	<u>988,509,735</u>	<u>386,076,618</u>	<u>-</u>	<u>1,462,377,893</u>
<u>Accumulated Depreciation</u>						
Opening balance as of 1 January 2017	78,572,350	138,840	237,010,178	113,134,821	10,554,484	439,410,673
Transfer	-	-	10,554,484	-	(10,554,484)	-
Charge of the year	3,480,072	32,044	125,124,297	34,375,462	-	163,011,875
Impairment	-	-	9,694,087	4,887,536	-	14,581,623
Disposals	(42,344)	(170,884)	(1,755,202)	(2,187,962)	-	(4,156,392)
Closing balance as of 31 December 2017	<u>82,010,078</u>	<u>-</u>	<u>380,627,844</u>	<u>150,209,857</u>	<u>-</u>	<u>612,847,779</u>
Carrying value as of 31 December 2017	<u>5,781,462</u>	<u>-</u>	<u>607,881,891</u>	<u>235,866,761</u>	<u>-</u>	<u>849,530,114</u>

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12. INTANGIBLE ASSETS

<u>Cost</u>	<u>Rights</u>	<u>Trademarks</u>	<u>Total</u>
Opening balance as of 1 January 2018	24,840,723	85,675,510	110,516,233
Additions	12,677,105	-	12,677,105
Disposals	(155,762)	-	(155,762)
Closing balance as of 31 December 2018	37,362,066	85,675,510	123,037,576
<u>Accumulated Amortization</u>			
Opening balance as of 1 January 2018	12,431,253	-	12,431,253
Charge for the year	4,936,386	-	4,936,386
Disposals	(93,460)	-	(93,460)
Closing balance as of 31 December 2018	17,274,179	-	17,274,179
Carrying value as of 31 December 2018	20,087,887	85,675,510	105,763,397
<u>Cost</u>			
Opening balance as of 1 January 2017	17,777,433	85,675,510	103,452,943
Additions	7,270,847	-	7,270,847
Disposals (Note 3)	(207,557)	-	(207,557)
Closing balance as of 31 December 2017	24,840,723	85,675,510	110,516,233
<u>Accumulated Amortization</u>			
Opening balance as of 1 January 2017	10,250,958	-	10,250,958
Charge for the year	1,999,012	-	1,999,012
Impairment	250,715	-	250,715
Disposals	(69,432)	-	(69,432)
Closing balance as of 31 December 2017	12,431,253	-	12,431,253
Carrying value as of 31 December 2017	12,409,470	85,675,510	98,084,980

The amortization expense of intangible assets amounting to TL 4,936,386 is presented in marketing and selling expenses (2017: TL 1,999,012) (Note 20).

Assumptions used for brand impairment are explained in Note 2.8.

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13. GOODWILL

The movement of the goodwill for the periods ended 31 December 2018 and 2017 is as follows:

	1 January- 31 December 2018	1 January- 31 December 2017
Goodwill	578,942,596	578,942,596
	<u>578,942,596</u>	<u>578,942,596</u>

Detail of goodwill for the years ended 31 December 2018 and 2017 is as follows:

Company	Acquisition Date	31 December 2018	31 December 2017
Şok Marketler Ticaret A.Ş.	August 2011	245,485,151	245,485,151
Dia Sabancı Süpermarketleri Tic. A.Ş.	July 2013	301,974,645	301,974,645
Onur Ekspres Marketçilik A.Ş.	July 2013	27,524,000	27,524,000
Other	-	3,958,800	3,958,800
		<u>578,942,596</u>	<u>578,942,596</u>

The Group performed an impairment analysis of goodwill for the period ended 31 December 2018, as described below;

As a result of internal management purposes, goodwill is allocated to groups of cash-generating units that have similar neighborhoods and similar customer basis. Group of cash generating units are that allocated to districts by post codes.

Recoverable amount of each cash generating unit is determined based on fair value ("FV") less cost to sell of each cash generating unit that is determined according to relative valuation techniques by applying combination of multiples FV/EBITDA and FV/Sales by 40% and 60% respectively. Group management has applied 14.0X multiple for FV/EBITDA and 0.75X multiple for FV/Sales in the impairment model which is consistent with benchmarks and market conditions. Based on calculations above there is no impairment of goodwill associated with cash-generating units.

No impairment of goodwill associated with cash-generating units would have been determined, even if the estimated multiples for FV / EBITDA and FV / Sales used in the calculation of the recoverable amount of the cash-generating units had been decreased or increased by 5% as part of the sensitivity analysis.

14. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Provisions

Provisions for short term liabilities as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Lawsuits	37,295,795	30,856,336
	<u>37,295,795</u>	<u>30,856,336</u>

Provisions for lawsuits as of 31 December 2018 and 2017 are as follows:

	1 January- 31 December 2018	1 January- 31 December 2017
Balance at 1 January	30,856,336	27,391,348
Additional provisions recognized (Note 21)	10,761,687	4,238,469
Payments	(4,322,228)	(773,481)
Balance at 31 December	<u>37,295,795</u>	<u>30,856,336</u>

As of 31 December 2018, the provision amount related with the lawsuits is amounting to TL 37,295,795 (31 December 2017: TL 30,856,336).

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14. PROVISIONS, CONTINGENT LIABILITIES, CONTINGENT ASSETS (Continued)

As of 31 December 2018, the non-cancellable operating lease commitments of the Group is TL 46,414,652 related to agreements in case of cancellation. Non-cancellable term is up to 1 year (31 December 2017: TL 44,062,758). In addition, fixed assets acquired with financial lease of the Group are pledged in favor of the lessor (Note 6). The book value of these liabilities is TL 207,754,161 (31 December 2017: TL 274,285,574).

15. COMMITMENTS

	31 December 2018	31 December 2017
A. CPM's given in the name of its own legal personality (*)		
-Guarantees	10,524,330	120,289,838
-Mortgages	-	-
-Pledges	-	-
B. CPM's given on behalf of the fully consolidated companies	4,300,740	6,115,740
C. CPM's given on behalf of third parties for ordinary course of business	-	-
D. Total amount of other CPM's given		
i) Total amount of CPM's given on behalf of the majority shareholder	-	-
ii) Total amount of CPM's given on behalf of third parties which are not in scope of B and C	-	-
iii) Total amount of CPM's given on behalf of third parties which are not in scope C	-	-
	<u>14,825,070</u>	<u>126,405,578</u>

(*) TL 14,825,070 of this figure relates to non-cash risks.

The ratio of given CPM's by the Group to equity is 0% as of 31 December 2018 (2017: 0%).

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16. EMPLOYEE BENEFITS

Liabilities within the scope of employee benefits:

	31 December 2018	31 December 2017
<u>Short-term benefits</u>		
Due to personnel	65,282,654	32,440,063
Social security premiums payable	23,358,308	46,666,854
	<u>88,640,962</u>	<u>79,106,917</u>
<u>Provisions for employee benefits</u>	31 December 2018	31 December 2017
Provision for unused vacation short term	15,007,661	12,193,626
Provision for unused vacation long term	29,341,724	25,599,196
	<u>44,349,385</u>	<u>37,792,822</u>

The movement of provisions for unused vacation for the periods ended 31 December 2018 and 2017 is as follows:

	1 January- 31 December 2018	1 January- 31 December 2017
Opening balance at 1 January	37,792,822	30,779,356
Charge for the period	12,986,404	12,303,139
Payments	(6,429,841)	(5,289,673)
Closing balance at 31 December	<u>44,349,385</u>	<u>37,792,822</u>

Retirement Pay Provision

	31 December 2018	31 December 2017
Retirement pay provision	12,245,551	14,547,416
	<u>12,245,551</u>	<u>14,547,416</u>

Under Turkish Labor Law, the Group is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated without due cause, who is called up for military service, dies or retires after completing 25 years of service and reaches the retirement age (58 for women and 60 for men).

The amount payable consists of one month’s salary limited to a maximum of TL 5,434.42 for each period of service at 31 December 2018 (31 December 2017: TL 4,732.48).

The liability is not funded, as there is no funding requirement. The provision is calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. IAS 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the enterprise’s obligation under defined benefit plans. Accordingly, the following actuarial assumptions are used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2018, the provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 9.69% and a discount rate of 14.81%, resulting in a real discount rate of approximately 4.67% (31 December 2017: 4.50%). Ceiling amount of TL 6,017.60 which is in effect since 1 January 2019 is used in the calculation of Groups’ provision for retirement pay liability (1 January 2018: TL 5,001.76).

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16. EMPLOYEE BENEFITS (Continued)

- If the discount rate had been 1% higher, provision for employee termination benefits would decrease by TL 1,416,133
- If the anticipated turnover rate had been 1% higher while all other variables were held constant, provision for employee termination benefits would increase by TL 527,617

Movement for retirement pay provision for the periods ended 31 December 2018 and 2017 is as follows:

	1 January- 31 December 2018	1 January- 31 December 2017
Provision at 1 January	14,547,416	9,025,571
Service cost	16,481,205	2,423,506
Interest cost	679,030	1,065,919
Termination benefits paid	(14,297,571)	(5,857,632)
Actuarial (gain) / loss	(5,164,529)	7,890,052
Provision at 31 December	<u>12,245,551</u>	<u>14,547,416</u>

17. OTHER ASSETS AND LIABILITIES

	31 December 2018	31 December 2017
<u>Other current assets</u>		
VAT deductible	2,837,277	33,693,050
Prepaid taxes and funds	2,246,561	2,968,743
Other assets	55,043	52,748
	<u>5,138,881</u>	<u>36,714,541</u>
<u>Other short term liabilities</u>		
Taxes and dues payable	25,823,319	17,581,009
Other liabilities	1,535,745	1,534,079
	<u>27,359,064</u>	<u>19,115,088</u>

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18. CAPITAL, RESERVES AND OTHER EQUITY ITEMS

Shareholder structure as of 31 December 2018 and 2017 is stated below:

Shareholders	31 December		31 December	
	%	2018	%	2017
Turkish Retail Investments B.V.	23	144,000,000	50	180,000,000
Gözde Girişim Sermayesi Yat.Ort. A.Ş.	23	140,400,327	39	140,400,327
Turkish Holdings IV Cooperatief U.A.	6	36,000,000	-	-
Templeton Strategic Emerging Markets Fund IV.LDC	6	36,000,000	10	36,000,000
Yıldız Holding A.Ş. (**)	5	33,428,571	-	-
Other	1	3,599,673	1	3,599,673
Free Float (*)	36	218,500,000	-	-
Nominal Capital	100	611,928,571	100	360,000,000
Capital Commitments		-		-
Paid Capital		611,928,571		360,000,000

(*) By the approval of the Board's public offering, the shares of Şok Marketler Ticaret A.Ş. started to be trade on 18 May 2018 on Yıldız Market with the “SOKM” code which was offered to public on 8-11 May 2018, with a nominal value of TL 218,500,000 issued due to the increase from TL 360,000,000 to TL 578,500,000 with 10.5 base price.

(**) Within the framework of the registered capital system, with the completion of the public offering with restricting the rights of the existing shareholders to purchase new shares, total capital of the Company increased by TL 33,428,571 to TL 611,928,571. All of the shares issued within the framework of capital increase mentioned above are allocated to Yıldız Holding A.Ş.. On 16 May 2018 capital increase completed by depositing the relevant amount to the Company account at base price of 10.5 TL.

The Group's nominal capital has been divided into 611,928,571 registered shares with a par value of TL 1 per share (31 December 2017: 360,000,000 shares).

Legal Reserves

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. 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 historical paid-in share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions.

As of 31 December 2018 restricted reserves is TL 260,000 (31 December 2017: TL 260,000).

Actuarial Loss / Gain

As of 31 December 2018, actuarial loss / gain is negative TL 11,519,461 (31 December 2017: negative TL 15,317,761).

Effect of transactions under common control

As of 31 December 2018 effect of mergers involving undertakings or businesses subject to common control is negative TL 602,824,230 (31 December 2017: negative TL 438,284,421).

Resources subject to Profit Distribution

The Group do not have resources for profit distribution as of the balance sheet date.

Premium on Issued Shares

The Group has deducted the emission premium on issued shares amounting to TL 2,326,055,790 which it had acquired from the public offering in 2018 from the accumulated losses according to decision taken on General Assembly.

Repurchased Shares

The amount of TL 199,789,445 arising from the transactions made within the scope of price stability transactions is presented under “Repurchased Shares” in the accompanying consolidated financial statements according to Capital Markets Board (CMB) Communiqué Serial VII-128.1 (“CMB Communiqué on Shares”) and Borsa İstanbul A.Ş.(“BİAŞ”) Procedures and Principles of Operation of Share Market.

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19. REVENUE AND COST OF SALES

As of 31 December 2018 and 2017 the sales of Group are as follows:

a) Revenue

	1 January - 31 December 2018	1 January - 31 December 2017
Disaggregation of revenue		
Food and non-food consumer goods - Retail store customers	11,969,264,714	8,806,809,375
Food and non-food consumer goods - Wholesale customers	91,507,146	113,515,315
Total revenue	<u>12,060,771,860</u>	<u>8,920,324,690</u>
Timing of revenue recognition		
At a point in time		
Retail store customers	11,969,264,714	8,806,809,375
Wholesale customers	91,507,146	113,515,315
Total revenue	<u>12,060,771,860</u>	<u>8,920,324,690</u>

b) Cost of Sales

	1 January- 31 December 2018	1 January- 31 December 2017
Cost of merchandises sold	(9,126,780,915)	(6,865,792,278)
	<u>(9,126,780,915)</u>	<u>(6,865,792,278)</u>

20. MARKETING, SELLING AND GENERAL ADMINISTRATIVE EXPENSES

	1 January- 31 December 2018	1 January- 31 December 2017
Marketing and selling expenses		
Personnel expenses	(1,115,401,459)	(838,355,295)
Rent expenses	(545,130,652)	(408,561,191)
Transportation expenses	(163,859,189)	(111,101,964)
Depreciation and amortization expenses (Note:11, 12)	(198,382,663)	(163,297,358)
Utility expenses	(178,324,036)	(110,194,562)
Advertising expenses	(53,610,714)	(50,200,928)
Packaging expenses	(65,491,514)	(39,925,605)
Tax expenses and duties	(11,445,487)	(8,660,113)
Maintenance expenses	(15,584,495)	(13,265,169)
Other marketing and sales expenses	(85,236,628)	(66,226,607)
	<u>(2,432,466,837)</u>	<u>(1,809,788,792)</u>

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20. MARKETING, SELLING AND GENERAL ADMINISTRATIVE EXPENSES (Continued)

	1 January- 31 December 2018	1 January- 31 December 2017
General administrative expenses		
Personnel expenses	(36,743,848)	(33,012,337)
Cash collection expenses	(10,249,278)	(7,034,301)
Outsourced expenses	(6,439,134)	(7,287,522)
Information technology expenses	(5,118,987)	(3,980,474)
Tax expenses and duties	(4,399,100)	(2,677,945)
Amortization expenses (Note 11)	(2,021,108)	(1,713,529)
Rent expenses	(1,468,427)	(1,961,550)
Vehicle expenses	(1,089,023)	(617,005)
Other administrative expenses	(4,224,700)	(5,577,308)
	(71,753,605)	(63,861,971)

21. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

	1 January- 31 December 2018	1 January- 31 December 2017
Other income		
Unused provision	301,236	573,239
Gain on sale of property and equipment	74,254	212,997
Other income	5,272,619	1,383,382
	5,648,109	2,169,618
Other expense		
Provision expense (Note 14)	(10,761,687)	(4,238,469)
Impairment on property and equipment	-	(14,832,338)
Loss on sale of property and equipment	(634,759)	(4,089,312)
Allowance for doubtful receivables (Note 7)	(250,307)	(901,920)
Other expenses	(21,635,270)	(12,714,352)
	(33,282,023)	(36,776,391)

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22. FINANCIAL EXPENSES AND INCOME

For the periods ended 31 December 2018 and 2017 financial expenses are as follows:

	1 January- 31 December 2018	1 January- 31 December 2017
Finance Expense		
Financial expenses from credit purchases and discount on trade receivables	(455,162,320)	(251,372,488)
Interest on bank overdrafts and loans	(108,728,989)	(206,458,379)
Financing cost of cash collection for credit card receivables	(60,095,725)	(11,493,554)
Interest expense from related parties (Note 24)	(40,001,892)	(111,756,188)
Interest on finance lease obligations	(36,995,283)	(32,673,489)
Foreign exchange loss	(23,187,593)	(8,808,527)
Other	(4,688,154)	(576,879)
	<u>(728,859,956)</u>	<u>(623,139,504)</u>

For the periods ended 31 December 2018 and 2017 financial incomes are as follows:

	1 January- 31 December 2018	1 January- 31 December 2017
Finance Income		
Financial income from credit sales and discount on trade payables	57,016,265	39,420,104
Interest income	19,180,318	2,480,102
Foreign exchange gain	2,305,299	915,034
	<u>78,501,882</u>	<u>42,815,240</u>

23. TAX ASSETS AND LIABILITIES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

	31 December 2018	31 December 2017
<i>Current tax asset / (liability):</i>		
Current corporate tax provision	(3,240,264)	(2,090,951)
Less prepaid tax and funds	3,663,122	2,968,743
	<u>422,858</u>	<u>877,792</u>

Corporate Tax:

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective tax rate in 2018 is 22% (2017: 20%) for the Group.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2018 is 22%. (2017: 20%) Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

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23. TAX ASSETS AND LIABILITIES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Continued)

Corporate Tax (Continued):

Furthermore, there is no procedure for a final and definitive agreement on tax assessments in Turkey. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income Tax Withholding:

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied from 22 July 2006 is 15% upon the Council of Minister's' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Deferred tax:

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between the financial statements as reported for IFRS purposes and financial statements prepared in accordance with the tax legislation. These differences arise from the differences in accounting periods for the recognition of income and expenses in accordance with IFRS and tax legislation.

The Group has used the 20% tax rate in calculating the deferred tax assets / liabilities for the related temporary differences in the financial statements as of 31 December 2018 because the related temporary differences are not expected to be reversed in 2018, 2019 and 2020. In Turkey, the companies cannot declare a consolidated tax return, therefore subsidiaries that have deferred tax assets position were not netted off against subsidiaries that have deferred tax liabilities position and disclosed separately.

	Temporary Differences		Deferred Tax	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
<u>Deferred tax assets / (liabilities) :</u>				
Losses to be deducted from prior year losses	1,474,050,589	-	309,301,413	-
Property and equipment and intangible assets	(292,572,083)	(298,673,042)	(58,514,417)	(59,734,609)
Inventory	115,395,770	71,387,505	23,079,154	14,277,501
Provision for retirement pay	12,245,551	14,547,416	2,449,616	2,909,483
Provision for unused vacation	44,349,385	37,792,822	8,872,014	7,558,564
Effect of amortized cost method on receivables and payables	(113,416,050)	(90,497,785)	(22,683,210)	(18,099,557)
Provision for legal claims	37,295,790	29,041,208	7,459,158	5,808,242
Provision for doubtful receivables	-	158,898	-	31,780
Accrual of interest	(40,300)	(2,754,545)	(8,060)	(550,909)
Other	4,798,570	3,528,018	959,714	705,604
	<u>1,282,107,222</u>	<u>(235,469,505)</u>	<u>270,915,382</u>	<u>(47,093,901)</u>

The Group did not calculate deferred tax assets for the UCZ's previous years' losses since there is uncertainty that these losses will be deducted from its taxable income in the foreseeable future

22% tax rate is used for the amount of TL 724,564,757 prior year losses to be deducted that expected to be used in 2019 and 2020 years.

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23. TAX ASSETS AND LIABILITIES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES (Continued))

Expiration dates of previous year losses for which no deferred tax asset is calculated are as follows:

	31 December 2018	31 December 2017
Expiring in 2018	-	428,662,893
Expiring in 2019	197,188,600	392,219,600
Expiring in 2020	27,062,051	448,128,324
Expiring in 2021	20,453,443	332,084,618
Expiring in 2022	93,494,932	410,320,467
Expiring in 2023	31,713,784	-
	<u>369,912,810</u>	<u>2,011,415,902</u>

The movement of deferred tax liability for the periods ended as of 31 December 2018 and 2017 is as follows :

	1 January- 31 December 2018	1 January- 31 December 2017
<u>Movement of deferred tax asset/ (liabilities):</u>		
Opening balance at 1 January	(47,093,901)	(46,333,138)
Recognised in income statement	319,043,399	(2,338,773)
Recognised in comprehensive income	(1,034,116)	1,578,010
Closing balance at 31 December	<u>270,915,382</u>	<u>(47,093,901)</u>

The amounts reflected in comprehensive statement of profit or loss of the periods ended at 31 December 2018 and 2017 are as follows:

	1 January- 31 December 2018	1 January- 31 December 2017
Current period legal tax	(3,240,264)	(2,090,951)
Deferred tax income / (expense)	319,043,399	(2,338,773)
Total tax income / (expense)	<u>315,803,135</u>	<u>(4,429,724)</u>

	1 January- 31 December 2018	1 January- 31 December 2017
<u>Tax reconciliation:</u>		
Loss from continuing operations before taxation	(248,221,485)	(429,541,617)
	<u>%22</u>	<u>%20</u>
Tax at the domestic income tax rate of 22% (2017: 20%)	54,608,727	85,908,323
Tax effects of:		
- Carryforward tax losses not recognized as deferred tax assets	(6,977,032)	(82,064,093)
- Expenses that are not deductible	8,688,558	(9,075,370)
- Unused tax losses that are previously not recognised as deferred	263,402,092	-
- Other	(3,919,210)	801,416
Income tax income / (expense) recognised in profit or loss	<u>315,803,135</u>	<u>(4,429,724)</u>

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

24. RELATED PARTY BALANCES AND TRANSACTIONS

Balances with related parties	31 December 2018			
	Receivables		Payables	
	Current		Current	
	Trading	Non-trading	Trading	Non-trading
Shareholders				
Yıldız Holding A.Ş.	-	-	4,627,109	-
Gözde Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	-	537	-
Related parties - Controlled by shareholders				
Yeni Teközel Markalı Ürünler Dağıtım Hizmetleri A.Ş.	1,129,900	-	131,039,707	-
Pasifik Tüketim Ürünleri Satış ve Tic. A.Ş.	-	-	128,503,875	-
Unmaş Unlu Mamuller San. ve Tic. A.Ş.	-	-	25,696,760	-
Aytaç Gıda Yatırım San. Tic. A.Ş.	-	-	21,744,821	-
Bizim Toptan Satış Magazaları A.Ş.	21,032,114	-	11,902	-
Kerevitaş Gıda San. ve Tic. A.Ş.	2,367,762	-	-	-
Asil Hamur Undan Mamuller Gıda San. ve Tic. A.Ş.	-	-	7,822,585	-
Biskot Bisküvi Gıda San. ve Tic. A.Ş.	197,976	-	4,594,508	-
Azmüsebat Çelik San. Tic. A.Ş.	-	-	3,353,770	-
Önem Gıda San. ve Tic. A.Ş.	-	-	4,382,815	-
Enfesler Gıda Pazarlama A.Ş.	-	-	3,342,340	-
Aktül Kağıt Üretim Pazarlama A.Ş.	-	-	1,767,170	-
Poleks Gıda San. ve Dış Tic. A.Ş.	1,473,011	-	2,649	-
Besler Gıda ve Kimya San. ve Tic. A.Ş.	-	-	935,364	-
G2m Dağıtım Pazarlama ve Tic. A.Ş.	140,438	-	-	-
Penta Teknoloji Ürünleri Dağıtım Tic. A.Ş.	45,816	-	245	-
Other	580,371	-	958,071	-
Jointly Controlled Companies by Shareholders				
SCA Yıldız Kağıt ve Kişisel Bakım Üretim A.Ş.	-	-	8,741,211	-
Milhans Gıda Ürün. San. Tic. A.Ş.	-	-	9,425,083	-
Sun Doğal Gıda ve Ambalaj Sanayi A.Ş.	393,660	-	536,180	-
Kellogg Med Gıda Tic. Ltd. Şti.	-	-	50,614	-
Nissin Yıldız Gıda San. ve Tic. A.Ş.	-	-	38,065	-
Dank Gıda San. ve Tic. A.Ş.	-	-	11,831	-
PNS Pendik Nişasta San. A.Ş.	1,562	-	-	-
	<u>27,362,610</u>	<u>-</u>	<u>357,587,212</u>	<u>-</u>

Receivables from related parties result from sales. Major portion of the Group's liabilities to related parties comprise of the liabilities from merchandise purchases.

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(Amounts are expressed as Turkish Lira (“TL”) unless otherwise stated.)

24. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

Balances with related parties	31 December 2017			
	Receivables		Payables	
	Trading	Non-trading	Trading	Non-trading
Shareholders				
Yıldız Holding A.Ş.	-	27,674,985	14,328,731	561,260,023
Related parties - Controlled by shareholders				
Kerevitaş Gıda San. ve Tic. A.Ş.	18,399	-	39,823,913	2,478,000
Pasifik Tüketim Ürünleri Satış ve Tic. A.Ş.	-	-	114,236,927	36,170,875
Besler Gıda ve Kimya San. ve Tic. A.Ş.	-	-	26,388,423	10,773,400
Bizim Toptan Satış Magazaları A.Ş.	65,623,997	-	53,781	-
Unmaş Unlu Mamuller San. ve Tic. A.Ş.	-	-	38,542,036	-
Aytaç Gıda Yatırım San. Tic. A.Ş.	-	-	35,314,725	-
Biskot Bisküvi Gıda San. ve Tic. A.Ş.	-	-	38,253,490	-
Aktül Kağıt Üretim Pazarlama A.Ş.	-	-	29,335,025	-
Enfesler Gıda Pazarlama A.Ş.	-	-	29,144,701	-
Poleks Gıda San. ve Dış Tic. A.Ş.	7,712,762	4,471,939	-	-
Marsa Yağ San. ve Tic. A.Ş.	4,638	-	11,959,017	-
Önem Gıda San. ve Tic. A.Ş.	-	-	9,444,474	-
Atademir Gıda San. ve Tic. A.Ş.	54,693	-	8,018,801	-
G2m Dağıtım Pazarlama ve Tic. A.Ş.	7,152,117	-	-	-
Polinas Plastik San. Tic. A.Ş.	-	-	5,628,598	-
Eksper Tüketim Mad. Sat. ve Paz. A.Ş.	4,844,388	-	19,427	-
Azmüsebat Çelik San. Tic. A.Ş.	-	-	3,740,141	-
Asil Hamur Undan Mam. Gıda San. Ve Tic. A.Ş.	-	-	3,872,184	-
Penta Teknoloji Ürünleri Dağıtım Tic. A.Ş.	-	-	1,904,451	-
Duru G2M Gıda Tarım ve Tem. Ürün. Dağ. Paz. San. A.Ş.	1,282,355	-	-	-
Donuk Fırın. Ür. San. ve Tic. A.Ş.	-	-	498,395	-
Other	178,031	2,021	264,582	-
Jointly Controlled Companies by Shareholders				
SCA Yıldız Kağıt ve Kişisel Bakım Üretim A.Ş.	-	-	30,347,095	-
Milhans Gıda Ürün. San. Tic. A.Ş.	-	-	12,770,382	-
CCC Gıda San. ve Tic. A.Ş.	1,100	-	3,029,793	-
Kellogg Med Gıda Tic. Ltd. Şti.	-	-	539,666	-
	<u>86,872,480</u>	<u>32,148,945</u>	<u>457,458,758</u>	<u>610,682,298</u>

Non-trade payables to and receivables from related parties compose of Group’s borrowings obtained from or repayable to Yıldız Holding A.Ş.. Interest is obtained on an effective market interest rate monthly.

Detail of Group’s non-trade payables to related parties are disclosed below:

Non-Trade payables to related parties	Original Currency	Interest Rate %	Short Term Liabilities (TL Equivalent)
Yıldız Holding A.Ş.	TL	% 17.29	510,861,218
Yıldız Holding A.Ş.	EUR	% 3.6	50,398,805
Pasifik Tüketim Ürünleri Satış ve Tic. A.Ş.	EUR	% 3.6	36,170,875
Besler Gıda ve Kimya San. ve Tic. A.Ş.	TL	-	10,773,400
Kerevitaş Gıda San. ve Tic. A.Ş.	TL	-	2,478,000
			<u>610,682,298</u>

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

(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

24. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

1 January - 31 December 2018					
Transactions with related parties	Purchases	Interest received	Interest paid	Sales / Other income	Other expense
<u>Shareholders</u>					
Yıldız Holding A.Ş.	-	9,537,711	(35,269,179)	38,795	(1,955,830)
<u>Related parties - Controlled by shareholders</u>					
Pasifik Tüketim Ürünleri Satış ve Tic. A.Ş.	410,229,755	-	(4,220,525)	32,068	(341,439)
Unmaş Unlu Mamüller San. ve Tic. A.Ş.	286,968,947	-	-	26,796	-
Yeni Teközel Markalı Ürünler Dağ. Hiz. A.Ş.	253,795,687	-	-	-	-
Aytaç Gıda Yatırım San. Tic. A.Ş.	86,352,836	-	-	26,604	(114)
Bizim Toptan Satış Magazaları A.Ş.	1,914,503	-	-	81,141,596	-
Asil Hamur Undan Mamüller Gıda San. ve Tic. A.Ş.	48,090,539	-	-	-	(515)
Enfesler Gıda Pazarlama A.Ş.	47,996,485	-	-	15,685	(684)
Kerevitaş Gıda San. ve Tic. A.Ş.	31,032,859	-	-	5,153,420	-
Biskot Bisküvi Gıda San. ve Tic. A.Ş.	36,614,362	-	-	35,654	-
Aktül Kağıt Üretim Pazarlama A.Ş.	26,843,480	-	-	94,476	-
Poleks Gıda San. ve Dış Tic. A.Ş.	590,707	-	-	13,371,428	(4,111)
Besler Gıda ve Kimya San. ve Tic. A.Ş.	13,921,703	-	-	28,110	-
Azmüsebat Çelik San. Tic. A.Ş.	10,712,574	-	-	74,776	(12,032)
Atademir Gıda San. ve Tic. A.Ş.	8,100,097	-	-	4,554	-
Marsa Yağ San. ve Tic. A.Ş.	7,966,854	-	-	27,552	-
Önem Gıda San. ve Tic. A.Ş.	-	-	-	61,258	(5,661,698)
Polinas Plastik San. Tic. A.Ş.	3,731,888	-	-	209,867	-
Sun Doğal Gıda ve Ambalaj Sanayi A.Ş.	42,122	1,961,343	(512,188)	414	(1,364,400)
Donuk Fırın. Ür. San. ve Tic. A.Ş.	1,514,225	-	-	-	-
İzsal Gayrimenkul Geliştirme A.Ş.	-	-	-	34,587	(592,888)
Örgen Gıda San. ve Tic. A.Ş.	254,852	-	-	-	-
Penta Teknoloji Ürünleri Dağıtım Tic.A.Ş.	15,197	-	-	92,867	(347,073)
Other	233,315	-	-	686,059	(987,375)
<u>Jointly Controlled Companies by Shareholders</u>					
Natura Gıda San. ve Tic. A.Ş.	64,677,119	-	-	108,306	-
Milhans Gıda Ürün. San. Tic. A.Ş.	28,009,258	-	-	55	-
SCA Yıldız Kağıt ve Kişisel Bakım Üretim A.Ş.	42,939,336	-	-	23,587	-
CCC Gıda San. ve Tic. A.Ş.	2,913,460	-	-	25,447	-
Nissin Yıldız Gıda San. ve Tic. A.S.	52,128	-	-	2,687	(24,803)
Kellogg Med Gıda Tic. Ltd. Şti.	916,693	-	-	3,720	(1,069)
PNS Pendik Nişasta San. A.Ş.	-	-	-	18,322	-
	1,416,430,980	11,499,054	(40,001,892)	101,338,690	(11,294,031)

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(Amounts are expressed as Turkish Lira (“TL”) unless otherwise stated.)

24. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

1 January - 31 December 2017					
Transactions with related parties	Purchases	Interest received	Interest paid	Sales / Other income	Other expense
Shareholders					
Yıldız Holding A.Ş.	-	2,734,702	(104,140,200)	3,006,564	-
Related parties - Controlled by shareholders					
Pasifik Tüketim Ürünleri Satış ve Tic. A.Ş.	379,005,514	-	(7,171,124)	9,138,488	-
Bağeturk Gıda San. ve Tic. A.Ş.	163,381,885	-	-	132,001	-
Kerevitaş Gıda San. ve Tic. A.Ş.	117,175,236	-	(366,648)	55,126	-
Biskot Bisküvi Gıda San. ve Tic. A.Ş.	119,228,267	-	-	157,384	-
Aktül Kağıt Üretim Pazarlama A.Ş.	88,365,178	-	-	2,572,945	-
Aytaç Gıda Yatırım San. Tic. A.Ş.	84,789,674	-	-	-	(14,702)
Bizim Toptan Satış Magazaları A.Ş.	11,805,670	-	-	318,826,185	-
Besler Gıda ve Kimya San. ve Tic. A.Ş.	69,044,383	-	-	52,932	(5,836)
Enfesler Gıda Pazarlama A.Ş.	66,243,947	-	-	187,831	-
Unmaş Unlu Mamuller San. ve Tic. A.Ş.	49,916,871	-	-	-	(50,821)
Marsa Yağ San. ve Tic. A.Ş.	37,484,298	-	-	11,818	-
Poleks Gıda San. ve Dış Tic. A.Ş.	1,531,219	79,685	-	29,033,286	(63,531)
Biskot Gıda Silivri Şubesi	-	-	-	-	-
Atademir Gıda San. ve Tic. A.Ş.	18,060,182	-	-	20,394	-
Azmüsebat Çelik San. Tic. A.Ş.	16,143,427	71,955	-	6,231	-
Önem Gıda San. ve Tic. A.Ş.	9,010,841	65,711	(73,055)	-	(6,641,667)
Polinas Plastik San. Tic. A.Ş.	15,763,434	-	-	525	-
Asil Hamur Undan Mam.Gıda San.Ve Tic.A.Ş.	15,133,616	-	-	-	-
Örgen Gıda San. ve Tic. A.Ş.	11,649,256	-	-	-	-
Donuk Fırın. Ür. San. ve Tic. A.Ş.	1,913,902	-	-	13,044	-
Sun Doğal Gıda ve Ambalaj Sanayi A.Ş.	-	-	-	-	(1,000,831)
İzsal Gayrimenkul Geliştirme A.Ş.	-	-	-	-	(763,881)
G2m Dağıtım Pazarlama ve Tic. A.Ş.	-	-	-	-	(443,602)
Other	12,768	135	-	319,381	(494,128)
Jointly Controlled Companies by Shareholders					
SCA Yıldız Kağıt ve Kişisel Bakım Üretim A.Ş.	56,223,925	-	-	55,560	-
Milhans Gıda Ürün. San. Tic. A.Ş.	40,838,491	-	-	-	-
CCC Gıda San. ve Tic. A.Ş.	10,910,936	-	-	18,435	-
Kellogg Med Gıda Tic. Ltd. Şti.	1,024,430	-	-	8,561	-
Nissin Yıldız Gıda San. ve Tic. A.S.	1,243,945	8,722	(5,161)	32,608	-
	<u>1,385,901,295</u>	<u>2,960,910</u>	<u>(111,756,188)</u>	<u>363,649,299</u>	<u>(9,478,999)</u>

The total amount of benefits for the key management personnel in the current period is as follows:

	1 January 31 December 2018	1 January 31 December 2017
Salaries and short term benefits	<u>7,179,756</u>	<u>7,795,352</u>
	<u>7,179,756</u>	<u>7,795,352</u>

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

25. NATURE AND LEVEL OF RISK RESULTED FROM FINANCIAL INSTRUMENTS

(a) Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 6, other payables to non-related parties disclosed in Note 8, other receivables from related parties and other payables to related parties disclosed in Note 24, cash and cash equivalents disclosed in Note 5 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 18.

Group management reviews capital based on the leverage ratio to be consistent with other companies in industry. This ratio is calculated as net debt divided by the total capital amount. Net debt is calculated as total liability amount (comprises of borrowings, other receivables from related parties and other payables to related parties and interest bearing other payables to non-related parties) less cash and cash equivalents. Total capital is calculated as shareholders' equity plus the net debt amount as presented in the consolidated balance sheet.

As of 31 December 2018 and 2017 net debt / total capital ratio is as follows:

	31 December 2018	31 December 2017
Total liabilities	284,244,096	2,322,295,791
Less: Cash and cash equivalents (Note 5)	(296,387,148)	(92,091,962)
Net debt	(12,143,052)	2,230,203,829
Total equity	262,989,023	(2,184,969,842)
Total capital	250,845,971	45,233,987
Gearing ratio	0%	4930%

(b) Financial Risk Factors:

The Group's corporate treasury function provides services to the business, coordinates access to domestic markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyses exposures by degree and magnitude of risk. These risks include market risk (including currency risk, fair value interest rate risk and price risk) credit risk, liquidity risk and cash flow interest rate risk.

The treasury department presents the financial and risk positions of the Group and how to reduce financial risks of the Group to the Board of Directors three times a year and sends monthly reports of its financial position to the main shareholders.

(c) Credit Risk Management

Credit risk refer to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Receivables arising from sales consists of credit card slips. Since the customers are final consumers, the Group has no risk for credit card slip receivables.

The risk arised from the advances and deposits given in order to make investments by the Group, is under control by obtaining letter of guarantees from various banks. Based on the Group policy, the Group does not pay any advance or deposits without obtaining a letter of guarantee from banks.

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

25. NATURE AND LEVEL OF RISK RESULTED FROM FINANCIAL INSTRUMENTS (Continued)

(c) Credit Risk Management (Continued)

The credit risks exposed because of financial instrument types

	Receivables					Deposits in banks
	Trade receivables		Other Receivables			
	Related Party	Other	Related Party	Other		
31 December 2018						
Maximum net credit risk as of balance sheet date (i)	27,362,610	99,877,782	-	17,020,074	226,116,326	
The part of maximum risk under guarantee with collateral	-	-	-	-	-	-
A. Net book value of neither past due nor impaired financial assets (ii)	27,362,610	60,372,706	-	17,020,074	226,116,326	
B. Book value of restructured otherwise accepted as past due and impaired financial assets	-	-	-	-	-	-
C. Net book value of past due but not impaired assets	-	39,505,076	-	-	-	-
D. Impaired asset net book value						
- Past due (gross amount)	-	8,259,855	-	-	-	-
- Impairment (-)	-	(8,259,855)	-	-	-	-
- Net value collateralized or guaranteed part of net value	-	-	-	-	-	-
- Not over due (gross amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Net value collateralized or guaranteed part of net value	-	-	-	-	-	-
E. Off-balance sheet items bearing credit risk	-	-	-	-	-	-

(i) The factors that increase the credit reliability such as guarantees received are not considered in the balance.

(ii) Except for "the part of maximum risk under guarantee with collateral.", there is a credit card receivable amounting to TL 22,690,645 which holds no credit risk.

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

(Amounts are expressed as Turkish Lira (“TL”) unless otherwise stated.)

25. NATURE AND LEVEL OF RISK RESULTED FROM FINANCIAL INSTRUMENTS (Continued)

(c) Credit Risk Management (Continued)

The credit risks exposed because of financial instrument types

	Receivables				Deposits in banks
	Trade receivables		Other Receivables		
	Related Party	Other	Related Party	Other	
31 December 2017					
Maximum net credit risk as of balance sheet date (i)	86,872,480	180,761,735	32,148,945	10,445,621	28,916,835
The part of maximum risk under guarantee with collateral	-	-	-	-	-
A. Net book value of neither past due nor impaired financial assets (ii)	86,872,480	167,080,209	32,148,945	10,445,621	28,916,835
B. Book value of restructured otherwise accepted as past due and impaired financial assets	-	-	-	-	-
C. Net book value of past due but not impaired assets	-	13,681,526	-	-	-
D. Impaired asset net book value					
- Past due (gross amount)	-	8,418,377	-	-	-
- Impairment (-)	-	(8,418,377)	-	-	-
- Net value collateralized or guaranteed part of net value	-	-	-	-	-
- Not over due (gross amount)	-	-	-	-	-
- Impairment (-)	-	-	-	-	-
- Net value collateralized or guaranteed part of net value	-	-	-	-	-
E. Off-balance sheet items bearing credit risk	-	-	-	-	-

(i) The factors that increase the credit reliability such as guarantees received are not considered in the balance.

(ii) Except for "the part of maximum risk under guarantee with collateral ", there is a credit card receivable amounting to TL 20,363,809 which holds no credit risk..

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(Amounts are expressed as Turkish Lira (“TL”) unless otherwise stated.)

25. NATURE AND LEVEL OF RISK RESULTED FROM FINANCIAL INSTRUMENTS (Continued)

(c) Credit Risk Management (Continued)

Aging of overdue receivables as of 31 December 2018 and 2017 is as follows:

	Trade Receivables	
	31 December 2018	31 December 2017
Overdue between 1-30 days	38,966,874	12,971,592
Overdue between 1-3 Months	404,569	0
Overdue between 3-12 Months	133,653	709,934
Total overdue receivables	39,505,096	13,681,526
The portion of under guarantee with collateral etc	-	-

(d) Liquidity risk management:

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

Liquidity Risk Tables

The following table details the Group’s expected maturity for its non-derivative financial liabilities and prepared with the assumption that the liabilities will be paid as soon as they mature. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets.

The maturities estimated by the Group are same as the maturities on agreements

31 December 2018

	<u>Book value</u>	<u>Contractual undiscounted cash flow (I+II+III+IV)</u>	<u>Up to 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>
Non derivative financial liabilities					
Bank borrowings	75,397,282	84,287,288	84,287,288	-	-
Leasing payables	208,846,814	244,923,309	31,325,325	93,975,977	119,622,007
Trade payables	2,484,528,147	2,594,951,087	2,594,951,087	-	-
Other payables	1,440,979	1,440,979	-	555,874	885,105
Total liability	2,770,213,222	2,925,602,663	2,710,563,700	94,531,851	120,507,112

31 December 2017

	<u>Book value</u>	<u>Contractual undiscounted cash flow (I+II+III+IV)</u>	<u>Up to 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>
Non derivative financial liabilities					
Bank borrowings	1,402,437,385	1,584,489,939	670,812,873	913,677,066	-
Leasing payables	306,573,922	370,634,919	34,157,163	102,471,490	234,006,266
Trade payables	2,193,083,265	2,281,167,608	2,281,167,608	-	-
Other payables	646,447,559	646,447,559	-	645,718,799	728,760
Total liability	4,548,542,131	4,882,740,025	2,986,137,644	1,661,867,355	234,735,026

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

25. NATURE AND LEVEL OF RISK RESULTED FROM FINANCIAL INSTRUMENTS (Continued)

(e) Market Risk Management

The Group's activity is subject to very limited financial risks of changes in foreign currency exchange rates.

Market risk exposures of the Group are measured using sensitivity analysis.

In the current period there has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk management

Transactions in foreign currencies expose the Group to foreign currency risk. The Group does not use any derivative instruments to preserve its foreign currency risk as a result of its major transactions and cash flows.

The detail by foreign currency of the Group's monetary assets and liabilities with foreign currencies as below:

31 December 2018

	TL Equivalent (Functional Currency)	US Dollar	Euro	Other
Trade receivables	188,499	-	31,271	-
Monetary financial assets	592,434	3,228	95,463	-
CURRENT ASSETS	780,933	3,228	126,734	-
Monetary financial assets	206,753	39,300	-	-
NON CURRENT ASSETS	206,753	39,300	-	-
TOTAL ASSETS	987,686	42,528	126,734	-
Trade payables	4,180,465	548,501	214,068	670
Financial liabilities	-	-	-	-
CURRENT LIABILITIES	4,180,465	548,501	214,068	670
Monetary other liabilities	-	-	-	-
NON CURRENT LIABILITIES	-	-	-	-
TOTAL LIABILITIES	4,180,465	548,501	214,068	670
Net foreign currency position	(3,192,779)	(505,973)	(87,334)	(670)
Monetary items net foreign currency asset / liability position	(3,192,779)	(505,973)	(87,334)	(670)

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

25. NATURE AND LEVEL OF RISK RESULTED FROM FINANCIAL INSTRUMENTS (Continued)

Foreign currency risk management (Continued)

31 December 2017	TL Equivalent (Functional Currency)	US Dollar	Euro	Other
Trade receivables	8,576,940	151,830	1,772,617	-
Monetary financial assets	48,988	4,993	6,682	-
CURRENT ASSETS	8,625,928	156,823	1,779,299	-
Monetary financial assets	558,241	148,000	-	-
NON CURRENT ASSETS	558,241	148,000	-	-
TOTAL ASSETS	9,184,169	304,823	1,779,299	-
Trade payables	1,925,100	301,794	174,236	-
Financial liabilities	120,261,975	-	26,633,147	-
CURRENT LIABILITIES	122,187,075	301,794	26,807,383	-
Monetary other liabilities	951,664	68,562	153,483	-
NON CURRENT LIABILITIES	951,664	68,562	153,483	-
TOTAL LIABILITIES	123,138,739	370,356	26,960,866	-
Net foreign currency position	(113,954,572)	(65,533)	(25,181,567)	-
Monetary items net foreign currency asset / liability position	(113,954,572)	(65,533)	(25,181,567)	-

Foreign currency sensitivity

The Company undertakes certain transactions denominated in US Dollar hence exposures to certain exchange rate fluctuations arise. As of 31 December 2018, a 20% strengthening of US Dollar against the TL, on the basis that all other variables remain constant, would have increased loss before taxation by TL 532,375 (31 December 2017: TL 24,717).

The Company undertakes certain transactions denominated in Euro hence exposures to certain exchange rate fluctuations arise. As of 31 December 2018, a 20% strengthening of Euro against the TL, on the basis that all other variables remain constant, would have decreased loss before taxation by TL 105,290 (31 December 2017: TL 11,370,733 increase).

Interest rate sensitivity

The Group is not subject to interest rate risk, as the Group does not have any floating rate liability.

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(Amounts are expressed as Turkish Lira (“TL”) unless otherwise stated.)

25. NATURE AND LEVEL OF RISK RESULTED FROM FINANCIAL INSTRUMENTS (Continued)

Other price risks

The Group does not hold equity investments or liability like bond / stocks etc. which can be exposed to price changes.

26. FINANCIAL INSTRUMENTS

Categories of financial instruments:

Categories of financial instruments and fair values

31 December 2018	Amortized cost	Financial assets fair value through other comprehensive income	Carrying value	Note
<u>Financial assets</u>				
Cash and cash equivalents	296,387,148	-	296,387,148	5
Trade receivables (including related parties)	127,240,392	-	127,240,392	7
Other receivables (including related parties)	17,020,074	-	17,020,074	8
<u>Financial liabilities</u>				
Borrowings and finance leases	284,244,096	-	284,244,096	6
Trade payables (including related parties)	2,484,528,147	-	2,484,528,147	7
Other liabilities (including related parties)	555,874	-	555,874	8

31 December 2017	Amortized cost	Financial assets fair value through other comprehensive income	Carrying value	Note
<u>Financial assets</u>				
Cash and cash equivalents	92,091,962	-	92,091,962	5
Trade receivables (including related parties)	267,634,215	-	267,634,215	7
Other receivables (including related parties)	42,594,566	-	42,594,566	8
<u>Financial liabilities</u>				
Borrowings and finance leases	-	1,709,011,307	1,709,011,307	6
Trade payables (including related parties)	-	2,193,083,265	2,193,083,265	7
Other liabilities (including related parties)	-	645,718,799	645,718,799	8

Group management believes that the carrying value of the financial instruments approximate to their fair values.

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

27. EARNINGS PER SHARE

As of 31 December 2018 and 2017 loss per share calculation is as follows:

	1 January- 31 December 2018	1 January- 31 December 2017
Earnings / (Loss) per share		
Average number of shares during the period (full value)	517,109,301	360,000,000
Net profit for the period attributable to equity holder of the parents	66,598,899	(390,190,707)
Earnings per share from continuing and discontinued operations	0.1288	(1.0839)
Net profit for the period attributable to equity holder of the parents	66,598,899	(390,190,707)
Less: Profit from discontinued operations during the year	(547,114)	4,507,771
Net profit for the calculation of share income from continuing operations	67,146,013	(394,698,478)
Earnings per share from continuing operations	0.1298	(1.0964)
Profit from discontinued operations during the period	(547,114)	4,507,771
Earnings per share from discontinued operations	(0.0011)	0.0125

28. DISCONTINUED OPERATIONS

Due to change in its shareholding structure Teközel has decided to gradually discontinue its retail, wholesale and export operations associated with customers other than Şok Marketler Ticaret A.Ş. ("Non-Şok Operations") from 1 January 2018 and has discontinued the related operations on 1 March 2018.

All profit and loss items of the operations to be withdrawn are shown in the "Profit from discontinued operations" line in the income statement.

	1 January 31 December 2018	1 January 31 December 2017
Profit for the year from discontinued operations		
Revenue	106,189,409	620,044,180
Cost of sales (-)	(104,456,449)	(612,870,842)
Gross profit	1,732,960	7,173,338
Administrative expenses (-)	(1,047,433)	(1,342,016)
Marketing and sales expenses (-)	(860,161)	(1,610,694)
Finance income and expenses	(372,480)	287,143
(Loss) / profit from operations before taxation	(547,114)	4,507,771

29. EVENTS AFTER THE REPORTING PERIOD

None.

ŞOK MARKETLER TİCARET A.Ş. AND ITS SUBSIDIARIES

SUPPLEMENTARY UNAUDITED INFORMATION

(Amounts are expressed as Turkish Lira ("TL") unless otherwise stated.)

APPENDIX 1 - SUPPLEMENTARY UNAUDITED INFORMATION

The supporting information not required by IFRS is considered important for the Group's financial performance by the Group management and the calculation of EBITDA (earnings before interest, tax, depreciation and amortization) and (earnings before interest, tax, depreciation and amortization and warehouse and rent expenses) EBITDAR are presented below. The Group calculates the adjusted EBITDA (earnings before interest, tax, depreciation and amortization, other income and expense royalty expense effect and Teközel wholesale operation) for the better understanding of investors and other interested parties about Group operations. The Group calculated the adjusted EBITDAR by excluding rent expenses on adjusted EBITDA.

	1 January - 31 December 2018	1 January - 31 December 2017
Profit / (Loss) from continuing operations for the year	67,581,650	(438,479,112)
Tax income / (expense)	315,803,135	(4,429,724)
Loss from continuing operations before taxation	(248,221,485)	(434,049,388)
Financial income and expense net	(650,358,074)	(580,324,264)
Amortization and depreciation	(200,403,771)	(165,010,887)
EBITDA	602,540,360	311,285,763
Other income and expense net	(27,633,914)	(34,606,773)
Royalty expense effect (*)	-	(8,418,390)
Adjusted EBITDA	630,174,274	354,310,926
Warehouse and Store Rent Expenses (**)	546,504,074	410,489,738
Adjusted EBITDAR	1,176,678,348	764,800,664

(*) By the end of 2017 the Group has acquired the brands for which royalty has been paid in the current and prior years. These royalty expenses have been recharged to Yıldız Holding in 2017 and the recharged amount has been accounted under shareholder's equity. Royalty expenses have been adjusted in the table above for the year 2017 as the related brands are now owned by Şok as Şok will no longer bear royalty expenses (2017:TL 8,418,390).

(**) Rent expenses consist of rent expenses of stores, warehouses and administrative buildings.

Such financial information are presented for informational purposes and are not an integral part of the consolidated financial statements.