Türk Telekomünikasyon Anonim Şirketi and Its Subsidiaries
31 December 2018

Consolidated Financial Statements

And Independent Auditor's Report

30 January 2019

This report contains 9 pages of "Independent Auditor's Report" and 128 pages of financial statements and explanatory notes.

(Convenience translation of a report and financial statements originally issued in Turkish)

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TÜRK TELEKOMÜNİKASYON ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018
(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

		Current period	Prior period
		Audited	**Audited**
	Notes	**31 December 2018**	**31 December 2017**
Assets			
Current assets		**10.936.213**	**10.566.394**
Cash and cash equivalents	*4*	4.494.536	4.100.204
Trade receivables			
- Due from related parties	*8*	10.489	23.707
- Trade receivables from third parties	*6*	5.140.127	4.792.834
Other receivables			
- Other receivables from third parties	*9*	67.434	57.894
Derivative financial instruments	*15*	200.921	557.712
Inventories	*10*	248.852	203.978
Prepaid expenses	*13*	307.877	343.332
Current tax related assets		94.803	33.884
Other current assets	*12*	333.813	415.488
		10.898.852	**10.529.033**
Assets held for sale	*17*	37.361	37.361
Non-current assets		**25.262.298**	**18.582.141**
Financial investments	*14*	11.995	11.840
Trade receivables			
- Trade receivables from third parties	*6*	128.182	91.197
Other receivables			
- Other receivables from third parties	*9*	38.480	33.837
Derivative financial instruments	*15*	36.481	59.006
Investment property	*18*	20.194	22.376
Property, plant and equipment	*19*	14.254.053	9.115.520
Intangible assets			
-Goodwill	*16*	44.944	44.944
-Other intangible assets	*20*	9.738.095	8.437.536
Prepaid expenses	*13*	71.927	68.935
Deferred tax assets	*11*	896.513	660.707
Other non-current assets	*12*	21.434	36.243
Total assets		**36.198.511**	**29.148.535**

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

TÜRK TELEKOMÜNİKASYON ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018
(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

	Notes	Current period Audited 31 December 2018	Prior period Audited 31 December 2017
Liabilities			
Current liabilities		**13.496.359**	**8.661.581**
Financial liabilities			
- Bank borrowings	*5*	52.216	66.714
Short term portion of long term financial liabilities			
- Bank borrowings	*5*	4.106.293	2.395.531
- Obligations under finance leases	*7*	631	617
- Bills, bonds and notes issued	*5*	2.601.235	23.800
Trade payables			
- Due to related parties	*8*	110	2.326
- Trade payables to third parties	*6*	3.845.124	4.066.558
Employee benefit obligations	*12*	166.317	175.712
Other payables			
- Due to related parties	*8*	204.792	–
- Other payables to third parties	*9*	898.957	844.592
Derivative financial instruments	*15*	648.934	192.052
Deferred revenue	*13*	453.114	226.864
Income tax payable	*33*	6.465	24.344
Short term provisions			
-Short term provisions for employee benefits	*21*	230.191	162.906
-Other short term provisions	*21*	246.173	433.238
Other current liabilities	*12*	35.807	46.327
Non-current liabilities		**15.248.549**	**15.931.867**
Financial liabilities			
- Bank borrowings	*5*	10.882.470	10.270.506
- Obligations under finance leases	*7*	1.963	1.982
- Bills, bonds and notes issued	*5*	2.276.610	3.732.588
Other payables			
- Due to related parties	*8*	170.164	–
- Other payables to third parties	*9*	57.428	375.233
Derivative financial instruments	*15*	84.004	117.389
Deferred revenue	*13*	655.314	367.201
Long term provisions			
-Long term provisions for employee benefits	*21*	907.172	813.393
-Other long-term provisions	*21*	8.167	8.035
Deferred tax liability	*11*	205.257	245.540
Equity		**7.453.603**	**4.555.087**
Paid-in share capital	*22*	3.500.000	3.500.000
Inflation adjustments to paid in capital (-)	*22*	(239.752)	(239.752)
Share based payments (-)	*22,23*	9.528	9.528
Other comprehensive income / expense items not to be reclassified to profit or loss			
-Actuarial loss arising from employee benefits		(628.350)	(526.583)
-Increase in revaluation of property, plant and equipment		4.283.816	–
-Gains due to change in fair value of financial liability attributable to change in credit risk of liability		64.852	–
Other comprehensive income/expense items to be reclassified to profit or loss			
-Hedging reserves		(886.488)	(299.552)
-Foreign currency translation reserve		417.238	218.920
Restricted reserves allocated from profits	*22*	2.355.969	2.355.969
Other reserves	*22*	(1.320.942)	(1.320.942)
Retained earnings / (accumulated losses)		1.288.993	(278.033)
Net loss / (profit) for the period		(1.391.261)	1.135.532
Total liabilities and equity		**36.198.511**	**29.148.535**

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

(Convenience translation of a report and financial statements originally issued in Turkish)

TÜRK TELEKOMÜNİKASYON ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

	Notes	Current Period Audited 1 January - 31 December 2018	Prior Period Audited 1 January - 31 December 2017
Sales	*3,27*	20.430.900	18.139.554
Cost of sales (-)	*28*	(11.249.445)	(10.029.082)
Gross profit		**9.181.455**	**8.110.472**
General administrative expenses (-)	*28*	(1.784.341)	(1.706.962)
Marketing, sales and distribution expenses (-)	*28*	(2.409.985)	(2.404.461)
Research and development expenses (-)	*28*	(147.779)	(124.737)
Other operating income	*30*	231.369	291.123
Other operating expense (-)	*30*	(492.474)	(540.970)
Operating profit		**4.578.245**	**3.624.465**
Impairment (losses) / gains in accordance with TFRS 9, net		(268.034)	(468.115)
Income from investing activities	*31*	130.288	130.398
Expense from investing activities (-)	*31*	(12.960)	(5.610)
Operating profit before financial expenses		**4.427.539**	**3.281.138**
Financial income	*32*	1.422.499	722.307
Financial expense (-)	*32*	(7.872.319)	(2.525.118)
Profit / (loss) before tax	***3***	**(2.022.281)**	**1.478.327**
Tax income / (expense)			
- Current tax expense	*33*	(20.480)	(696.792)
- Deferred tax income	*11,33*	651.500	353.997
Profit / (loss) for the year		**(1.391.261)**	**1.135.532**
Earnings / (losses) per shares attributable to equity holders of the parent from (in full Kuruş)	*22*	**(0,3975)**	**0,3244**
Earnings / (losses) per diluted shares attributable to equity holders of the parent from (in full Kuruş)	*22*	**(0,3975)**	**0,3244**

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

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

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

	Notes	**Current Period Audited 1 January - 31 December 2018**	**Prior Period Audited 1 January - 31 December 2017**
Profit/(loss) for the period		**(1.391.261)**	**1.135.532**
Other comprehensive income items not to be reclassified to profit / (loss):			
Items not to be reclassified to profit or loss:		**4.430.008**	**(32.593)**
Gain from revaluation of property, plant and equipments	*19*	4.758.000	–
Actuarial loss from employee benefits	*21*	(126.172)	(40.417)
Change in fair value of financial liability attributable to change in credit risk of liability		309.949	–
Deferred tax effect of other value increase funds not to be reclassified from OCI to PL	*11*	(511.769)	7.824
-Tax effect of actuarial loss from employee benefits		*24.405*	*7.824*
-Tax effect of revaluation of property, plant and equipment		*(474.184)*	–
-Tax effect of change in fair value of financial liability attributable to change in credit risk of liability		*(61.990)*	–
Other comprehensive income items to be reclassified to profit or loss:		**(388.618)**	**65.527**
Change in foreign currency translation differences		198.318	119.515
Cash flow hedges-effective portion of changes in fair value	*11*	(121.269)	31.566
Hedge of net investment in a foreign operation		(173.643)	(99.051)
Change in value of time value of options		(438.759)	–
Tax effect on other comprehensive income items to be reclassified to profit or loss		146.735	13.497
-Tax effect of cash flow hedges-effective portion of changes in fair value		*24.254*	*(6.313)*
-Tax effect of hedge of net investment in a foreign operation		*34.729*	*19.810*
-Tax effect of hedge of time value of options		*87.752*	–
Other comprehensive income, net of tax		**4.041.390**	**32.934**
Total comprehensive income		**2.650.129**	**1.168.466**

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TÜRK TELEKOMÜNİKASYON ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(Currency in thousands of Turkish Lira (“TL”) unless otherwise stated, all other currencies are also disclosed in thousands)

					Other comprehensive income items not to be reclassified to profit or loss in subsequent periods			Other comprehensive income items to be reclassified to profit or loss in subsequent periods					Retained earnings / (losses)		
					Gains/(losses) on revaluation and re-measurement			Reserve of gains/(losses) on hedging							
	Paid-in share capital	Inflation adjustment to paid in capital	Share based payment reserve	Other gains / (losses)	Gains/(losses) on revaluation of property, plant and equipment	Actuarial loss arising from employee benefits	Gains / (losses) due to change in fair value of financial liability attributable to change in credit risk of liability	Gains or losses on hedges of net investment in foreign operations	Gains / (losses) on change in value of time value of options	Cash flow hedge reserve	Foreign currency translation reserve	Restricted reserves allocated from profits	Retained earnings /(losses)	Net profit / (loss) for the period	Equity
Balance at 1 January 2017	**3.500.000**	**(239.752)**	**9.528**	**(1.320.942)**	**–**	**(493.990)**	**–**	**(131.944)**	**–**	**(113.620)**	**99.405**	**2.355.969**	**446.307**	**(724.340)**	**3.386.621**
Transfers	–	–	–	–	–	–	–	–	–	–	–	–	(724.340)	724.340	–
Total comprehensive income	–	–	–	–	–	(32.593)	–	(79.241)	–	25.253	119.515	–	–	1.135.532	1.168.466
Profit for period	–	–	–	–	–	–	–	–	–	–	–	–	–	*1.135.532*	*1.135.532*
Other comprehensive income	–	–	–	–	–	*(32.593)*	–	*(79.241)*	–	*25.253*	*119.515*	–	–	–	*32.934*
Balance at 31 December 2017	**3.500.000**	**(239.752)**	**9.528**	**(1.320.942)**	**–**	**(526.583)**	**–**	**(211.185)**	**–**	**(88.367)**	**218.920**	**2.355.969**	**(278.033)**	**1.135.532**	**4.555.087**
Balance at 1 January 2018	**3.500.000**	**(239.752)**	**9.528**	**(1.320.942)**	**–**	**(526.583)**	**–**	**(211.185)**	**–**	**(88.367)**	**218.920**	**2.355.969**	**(278.033)**	**1.135.532**	**4.555.087**
Adjustments in accounting polices (net of tax) (Note 2.3)	–	–	–	–	–	–	(183.107)	–	–	–	–	–	431.494	–	248.387
Adjusted balance at 1 January 2018	**3.500.000**	**(239.752)**	**9.528**	**(1.320.942)**	**–**	**(526.583)**	**(183.107)**	**(211.185)**	**–**	**(88.367)**	**218.920**	**2.355.969**	**153.461**	**1.135.532**	**4.803.474**
Transfers	–	–	–	–	–	–	–	–	–	–	–	–	1.135.532	(1.135.532)	–
Total comprehensive income	–	–	–	–	4.283.816	(101.767)	247.959	(138.914)	(351.007)	(97.015)	198.318	–	–	(1.391.261)	2.650.129
Loss for period	–	–	–	–	–	–	–	–	–	–	–	–	–	*(1.391.261)*	*(1.391.261)*
Other comprehensive income	–	–	–	–	*4.283.816*	*(101.767)*	*247.959*	*(138.914)*	*(351.007)*	*(97.015)*	*198.318*	–	–	–	*4.041.390*
Balance at 31 December 2018	**3.500.000**	**(239.752)**	**9.528**	**(1.320.942)**	**4.283.816**	**(628.350)**	**64.852**	**(350.099)**	**(351.007)**	**(185.382)**	**417.238**	**2.355.969**	**1.288.993**	**(1.391.261)**	**7.453.603**

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

TÜRK TELEKOMÜNİKASYON ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

	Notes	Current Period Audited 1 January - 31 December 2018	Prior Period Audited 1 January - 31 December 2017
Net profit/(loss) for the period		(1.391.261)	1.135.532
Adjustments to reconcile net profit to cash provided by operating activities:			
Adjustments for depreciation and amortisation expense	*29*	3.717.763	2.906.444
Adjustments for impairment loss / (reversal of impairment loss)		290.649	608.257
- Adjustments for impairment loss of receivables	*6,9*	*394.175*	*468.115*
- Adjustments for impairment loss of ınventories		*5.483*	*27.354*
- Adjustments for impairment loss of property, plant and equipment	*29*	*17.431*	*112.788*
- Adjustments for other impairment loss		*(126.440)*	–
Adjustments for provisions		439.587	561.221
- Adjustments for provisions related with employee benefits	*21*	*356.790*	*324.368*
- Adjustments for reversal of lawsuit and/or penalty provisions	*21*	*82.665*	*236.705*
- Adjustments for other provisions	*21*	*132*	*148*
Adjustments for interest expenses and income		698.733	318.865
- Adjustments for interest income		*(390.996)*	*(287.637)*
- Adjustments for interest expense		*1.040.703*	*556.450*
- Deferred financial expenses from credit purchases		*49.026*	*50.052*
Adjustments for unrealised foreign exchange losses		5.760.962	1.506.495
Adjustments for fair value losses /(gain)	*32*	308.200	(27.620)
- Adjustments for fair value loss on derivative financial instruments	*32*	*439.738*	*(27.620)*
- Adjustment for gains on change in fair value of bills, bonds and notes issued		*(131.538)*	–
Adjustments for tax expenses	*33*	(631.020)	342.795
Adjustments for gains arised from sale of tangible assets	*31*	(117.328)	(124.788)
Other adjustments for which cash effects are investing or financing cash flow		115.735	57.412
Other adjustments for non-cash items	*25*	(88.715)	(81.027)
Operating profit before working capital changes		**9.103.305**	**7.203.586**
Changes in working capital:			
Adjustments for increase in trade receivable		(781.840)	(1.151.197)
Adjustments for increase / (decrease) in inventories		(50.357)	29.932
Adjustments for increase / (decrease) in trade payable		(339.332)	415.372
Decrease in other assets related with operations		117.714	134.657
Increase in other payables related with operations		396.888	158.096
Cash flow from operating activities:			
Interest received		120.449	105.850
Payments related with employee benefits	*21*	(323.680)	(337.799)
Payments related with other provisions	*21*	(370.588)	(68.166)
Income taxes paid		(99.278)	(534.115)
Other outflows of cash	*25*	(184.346)	(12.031)
Net cash from operating activities		**7.588.935**	**5.944.185**
Investing activities			
Financial assets		(155)	–
Payments related to liabilities arising from acquisition of non-controlling interests		(205.000)	(205.000)
Proceeds from sale of property, plant, equipment and intangible assets		144.511	151.001
Purchases of property, plant, equipment and intangible assets		(4.065.306)	(4.223.530)
Net cash used in investing activities		**(4.125.950)**	**(4.277.529)**
Cash flows from financing activities			
Proceeds from loans		831.049	1.560.795
Repayments of borrowings		(3.222.944)	(1.854.449)
- Loan repayments		*(3.222.944)*	*(1.854.449)*
Payments of finance lease liabilities,net	*25*	(826)	(71)
Cash inflows /(outflows) from derivative instruments, net	*25*	(1.572)	18.788
Interest paid		(1.062.115)	(456.516)
Interest received		270.547	181.787
Other cash outflows, net	*25*	(115.735)	(57.412)
Net cash used in financing activities		**(3.301.596)**	**(607.078)**
NET INCREASE IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES		161.389	1.059.578
EFFECT OF CHANGES IN FOREING EXCHANGE RATES IN CASH AND CASH EQUIVALENTS		48.599	12.229
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		3.688.104	2.616.297
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	*4*	**3.898.092**	**3.688.104**

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

1. REPORTING ENTITY

Türk Telekomünikasyon Anonim Şirketi ("Türk Telekom" or "the Company") is a joint stock company incorporated in Turkey. The Company has its history in the Posthane – i Amirane (Department of Post Office) which was originally established as a Ministry on 23 October 1840. On 4 February 1924, under the Telephone and Telegraph, the authorization to install and operate telephone networks throughout Turkey was given to the General Directorate of Post, Telegraph and Telephone ("PTT"). The Company was founded on 24 April 1995 as a result of the split of the telecommunication and postal services formerly carried out by the PTT. All of the personnel, assets and obligations of the PTT pertaining to telecommunication services were transferred to the Company, the shares of which were fully owned by the Prime Ministry Under secretariat of Treasury- as of 2018 Republic of Turkey Ministry of Treasury and Finance ("the Treasury").

On 24 August 2005, Oger Telekomünikasyon A.Ş. ("OTAŞ"), entered into a Share Sale Agreement with the Turkey's Privatization Authority for the purchase of a 55% stake in the Company. A Shareholders Agreement and a Share Pledge Agreement for the block sale of the Company were signed on 14 November 2005 and then after, OTAŞ became the parent company of the Company.

Out of TL 3.500.000 nominal amount of capital, 15% of the Company's shares owned by the Treasury corresponding to a nominal amount of TL 525.000 have been issued to the public through an initial public offering with the permission of Directorate of Istanbul Stock Exchange on 15 May 2008. Since then Company shares are traded in Borsa İstanbul with the name of TTKOM.

As per the regulatory disclosure made by Türk Telekom on 15 August 2018, within the scope of the process, which is carried out in relation to takeover of OTAŞ's 55% shares in our Company, Türk Telekom, by a special purpose vehicle ("SPV"), which the creditor banks of OTAŞ will be shareholders, a notification was made to our company by some of the creditor banks.

Transfer of the Group A shares, which constitutes 55% of the Company's capital, to the afore-mentioned SPV , Levent Yapılandırma Yönetimi A.Ş. (LYY) as of 21 December 2018 has been notified to the Company in accordance with Article 198 of the Turkish Commercial Code. Pursuant to Article 499 of the Turkish Commercial Code, LYY has been registered as a new shareholder in the Company's shareholders' ledger.

As at 31 December 2018, the parent company and controlling party of the Company is Levent Yapılandırma Yönetimi A.Ş. (31 December 2017: Saudi Oger Ltd. due to its controlling ownership in Oger Telecom).

A concession agreement ("the Concession Agreement") was signed by the Company and Turkish Telecommunication Authority (now named the Information and Communication Technologies Authority ("ICTA") as at 14 November 2005. The Concession Agreement covers the provision of all kinds of telecommunication services, establishment of necessary telecommunications facilities and the use of such facilities by other licensed operators and the marketing and supply of telecommunication services for 25 years starting from 28 February 2001. The Concession Agreement will terminate on 28 February 2026 and in the conditions where the Concession Agreement is expired or not renewed, the Company shall transfer all equipment that affects the operation of its systems in full working order and the real estates in its use where these equipment are deployed to the ICTA or to an institution designated by the ICTA.

The Concession Agreement will expire at the end of its time period. However, the Company may apply to the ICTA and request for extension thereof no later than 1 year prior to the expiry of the duration of the Concession Agreement. The ICTA may decide to renew the Concession Agreement at the latest before 180 days of the date of expiration taking into account new conditions and within the scope of the legislation and the regulations of the ICTA.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

1. REPORTING ENTITY (CONTINUED)

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

				Effective ownership of the Company (%)	
Name of Subsidiary	**Place of incorporation and operation**	**Principal activity**	**Functional Currency**	**31 December 2018**	**31 December 2017**
TTNet Anonim Şirketi ("TTNet")	Turkey	Internet service provider	Turkish Lira	100	100
TT Mobil İletişim Hizmetleri A.Ş.("TT Mobil")(**)	Turkey	GSM operator	Turkish Lira	100	100
Argela Yazılım ve Bilişim Teknolojileri Sanayi ve Ticaret Anonim Şirketi("Argela")	Turkey	Telecommunication solutions	Turkish Lira	100	100
Innova Bilişim Çözümleri Anonim Şirketi ("Innova")	Turkey	Telecommunication solutions	Turkish Lira	100	100
Assistt Rehberlik ve Müşteri Hizmetleri Anonim Şirketi ("AssisTT")	Turkey	Call center and customer relations	Turkish Lira	100	100
Sebit Eğitim ve Bilgi Teknolojileri A.Ş.("Sebit")	Turkey	Web Based Learning	Turkish Lira	100	100
NETSIA Inc.	USA	Telecommunications solutions	U.S. Dollar	100	100
Sebit LLC	USA	Web based learning	U.S. Dollar	100	100
TT International Holding B.V.("TT International") (*)	Netherlands	Holding company	Euro	100	100
Türk Telekom International AG ("TTINT Austria")(*)	Austria	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International Hu Kft (TTINT Hungary)(*)	Hungary	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
S.C. Euroweb Romania S.A.("TTINT Romania") (*)	Romania	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International Bulgaria EODD ("TTINT Bulgaria")(*)	Bulgaria	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International CZ s.r.o ("TTINT Czech Republic") (*)	Czech Republic	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
TTINT Telcomd.o.o Beograd ("TTINT Serbia") (*)	Serbia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
TTINT Telcomunikacijed.o.o ("TTINT Slovenia") (*)	Slovenia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International SK s.r.o ("TTINT Slovakia") (*)	Slovakia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
TT International Telekomünikasyon Sanayi ve Ticaret Limited Şirketi ("TTINT Turkey") (*)	Turkey	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International UA TOV ("TTINT Ukraine") (*)	Ukraine	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International Italy S.R.L. (TTINT Italy) (*)	Italy	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
TTINT International DOOEL Skopje("TTINT Macedonia") (*)	Macedonia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International LLC ("TTINT Russia") (*)	Russia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekomunikasyon Euro Gmbh. ("TT Euro") (*)	Germany	Mobil service marketing	Euro	100	100
Türk Telekom International d.o.o.(*)	Croatia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International HK Limited (*)	Hong Kong	Internet/data services, infrastructure and wholesale voice services provider	H.K. Dollar	100	100
Net Ekran TV ve Medya Hiz. A.Ş. ("Net Ekran")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
TTES Elektrik Tedarik Satış A.Ş.("TTES")	Turkey	Electrical energy trading	Turkish Lira	100	100
TT Euro Belgium S.A. (*)	Belgium	Mobile service marketing	Euro	100	100
TT Ödeme Hizmetleri A.Ş.	Turkey	Mobile finance	Turkish Lira	100	100
Net Ekran1 TV ve Medya Hiz. A.Ş. ("Net Ekran1")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran2 TV ve Medya Hiz. A.Ş. ("Net Ekran2")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran3 TV ve Medya Hiz. A.Ş. ("Net Ekran3")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran4 TV ve Medya Hiz. A.Ş. ("Net Ekran4")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran5 TV ve Medya Hiz. A.Ş. ("Net Ekran5")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran6 TV ve Medya Hiz. A.Ş. ("Net Ekran6")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran7 TV ve Medya Hiz. A.Ş. ("Net Ekran7")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran8 TV ve Medya Hiz. A.Ş. ("Net Ekran8")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran9 TV ve Medya Hiz. A.Ş. ("Net Ekran9")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran10 TV ve Medya Hiz. A.Ş. ("Net Ekran10")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran11 TV ve Medya Hiz. A.Ş. ("Net Ekran11")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran12 TV ve Medya Hiz. A.Ş. ("Net Ekran12")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran13 TV ve Medya Hiz. A.Ş. ("Net Ekran13")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran14 TV ve Medya Hiz. A.Ş. ("Net Ekran14")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran15 TV ve Medya Hiz. A.Ş. ("Net Ekran15")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran16 TV ve Medya Hiz. A.Ş. ("Net Ekran16")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
11818 Rehberlik ve Müşteri Hizmetleri A.Ş. ("11818")	Turkey	Call center and customer relations	Turkish Lira	100	100
TT Satış ve Dağıtım Hizmetleri Anonim Şirketi	Turkey	Selling and Distribution Services	Turkish Lira	100	100
TT Ventures Proje Geliştirme A.Ş.	Turkey	Corporate Venture Capital	Turkish Lira	100	100

(*) Hereinafter, will be referred as TTINT Group.

(**) The title of Avea İletişim Hizmetleri A.Ş. was announced on 30 May 2018 by TT Mobil İletişim Hizmetleri A.Ş.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

1. REPORTING ENTITY (CONTINUED)

The details of the Company's joint operation as at 31 December 2018 and 31 December 2017 are as follows:

				Effective ownership of the Company (%)	
Name of Joint Operation	**Place of incorporation and operation**	**Principal activity**	**Functional Currency**	**31 December 2018**	**31 December 2017**
TT Mobil-Vodafone Evrensel İş Ortaklığı	Turkey	Internet/data services, infrastructure and wholesale voice services provider	Turkish Lira	51	51

Hereinafter, Türk Telekom and its subsidiaries and joint operations together will be referred to as "the Group".

The Group's principal activities include the provision of local, national, international and mobile telecommunication services, internet products and services, as well as call center and customer relationship management, technology and information management.

The Company's registered office address is Turgut Özal Bulvarı, 06103 Aydınlıkevler, Ankara.

The number of personnel subject to collective agreement as at 31 December 2018 is 10.798 (31 December 2017: 11.770) and the number of personnel not subject to collective agreement as at 31 December 2018 is 22.619 (31 December 2017: 22.732). The total number of personnel as at 31 December 2018 and 31 December 2017 are 33.417 and 34.502, respectively.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation of the consolidated financial statements

a) Statement of compliance with TAS

The accompanying consolidated financial statements are based in accordance with Turkish Accounting Standards ("TAS") issued by Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA") as set out in the Communiqué serial II, No: 14.1 announcement of Capital Markets Board ("CMB") dated 13 June 2013 related to "Capital Market Communiqué on Principles Regarding Financial Reporting" ("Communiqué") which is published in official gazette, no 28676. TAS is composed of Turkish Accounting Standards, Turkish Financial Reporting Standards, appendixes and interpretations

b) Preparation of financial statements

The accompanying consolidated financial statements and notes are presented in accordance with the illustrative financial statements published by CMB on 7 June 2013.

The accompanying consolidated financial statements and notes are presented in accordance with the illustrative financial statements published by CMB on 30 January 2019.

The accompanying consolidated financial statements are approved by the Company's Board of Directors on 8 February 2018. General Assembly and related legal institutions have the right to correct these financial statements and statutory financial statements.

The Group has initially adopted TFRS 15 and TFRS 9 with a date of initial application of 1 January 2018. The comparative information has not been restated according to the transition period.

c) Correction of financial statements during the hyperinflationary periods

CMB, with its resolution dated 17 March 2005, announced that all publicly traded entities operating in Turkey was not obliged to apply inflationary accounting effective from 1 January 2005. In accordance with this resolution, TAS 29 "Financial Reporting in Hyperinflationary Economies" is not applied to the consolidated financial statements since 1 January 2005.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.1 Basis of presentation of the consolidated financial statements (continued)

d) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the property, plant and equipment other than lands and investment property acquisitions prior to 1 January 2000 for which the deemed cost method was applied in accordance with TAS 29 "Financial Reporting in Hyperinflationary Economies", lands, derivative financial instruments, bills, bonds and notes issued which have been reflected at their fair values. Investment properties and tangible assets other than lands which are recognized with deemed cost method are valued with fair values as of 1 January 2000, lands accounted as property, plant and equipment, derivative financial liabilities and bills, bonds and notes issued are valued with fair values as of balance sheet date.

The methods used to measure the fair values are discussed further in Note 2.4 (t).

e) Functional and presentation currency

Excluding the subsidiaries incorporated outside of Turkey, functional currency of all entities' included in consolidation is Turkish Lira ("TL") and they maintain their books of account in TL in accordance with Turkish Commercial Code, Tax Legislation and the Uniform Chart of Accounts issued by the Ministry of Finance.

Functional currencies of the subsidiaries and Company's joint operation are presented in Note 1.

The consolidated financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with the Turkish Accounting Standards published by the POA and are presented in TL.

Additional paragraph for convenience translation to English:

The accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying consolidated financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") with respect to the application of inflation accounting, classification of some income statement items and also for certain disclosures requirement of the POA.

2.2 Basis of consolidation

The accompanying financial statements include the accounts of the parent company Türk Telekom; its subsidiaries and joint operation. The financial statements of the entities included in the consolidation have been prepared as at the date of the consolidated financial statements.

a) Subsidiaries

As at 31 December 2018, the consolidated financial statements include the financial results of Türk Telekom and its subsidiaries that the Group has control over its financial and operational policies which are listed at Note 1.

Control is normally evidenced when the Company controls an investee if and only if the Company has all the following; a) power over the investee b) exposure, or rights, to variable returns from its involvement in the investee and c) the ability to use its power over the investee to affect the amount of company's returns. The results of subsidiaries acquired are included in the consolidated statements of income from the effective date of acquisition as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group. The consolidated financial statements are prepared using uniform accounting policies for similar transactions and events and are prepared with the same chart of accounts of the Company.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.2 Basis of consolidation (continued)

b) Business combinations

From 1 January 2010 the Group has applied revised TFRS 3 "Business Combinations" standard. The change in accounting policy has been applied prospectively and had no effect on business combinations completed during prior periods.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquirer.

The consideration transferred is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners of the entity and the equity interests issued by the Group. When the agreement with the seller includes a clause that the consideration transferred could be adjusted for future events, the acquisition-date fair value of this contingent consideration is included in the cost of the acquisition. All transaction costs incurred by the Group have been recognized in general administrative expenses.

For each business combination, the Group elects whether it measures the non-controlling interest in the acquirer either at fair value or at the proportionate share of the acquirer's identifiable net assets.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquirer.

Acquisition method requires allocation of the acquisition cost to the assets acquired and liabilities assumed at their fair values on the date of acquisition. Acquired assets and liabilities and contingent liabilities assumed according to TFRS 3 are recognized at fair values on the date of the acquisition. Acquired company is consolidated starting from the date of acquisition.

If the fair values of the acquired identifiable assets, liabilities and contingent liabilities or cost of the acquisition are based on provisional assessment as at the balance sheet date, the Group made provisional accounting. Temporarily determined business combination accounting has to be completed within twelve months following the combination date and adjustment entries have to be made beginning from the combination date.

c) Transactions eliminated on consolidation

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

d) Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currencies of the Group entities at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to the functional currency at the exchange rate ruling at the date. Foreign currency differences arising on translation of foreign currency transactions are recognized in the income statement, except for differences arising on qualifying cash flow hedges to the extent the hedge is effective, which are recognized in other comprehensive income.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.2 Basis of consolidation (continued)

d) Foreign currency (continued)

i) Foreign currency transactions (continued)

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

ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to reporting currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to reporting currency at average exchange rates in the related periods.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity.

The Group entities use USD, Euro or TL, as functional currency since these currencies are used to a significant extent in, or have a significant impact on, the operations of the related Group entities and reflect the economic substances of the underlying events and circumstances relevant to these entities. All currencies other than the functional currency selected for measuring items in the financial statements are treated as foreign currencies. Accordingly, transactions and balances not already measured in the functional currency have been re-measured to the related functional currencies. The Group uses TL as the reporting currency.

The financial statements of subsidiaries that report in the currency of an economy formerly accepted as hyperinflationary (Turkey) are restated to the unit of currency effective at the reporting date until 1 January 2005. As stated above, with the resolution dated 17 March 2005 to end the hyperinflation accounting for the periods starting after 31 December 2004, TL is not assessed as a currency of a hyperinflationary economy effective from 1 January 2005.

The foreign currency exchange rates as of the related periods are as follows:

	Average		Period end	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Euro / TL	5,6789	4,1159	6,0280	4,5155
USD / TL	4,8301	3,6445	5,2609	3,7719

iii) Hedge of net investment in a foreign operation

The Company acquires foreign currency bank loans in order to hedge its net investment in a foreign operation. Foreign exchange gain and/or loss resulting from the subsidiary's net investment portion of this loan is reclassified to other comprehensive income. Foreign exchange gain and/or loss resulting from the subsidiary's net investment portion of this loan reclassified to other comprehensive income will be transferred to profit and loss in case of disposal. Tax effects of foreign exchange gain and/or loss resulting from the subsidiary's net investment portion of this loan is recognized under other comprehensive income as well.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Changes in accounting policies, comparative information and restatement of prior periods' financial statements

Except for the changes below, the accounting policies applied in these consolidated financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017.

a) TFRS 15 Revenue from contracts with customers

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

The Group has initially adopted TFRS 15 *Revenue from Contracts with Customers* with a date of initial application of 1 January 2018. As a result, the Group has changed its accounting policy for revenue recognition as detailed below.

The Group has applied TFRS 15 using the cumulative effect method – by recognizing the cumulative effect of initially applying TFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information presented for 2017 has not been restated and continues to be as previously reported under TAS 18 and TAS 11 and related interpretations. The details of the significant changes and quantitative impact of the changes are set out below.

i) Sales of equipment and other telecommunication services in bundled packages

For equipment sold in bundled packages, the Group previously limited revenue to the amount that was not contingent on the provision of future telecommunication services. Under TFRS 15, the total consideration in the contract is allocated to all products and services – e.g. equipment, mobile telecommunication services, and connection fees – based on their stand-alone selling prices. The stand-alone selling prices are determined based on the list prices at which the Group sells those products and services on their own in separate transactions. For items that are not sold separately the Group estimates stand-alone selling prices using the expected cost plus a margin approach.

For those contracts including sales of a distinct equipment or distinct connection fee, a lower proportion of consideration is allocated to equipment or connection fees and therefore revenue is recognized later under TFRS 15 than under TAS 18. The impact of these changes on items other than revenue is a decrease in income accruals.

Previously, the Group recognized revenue for connection fees immediately when connection services were provided and the cost of connection was also recognized immediately as an expense. Under TFRS 15, connection fees that are assessed as distinct are recognized as revenue. Connection fees for activities that are an improvement to or an extension of the Group's own network, rather than a transfer of goods or services to the customers are determined as not distinct and no separate revenue is recognized. For distinct connection fees revenue recognized is measured based on their stand-alone selling prices. The stand-alone selling prices of connection fees are estimated based on expected cost plus a margin approach. For connection fees that are not distinct, no portion of consideration is allocation to non-distinct connection fees, and therefore revenue is recognized later under TFRS 15 than under TAS 18. The impact of these changes on items other than revenue is a decrease in income accruals.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3. Changes in accounting policies, comparative information and restatement of prior periods' financial statements (continued)

a) TFRS 15 Revenue from contracts with customers (continued)

ii) Subscriber acquisition and retention costs

Subscriber acquisition costs include commissions and premiums incurred for acquisition and retention of subscribers.

The Group previously recognized commissions and premiums incurred for acquisitions/retentions in the consolidated statement of profit or loss during the year they are incurred. Under TFRS 15, the Group capitalizes these commission and premiums if these costs are incremental with obtaining a contract with a customer and if they are expected to be recovered. Under TFRS 15, subscriber acquisition and retention costs are capitalized as intangible assets are amortized in marketing, sales and distribution expenses. Subscriber acquisition costs are amortized consistently during subscriber life cycle and subscriber retention costs are amortized consistently during the the renewal period.

iii) Significant financing component

To estimate the transaction price in a contract, the Group adjusts the promised amount of consideration to reflect the time value of money if the contract contains a significant financing component. Significant financing component exists if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. The discount rate used is the rate that would be reflected in a separate financing transaction between the Group and the customer at a contract inception.

Indefeasible right of use ("IRU") contracts of the Group are adjusted for significant financing component. The Group previously was not adjusting for significant financing component under TAS 18. Under TFRS 15, consideration is adjusted to reflect the financing component of the transaction and related financing component is recognized as interest expense in financial expenses and presented separately from revenue from customers in profit or loss.

iv) Impacts on the consolidated financial statements

The following table summarizes the impact, net of tax, of transition to TFRS 15 on retained earnings at 1 January 2018:

	Impact of adopting TFRS 15 at 1 January 2018
Retained earnings	
Sales of equipment in bundled packages and connection fee	(204.412)
Subscriber acquisition/retention costs	843.203
Significant financing component	(45.607)
Related tax	(43.406)
Currency translation difference	2.468
Impact at 1 January 2018	**552.246**

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3. Changes in accounting policies, comparative information and restatement of prior periods' financial statements (continued)

a) TFRS 15 Revenue from contracts with customers (continued)

iv) Impacts on the consolidated financial statements (continued)

The following tables summarize the impacts of adopting TFRS 15 on the Group's consolidated financial statements as at 31 December 2018 for each of the line items affected.

i. Impact on the consolidated statement of financial position

		Impact of changes in accounting policies		
31 December 2018		**As reported**	**Adjustments**	**Balances without adoption of TFRS 15**
Intangible fixed assets	b	9.738.095	(1.024.338)	8.713.757
Trade and other receivables	a	5.384.712	18.165	5.402.877
Def. tax asset		896.513	(13.430)	883.083
Other		20.179.191	−	20.179.191
Total assets		**36.198.511**	**(1.019.603)**	**35.178.908**
Deferred tax liabilities		205.257	(64.910)	140.347
Deferred revenue	a,c	1.108.428	(289.935)	818.493
Other		27.431.223	−	27.431.223
Total liabilities		**28.744.908**	**(354.845)**	**28.390.063**
Retained earnings		1.288.993	(552.246)	736.747
Foreign currency translation difference		417.238	10.583	427.821
Net profit		(1.391.261)	(123.095)	(1.514.356)
Other		7.138.633	−	7.138.633
Total equity		**7.453.603**	**(664.758)**	**6.788.845**

a. Sales of equipment and other telecommunication services in bundled packages and connection fees

b. Subscriber acquisition and retention costs

c. Significant financing component

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3. Changes in accounting policies, comparative information and restatement of prior periods' financial statements (continued)

a) TFRS 15 Revenue from contracts with customers (continued)

iv) Impacts on the consolidated financial statements (continued)

ii. Impact on the consolidated statement of profit or loss and other comprehensive income

		Impact of changes in accounting policies		
31 December 2018		**As reported**	**Adjustments**	**Balances without adoption of TFRS 15**
Sales	a,c	20.430.900	29.794	20.460.694
Marketing, sales and distribution expenses	b	(2.409.985)	(181.135)	(2.591.120)
Financial income / (expense),net	c	(6.449.820)	17.510	(6.432.310)
Tax expense		631.020	10.736	641.756
Other		(13.593.376)	−	(13.593.376)
Profit		**(1.391.261)**	**(123.095)**	**(1.514.356)**
Total comprehensive income		**4.041.390**	**(123.095)**	**3.918.295**

a. Sales of equipment and other telecommunication services in bundled packages and connection fees

b. Subscriber acquisition and retention costs

c. Significant financing component

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3. Changes in accounting policies, comparative information and restatement of prior periods' financial statements (continued)

a) TFRS 15 Revenue from contracts with customers (continued)

iv) Impacts on the consolidated financial statements (continued)

iii. Impact on the consolidated statement of cash flows

		Impact of changes in accounting policies		
31 December 2018		**As reported**	**Adjustments**	**Balances without adoption of TFRS 15**
Profit for the period		(1.391.261)	(123.095)	(1.514.356)
Adjustments to reconcile net profit to cash provided by operating activities:				
-Depreciation and amortisation expense	b	3.717.763	(480.139)	3.237.624
-Tax expenses		(631.020)	(10.736)	(641.756)
-Other		7.407.823	−	7.407.823
Changes in working capital:				
-Increase in other payables related with operations		396.888	(47.303)	349.585
-Other		(1.053.815)	−	(1.053.815)
Cash flow from operating activities		(857.443)	−	(857.443)
Net cash from operating activities		**7.588.935**	**(661.273)**	**6.927.662**
Purchases of property, plant, equipment and intangible assets	b	(4.065.306)	661.273	(3.404.033)
Other		(60.644)	−	(60.644)
Net cash from investing activities		**(4.125.950)**	**661.273**	**(3.464.677)**
Other		(3.301.596)	−	(3.301.596)
Net cash from financing activities		**(3.301.596)**	**−**	**(3.301.596)**
Net (decrease) / increase in cash and cash equivalents before currency translation differences		161.389	−	161.389
Effect of changes in foreing exchange rates in cash and cash equivalents		48.599	−	48.599
Cash and cash equivalents at the beginning of the period		3.688.104	−	3.688.104
Cash and cash equivalents at the end of the period		**3.898.092**	**−**	**3.898.092**

a. Sales of equipment and other telecommunication services in bundled packages and connection fees

b. Subscriber acquisition and retention costs

c. Significant financing component

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Changes in accounting policies, comparative information and restatement of prior periods' financial statements (continued)

b) TFRS 9 Financial instruments

The Group has initially adopted TFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. TFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The following table summarizes the impact, net of tax, of transition to TFRS 9 on retained earnings and other comprehensive income at 1 January 2018:

	Impact of adopting TFRS 9 at 1 January 2018
Retained earnings /(losses)	
Recognition of expected credit losses under TFRS 9	(263.230)
Changes in carrying amount of liabilities measured at FVTPL at initial apllication in accordance with TFRS 9	156.390
Related tax	(13.912)
Opening balance under TFRS 9 (1 January 2018)	**(120.752)**

	Impact of adopting TFRS 9 at 1 January 2018
Other comprehensive income	
Changes in carrying amount of liabilities measured at FVTPL at initial apllication in accordance with TFRS 9	(228.884)
Related tax	45.777
Opening balance under TFRS 9 (1 January 2018)	**(183.107)**

i. Classification of financial assets and financial liabilities

TFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets under TFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. TFRS 9 eliminates the previous TAS 39 categories of held to maturity, loans and receivables and available for sale. Under TFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The adoption of TFRS 9 has not had a significant effect on the Group's accounting policies for financial liabilities except for bills, bonds and notes issued.

As at 1 January 2018, the Group has used the option to reclassify its bills, bonds and notes issued on initial application as measured at fair value through profit or loss as allowed in transition requirements of TFRS 9 which is permitted when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

For an explanation of how the Group classifies and measures bills, bonds and notes issued and accounts for related gains and losses under TFRS 9, see Note 2.4.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Changes in accounting policies, comparative information and restatement of prior periods' financial statements (continued)

b) TFRS 9 Financial instruments (continued)

i. Classification of financial assets and financial liabilities (continued)

The effect of adopting TFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under TFRS 9, see Note 2.4.

ii. Impairment of financial assets

TFRS 9 replaces the 'incurred loss' model in TAS 39 with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortized cost and contract assets, but not to investments in equity instruments. The details of the new model under TFRS 9 is disclosed in Note 2.4.

Impact of the new impairment model

As at 1 January 2018, the effect of impairment allowance under TFRS 9 is as follows:

Loss allowance as at 31 December 2017 under TAS 39	**(2.864.484)**
Additional impairment recognized at 1 January 2018 on:	
- Trade receivables	(24.876)
- Other assets and receivables	(17.568)
- Provision for expected credit losses on loan commitments	(220.786)
Loss allowance as at 1 January 2018 under TFRS 9	**(3.127.714)**

iii. Hedge accounting

When initially applying TFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of TAS 39 instead of the requirements in TFRS 9. The Group has not elected to adopt the new general hedge accounting model in TFRS 9. Accounting policies applied in preparation of consolidated financial statements as at 31 December 2017 have not changed.

As at 1 July 2018, the Group has elected to adopt the new general hedge accounting model in TFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Group uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings and bill and bond issuance. The Group uses cross currency swaps that are used as hedging instruments in cash flow hedge transactions only in the fair value changes of the spot value in the hedging relationship. The effective portion of changes in fair value of hedging instruments is accumulated in a cash flow hedge reserve as a separate component of equity.

Under TAS 39, time value of option contracts were recognized in profit or loss at the time of change in fair value. However, under TFRS 9, time value of options are accounted for as a cost of hedging; they are recognised in OCI and accumulated in a cost of hedging reserve as a separate component within equity.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Changes in accounting policies, comparative information and restatement of prior periods' financial statements (continued)

b) TFRS 9 Financial instruments (continued)

iii. Hedge accounting (continued)

Under TAS 39, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve were reclassified to profit or loss as a reclassification adjustment in the same period as the hedged expected cash flows affected profit or loss. The same approaches also apply under TFRS 9 to the amounts accumulated in the cost of hedging reserve.

Hedge Ineffectiveness

The Group monitors source of ineffectiveness over the course of the hedge relation period. The change in the fair value of the hedged item will be calculated using the hypothetical derivative method.

The entire fair value of the participating cross currency and cross currency swap including currency basis was designated as the hedging instrument. The hypothetical derivative is modelled to exclude the currency basis. Hedge ineffectiveness is determined by comparing the actual derivative which includes currency basis to the hypothetical derivative which does not include currency basis.

There is 'an economic relationship' between the hedged item and the hedging instrument as the underlying of the hedging instrument matches, and aligned with, the hedged risk so that the hedging instrument and the hedged item are expected to move in opposite directions as a result of a change in the hedged risk.

The effect of credit risk does not 'dominate the value changes' that result from that economic relationship. The impact of changes in credit risk are not magnitude such that it dominates the value changes, even if there is an economic relationship between the hedged item and hedging instrument.

The hedge ratio, between the amount of hedged item and the amount of hedging instrument is 1:1.

Effect arising from application of TFRS 9 hedge accounting requirements

The application of hedging approach in accordance with TFRS 9 does not have any impact on retained earnings.

iv. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 (2014) have been applied retrospectively, except as described below.

- Comparative periods have not been restated for prior periods. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of TFRS 9 are recognized in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of TFRS 9 and therefore is not comparable to the information presented for 2018 under TFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

    - The determination of the business model within which a financial asset is held.

    - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Changes in accounting policies, comparative information and restatement of prior periods' financial statements (continued)

b) TFRS 9 Financial instruments (continued)

v. Classification of financial assets and liabilities on the date of initial application

The following table shows the original measurement categories under TAS 39 and the new measurement categories under TFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018:

	Note	Original classification under TAS 39	New classification under TFRS 9	Original carrying amount under TAS 39	New carrying amount under TFRS 9
Financial assets					
Cash and cash equivalents	4	Loans and receivables	Amortised cost	4.100.204	4.100.204
Trade and other receivables (including related parties)	6,9	Loans and receivables	Amortised cost	4.999.469	4.974.593
Financial investments	14	Assets held for sale	Changes in fair value attributable to other comprehensive income	11.840	11.840
Other assets	12	Loans and receivables	Amortised cost	194.669	177.101
Financial liabilities					
Bank borrowings	5	Other financial liabilities	Other financial liabilities	12.732.751	12.732.751
Bills, bonds and notes issued	5	Other financial liabilities	Fair value through profit or loss	3.756.388	3.828.882
Financial leasing liabilities	7	Other financial liabilities	Other financial liabilities	2.599	2.599
Interest rate swaps	15	Fair value – hedging instruments	Fair value – hedging instruments	117.389	117.389
Trade payables and provisions (including related parties)	6,9	Other financial liabilities	Other financial liabilities	5.369.485	5.148.699

The Group's accounting policies on the classification of financial instruments under TFRS 9 are set out in Note 2.4. The application of these policies resulted in the reclassifications set out in the table above and explained below.

- Trade and other receivables that were classified as loans and receivables under TAS 39 are classified at amortized cost under TFRS 9. An increase of TL 42.444 thousand in the allowance for impairment was recognized in opening retained earnings at 1 January 2018 on transition to TFRS 9.
- In accordance with TFRS 9, expected credit losses are recognized for the guarantees given for borrowings of distributors which are utilized in financing of equipment purchases that will be sold to Group's customers as part of commitment sales. As at 1 January 2018, provision amounting to TL 220.786 is recognized in consolidated financial statements.
- Financial investments that were classified as available for sale financial assets under TAS 39 are now classified at FVOCI under TFRS 9. Those assets are comprised of 6,84 % share of the Group's share in Cetel Telekom İletişim Sanayi ve Ticaret Anonim Şirketi ("Cetel"). Cost of Cetel is used as a measure for its fair value since management has insufficient recent information to measure fair value.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Changes in accounting policies, comparative information and restatement of prior periods' financial statements (continued)

b) TFRS 9 Financial instruments (continued)

v. Classification of financial assets and liabilities on the date of initial application (continued)

- Bills, bonds and notes issued that were classified as other financial liabilities under TAS 39 are classified as FVTPL under TFRS 9 as permitted in transition requirements. The increase in carrying value of bills, bonds and notes is recognized in retained earnings amounting to TL 156.390 and in other comprehensive income amounting to negative TL 228.884 as at 1 January 2018.

c) Property, plant and equipment

Group has commenced measuring its lands using the revaluation model compliant with TAS 16 starting from 31 December 2018 which have previously been measured under the cost model. In accordance with the methods in TAS 16 related to property, plant and equipment, since there is a change in accounting policies to carry the assets with their revalued values, initial application of this policy change is applied prospectively in accordance with the requirements of TAS 8. The details of the accounting policy change regarding the measurement of lands are disclosed in Note 2.4. The effect of the change on consolidated financial statements as at 31 December 2018 is disclosed in Note 19.

2.4 Summary of significant accounting policies

a) Financial instruments

i. Recognition and initial measurement

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

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

ii. Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

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

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

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

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Significant accounting policies (continued)

a) Financial instruments (continued)

ii. Classification and subsequent measurement (continued)

The Group holds 6,84 % of shares of Cetel as equity investment and has elected to present changes in fair value of Cetel in other comprehensive income. Cost of Cetel is used as a measure for its fair value since management has insufficient more recent information to measure fair value.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets (Note 15) and equity investments measured at FVTPL.

On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

<u>Financial assets: Business model assessment – Policy applicable from 1 January 2018</u>

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

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

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales.

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

<u>Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest – Policy applicable from 1 January 2018</u>

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Significant accounting policies (continued)

a) Financial instruments (continued)

ii. Classification and subsequent measurement (continued)

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest – Policy applicable from 1 January 2018 (continued)

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

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

Trade receivables and other receivables meet solely payments of principal and interest test since principal is the present value of the expected cash flows. Those receivables are managed in line with the held to collect business model.

Financial assets: Subsequent measurement and gains and losses – Policy applicable from 1 January 2018

Financial assets at FVTPL	Financial assets at FVTPL are comprised of derivatives. These assets are subsequently measured at fair value. Net gains and losses, including any interest, are recognized in profit or loss.
Financial assets at amortized cost	Financial assets at amortized cost are comprised of cash and cash equivalents, trade receivables, other receivables and other assets. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss.
Equity investments at FVTPL	Equity investments at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Equity investments at FVOCI	Equity investments at FVOCI include the Group's 6,84% of share of Cetel. These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Significant accounting policies (continued)

a) Financial instruments (continued)

ii. Classification and subsequent measurement (continued)

<u>Financial assets: Policy applicable before 1 January 2018</u>

Non-derivative financial assets

The Group initially recognized loans and receivables and deposits on the date that they were originated. All other financial assets were recognized initially on the trade date at which the Group became a party to the contractual provisions of the instrument.

Non-derivative financial assets were comprised of loans and receivables and cash and cash equivalents and financial investments.

Loans and receivables

Loans and receivables were financial assets with fixed or determinable payments that were not quoted in an active market. Such assets were recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables were measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables were comprised of cash and cash equivalents, and trade and other receivables, receivables from related parties and financial investments.

Receivables from customers in relation to a component of revenue were recognized as trade receivables in financial statements. Receivables that were not classified as trade receivables and were not financial investments were recognized as other receivables.

Cash and cash equivalents were comprised of cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and were used by the Group in the management of its short-term commitments.

Cash and cash equivalents were comprised of cash, cash at banks and other cash and cash equivalents.

Project and reserve accounts were included in other current assets. The use of project and reserve accounts were subjected to the approval of the lender in accordance with the financial contracts.

Financial investments

As of 31 December 2017, the Group accounted its 6,84% shareholding in Cetel as financial investments in the consolidated financial statements. As of 31 December 2017, Cetel was carried at cost after deducting impairment, if any and accounted under financial investments in the consolidated financial statements because the Company did not have significant influence at Cetel.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Significant accounting policies (continued)

a) Financial instruments (continued)

ii. Classification and subsequent measurement (continued)

Financial assets: Policy applicable before 1 January 2018 (continued)

Financial liabilities: Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. The Group does not have any financial liabilities at FVTPL except for derivatives and bills, bonds and notes issued.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

Non-derivative financial liabilities

The Group initially recognized debt securities issued and subordinated liabilities on the date that they were originated. All other financial liabilities were recognized initially on the trade date, which was the date that the Group becomes a party to the contractual provisions of the instrument.

The Group classified non-derivative financial liabilities into the other financial liabilities category except for bills, bonds and notes issued. Such financial liabilities were recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities were measured at amortized cost using the effective interest method.

Other financial liabilities were comprised of loans, trade and other payables, payables to related parties and other payables.

Bills, bonds and notes issed are measured at fair value through profit or loss. The amount of change in the fair value of the bills, bonds and notes issued that is attributable to changes in the credit risk of that liabilityis recognized in other comprehensive income and the remaining amount of change in the fair value is recognized in profit or loss.

Trade payables were payables to third parties in relation to their capacity as suppliers. Payables stemming from transactions with parties that were not suppliers or customers which were not classified as trade payables and were not a result of financing operations were recognized as other payables.

When a financial instrument gave rise to a contractual obligation on the part of the Group to deliver cash or another financial asset or to exchange another financial instrument under conditions that were potentially unfavorable, it was classified as a financial liability. The instrument was equity instrument if, the following were met:

a) The instrument included no contractual obligation to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that were potentially unfavorable to the Group.

b) If the instrument would or might be settled in the Group's own equity instruments, it was a non-derivative that included no contractual obligation for the Group to deliver a variable number of its own equity instruments; or a derivative that would be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Significant accounting policies (continued)

a) Financial instruments (continued)

iii. Derecognition

Derecognition – Policy applicable from 1 January 2018

Financial assets

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

Financial liabilities

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

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

Derecognition – Policy applicable before 1 January 2018

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

The Group derecognized a financial liability when its contractual obligations were discharged, cancelled or expired.

iv. Offsetting

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

v. Impairment

Policy applicable from 1 January 2018

Financial instruments and contract assets

The Group recognizes loss allowances for ECLs on:

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Significant accounting policies (continued)

a) Financial instruments (continued)

v. Impairment (continued)

Policy applicable from 1 January 2018 (continued)

Financial instruments and contract assets (continued)

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

- Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument; and
- 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

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

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

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the financial asset is more than 90 days past due.

The Group considers bank balances to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

12-month expected credit losses are that result from possible default events within the 12 months after the reporting date.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Significant accounting policies (continued)

a) Financial instruments (continued)

v. Impairment (continued)

Policy applicable from 1 January 2018 (continued)

Measurement of ECLs

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

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

For trade receivables, other receivables, other assets and contract assets the Group applies the simplified approach to providing for expected credit losses prescribed in TFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. The Group performed the calculation of ECL rates separately for individual, corporate, public and wholesale customers. The ECLs were calculated based on actual credit loss experience over the past years.

Exposures within each group were segmented based on common credit risk characteristics such as delinquency status.

Actual credit loss experience was adjusted to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. Future collection performance of receivables are estimated by considering general economic conditions to incorporate forward looking information to the expected credit loss calculations.

Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial re-organization; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of impairment in the statement of financial position

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

Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of profit or loss. As a result, the Group reclassified impairment losses amounting to TL 468.115, recognized under TAS 39, from 'general administrative expenses' to 'Impairment (losses) / gains in accordance with TFRS 9, net' in the consolidated statement of profit or loss for period ended 31 December 2017.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Significant accounting policies (continued)

a) Financial instruments (continued)

v. Impairment (continued)

Policy applicable before 1 January 2018 (continued)

Impairment losses on other financial assets are presented under 'general administrative expenses', similar to the presentation under TAS 39, and not presented separately in the consolidated statement of profit or loss due to materiality considerations.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where trade receivables, other receivables, other assets and contract assets have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

At each balance sheet date, The Group assessed whether a financial asset or group of financial assets were impaired. When an objective evidence existed which represented that an impairment loss occurred in the receivables and loans stated as its amortized cost or the investments held until their maturity, amount of the loss has been determined as the difference between the current value calculated by discounting the estimated cash flows (excluding unrealized loan losses in the future) in the future based on the original interest rate (the effective interest rate calculated when initial accounting occurred) of the financial asset and the carrying value

Carrying value of the asset was decreased directly or by using a provision account. The related loss amount was recognized in income statement.

In the subsequent term, if the impairment loss decreased and the related decrease was objectively associated with a case (such as improvement at the credit rate of the obligator) occurred after the impairment loss had been recognized/accounted, the recognized impairment loss had been reversed directly or by using a provision account. The reverse could not cause carrying value of the related financial asset to be higher than the amortized value which arose as at the date of the reversal of impairment if the impairment was not recognized/accounted. The reversed amount was recognized/accounted in income statement.

Reserve was provided for the overdue uncollectible receivables. Also portfolio reserve was provided for the not due receivables based on certain criteria. The carrying amount of the receivable was reduced through use of an allowance account. Impaired debts were derecognized when they were assessed as uncollectible.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Significant accounting policies (continued)

a) Financial instruments (continued)

vi. Derivative financial instruments

Cash flow hedges

The Group has adopted TFRS 9 *Financial Instruments*, replacing TAS 39 in accordance with the risk management strategy and objectives as of 1 July 2018. The high-level aim of the new hedge accounting model is that financial reporting will reflect more accurately how an entity manages its risk and the extent to which hedging mitigates those risks. Specifically, the new model aims to provide a better link between an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements.

The Group enters into participating cross currency swap transactions in order to hedge the changes in cash flows of floating and fixed rate financial instruments. While applying cash flow hedge accounting, the effective portion of the changes in the fair value of the hedging instrument is accounted for under "other comprehensive income/expense items to be reclassified to profit or loss" in equity, and the ineffective portion is recognized in profit or loss. The changes recognized in equity is removed and included in profit or loss in the same period when the hedged cash flows effect the profit or loss. In addition, time value of options included in participating cross currency swaps are accounted for cost of hedging and recognized under other comprehensive income.

Under IFRS 9, a hedging relationship is discontinued in its entirety when as a whole it ceases to meet the qualifying criteria after considering the rebalancing of the hedging relationship. Voluntary discontinuation when the qualifying criteria are met is prohibited. Hedge accounting is discontinued when the risk management objective for the hedging relationship has changed, the hedging instrument expires or is sold, terminated or exercised, there is no longer an economic relationship between the hedged item and hedging instrument or when the effect of credit risk starts dominating the value changes that result from the economic relationship.

When the Group discontinues hedge accounting for a cash flow hedge it shall account for the amount that has been accumulated in the cash flow hedge reserve in accordance as follows;

-if the hedged future cash flows are still expected to occur, that amount shall remain in the cash flow hedge reserve until the future cash flows occur.

-if the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment. A hedged future cash flow that is no longer highly probable to occur may still be expected to occur. The amount recognized in OCI prior discontinuation will be reclassified from OCI to Profit and Loss, in accordance with the contractual cash flow of the hedged item.

The new hedge effectiveness testing model is prospective only and can be qualitative, depending on the complexity of the hedge. Effectiveness range 80%-125% in TAS 39 is replaced by an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relation.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Significant accounting policies (continued)

b) Property, plant and equipment

i) Recognition and measurement

Property, plant and equipment ("PPE") of the Group other than lands is carried at cost less accumulated depreciation and any accumulated impairment losses. The Group elected to measure property, plant and equipment of the Company on a deemed cost basis in the first period of application of TAS 29 "Financial Reporting in Hyper Inflationary Economy" since detailed records of the acquisition date and costs of items of PPE were not available for the Company prior to 1 January 2000. The deemed cost values for buildings as at 1 January 2000 were appraised by CMB licensed real-estate valuation companies. The network equipment and vehicles values were appraised by Detecon International GmbH (a subsidiary of Deutsche Telecom AG). Other than the PPE for which cost was determined on a deemed cost basis, the cost of PPE generally comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. PPE that are recognized at deemed cost basis or at cost are restated for the effects of inflation until 31 December 2004 in accordance with TAS 29.

Lands accounted as property, plant and equipment are measured at revalued amount. Revalued amount for lands is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are performed in regular intervals depending on the changes in fair values of the items of lands being revalued. The increase in carrying amount of lands as a result of revaluation is recognized in components of other comprehensive income component. When land's carrying amount declines as a result of a revaluation, this declined amount is recognized in profit or loss. However, the decline shall be recognized in other comprehensive income to the extent of any credit balance existing in the revaluation surplus. Thus, the relevant decline reduces the accumulated amount in equity under the heading of revaluation surplus.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor costs are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are calculated as the difference between the net proceeds from disposal and the carrying amount of the item and are recognized net within "income / (expense) from investing activities" in profit or loss.

ii) Subsequent cost

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in consolidated statement of profit / (loss) as incurred.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

b) Property, plant and equipment (continued)

iii) Depreciation

Depreciation is calculated effective from purchase or replacement date to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Land is not depreciated.

Useful lives of property, plant and equipment are as follows:

Property plant and equipment	*Useful life (years)*
Buildings	21-50 years
Outside plant	5-21 years
Transmission equipment	5-21 years
Switching equipment	5-8 years
Data networks	3-10 years
Vehicles	5 years
Furniture and fixtures	3-5 years
Set-top box and satellite receiver	4 years
Other property, plant and equipment	2-8 years

Useful lives and residual values are reviwed at each reporting date and adjusted if appropriate.

The remaining useful lives of the PPE of the Company are limited to the concession periods. Considering the Concession Agreement the remaining useful lives of tangible fixed assets are 8 years at the most.

Leased assets are depreciated by the same method used for property and equipment over the shorter of the lease term and their useful lives.

c) Intangible assets

i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets.

The Group measures goodwill at the acquisition date as:

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

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

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

c) Intangible assets (continued)

ii) Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is charged to the consolidated income statement during the year when the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or infinite. The Group does not have any intangible assets with infinite useful lives. Intangible assets with finite lives are amortized on a straight line basis over the shorter of their useful economic lives or remaining concession period. Whenever there is an indication that the intangible asset may be impaired it is assessed for impairment. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed each financial year end at least.

Changes in the expected useful lives or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement. The amortization periods for intangible assets are between 3 and 25 years. The remaining useful lives of the intangible items are limited to the concession period. Considering the Concession Agreement, the remaining useful lives of intangible fixed assets are 8 years at the most.

iii) Research and development

Research costs are expensed as incurred. Development expenditure on an individual project is recognized as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Impairment test is performed periodically in order to identify whether there is any impairment in the development stage. After initial recognition, development costs are recognized at cost less amortization and impairment. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Periodic impairment tests are applied to the assets in order to foresee any probable impairment on the assets in the period that they are not ready for utilization yet.

iv) TV contents

Rights to feature contents such as films, TV shows etc. acquired under license agreements along with related obligations are recorded at the contract value when a license agreement is executed or the license period has begun. The amounts recognized are amortized on the licensing period or a per play basis over the licensing period. To the extent that it is determined that the content has no future programming usefulness and will no longer be exploited, the unamortized cost of the content is written off.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

d) Investment properties

Investment properties, which are properties held to earn rent and/or for capital appreciation are measured initially at cost plus all direct transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. The Group decided to measure investment property on a deemed cost basis in the first period of application of TAS 29, since detailed records of the acquisition date and costs of items of investment property were not available prior to 1 January 2000 and restated these deemed cost basis for the effects of inflation until 31 December 2004.

Investment properties are transferred from/to property, plant and equipment when their utilization purpose is changed. When investment properties are disposed, the difference between sales revenue and the carrying amount is charged to the consolidated income statement.

Market values of the investment properties at 1 January 2000 were determined by CMB licensed independent real-estate appraisers. Following initial recognition, investment properties are carried at costs less any accumulated amortization and any accumulated impairment losses.

Depreciation is charged to investment properties excluding land, over their estimated useful economic lives, using the straight-line method. The useful lives of buildings that are owned by the Group range between 15 - 50 years. The remaining useful life of the investment property is limited by the concession agreement, except for the exception of the concession agreement. When considering the Concession agreement the remaining useful lives of investment property is 8 years at the most.

e) Assets held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or the group of assets held for sale) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable management must be committed to a plan to sell the asset (or the group of assets held for sale) and an active program to set the buyers and complete the plan must have been initiated. Furthermore, the asset (or the group of assets held for sale) must be actively marketed for sale at a price that is reasonable in relation to its fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

In case the period to complete sale of assets is extended due to circumstances which are not under the control of the Group, the assets will continue to be classified as assets held for sale provided that the Group has still an active sales program.

The Group measures assets held for sale at the lower of its carrying amount and fair value less costs to sell. The Group does not depreciate a non-current asset when it is classified as held for sale and the gain or loss arising from the sale of the assets is classified at income / expense from investing activities accounts.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

f) Leased assets

i) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease in the consolidated statement of income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

ii) The Group as lessee

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. Assets held under finance leases are 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 consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Financial charges are included to the consolidated income statement.

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

g) Inventory

Inventories are recognized at the lower of cost and net realizable value. Costs comprise purchase cost and, where applicable and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value is the less marketing, selling and other various expenses to be incurred in order to realize sale.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

h) Impairment

Non-financial assets

Property, plant and equipment and intangible assets

At each balance sheet date, the Group assesses whether there is an indication that any of its PPE and intangible assets may be impaired. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where 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.

The 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.

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 (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated income statement.

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Whenever the carrying amount exceeds the recoverable amount, an impairment loss is recognized in the consolidated income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the acquisition, irrespective of whether other assets or liabilities are assigned to these units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amounts of the net assets assigned to the cash-generating unit, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

h) Impairment (continued)

i) Reserve for employee severance indemnity

Payments to defined contribution retirement benefit plans are charged as an expense in the year in which the contributions relate to. Payments made to the Social Security Institution of Turkey and Turkish Republic Retirement Fund are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan. The Group pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense in the period to which the employees' service relates.

For defined benefit plans and other long-term employment benefits, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. The Company recognizes the service cost of the previous period as expense at the earlier of the dates below:

a) The date of the change or reduction in the plan, and

b) The date of the recognition of the related restructuring costs (see: TAS 37) or the benefits deriving from the termination of the employment contract,

The retirement benefit obligation recognized in consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for any unrecognized past service cost. There is no funding requirement for defined benefit plans. The Group recognizes actuarial gains and losses in the other comprehensive income.

j) Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

k) Contingent assets and liabilities

Possible assets or obligations that arise from past events and for which their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the Group are treated as contingent assets or liabilities.

A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. If the possibility of transfer of assets is probable, contingent liability is recognized in the financial statements.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

k) Contingent assets and liabilities (continued)

A contingent asset is disclosed in consolidated financial statements, when the possibility of an inflow of economic benefits to the entity is probable. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs.

l) Related parties

Parties are considered related to the Company if;

- A person or a close member of that person's family is related to a reporting entity if that person:
    - Has control or joint control over the reporting entity;
    - Has significant influence over the reporting entity; or
    - Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- The entity and the reporting entity are members of the same group.
    - The entity and the company are members of the same group.
    - 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).
    - Both entities are joint ventures of the same third party.
    - One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
    - 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.
    - The entity is controlled or jointly controlled by a person identified in (a).
    - 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).

m) Revenue

The Group has applied TFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under TAS 18 and TAS 11. The details of accounting policies under TAS 18 and TAS 11 are disclosed separately if they are different from those under TFRS 15 and the impact of changes is disclosed in Note 2.3.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control over a product or service to a customer.

For the period ended 31 December 2017 ("comparative period"), revenue was recognized when the significant risks and rewards of ownership had been transferred to the customer, recovery of the consideration was probable, the associated costs and possible return of the goods and services could be estimated reliably, there was no continuing management involvement with the goods, and the amount of revenue could be measured reliably. Revenue was measured at the fair value of the consideration received or receivable and represented amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes. Service revenues were recorded at the time services were rendered.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Significant accounting policies (continued)

m) Revenue (continued)

i) Fixed line revenues

Revenues from fixed-line telecommunication services like network access, local usage, domestic and international long distance and infrastructure leases are recognized on an accrual basis as services are provided.

Connection fees that are assessed as distinct are recognized as revenue. Connection fees for activities that are an improvement to or an extension of the Group's own network, rather than a transfer of goods or services to the customer are determined as not distinct and no separate revenue is recognized. For distinct connection fees in a bundle, revenue recognized is measured based on their stand-alone selling prices. The stand-alone selling prices of connection fees are estimated based on expected cost plus a margin approach. Distinct connection fees are immediately recognized as revenue when connection services are provided and the cost of connection is also recognized immediately as an expense.

Revenues from sale of indefeasible right of use contracts, which are long term capacity/line rental arrangements, are accounted over the term of the contract.

ii) Mobile revenues

Revenues generated from mobile telecommunication services such as outgoing and incoming traffic, roaming revenues, revenues from value added services and monthly fees which are recognized at the time services are rendered. With respect to prepaid outgoing revenues, the Group generally collects cash in advance by selling scratch cards to dealers and distributors. In such cases, the Group does not recognize revenues until the subscribers use the service and present such amounts under deferred revenues in the consolidated financial statements.

The Group recognizes content revenue based on the agreement between the Group and the content providers. As the Group is the primary obligor of the service, the revenue received from the subscribers is presented on gross basis and the portion paid to the content providers is recognized as operating expense.

iii) Equipment sale revenues

Revenues from sales of phone device, modem and other network equipment are recorded as revenue when control over a product or service is transferred to a customer.

For bundled packages, the Group accounts for individual products and services separately if they are distinct – i.e. if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it either on its own or together with other resources that are readily available to the customer. The consideration is allocated between distinct products and services in a bundle based on their stand-alone selling prices. The stand-alone selling prices are determined based on the list prices at which the Group sells those products and services separately. For items that are not sold separately the Group estimates stand-alone selling prices using the expected cost plus a margin approach. Equipment revenues are presented in other revenues. Cost of products and services are recognized as expense when related revenue is recognized.

iv) TV revenues

Revenues from TV subscriptions are charged to contract customers on a monthly basis. Revenues are invoiced and recorded as part of a periodic billing cycle, and are recognized as the services are provided. Pay-per-view revenue is recognized when the movie is rented. Advertising revenue is recognized as the commercials are aired.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Significant accounting policies (continued)

m) Revenue (continued)

v) Subscriber acquisition costs

Subscriber acquisition costs include commissions and premiums incurred for acquisition and retention of subscribers.

The Group capitalizes these commission and premiums as incremental costs of obtaining a contract with a customer and if they are expected to be recovered. Subscriber acquisition costs are amortized consistently during the subscriber life cycle and subscriber retention costs are amortized consistently during the renewal period and amortization expense is recognized in marketing, sales and distribution expenses.

vi) Significant financing component

To estimate the transaction price in a contract, the Group adjusts the promised amount of consideration for the time value of money if that contract contains a significant financing component. Significant financing component exists if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer.

Indefeasible right of use ("IRU") contracts of the Group are adjusted for significant financing component. For bundled contracts where the control of equipment is transferred to the customer upfront but collection is made in installments, no significant financing component is recognized based on materiality considerations.

n) Income from investing activities and expense from investing activities

Income from investing activities are comprised of incomes from scrap and property, plant and equipment sales.

Expense from investing activities are comprised of loss on sales of property, plant and equipment sales.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

o) Financial income and financial expenses

The Group's finance income and finance costs include:

a. interest income;
b. interest expense;
c. transaction cost;
d. coupon payments of bond;
e. gains and losses on hedging instruments recognized in profit or loss;
f. foreign currency gains or losses on financial assets and financial liabilities.

Interest income or expense is recognized using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

g. the gross carrying amount of the financial asset; or
h. the amortized cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Borrowing costs that cannot be matched with acquisition, construction or production of an asset are recognized in profit or loss by using effective interest rate.

Rediscount, interest and foreign exchange gains and losses arising from trading transactions are recognized in other operating income and expense.

Accounting for significant financing component is disclosed in detail in Note 2.4.(m).

p) Earnings per share

Earnings per share is calculated by dividing the consolidated profit/(loss) for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

r) Taxes

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the consolidated statement of profit/ (loss) except to the extent that it relates to a business combination or items recognized directly in equity or other comprehensive income.

i) Current tax

Current tax is comprised of the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Prepaid corporation taxes and corporate tax liabilities are offset when they relate to income taxes levied by the same taxation authority.

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 consolidated financial statements, have been calculated on a separate-entity basis.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

r) Taxes (continued)

ii 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 used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax is not recognized for:

• Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and loss;

• Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group's able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

• Taxable temporary differences arising on the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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.

The Company and the other consolidated subsidiaries have reflected their deferred tax asset and liabilities by netting their individual balances; however, there is no netting on a consolidation basis. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized.

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

iii) Tax exposures

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

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

s) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's board of directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

t) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

i) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows discounted at the market rate of interest at the reporting date. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. This fair value is determined at initial recognition and at the end of each reporting period for disclosure purposes.

ii) Derivatives

The fair value of interest rate swaps and forward exchange contracts are based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

iii) Bills, bonds and notes issued

The fair values of bills, bonds and notes issued are determined with reference to their quoted value at the measurement date. Subsequent to initial recognition, the fair values of bills, bonds and notes issued are determined for disclosure purposes only.

iv) Other non-derivative financial liabilities

Other non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date

v) Lands

Lands accounted as property, plant and equipment are measured at revalued amount. Revalued amount for lands is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

u) Standards issued but not yet effective and not early adopted as of 31 December 2018

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

TFRS 16 Leases

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

The Group is required to adopt TFRS 16 Leases from 1 January 2019. The Group is assessing the estimated impact that initial application of TFRS 16 will have on its consolidated financial statements, as described below.

TFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

i. Leases in which the Group is a lessee

The Group, recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payment on its consolidated financial statements. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized.

ii. Leases in which the Group is a lessor

The Group will reassess the classification of sub-leases in which the Group is a lessor.

iii. Transition

The Group plans to apply TFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings recognised at 1 January 2019. Prior period comperative consolidated financial statements will not be restated.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

u) Standards issued but not yet effective and not early adopted as of 31 December 2018 (continued)

TFRS Interpretation 23 –Uncertainty Over Income Tax Treatments

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

Amendments to TFRS 9 - Prepayment features with negative compensation

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to TFRS 9.

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

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to TAS 28.

The revised Conceptual Framework

The revised Conceptual Framework issued on 27 October 2018 by the POA. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the POA in developing TFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no TFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the POA with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no TFRS Standard applies to a particular transaction, the revised

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

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

The revised Conceptual Framework (continued)

Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

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

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

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

***IFRS 3* Business Combinations and *IFRS 11* Joint Arrangements**

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

***IAS 12* Income Taxes**

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

***IAS 23* Borrowing Costs**

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

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

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 19.

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018 the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 1 and IAS 8.

Amendments to IFRS 3 - Definition of a Business

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.5 Significant accounting assessments, estimates and assumptions

In the process of applying the Group's accounting policies, the management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements (excluding those involving estimations).

i) Operating Lease Commitments – Group as Lessor: The Company has entered into a cross-occupation agreement with PTT. The Group has determined that it retains all the significant risks and rewards of ownership of its properties subject to the agreement which are leased out on operating leases.

ii) *Income from Sales Campaign:* Group makes sales campaigns with suppliers under which they bundle telecommunication services with equipment supplied by the suppliers. The Group management accounts bundled offers as an agent if the sale transaction satisfies the below conditions:

i. Group, has no inventory risk.
j. Group has no responsibility on technical qualifications of equipment delivered to customers and responsibility after sale belongs to supplier.
k. Group does not make any modification on the equipment.
l. Group earns either a fixed rate of commission or zero profit on the transaction.

iii) Prepaid Card Sales Agent - Principal Analysis: Since TT Mobil is primarily responsible for providing the service, has credit and inventory risk and determinant in setting prices; starting from April 2010, TT Mobil recognizes prepaid card incomes on a gross basis.

iv) *Commission income*: The Group renders intermediary collection services regarding handsets sold by the distributors at the Group exclusive sale channels. Accordingly, the arrangement with the customer includes both handset principal amount and GSM services. Total considerations have been collected from the customers with up to 36 month instalments via GSM bills where each benefit is clearly identifiable and separable. the Group does not recognize any revenues from the sale of handsets and acts as an agent since it has no control over price , nor risk on stock . However, the collection risk of handset principal amount is on the Group and the distributors collect this amount from the Group on monthly basis. Apart from the GSM revenues, since customer base and sales channels are made available to the distributors, the Group charges a commission to those distributors. This commission income is classified under other revenues and it is recognized when the handset is delivered to the customer.

v) *Content Sales*: Since TT Mobil is primarily responsible for providing the service, has credit and determinant in setting prices; TT Mobil recognizes content revenues on a gross basis.

vi) Liabilities within the scope of vendor financing: For capital expenditures, the Group carries out vendor financing with some of its suppliers in accordance with the agreements made with banks and those suppliers. Since the terms are not substantially different with the discounted present value of the cash flows under the new terms of the liabilities, the Group continues to classify those liabilities as trade payables.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.5 Significant accounting assessments, estimates and assumptions (continued)

Key sources of estimation uncertainty

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

- The Group determines whether property, plant and equipment are impaired by estimating the recoverable amount of the assets whenever there is an indication of impairment. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows (Note 16).
- The estimates used by the Group in the application of TFRS Interpretation 12 are as follows:
  - The Company assesses that approximately 30% of the foreseen network investments related to the replacement of the network equipment which are reclassified to intangible assets and which are then recognized in the financial statements as intangible assets are the contractual replacements as required by the concession agreement. The Group has provided a provision amounting to TL 8.167 (31 December 2017: TL 8.035) (Note 21) in the consolidated financial statements for the foreseen contractual replacements in the future. Aforementioned provision is the present value of the contractual replacement expenses as at 31 December 2018 that will be realized in the future. Discount rate used in the provision calculation is determined as 20,90% (31 December 2017: 14,40%).
  - ii) In accordance with TFRS Interpretation 12, the Company has determined the cost of the investments in intangible assets recognized under the scope of TFRS Interpretation 12 by adding the profit margin, which is applied in the market for similar construction services, to the cost of acquiring the related network equipment. The estimated profit margin used in construction services provided in exchange for concession right is 13% (31 December 2017: 13%) for the year ended as of 31 December 2018. The profit margin of property, plant and equipment accounted within the scope of TFRS Interpretation 12 amounting to TL 771.141 (31 December 2017: TL 704.315) (Note 20) is TL 88.715 for the year ended as of 31 December 2018 (31 December 2017: TL 81.028).
- A deferred tax asset is recognized only to the extent that it is probable that a tax benefit will be realized in the future. If it is probable that a tax benefit will be realized, a deferred tax asset is recognized on unused tax losses, unused tax credits and other deductible temporary differences. With the expectation to recover certain part of its tax losses carried forward in TT Mobil, the Group has recognized deferred tax assets on statutory tax losses available for offsetting with future statutory taxable profits. Every year, the Group re-assesses its tax loss carry forwards and if there is a material change in the deferred tax asset recognized in the consolidated financial statements, the deferred tax assets are also changed (Note 11).
  - Assumptions used in the impairment test of property, plant and equipment and intangible assets have been explained in Note 16.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.5 Significant accounting assessments, estimates and assumptions (continued)

Key sources of estimation uncertainty (continued)

- For trade receivables, other receivables, other assets and contract assets the Group applies the simplified approach to providing for expected credit losses prescribed in TFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. The Group performed the calculation of ECL rates separately for individual, corporate, public and wholesale customers. The ECLs were calculated based on actual credit loss experience over the past years. Exposures within each group were segmented based on common credit risk characteristics such as delinquency status. Actual credit loss experience was adjusted to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Group’s view of economic conditions over the expected lives of the receivables. Future collection performance of receivables are estimated by considering general economic conditions to incorporate forward looking information to the expected credit loss calculations.

- Assumptions used by Company in goodwill impairment test are explained in Note 16. The Group determines the useful life of an asset by considering its future economic benefits. This evaluation is driven by the Group’s previous experience on similar assets. The Group also considers useful life of the asset from technical and commercial perspectives due to changes and developments in market in order to assess whether additional impairment is required or not.

There are other estimations made by the management during the determination of provisions for litigations (Note 24).

3. SEGMENT REPORTING

The Group has two main segments; fixed line and mobile. Fixed line services are provided by Türk Telekom, TTNet, Argela, Innova, Sebit, AssisTT and TTINT Group whereas mobile service is provided by TTMobil. Group management assesses segment performance over earnings before interest, tax, depreciation and amortization ("Adjusted EBITDA"). Adjusted EBITDA is calculated by adjusting the operating income by i) adding income/expense from investing activities, depreciation, amortization and impairment expenses and ii) deducting exchange gains/losses, interest and rediscount income/ expenses on current accounts presented in other operating income and expense. Group management uses adjusted EBITDA as it is comparable with other companies in the sector. As Group management does not monitor Group's performance over geographical segments, geographical segment reporting is not presented. The segment results and balance sheet items are presented below:

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

3. SEGMENT REPORTING (CONTINUED)

	Fixed line		Mobile		Intra-group eliminations and consolidated adjustments		Consolidated	
	1 January - 31 December 2018	1 January - 31 December 2017	1 January - 31 December 2018	1 January - 31 December 2017	1 January - 31 December 2018	1 January - 31 December 2017	1 January - 31 December 2018	1 January - 31 December 2017
Revenue	14.177.217	12.803.650	7.567.400	6.695.859	(1.313.717)	(1.359.955)	20.430.900	18.139.554
Contributive revenue (*)	12.927.194	11.537.237	7.503.706	6.602.316	–	–	20.430.900	18.139.554
Contributive adjusted EBITDA (**)	5.836.919	4.787.299	2.598.844	1.664.609	–	–	8.435.763	6.451.908
Capital expenditure (***)	2.795.930	2.254.645	1.297.930	977.417	(7.358)	(11.227)	4.086.502	3.220.835

(*) "Contributive revenue" represents operating segments' revenues from companies other than those included in the consolidated financial statements. Group management still monitors financial performance of the segments based on their separate financial statements and because of this there is no change at the segment information disclosed. However, contribution of operating segments on the Group's revenue is presented to give additional information to the readers of the financial statements.

(**) "Contributive adjusted EBITDA" represents operating segments' adjusted EBITDA arose from transactions with companies other than those included in the consolidated financial statements. Group management still monitors financial performance of the segments based on their separate financial statements and because of this there is no change at the segment information disclosed. However, contribution of operating segments on the Group's revenue is presented to give additional information to the readers of the financial statements.

(***) Capital expenditures do not include TL 88.715 (31 December 2017: TL 81.028) amounted profit margin which is capitalized on intangible assets that are accounted within the scope of TFRS Interpretation 12.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

3. SEGMENT REPORTING (CONTINUED)

	1 January - 31 December 2018	1 January - 31 December 2017
Fixed line contributive adjusted EBITDA	5.836.919	4.787.299
Mobile contributive adjusted EBITDA	2.598.844	1.664.609
Adjusted EBITDA	**8.435.763**	**6.451.908**
Foreign exchange gains, interest income, discount income on current accounts presented in other operating income	143.539	172.841
Foreign exchange losses, interest income, discount income on current accounts presented in other operating expense (-)	(416.569)	(324.379)
Financial income	1.422.499	722.307
Financial expense (-)	(7.872.319)	(2.525.118)
Depreciation, amortisation and impairment	(3.735.194)	(3.019.232)
Consolidated profit/ (loss) before tax	**(2.022.281)**	**1.478.327**

31 December 2018	Fixed Line	Mobile	Eliminations	Consolidated
Total segment assets	26.745.001	10.058.430	(604.920)	36.198.511
Total segment liabilities	(25.643.545)	(3.696.824)	595.461	(28.744.908)

31 December 2017	Fixed Line	Mobile	Eliminations	Consolidated
Total segment assets	19.831.444	9.649.583	(332.492)	29.148.535
Total segment liabilities	(21.438.677)	(3.477.001)	322.230	(24.593.448)

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

4. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash on hand	143	298
Cash at banks– demand deposit	799.859	631.227
Cash at banks– time deposit	3.693.827	3.467.650
Other	707	1.029
	4.494.536	**4.100.204**

As of 31 December 2018, time deposits are all short-term, maturing within one month and denominated in both foreign currencies and TL. The interest rates are between 5,00% and 24,31% for TL deposits, between 0,10% and 5,00% for US Dollar deposits and between 0,05% and 2,55% for Euro deposits (31 December 2017: for TL deposits between 5,00% and 15,45%, for US Dollar deposits between 0,10% and 4,60%, for Euro deposits between 0,05% and 2,77%).

Reconciliation of cash and cash equivalents to the statement of cash flows is as follows:

	31 December 2018	31 December 2017
Cash and cash equivalents	4.494.536	4.100.204
Less: restricted amounts		
- Collection protocols and ATM collection	(341.553)	(377.983)
- Other	(254.891)	(34.117)
Unrestricted cash	**3.898.092**	**3.688.104**

As of 31 December 2018, demand deposits amounting to TL 341.553 (31 December 2017: TL 377.983) is restricted due to collection protocols signed with banks for receipts from the subscribers, under which proceeds are made available to the Group a certain number of days after the cash is collected. As of 31 December 2018, other restricted amounts mainly consist of blocked deposits related to Türk Telekom's derivative financial instruments.

As of 31 December 2018, the Group has bank loans amounting to Euro 59.930 (31 December 2017: Euro 136.252) which have been committed to banks and have not been utilized yet, having maturity dates on 20 December 2020 respectively.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

5. FINANCIAL LIABILITIES

Bank borrowings

	31 December 2018			31 December 2017		
	Weighted average nominal interest rate (%)	**Original amount**	**TL equivalent**	**Weighted average nominal interest rate (%)**	**Original amount**	**TL equivalent**
Short-term borrowings:						
Unsecured TL bank borrowings with fixed interest rates	4,51	51.598	51.598	13,86	65.459	65.459
Interest accruals:						
Unsecured TL bank borrowings with fixed interest rates		618	618		1.255	1.255
Short-term borrowings			**52.216**			**66.714**
Short-term portion of long-term bank borrowings:						
Unsecured USD bank borrowings with fixed interest rates	3,10	16.167	85.054	3,08	40.582	153.072
Unsecured USD bank borrowings with variable interest rates(*)	4,62	391.736	2.060.886	3,76	288.451	1.088.010
Unsecured EUR bank borrowings with variable interest rates (**)	1,29	310.007	1.868.725	1,27	238.168	1.075.450
Interest accruals of long-term bank borrowings:						
Unsecured USD bank borrowings with fixed interest rates		31	163		202	761
Unsecured USD bank borrowings with variable interest rates (*)		15.344	80.723		18.560	70.007
Unsecured EUR bank borrowings with variable interest rates (**)		1.782	10.742		1.823	8.231
Short-term portion of long-term bank borrowings			**4.106.293**			**2.395.531**
Total short-term borrowings			**4.158.509**			**2.462.245**
Long-term borrowings:						
Unsecured TL bank borrowings with fixed interest rates	–	–	–	17,00	14.600	14.600
Unsecured USD bank borrowings with fixed interest rates	3,10	4.720	24.837	3,08	20.870	78.718
Unsecured USD bank borrowings with variable interest rates (*)	4,62	1.360.641	7.158.194	3,76	1.633.262	6.160.503
Unsecured EUR bank borrowings with variable interest rates (**)	1,29	613.709	3.699.439	1,27	889.533	4.016.685
Total long-term borrowings			**10.882.470**			**10.270.506**
Total financial liabilities			**15.040.979**			**12.732.751**

(*) As at 31 December 2018, interest rate varies between Libor+ 0,54% and 3,40% (31 December 2017: Libor + 0,54% and 3,40%)

(**) As at 31 December 2018, interest rate varies between Euribor+ %0,28 and %2,60 (31 December 2017: Euribor + 0,25% and 2,59%)

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

5. FINANCIAL LIABILITIES (CONTINUED)

Bank borrowings (continued)

The contractual maturities of financial liabilities in equivalent of TL are as follows:

	31 December 2018						31 December 2017					
	Up to 3 months	**3 months to 1 year**	**1 year to 2 years**	**2 years to 5 years**	**More than 5 years**	**Total**	**Up to 3 months**	**3 months to 1 year**	**1 year to 2 years**	**2 years to 5 years**	**More than 5 years**	**Total**
Unsecured TL bank borrowings with fixed interest rates	52.216	–	–	–	–	52.216	31.969	34.745	14.600	–	–	81.314
Unsecured USD bank borrowings with fixed interest rates	–	85.217	24.837	–	–	110.054	15.064	138.769	60.908	17.810	–	232.551
Unsecured USD bank borrowings with variable interest rates	229.027	1.912.582	2.471.816	3.910.783	775.595	9.299.803	180.176	977.841	1.433.414	3.874.871	852.218	7.318.520
Unsecured Euro bank borrowings with variable interest rates	29.341	1.850.126	1.587.645	1.395.640	716.154	5.578.906	31.017	1.052.664	1.406.622	1.809.161	800.902	5.100.366
	310.584	**3.847.925**	**4.084.298**	**5.306.423**	**1.491.749**	**15.040.979**	**258.226**	**2.204.019**	**2.915.544**	**5.701.842**	**1.653.120**	**12.732.751**

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

5. FINANCIAL LIABILITIES (CONTINUED)

Bill, bonds and notes issued

	31 December 2018			31 December 2017		
	Weighted average nominal interest rate (%)	Original amount	TL equivalent	Weighted average nominal interest rate (%)	Original amount	TL equivalent
Short-term portion of long-term bills, bonds and notes issued:						
USD bank borrowings with fixed interest rates	3,75	494.447	2.601.235	–	–	–
Bill, bonds and notes issued:						
USD bank borrowings with fixed interest rates	–	–	–	–	6.310	23.800
Short-term bills, bonds and notes issued		**494.447**	**2.601.235**		**6.310**	**23.800**
Long-term bills, bonds and notes issued:						
USD bank borrowings with fixed interest rates	4,88	432.742	2.276.610	4,32	989.578	3.732.588
Long-term bills, bonds and notes issued		**432.742**	**2.276.610**		**989.578**	**3.732.588**
Total financial liabilities		**927.189**	**4.877.845**		**995.888**	**3.756.388**

The sales process of the bond issuances amounted to USD 500.000 with 10 years of maturity, and 4,875% coupon rate based on 4,982% reoffer yield was completed on June 19th, 2014. The bonds are now quoted at Irish Stock Exchange.

The sales process of the bond issuances amounted to USD 500.000 with 5 years of maturity, and 3,75% coupon rate based on 3,836% reoffer yield was completed on June 19th, 2014. The bonds are now quoted at Irish Stock Exchange.

The contractual maturities of issued long term bills, bonds and notes in equivalent of TL are as follows:

	31 December 2018				31 December 2017			
	3 months to 1 year	1 year to 5 years	More than 5 years	Total	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Issued long term bills, bonds and notes	2.601.235	_	2.276.610	4.877.845	23.800	1.870.509	1.862.079	3.756.388
	2.601.235	**–**	**2.276.610**	**4.877.845**	**23.800**	**1.870.509**	**1.862.079**	**3.756.388**

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

6. TRADE RECEIVABLES FROM AND PAYABLES TO THIRD PARTIES

Trade receivables

	31 December 2018	31 December 2017
Short-term		
Trade receivables	7.569.664	6.857.149
Other trade receivables	182.899	148.473
Income accruals	628.766	627.510
Allowance for doubtful receivables (-)	(3.241.202)	(2.840.298)
Total short-term trade receivables	**5.140.127**	**4.792.834**
Long-term		
Trade receivables	128.182	91.197
Total long-term trade receivables	**128.182**	**91.197**

Trade receivables generally have a maturity term of 60 days on average (31 December 2017: 60 days).

Income accruals contain contract assets that accounted in accordance with IFRS 15.

The movement of the allowance for doubtful receivables is as follows:

	1 January 2018 - 31 December 2018	1 January 2017 - 31 December 2017
At January 1	(2.865.174)	(2.373.313)
Provision for the year, net	(375.602)	(466.414)
Change in currency translation differences	(426)	(571)
At 31 December	**(3.241.202)**	**(2.840.298)**

The Group waits up to 90 days before initiating legal action for overdue receivables. Based on its previous collection performance from overdue receivables, the Company expects to make significant collections from its overdue receivables. As of 31 December 2018 and 2017, the analysis of trade receivables that were neither past nor due and past due but not impaired is as follows:

			Past due but not impaired			
	Total	Neither past due nor impaired	< 30 days	30-60 days	60-90 days	90 > days
31 December 2018	**5.268.309**	3.922.429	350.070	196.995	82.690	716.125
31 December 2017	**4.884.031**	3.546.112	288.448	157.752	91.438	800.281

Receivables guaranteed of the Group are amounted to TL 37.073 (31 December 2017: TL 17.232).

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

6. TRADE RECEIVABLES FROM AND PAYABLES TO THIRD PARTIES (CONTINUED)

Trade payables

	31 December 2018	31 December 2017
Short-term		
Trade payables	3.268.880	3.681.260
Expense accruals	575.902	385.298
Other trade payables	342	–
Total short-term trade payables	**3.845.124**	**4.066.558**

The average maturity term of trade payables is between 30 and 150 days (31 December 2017: 30 and 150 days).

As of 31 December 2018, short term trade payables consists of payables within scope of supplier finance that amounting TL 879.911 (31 December 2017: TL 937.140).

7. RECEIVABLES AND OBLIGATIONS UNDER FINANCE AND OPERATIONAL LEASES

Financial leases:

The Group has no financial lease receivables as of 31 December 2018 and 2017.

Finance lease obligations that the Group has entered into for acquisition of network equipment, vehicle and a building are as follows:

	31 December 2018			31 December 2017		
	Future minimum lease payments	Interest	Present Value of minimum lease payments	Future minimum lease payments	Interest	Present Value of minimum lease payments
Within one year	634	3	631	619	2	617
Between one to two years	1.965	2	1.963	1.983	1	1.982
	2.599	**5**	**2.594**	**2.602**	**3**	**2.599**

Operating leases:

At the balance sheet date, the Group has irrevocable operational leasing commitments on the basis of the other property rental operations. The maturity dates of these commitments as follows:

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

7. RECEIVABLES AND OBLIGATIONS UNDER FINANCE AND OPERATIONAL LEASES (CONTINUED)

	31 December 2018	31 December 2017
Within one year	8.667	4.358
Between one to two years (inclusive)	3.114	5.018
In the second to fifth years (inclusive)	2.903	4.849
After fifth year	2.778	342
	17.462	**14.567**

a) The Company has operating lease agreements with respect to leased lines. The revenue from leased lines for the year ended TL 31 December 2018 amounts to TL 466.855 (31 December 2017: TL 382.573).

b) Group entered into operating lease agreements with respect to base stations and rental buildings. Total operating lease expense for the year ended 31 December 2018 amounts to TL 479.168 (31 December 2017: TL 428.538).

A summary of commitments in relation to base station leases are as follows:

	31 December 2018	31 December 2017
Within one year	336.079	125.467
Between two and five years	610.220	464.405
Later than five years	83.273	69.340
	1.029.572	**659.212**

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

8. DUE FROM AND DUE TO RELATED PARTIES

All intra-group transactions and balances including intra-group unrealized profits and losses are eliminated for consolidation purposes and are not disclosed in this note.

Institutions under state control are defined as related parties due to 25% ownership and the golden share of the Treasury. State controlled entities are defined as related parties but in accordance with the exemption provided by the TAS 24 disclosure requirements, state controlled entities are excluded from general reporting requirements.

Details of balances and transactions between the Group and other related parties as at 31 December 2018 and 2017 are disclosed below:

	31 December 2018	31 December 2017
Due from related parties (Trade receivables-short term)		
Saudi Telecom Company ("STC") (1)	–	22.399
Akbank T.A.Ş.(2)	4.061	–
Türkiye Garanti Bankası A.Ş. (2)	3.748	–
Türkiye İş Bankası A.Ş. (2)	2.680	–
Other	–	1.308
	10.489	**23.707**
Due to related parties (Trade payables-short term)		
STC (1)	–	2.326
Akbank T.A.Ş. (2)	95	–
Türkiye Garanti Bankası A.Ş. (2)	15	–
	110	**2.326**
Due to related parties (Other payables-short term)		
Türkiye İş Bankası A.Ş. (2)	204.792	–
	204.792	–
Due to related parties (Other payables-long term)		
Türkiye İş Bankası A.Ş. (2)	170.164	–
	170.164	–

1) STC, the shareholder of Oger Telecom, is not defined as related party since 21 December 2018.
2) Akbank T.A.Ş., Türkiye Garanti Bankası A.Ş. and Türkiye İş Bankası A.Ş. which are shareholders of Levent Yapılandırma Yönetimi A.Ş. are defined as related parties since 21 December 2018.

As of 31 December 2018, due to other payables in other short and long term payables is related to discounted payable as a result of share transfer agreement in order to purchase 10,0035% share of TT Mobil's issued capital that will be sold to Group's customers as part of commitment sales.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

8. DUE FROM AND DUE TO RELATED PARTIES (CONTINUED)

Deposits held by related parties	**31 December 2018**
Akbank T.A.Ş.	
Time Deposit	953.905
Demand Deposit	52.737
	1.006.642
Deposits held by related parties	
Türkiye İş Bankası A.Ş.	
Time Deposit	266.728
Demand Deposit	93.497
	360.225
Türkiye Garanti Bankası A.Ş.	
Time Deposit	1.265
Demand Deposit	66.701
	67.966

Transactions with shareholders:

TT Mobil is required under the terms of the TT Mobil Concession Agreement, to pay 15% share to the Treasury (the Treasury Share) of its monthly gross revenue. Besides, the Company and its other subsidiaries that are operating in the telecommunications sector are required to pay universal service fund at 1% of their net revenues of each year and ICTA share at 0,35% of revenues to the Ministry of Transport, Maritime Affairs and Communications under the law Global Service Act numbered 5369. Also, according to Law numbered 7061 "Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation, TT Mobil is required to pay 5% share (radio fee) of its monthly net revenue to ICTA.

As of 31 December 2018, unpaid portion of Treasury Share, universal service fund and ICTA share are recorded under other short term payables and these expenses are accounted in cost of sales account.

Guarantees provided to related parties:

As of 31 December 2018, guarantees amounting to USD 67.714 and EUR 155.735 are for financial liabilities of TT Mobil which are amounted to USD 230.000 and EUR 273.125, and guarantees amounting to USD 50.000 is given for financial liabilities of TTINT Turkey, and guarantees amounting to EUR 300 is given for financial liabilities of TTINT Romania, amounted to USD 46.666 and EUR 300, respectively, by Türk Telekom.

Transactions with other related parties:

The Company is rendering and receiving international traffic carriage services, data line rent services to and from STC and sharing advertisement expenses with STC. For the period ended 1 January-21 December 2018, total revenues and expenses incurred in relation to these services amounted to TL 16.984 and TL 4.457, respectively (31 December 2017: TL 9.968 revenue and TL 1.732 expenses).

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

8. DUE FROM AND DUE TO RELATED PARTIES (CONTINUED)

Compensation of key management personnel

The remuneration of board of directors and other members of key management were as follows:

	1 January – 31 December 2018	1 January – 31 December 2017
Short-term benefits	110.327	127.307
Long-term defined benefit plans	2.365	2.667
	112.692	**129.974**

9. OTHER RECEIVABLES AND PAYABLES

Other short term receivable

	31 December 2018	31 December 2017
Other short term receivable	62.948	55.044
Deposits and guarantees given	4.486	2.850
Other doubtful receivables	42.759	24.186
Allowance for other doubtful receivables	(42.759)	(24.186)
	67.434	**57.894**

As of 31 December 2018, TL 29.746 (31 December 2017: TL 37.983) portion of other short term receivables consists of receivables from Ministry of Transport and Communications due to the expenses made under Universal Service Fund.

As of 31 December 2018, other doubtful provision amounting to TL 18.989 (31 December 2017: TL 740) is provided while TL 416 (31 December 2017: TL 395) is reversed.

Other long term receivables

	31 December 2018	31 December 2017
Deposits and guarantees given	38.480	33.837
	38.480	**33.837**

Other short term payable

	31 December 2018	31 December 2017
Taxes and duties payable	236.068	270.653
Universal Service Fund (1)	153.969	142.165
ICTA shares	140.205	97.540
Treasury share accruals	120.145	104.466
Other payables (2)	248.570	229.768
	898.957	**844.592**

(1) According to the article numbered 5369 related with "International Service Fund" published on 16 June 2005, Türk Telekom, TTNet and AssisTT will contribute 1% of their net revenues of each year to the Ministry of Transportation as Universal Service Fund. The contribution is payable by the end of April of the following year.

(2)As of 31 December 2018, amounting to TL 217.719 in other short term payables is comprised of guarantees given for borrowings of distributors which are utilized in financing of equipment purchases that will be sold to Group's customers as part of commitment sales.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

9. OTHER RECEIVABLES AND PAYABLES (CONTINUED)

Other long term payables

	31 December 2018	31 December 2017
Deposits and guarantees received	32.040	34.675
Other payables	25.388	340.558
	57.428	**375.233**

As of 31 December 2017, other payables in other long term payables and other payables amounting to TL 204.861 in other short term payables is related to discounted payable as a result of share transfer agreement in order to purchase 10,0035% share of TT Mobil's issued capital.

10. INVENTORIES

The Group has inventory amounting to TL 248.852 as at 31 December 2018 (31 December 2017: TL 203.978). Major part of this balance is composed of modems, computer, tablet, dect phones, cable, cable box and SIM cards.

11. DEFERRED TAX ASSETS AND LIABILITIES

The Group calculates deferred tax assets and liabilities based on temporary differences arising between the carrying amount of assets and liabilities as reported under Turkish Accounting Standards and their tax base for statutory purposes. These temporary differences are mainly due to the timing differences of certain income and expense items in statutory and Turkish Accounting Standards financial statement as disclosed below.

The Group perpetually reassesses unrecognized deferred tax assets and decided to account for deferred tax assets (resulting from Türk Telekom, TT Mobil, TTNet and TTINT) arising from the tax losses carried forward based on the estimated taxable profits according to the business plan.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

11. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

As of 31 December 2018, Türk Telekom, TT Mobil, TTNet and TTI's unrecognized deductable tax losses that will be utilized upon the existence of a tax base and the expiration dates are as follows:

Expiration years	31 December 2018	31 December 2017
2018	–	311.651
2019	675.298	673.466
2020	842.901	841.883
2021	1.482.195	1.526.412
2022	1.387.981	1.281.997
2023	2.762.967	2.700
2024	3.971	2.974
2025	2.195	–
Indefinite	498.647	384.761
	7.656.155	**5.025.844**

As of 31 December 2018, deferred tax assets arising from prior year tax losses of Türk Telekom, TT Mobil, TTNet and TTINT Group is amounting to TL 1.183.983 (31 December 2017: TL 577.482).

In addition, deferred tax assets over deductibles from taxable income determined as 50% of the interest to be calculated over cash capital increase amounts which are registered in Turkish Trade Registry or the interest calculated over the cash capital contributions of the newly established corporations amounting to TL 136.591 is recognized as at 31 December 2018 (31 December 2017: TL 75.684).

As of 31 December 2018, as explained Note 33, TT Mobil has investment allowances amounting to TL 121.145 for which deferred tax asset is not recognized (31 December 2017: TL 91.637).

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

11. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

As at 31 December 2018, 20% and 22% tax rate is used for the calculation of deferred tax assets and liabilities for companies established in Turkey depending on the estimation of on which years temporary differences will reverse (31 December 2017: 20% and 22%).

	31 December 2018						
Deferred tax asset / (liability)	**Net balance at 1 January 2018**	**Recognised in profit or loss**	**Recognised in OCI**	**Effect of movements in exchange rates**	**Net balance**	**Deferred tax asset**	**Deferred tax liability**
Deferred tax asset recognized from tax losses carried forward	577.482	571.772	34.729	--	1.183.983	1.183.983	--
Deferred tax asset arising from capital increase	75.684	60.907	--	--	136.591	136.591	--
Provision for long-term employee benefits	137.772	(8.235)	24.405	--	153.942	153.942	--
Other short and long term provisions	64.009	(25.383)	--	--	38.626	40.915	(2.289)
Universal service fund and other contributions	(24.090)	49.835	--	--	25.745	25.745	--
Provision for unused vacation	18.435	340	--	--	18.775	18.775	--
Provision for doubtful receivables	38.634	4.201	--	--	42.835	43.628	(793)
Other	(32.828)	(10.648)	--	--	(43.476)	13.764	(57.240)
Derivative instruments	(61.455)	51.782	112.006	--	102.333	102.333	--
Income accruals	17.632	19.990	--	--	37.622	37.834	(212)
Bill, bonds and notes issued	14.499	(31.278)	(61.990)	--	(78.769)	--	(78.769)
Temporary differences on property, plant and equipment / intangible assets	(422.148)	(31.783)	(474.184)	1.164	(926.951)	14.993	(941.944)
Deferred tax asset / (liability) before net-off	**403.626**	**651.500**	**(365.034)**	**1.164**	**691.256**	**1.772.503**	**(1.081.247)**
Net-off of tax						**(875.990)**	**875.990**
Net deferred tax asset / (liability)					**691.256**	**896.513**	**(205.257)**

As of 31 December 2018, the total amount of deferred taxes related to transactions recognized directly in equity is TL 365.034 (31 December 2017: TL 1.511).

As of 31 December 2018, the total amount of the Group's unrecognised deferred tax asset related to subsidiaries is TL 914.712 (31 December 2017 : TL 1.242.388).

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

11. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

	31 December 2017						
Deferred tax asset / (liability)	**Net balance at 1 January 2017**	**Recognised in profit or loss**	**Recognised in OCI**	**Effect of movements in exchange rates**	**Net balance**	**Deferred tax asset**	**Deferred tax liability**
Deferred tax asset recognized from tax losses carried forward	275.356	302.126	--	--	577.482	577.482	--
Deferred tax asset arising from capital increase	38.950	36.734	--	--	75.684	75.684	--
Provision for long-term employee benefits	134.664	(4.716)	7.824	--	137.772	137.772	--
Other short and long term provisions	(9.292)	73.301	--	--	64.009	65.787	(1.778)
Universal service fund and other contributions	23.208	(47.298)	--	--	(24.090)	--	(24.090)
Provision for unused vacation	14.941	3.494	--	--	18.435	18.435	--
Provision for doubtful receivables	(12.484)	33.752	--	--	21.268	29.340	(8.072)
Other	38.818	(82.911)	--	--	(44.093)	29.436	(73.529)
Derivative instruments	(51.210)	(3.932)	(6.313)	--	(61.455)	--	(61.455)
Income accruals	(26.343)	(996)	--	--	(27.339)	3.712	(31.051)
Temporary differences on property, plant and equipment / intangible assets	(366.423)	44.443	--	(526)	(322.506)	32.978	(355.484)
Deferred tax asset / (liability) before net-off	**60.185**	**353.997**	**1.511**	**(526)**	**415.167**	**970.626**	**(555.459)**
Net-off of tax						**(309.919)**	**309.919**
Net deferred tax asset / (liability)					**415.167**	**660.707**	**(245.540)**

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

12. OTHER CURRENT ASSETS, OTHER LIABILITIES AND EMPLOYEE BENEFIT OBLIGATIONS

Other current assets

	31 December 2018	31 December 2017
Intermediary services for collection (*)	109.982	158.437
Value Added Tax ("VAT") and Special Communication Tax ("SCT")	106.803	156.415
Advances given (**)	75.781	62.074
TAFICS projects	12.270	25.701
Other current assets	28.977	12.861
	333.813	**415.488**

(*) Intermediary services for collections consist of advances given by the Group to its distributors.

(**) Advances given mainly consists of advances given to suppliers.

	31 December 2018	31 December 2017
Intermediary services for collection	21.427	36.232
Other non-current assets	7	11
	21.434	**36.243**

Other current liabilities

	31 December 2018	31 December 2017
Advances received	10.297	23.911
Other liabilities	25.510	22.416
	35.807	**46.327**

The Company acts as an intermediary of TAFICS projects by transferring advances received to the contractors and supports the management of the projects. Expenditures arising from the projects are deducted from the advances received at the date of the expenditure. Advances not used are held as time deposits and the interest earned is credited to the advances received in accordance with the agreement between the parties.

Employee benefit obligations

	31 December 2018	31 December 2017
Payables to personnel	60.633	58.360
Employee's income tax payables	53.067	45.501
Social security premiums payable	52.617	71.851
	166.317	**175.712**

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

13. PREPAID EXPENSES AND DEFERRED REVENUES

Short-term prepaid expenses

	31 December 2018	31 December 2017
Prepaid rent expenses	202.754	203.766
Other prepaid expenses	105.123	139.566
	307.877	**343.332**

Other short term prepaid expenses consist of prepaid insurance, prepaid commissions, prepaid advertising and other prepaid expenses.

Long-term prepaid expenses

	31 December 2018	31 December 2017
Prepaid rent expenses	64.070	45.056
Other prepaid expenses	7.857	23.879
	71.927	**68.935**

Short-term deferred revenues

	31 December 2018	31 December 2017
Deferred revenues (*)	331.150	139.409
Advances received (**)	121.964	87.455
	453.114	**226.864**

(*) Deferred revenues mainly consists of invoiced but unconsumed minutes of deferred monthly fixed fee revenues due to the allocation of total consideration in the contract to all products and services under TFRS 15 and TTINT's indefeasible right of use contracts.

(**) Advances taken mainly result from the advances taken by the Company from the customers.

Long-term deferred revenues

	31 December 2018	31 December 2017
Deferred revenues (*)	537.281	268.699
Advances received (**)	118.033	98.502
	655.314	**367.201**

(*) Deferred revenues mainly result from TTINT's indefeasible right of use contracts.

(**) Advances taken mainly result from the advances taken by TTINT's according for indefeasible right of use contracts.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

14. FINANCIAL INVESTMENTS

	31 December 2018	31 December 2017
Cetel	11.840	11.840
Other	155	-
	11.995	**11.840**

The Group holds 6,84 % of shares of Cetel as equity investment and cost of Cetel is used as a measure for its fair value since management has insufficient more recent information to measure fair value.

15. DERIVATIVE FINANCIAL INSTRUMENTS

Cash flow hedges and derivative financial instruments

Interest rate swaps

As of 31 December 2018 fair value of interest rate derivative transactions amounting to TL 84.004 has been recognized under long term financial liabilities (31 December 2017: TL 117.389 long term financial liabilities). Unrealized gain on these derivatives amounting to TL 29.530 (31 December 2017: TL 31.566 gain) is recognized in other comprehensive income. Unrealized gain on these derivatives' time value amounting to TL 3.855 (31 December 2017: TL 3.453 gain) is recognized in statement of profit or loss.

Company	Notional Amount (US Dollar)	Trade Date	Terms and Maturity Date	Fair Value Amount as at 31 December 2018 (TL)
Türk Telekom	300.000	29 April – 20 May 2014	Pay fixed rates and receive floating rates between June 2016 and June 2024	(76.346)
Türk Telekom	150.000	15 May 2014 -16 May 2014	Pay fixed rates and receive rates between June 2016 and and August 2016, and June 2024 and August 2024	(7.658)
				(84.004)

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedges and derivative financial instruments (Continued)

Interest rate swaps (Continued)

Company	Notional Amount (US Dollar)	Trade Date	Terms and Maturity Date	Fair Value Amount as at 31 December 2017 (TL)
Türk Telekom	400.000	11 April 2012 – 30 April 2012	Pay fixed rates and receive floating rates between March 2014 and March 2022	(19.527)
Türk Telekom	200.000	8 April 2013 – 17 April 2013	Pay fixed rates and receive floating rates between 19 August 2015 and 21 August 2023	(8.467)
Türk Telekom	300.000	29 April – 20 May 2014	Pay fixed rates and receive floating rates between June 2016 and June 2024	(80.975)
Türk Telekom	150.000	15 May 2014 -16 May 2014	Pay fixed rates and receive rates between June 2016 and and August 2016, and June 2024 and August 2024	(8.420)
				(117.389)

Cross currency swap transaction

As of 31 December 2018 fair value of participating cross currency swap transactions amounting to TL 366.901 has been recognized under short term financial liabilities and TL 200.921 has been recognized under short term financial assets (31 December 2017: Nil). Unrealized loss on these derivatives amounting to TL 150.799 (31 December 2017: Nil) is recognized in other comprehensive income.

Company	Notional Amount (USD)	Trade Date	Amendment Date	Terms	Fair Value Amount as at 31 December 2018 (TL)
Türk Telekom	500.000	21 April 2015 - 9 July 2015	19 September 2018- 8 October 2018	Pay TL and receive USD at June 2019	105.867
Türk Telekom	325.000	13 April 2016 – 3 August 2018	8 July 2018 - 20 July 2018	Pay TL and receive USD at June 2024	60.888
Türk Telekom	100.000 (*)	27 March 2018 - 28 March 2018	19 September 2018	Pay TL and receive EUR at December 2025	16.181
Türk Telekom	94.545 (*)	20 July 2018- 1August 2018	12-13 September 2018	Pay TL and receive EUR between December 2021 - November 2022	17.985
					200.921

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedges and derivative financial instruments (Continued)

Cross currency swap transaction (Continued)

Company	Notional Amount (USD)	Trade Date	Amendment Date	Terms	Fair Value Amount as at 31 December 2018 (TL)
Türk Telekom	150.000	19 September 2018- 11 October 2018		Pay TL and receive USD between April 2020 – April 2021	(97.552)
Türk Telekom	100.000	27 September 2018- 28 September 2018		Pay TL and receive USD at July 2022	(83.141)
Türk Telekom	100.000	11 October 2018 - 12 October 2018		Pay TL and receive USD at January 2021	(72.020)
Türk Telekom	138.000	14 November 2018		Pay TL and receive USD at April 2024	(42.849)
Türk Telekom	50.000	25 October 2018		Pay TL and receive USD at April 2025	(30.965)
Türk Telekom	56.600	13 November 2018		Pay TL and receive USD at December 2024	(17.703)
Türk Telekom	50.000	20 December 2018		Pay TL and receive USD between May 2019 - November 2020	(2.322)
Türk Telekom	45.000 (*)	4 June 2018	26 September 2018	Pay TL and receive EUR between November 2018-November 2022	(20.349)
					(366.901)

(*) Nominal amount of indicated operations are Euro.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate derivative instruments which are not designated as hedge

As of 31 December 2018 fair value of the interest rate swap transactions which are not designated as hedge and amounting to TL 36.481 is recognized under long term financial assets (31 December 2017: TL 59.006 assets). Unrealized loss on these derivatives amounting to TL 22.525 (31 December 2017: TL 7.609 gain) is recognized in profit or loss.

Company	Notional Amount (US Dollar)	Trade Date	Terms and Maturity Date	Fair Value Amount as at 31 December 2018 (TL)
Türk Telekom	300.000	29 April – 20 May 2014	Pay the difference between floating rate and 4% if floating rate exceeds 4%, between June 2016 and June 2021, and receive fixed premium (0,44%-0,575%) Pay the difference between floating rate and 6% if floating rate exceeds 6%, between June 2021 and June 2024, and receive fixed premium (0,39%-0,45%)	36.481
				36.481

Company	Notional Amount (US Dollar)	Trade Date	Terms and Maturity Date	Fair Value Amount as at 31 December 2017 (TL)
Türk Telekom	400.000	11 April 2012 – 30 April 2012	Pay the difference between floating rate and 6% if floating rate exceeds 6%, between 19 March 2014 and 21 March 2022, and receive fixed premium (0,24%-0,27%)	16.873
Türk Telekom	200.000	8 April 2013 – 17 April 2013	Pay the difference between floating rate and 6% if floating rate exceeds 6%, between 21 August 2015 and 21 August 2023, and receive fixed premium (0,24%-0,27%)	10.454
Türk Telekom	300.000	29 April – 20 May 2014	Pay the difference between floating rate and 4% if floating rate exceeds 4%, between June 2016 and June 2021, and receive fixed premium (0,44%-0,575%) Pay the difference between floating rate and 6% if floating rate exceeds 6%, between June 2021 and June 2024, and receive fixed premium (0,39%-0,45%)	31.679
				59.006

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cross Currency swaps instruments which are not designated as hedge (continued)

As of 31 December 2018, fair value of derivative transactions amounting to TL 282.033 is recognized under short term financial liabilities (31 December 2017: TL 151.236 financial liabilities, 557.712 financial assets).

USD/TL Cross Currency Swaps Instruments

Company	Notional Amount (US Dollar)	Trade Date	Amendment Date	Terms and Maturity Date	Fair Value Amount as at 31 December 2018 (TL)
Türk Telekom	175.000	31 March 2016	11 December 2018	Pay TL and receive USD at June 2024	(209.585)
					(209.585)

USD/EUR Cross Currency Swaps Instruments

Company	Notional Amount (USD)	Trade Date	Terms	Fair Value Amount as at 31 December 2018 (TL)
Türk Telekom	175.000	30 April 2015	Pay EUR and receive USD between June 2015 and June 2024	(66.688)
TTINT Türkiye	50.000	16 June 2016	Pay EUR and receive USD between December 2016 and June 2026	(3.802)
Türk Telekom	45.000	26 October 2018	Pay USD and receive EUR at June 2024	(1.958)
				(72.448)

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cross Currency swaps instruments which are not designated as hedge (continued)

Company	Notional Amount (USD)	Trade Date	Terms and Maturity Date	Fair Value Amount as at 31 December 2017 (TL)
Türk Telekom	500.000	21 April 2015 - 9 July 2015	Pay TL and receive USD between June 2015 and June 2019	485.887
Türk Telekom	100.000	14 September 2017- 26 September 2017	Pay TL and receive USD between September 2015 and June 2024	13.359
Türk Telekom	350.000	31 March 2016 - 13 April 2016	Pay TL and receive USD between June 2016 and June 2024	58.466
				557.712
Türk Telekom	175.000	30 April 2015	Pay EUR and receive USD between June 2015 and June 2024	(63.643)
Türk Telekom	380.000	10 March 2016 - 17 March 2016	Pay EUR and receive USD between June 2016 and November 2020	(73.404)
Türk Telekom	50.000	14 December 2017	Pay TL and receive USD between December 2017 and June 2024	(1.413)
TTINT Türkiye	50.000	16 June 2016	Pay EUR and receive USD between December 2016 and June 2026	(12.776)
				(151.236)

Options which are not designated as hedge

As of 31 December 2017, the Company had also entered into foreign exchange option transactions between 6 January 2015 - 17 March 2016 with a total notional amount of EUR 828.431. As of 31 December 2018, the option has completely matured between 29 January – 31 January 2018 and gain on these derivatives amounting to TL 40.816 (31 December 2017: TL 143.587 gain) is recognized in the consolidated statement of profit or loss.

Company	Notional Amount (EUR)	Trade Date	Terms and Maturity Date	Fair Value Amount as at 31 December 2017 (TL)
Türk Telekom	490.196	6 January 2015- 18 June 2015	Foreign exchange option transactions with maturities between June 2015 and June 2024	(37.129)
Türk Telekom	338.235	10 March 2016- 17 March 2016	Foreign exchange option transactions with maturities between November 2018 and November 2020	(3.687)
				(40.816)

Hedge of net investment in a foreign operation

The Company utilized a loan amounting to Euro 150.000 in order to hedge its net investment in a foreign operation with a Euro functional currency. Foreign exchange gain and/or loss resulting from the subsidiary's net investment portion of this loan is reclassified to reserve for hedge of net investment in a foreign operation under equity.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

16. GOODWILL

	31 December 2018	31 December 2017
Goodwill of TT Mobil	29.694	29.694
Goodwill of Innova	7.308	7.308
Goodwill of Argela	7.942	7.942
	44.944	**44.944**

The Group performs impairment analysis for goodwill and other non-current asset groups annually as at 31 December. The Group has performed impairment analysis for all of the identified cash generating units.

Türk Telekom and TTNET cash generating unit impairment analysis

For cash generating unit impairment analysis of Türk Telekom and TTNET, total assets and liabilities are considered as one cash generating unit. Recoverable amount is calculated through 5 years business plan which is approved by the management.

Discount rate used for the discount of cash flows for the periods that corporate tax would pay as 22% are 20,8% - 23,7% and between 17,0% - 20,2% for other period (31 December 2017: Corporate tax would pay as 22% is 14,39% and 14,48% for other period), 7% expected growth rate and the weighted average cost of capital (WACC) sensitivity as of +1% / -1% (31 December 2017: +1% / -1%). Cash flow projections after 2023, TL cash flow estimations are not projected with consideration of inflation rate of business plan and expected growth rate of the country. As a result of test, no impairment is identified for the cash generating unit.

TT Mobil cash generating unit impairment test

TT Mobil have been considered as a single cash generating unit and has been tested for impairment together for goodwill and all other assets. Recoverable amount is calculated through based on 5 years business plan which is approved by the management.

Discount rate used for the discount of cash flows for the periods that corporate tax would pay as 22% are 22,1% - 25,1% and between 18,3% - 21,5% for other period (31 December 2017: Corporate tax would pay as 22% is 15,27% and 15,36% for other period). Cash flow projections after 2023 are estimated by using 13% growth rate, considering the inflation rate used in the business plan and expected growth rate of TT Mobil. Company value of TT Mobil has been tested at a sensitivity of WACC terminal growth rate by +1%/-1% (31 December 2017: 1%/-1%). As a result of the impairment test, it has been noted that there is no impairment is identified on goodwill arising on the TT Mobil acquisition.

16. GOODWILL (CONTINUED)

Innova and Argela cash generating unit impairment test

Innova and Argela, are both considered as single cash generating unit and are tested for impairment of for goodwill and all of their other assets. Recoverable amount was determined through the usage value which is calculated based on the 5 years business plan approved by the management. The estimated value of the projected cash flows consists of the discounted cash flows until 2023. Cash flow projections beyond 2023 are estimated by using 7% growth rate, for both Innova and Argela, respectively, considering the inflation rate used in the business plan and expected growth rate of the country. The discount ratio used in valuation are 25,5% - 28,5% for Innova and 25,9% - 29,1% for Argela for the periods that corporate tax would pay as 22% and between 21,3% - 24,7% for Innova (31 December 2017: Corporate tax would pay as 22% is 17,74% and 17,77% for other period for Innova) and between 21,7% - 25,1% for Argela (31 December 2017: Corporate tax would pay as 22% is 20,4% and 20,42% for other period for Argela) for other periods. Valuation has been tested at a sensitivity of +1%/-1%. For the WACC calculation, technology companies have been taken as a benchmark for the calculation of the beta coefficient. As a result of the impairment test, no impairment is identified for the cash generating units and the goodwill arising from the acquisition of Argela and Innova.

TTINT cash generating unit impairment test

TTINT cash generating unit recoverable amount is determined over the usage value which had been calculated based on the seven years business plan approved by the management. The estimated value of the projected cash flows consists of the discounted cash flows until 2025. The valuation work has been carried out based on a seven-year business plan so that the company's long-term cash generating capacity can be measured more accurately. The WACC rate used in valuation is 9% (31 December 2017: 7%) and valuation is tested at a sensitivity of +0,5%/-0,5%. In addition to this, gross profit margin rate is tested for sensitivity by +1%/-1% and capex/net sales ratio is tested for sensitivity by +0,5%/-0,5%. For the WACC calculation, telecommunication companies are considered as a benchmark for the calculation of the beta coefficient. As a result of test, no impairment is identified for the cash generating unit.

Sebit cash generating unit impairment test

In cash generating unit impairment analysis for Sebit, total assets and liabilities were considered as one cash generating unit. Recoverable amount was determined through the usage value which had been calculated based on the five years business plan approved by the management. The discount ratio used for the cash flows for the periods that corporate tax would pay as 22% are 25,6% - 28,6% and between 21,5% - 24,9% for other periods (31 December 2017: Corporate tax would pay as 22% is 21,88% and 21,93% for other periods). The estimated value of the cash flows consists of the ones which were discounted until 2023. The growth rate for the current and subsequent terms was foreseen as 7% by considering the inflation rate stated in cash flow estimations business plan and the estimated growth rate of the country. Cash generating unit value was tested with +1%/-1% WACC and growth rate sensitivity of the cash flows (31 December 2017: +1%/-1%). As a result of test, no impairment is identified for the cash generating unit).

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

17. ASSETS HELD FOR SALE

As of 31 December 2018, based on the decision of Board of Directors to sell a real estate, this asset was classified as held for sale.

Asset held for sale for the years ended 31 December 2018 and 2017 is given net book value TL 37.361.

18. INVESTMENT PROPERTY

The movement of investment property and the related accumulated depreciation for the years ended 31 December 2018 and 2017 is given below:

	1 January 2018 - 31 December 2018	**1 January 2017 - 31 December 2017**
Cost		
Opening balance	43.012	43.012
As at 31 December	**43.012**	**43.012**
Accumulated depreciation		
Opening	20.636	18.453
Depreciation charge for the year	2.182	2.183
As at 31 December	**22.818**	**20.636**
Net book value as at 31 December	**20.194**	**22.376**

Investment property consists of number of buildings and lands mainly occupied by various corporations.

The Group assesses whether there is any impairment indicator in investment properties. If such indicator exists the Group compares fair values and carrying values of the investment properties on an individual asset basis and records identified impairment of the investment properties.

The Group's investment properties consist of number of buildings and lands. In accordance with balance between cost and benefit principle the fair values of all investment properties are not determined in each year, instead selected investment properties' fair values have been determined. In this context, fair values of the investment properties as of the balance sheet date are not presented.

(Currency - in Thousands of Turkish Lira (TL) unless otherwise indicated. All other currencies are also expressed in thousands)

19. PROPERTY, PLANT AND EQUIPMENT

The movement of PPE and the related accumulated depreciation for the years ended 31 December 2018 and 2017 is given below:

	Land	Buildings	Network and other equipment	Vehicles	Furnitures and fixtures	Other fixed assets	Construction in progress	Total
Cost								
Openning balance, 1 January 2018	526.973	1.781.199	38.740.099	128.031	821.492	245.898	950.365	43.194.057
Transfer	-	159.469	733.567	440	241	420	(1.170.370)	(276.233)
Additions	70.519	75.337	1.267.278	4.089	37.176	7.881	634.984	2.097.264
Revaluation	4.758.000	-	-	-	-	-	-	4.758.000
Disposal	(2.835)	(6.305)	(610.676)	(22.583)	(24.677)	(698)	-	(667.774)
Foreign currency translation differences	1.956	5.654	373.344	1.331	3.640	1.183	24.432	411.540
Closing balance, 31 December 2018	**5.354.613**	**2.015.354**	**40.503.612**	**111.308**	**837.872**	**254.684**	**439.411**	**49.516.854**
Accumulated depreciation								
Openning balance, 1 January 2018	-	1.328.827	31.742.826	121.221	672.757	212.906	-	34.078.537
Transfer	-	(10.795)	(10.379)	-	(7)	-	-	(21.181)
Depreciation charge for the year	-	103.355	1.466.753	2.397	53.037	10.595	-	1.636.137
Disposal	-	(4.151)	(597.731)	(22.437)	(19.753)	(653)	-	(644.725)
Impairment	-	6.166	10.133	-	-	-	-	16.299
Foreign currency translation differences	-	2.413	191.962	400	2.008	951	-	197.734
Closing balance, 31 December 2018	**-**	**1.425.815**	**32.803.564**	**101.581**	**708.042**	**223.799**	**-**	**35.262.801**
Net book value, 31 December 2018	**5.354.613**	**589.539**	**7.700.048**	**9.727**	**129.830**	**30.885**	**439.411**	**14.254.053**

As of 31 December 2018, net book value of leased assets of Group composes of vehicles and land buildings amounting respectively 2.417 TL, 38.090 TL (31 December 2017: land and buildings amounting to TL 29.752).

The Group does not have any capitalized borrowing cost on property, plant and equipment (31 December 2017: nil).

There is no restriction or pledge on the intangible as at 31 December 2018.

For the year ended 31 December 2018, impairment on property, plant and equipment amounting to TL 10.133 is recognized in cost of sales (31 December 2017:TL50.745), and TL 6.166 is recognized in general administrative expenses (31 December 2017: TL 26.152).

19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2018, revalued amount of lands is 5.354.613 TL which is valued by real estate valuation companies licensed by Capital Markets Board of Turkey ("CMB"). The increase in carrying amount of lands amounting to TL 4.758.000 is recognized in other comprehensive income, net of tax. Had the measurement of lands based on their cost, their carrying amount would be TL 596.613 as at 31 December 2018. Valuation companies that performed the valuations are Anreva Kurumsal Gayrimenkul Değerleme Ve Danışmanlık A.Ş., Atak Gayrimenkul Değerleme A.Ş., Bilgi Gayrimenkul Değerleme A.Ş., De-Ga Gayrimenkul Değerleme Ve Danışmanlık A.Ş., Değer Gayrimenkul Değerleme Ve Danışmanlık A.Ş., Detay Taşınmaz Değerleme Ve Danışmanlık A.Ş., Düzey Gayrimenkul Değerleme Ve Danışmanlık A.Ş., Ekip Taşınmaz Değerleme A.Ş., Epos Gayrimenkul Danışmanlık Ve Değerleme A.Ş., Kuzey Kurumsal Gayrimenkul Değerleme Ve Danışmanlık A.Ş., Lal Gayrimenkul Değerleme Ve Müşavirlik A.Ş., May Gayrimenkul Değerleme A.Ş., Metrik Gayrimenkul Değerleme Danışmanlık A.Ş., Net Kurumsal Gayrimenkul Değerleme Ve Danışmanlık A.Ş., Prime Gayrimenkul Değerleme Ve Danışmanlık A.Ş., Piramit Gayrimenkul Değerleme Ve Danışmanlık A.Ş., Vakıf Gayrimenkul Değerleme A.Ş., Vizyon Taşınmaz Değerleme Ve Danışmanlık A.Ş..

(Currency - in Thousands of Turkish Lira (TL) unless otherwise indicated. All other currencies are also expressed in thousands)

19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land	Buildings	Network and other equipment	Vehicles	Furnitures and fixtures	Other fixed assets	Construction in progress	Total
Cost								
Openning balance, 1 January 2017	527.656	1.738.540	37.864.996	141.732	796.945	240.249	744.590	42.054.708
Transfer	-	21.207	653.038	756	13.122	340	(947.556)	(259.093)
Additions	380	25.339	917.331	476	17.845	6.175	1.140.566	2.108.112
Disposal	(2.122)	(6.845)	(898.862)	(15.699)	(7.991)	(1.209)	(319)	(933.047)
Foreign currency translation differences	1.059	2.958	203.596	766	1.571	343	13.084	223.377
Closing balance, 31 December 2017	**526.973**	**1.781.199**	**38.740.099**	**128.031**	**821.492**	**245.898**	**950.365**	**43.194.057**
Accumulated depreciation								
Openning balance, 1 January 2017	-	1.178.944	31.181.593	134.139	622.603	202.478	-	33.319.757
Disposal	-	(2.888)	(882.442)	(15.699)	(6.342)	(700)	-	(908.071)
Depreciation charge for the year	-	114.601	1.310.147	2.692	55.581	10.933	-	1.493.954
Impairment	-	26.210	50.687	-	-	-	-	76.897
Transfer	-	10.806	(8.716)	-	80	-	-	2.170
Foreign currency translation differences	-	1.154	91.557	89	835	195	-	93.830
Closing balance, 31 December 2017	**-**	**1.328.827**	**31.742.826**	**121.221**	**672.757**	**212.906**	**-**	**34.078.537**
Net book value, 31 December 2017	**526.973**	**452.372**	**6.997.273**	**6.810**	**148.735**	**32.992**	**950.365**	**9.115.520**

(Currency - in Thousands of Turkish Lira (TL) unless otherwise indicated. All other currencies are also expressed in thousands)

20. INTANGIBLE ASSETS

	Licence	Customer relationship	Brand	Research and Development	Other intangible assets	Subscriber acquisition/retention costs	Concession rights	Total
Cost								
Openning balance, 1 January 2018	4.547.210	1.086.949	302.916	374.473	5.704.148	-	3.838.973	15.854.669
Adjustments in accounting polices	-	-	-	-	-	1.595.042	-	1.595.042
Transfers	1.432	-	-	18.617	337.864	-	(14.993)	342.920
Disposals	-	-	-	-	(27.810)	-	(10.616)	(38.426)
Additions (*)	1.163	-	-	20.077	624.299	661.273	771.141	2.077.953
Foreign currency translation differences	1.639	68.352	-	1.252	270.347	-	-	341.590
Closing balance, 31 December 2018	**4.551.444**	**1.155.301**	**302.916**	**414.419**	**6.908.848**	**2.256.315**	**4.584.505**	**20.173.748**
Accumulated amortization								
Openning balance, 1 January 2018	1.241.907	980.791	221.435	221.670	3.767.088	-	984.242	7.417.133
Adjustments in accounting polices	-	-	-	-	-	751.839	-	751.839
Transfers	-	-	-	-	93.739		(5.871)	87.868
Disposals	-	-	-	-	(23.676)	-	(10.616)	(34.292)
Amortization charge for the year	307.896	15.317	40.604	46.967	847.125	480.139	340.612	2.078.660
Impairment	-	-	-	-	1.132	-	-	1.132
Foreign currency translation differences	563	33.794	-	1.252	97.704	-	-	133.313
Closing balance, 31 December 2018	**1.550.366**	**1.029.902**	**262.039**	**269.889**	**4.783.112**	**1.231.978**	**1.308.367**	**10.435.653**
Net book value, 31 December 2018	**3.001.078**	**125.399**	**40.877**	**144.530**	**2.125.736**	**1.024.337**	**3.276.138**	**9.738.095**

(*) Additions amounting to TL 771.141 (31 December 2017: TL 704.315) comprise intangible assets under scope of TFRS Interpretation 12.

The Group have capitalized borrowing cost on intangible assets amounted TL 1.512 (31 December 2017: 2.891).

For the year ended 31 December 2018, impairment on intangible assets amounting to TL 1.132 is recognized in general administrative expense (31 December 2017: cost of sales TL 32.999, general administration expenses TL 2.892).

20. INTANGIBLE ASSETS (CONTINUED)

For the year ended 31 December 2018, depreciation and amortization expense is recognized cost of sales, sales and distribution expenses, general administration expenses and research and development expenses respectively amounting to TL 2.359.908 (31 December 2017: TL 2.180.672), TL 890.612, (31 December 2017: TL 337.680), TL 443.584 (31 December 2017: TL 369.572), and , TL 23.909 (31 December 2017: 18.520), respectively.

For the year ended 31 December 2018, subscriber acquisition and retention costs amounting to TL 661.273 are capitalized as intangible assets since those costs are incremental costs of obtaining a contract with a customer and are expected to be recovered. Amortization expense amounting to TL 480.139 is recognized in marketing, sales and distribution expenses.

For initial application of TFRS 15, subscriber acquisition and retention costs amounting to TL 843.203 are recognized as an opening adjustment at 1 January 2018.

(Currency - in Thousands of Turkish Lira (TL) unless otherwise indicated. All other currencies are also expressed in thousands)

20. INTANGIBLE ASSETS (CONTINUED)

	Licence	Customer relationship	Brand	Research and Development	Other intangible assets	Concession rights	Total
Cost							
Openning balance, 1 January 2017	4.544.999	1.050.543	302.916	331.052	4.991.503	3.207.180	14.428.193
Transfers	1.517	-	-	11.999	224.784	(18.215)	220.085
Disposals	-	-	-	-	(90.194)	(54.307)	(144.501)
Revaluation	-					-	-
Additions	-	-	-	31.210	458.228	704.315	1.193.753
Foreign currency translation differences	694	36.406	-	212	119.827	-	157.139
Closing balance, 31 December 2017	**4.547.210**	**1.086.949**	**302.916**	**374.473**	**5.704.148**	**3.838.973**	**15.854.669**
Accumulated amortization							
Openning balance, 1 January 2017	934.279	952.777	180.806	176.337	3.041.259	801.463	6.086.921
Disposals	-	-	-	-	(88.851)	(54.307)	(143.158)
Transfers	-	-	-	-	(572)	(40.601)	(41.173)
Amortization charge for the year	307.426	11.702	40.629	47.713	769.443	242.048	1.418.961
Impairment	-	-	-	(2.640)	2.892	35.639	35.891
Foreign currency translation differences	202	16.312	-	260	42.917	-	59.691
Closing balance, 31 December 2017	**1.241.907**	**980.791**	**221.435**	**221.670**	**3.767.088**	**984.242**	**7.417.133**
Net book value, 31 December 2017	**3.305.303**	**106.158**	**81.481**	**152.803**	**1.937.060**	**2.854.731**	**8.437.536**

(Currency - in Thousands of Turkish Lira (TL) unless otherwise indicated. All other currencies are also expressed in thousands)

20. INTANGIBLE ASSETS (CONTINUED)

Remaining amortization periods after acquisition of significant intangible assets are as follows:

TT Mobil license	10,4 years
TT Mobil brand name	1 year
TTINT customer relationships	6,8 years
TTINT other	11,8 years

On 26 January 2016, TT Mobil and TTnet brand names are re-branded as "Türk Telekom" based on the decision of Group management. Following the change, useful life of TT Mobil brand, which was 10,1 years, is now estimated as 4 years. The effect of this change on expected amortization expense, included in cost of sales, is as follows:

	2019	Later
Increase /(decrease) in amortization expense	24.972	(94.940)

There is no restriction or pledge on the intangible as at 31 December 2018 (31 December 2017: nil).

3G license tender

The tender for authorization of IMT-2000 / UMTS services has been held on 28 November 2008 with the participation of all three GSM operators operating in Turkey.

The license fee (including 18% VAT) amounting to TL 539.332 is paid by TT Mobil in April 2009 and ultimately the Concession Agreement is signed on 30 April 2009.

The net book value of the 3G license as at 31 December 2018 is TL 249.069 (31 December 2017: TL 272.792).

20. INTANGIBLE ASSETS (CONTINUED)

GSM 900 additional frequency band tender

The tender for the reallocation of unused 900 MHz Frequency Bands had been held on 20 June 2008 and TT Mobil had obtained C band with the minimum fee of TL 128 year /channel (excluding VAT).

TT Mobil had been granted 5,5 additional GSM 900 MHz frequency channels as a result of the tender and ultimately total number of GSM 900 MHz frequency channels has reached to 12 together with previously-held 6,5 channels.

TT Mobil made TL 14.122 (including VAT) payment as the tender fee for the remaining GSM license duration and amended license agreement has been signed between TT Mobil and ICTA on 25 February 2009.

The net book value of the GSM 900 license as at 31 December 2018 is TL 5.011 (31 December 2017: TL 5.719)

4.5G license tender

Tender of IMT Services and Infrastructures Authorization, also known as 4.5G tender in public has been held in Ankara on August 26, 2015 by ICTA. In the IMT Service and Infrastructure Authorization Tender done by ICTA, TT Mobil has won the following packages: 2x10 MHz bandwidth in 800 MHz frequency for Euro 380.000, 2x7.6 MHz bandwidth in 900 MHz frequency for Euro 216.819, 2x20 MHz bandwidth in 1800 MHz frequency for Euro 310.000, 2x10 MHz bandwidth in 2600 MHz frequency for Euro 25.859, 1x15 MHz bandwidth in 2600 MHz frequency for Euro 22.000. Total spectrum fee is Euro 954.678. IMT Authorization period is valid until 30 April 2029 and will be able to start rendering services starting from 1 April 2016. 900 MHz and services in 1.800 MHz frequency are commenced to be rendered since 1 December 2015.

As of 31 December 2018 net book value of 4.5G license amounts to TL 2.387.733 (31 December 2017: TL 2.618.804) in the consolidated financial statements.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

21. PROVISIONS

Other short-term provisions

The movement of other short-term provisions is as follows:

	31 December 2018	31 December 2017
Litigation, ICTA penalty and customer return provisions	145.364	433.238
Provision for expected credit losses on loan commitments (*)	100.809	–
	246.173	**433.238**

(*) Consists of expected credit losses are recognized for the guarantees given for borrowings of distributors which are utilized in financing of equipment purchases that will be sold to Group's customers as part of commitment sales.

The movement of provisions is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
As at 1 January	**433.238**	**264.200**
Provisions for the period	88.524	237.225
Settled provisions	(370.588)	(68.166)
Reversals	(5.859)	(520)
Foreign currency translation difference	49	499
As at 31 December	**145.364**	**433.238**

Short-term provisions for employee benefits

	31 December 2018	31 December 2017
Short term provisions for employee benefits		
Personnel bonus provision	230.191	162.906
	230.191	**162.906**

The movement of provisions is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
As at 1 January	**162.906**	**165.862**
Provision for the period	252.453	245.760
Provisions paid	(153.578)	(201.561)
Reversals	(32.641)	(46.405)
Foreign currency translation difference	1.051	(750)
As at 31 December	**230.191**	**162.906**

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

21. PROVISIONS (CONTINUED)

Long term provisions for employee benefits

	31 December 2018	31 December 2017
Long term provisions for employee benefits		
Defined benefit obligation	795.371	711.040
Unused vacation provisions	111.801	102.353
	907.172	**813.393**

Defined benefit obligation

In accordance with existing social legislation in Turkey, companies are required to make lump-sum payments to employees whose employment is ended due to retirement or for reasons other than resignation or misconduct. The liability is not funded and accordingly there are no plan assets for the defined benefits as there is no funding requirement.

The retirement pay liability as at 31 December 2018 is subject to a ceiling of full TL 5.434,42 (31 December 2017: full TL 4.732,48) per monthly salary for each service year.

In addition to retirement benefits, the Group is liable for certain other long-term employment benefits such as business, service, representation indemnity and jubilee.

i) The movement of defined benefit obligation is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Defined benefit obligation at January 1	711.040	695.953
Service cost	53.364	42.895
Interest cost	64.738	57.084
Actuarial loss (*)	126.172	40.417
Benefits paid	(159.971)	(125.713)
Foreign currency translation difference	28	404
As at 31 December	**795.371**	**711.040**

(*) As at 31 December 2018, actuarial loss amounting to TL 126.172 (31 December 2017: TL 40.417) is recognized in other comprehensive income.

ii) Total expense recognized in the consolidated income statement:

	1 January - 31 December 2018	1 January - 31 December 2017
Interest cost	64.738	57.084
Service cost	53.364	42.895
Total net cost recognized in the consolidated statement of income	**118.102**	**99.979**

iii) Principal actuarial assumptions used:

	31 December 2018	31 December 2017
Interest rate	15,0%	11,0%
Expected rate of ceiling increases	10,0%	6,0%

For the years ahead, voluntary employee withdrawal of the Group is 2,36% (31 December 2017: 2,57%).

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

21. PROVISIONS (CONTINUED)

Long term provisions for employee benefits (continued)

Defined benefit obligation (continued)

As of 31 December 2018, sensitivity analysis is performed for the significant assumptions of defined benefit obligation:

	Discount Rate		Salary Increase Rate		Employee Withdrawal Rate	
Sensitivity Level	**%0,25 decrease (%14,75)**	**%0,25 increase (%15,25)**	**%0,25 decrease (%9,75)**	**%0,25 increase (%10,25)**	**%0,25 decrease**	**%0,25 increase**
Net effect of defined benefit obligation	11.327	(14.192)	(14.772)	11.866	(5.352)	1.099

Long term employee benefits excluding defined benefit obligation

The movement of unused vacation provisions is as follows:

	1 January - 31 December 2018	**1 January - 31 December 2017**
As at 1 January	**102.353**	**87.448**
Provision for the period	61.227	55.603
Provisions paid	(10.131)	(10.525)
Reversals	(42.351)	(30.569)
Foreign currency translation difference	703	396
As at 31 December	**111.801**	**102.353**

Other long-term provisions

	31 December 2018	**31 December 2017**
Provision for the investments under the scope of TFRS Interpretation 12	8.167	8.035
	8.167	**8.035**

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

22. PAID IN CAPITAL, RESERVES AND RETAINED EARNINGS

As of 31 December 2018 and 2017, the shareholders of the Company with their shareholding percentage are as follows:

	31 December 2018		31 December 2017	
	%	TL	%	TL
The Treasury	25	875.000	25	875.000
OTAŞ	-	-	55	1.925.000
Levent Yapılandırma Yönetimi A.Ş.	55	1.925.000	-	-
Public Share	15	525.000	15	525.000
Turkish Wealth Fund ("TWF") (*)	5	175.000	5	175.000
		3.500.000		**3.500.000**
Inflation adjustment to share capital		(239.752)		(239.752)
		3.260.248		**3.260.248**

* Council of Ministers decided to transfer 6,68% (5% Group B, 1,68% Group D) of the shares of the Company belonging to the Undersecretariat of Treasury to the Turkish Wealth Fund with regards to Law on Establishment of Turkish Wealth Fund Management Incorporated and on Amending Certain Laws numbered 6741 and dated 19 August 2016.

The Company's share capital is fully paid. Capital of the Company is TL 3.500.000.000, divided into 192.500.000.000 Group "A", 104.999.999.999 Group "B", 1 Group "C", and 52.500.000.000 Group "D" registered shares each with a nominal value of 1 (One) Kuruş. Group D shares are are publically traded. LYY is the holder of all Group A shares; SWF is the holder of Group B shares representing 5 percent of the share capital of the Company and Group D Shares representing 1.68 percent of the share capital of the Company; the Treasury is the holder of Group B shares representing 25 percent of the share capital of the Company and C Group share (Golden Share).

The Treasury is the holder of the Preferred Stock (Golden Share) as per the law. This share is non-transferable. It provides certain rights to Treasury in order to protect national interests regarding economy and security: (a) Any proposed amendments to the Company's articles of association, (b) the transfer of any registered shares in the Company which would result in a change in the management control of the Company and (c) the registration of any transfer of registered shares in the Company's shareholders' ledger can not be realized without affirmative vote of the Golden Share at either a meeting of the board of directors or the general assembly. Otherwise, such transactions shall be deemed invalid. The holder of the Golden Share, the Treasury, has one member, representing the Golden Share, among the board of Directors.

22. PAID IN CAPITAL, RESERVES AND RETAINED EARNINGS (CONTINUED)

Based on the articles of association of the Company, the board of the directors of the Company shall consist of 12 directors.

The board of directors shall be composed of 12 members nominated by the LYY and Treasury as follows:

(a) The group A Shareholder shall be entitled to nominate 7 persons for election as directors;

(b) Provided that the Treasury as group B shareholder shall hold:

– 30% or more of the shares, the Treasury shall be entitled to nominate 4 persons for election as independent board members who carry the independence criteria as defined in the Capital Market legislation; or

– 15% or more of the shares (but less than 30% of the shares) the Treasury shall be entitled to nominate 2 persons for election as independent board members who carry the independence criteria as defined in the Capital Markets legislation;

– During the calculation of 15 % and 30 % of the Shares mentioned in above paragraphs, the amount of group B shares and group D shares held by the Treasury shall be taken into account together.

(c) as long as the Treasury holds 15% or more of the shares (but less than 30% of the shares), the group A shareholder shall be entitled to nominate 2 persons, who carry the independence criteria as defined in the Capital Markets legislation, for election as independent board members and 7 persons for election as Director.

(d) while the Treasury holds the C group privileged share, the Treasury shall be entitled to nominate a further 1 person for election as director for the C group privileged share.

The chairman of the board of directors shall be nominated by the directors nominated by the group A shares from among the directors and be elected and removed by the simple majority votes of those present at the meeting of the board of directors.

The Vice Chairman shall be nominated by the directors nominated by the Group B Shares from among the Directors and be elected and removed by the simple majority votes of those present at the meeting of the Board of Directors.

The meeting quorum at a board meeting shall be seven of the directors provided that there shall be at least one director appointed by the holder of the group A shares and one director appointed by the holder of the group B shares. If a meeting quorum is not present within half an hour of the time appointed for the meeting or ceases to be present, the director(s) present shall adjourn the meeting to a specified place and time not earlier than five business days after the original date .The meeting quorum at such adjourned meeting shall consist of half of the number of directors then in office (regardless of the nominating share holder) plus one provided that three business days' notice has been given to all the directors.

Board resolutions shall be passed by a simple majority of the votes of the directors present at such meeting unless the resolution requires a higher majority vote

Number of members and independent board members of the Board of Directors to be nominated by the Group A, B and Group C Shareholders have been revised by the amendment to the article 8 of the Articles of Association at on the Extraordinary General Meeting dated 25 January 2019 (Note 26).

22. PAID IN CAPITAL, RESERVES AND RETAINED EARNINGS (CONTINUED)

The board of directors shall propose the distribution of the maximum of the Company's profits lawfully available for distribution in each financial year subject to the board of directors making reasonable provisions and transfers to reserves.

Based on the articles of association of the Company, the Board of Directors shall by way of a simple majority of those present at the relevant meeting of the Board propose the distribution of the maximum of the Company's profits lawfully available for distribution in each financial year subject to the Board making reasonable provisions and transfers to reserves and complying with the conditions set out below.

Provided that it is not against the legislation regarding capital markets, the net profit may not be distributed, if:

a) the distribution would result in a breach of any covenant or undertaking given by any Group Company (Group Companies are defined in the articles of association) to any lender or would, in the opinion of the simple majority of those present at the relevant meeting of the board of directors, be likely to cause such breach within the following 12 months; or

b) the board of directors resolves by way of a simple majority of those present at the relevant meeting of the board that the distribution is materially prejudicial to the interests of any Group Company (as defined in the articles of associationof the Company) having regard to: (i) implementation of the investment program approved by the board of directors in the business plan or the budget; or (ii) the trading prospects of the Group Companies (as defined in the articles of association of the Company) and the need to maintain the sound financial standing of the group companies.

In accordance with the Turkish Commercial Code, companies are required to assign legal reserves before profit appropriations. The legal reserve consists of first and second legal reserves, allocated in accordance with the Turkish Commercial Code. The first legal reserve is allocated out of last period's statutory profits at the rate of 5% per annum until the total reserve reaches 1/5 of the paid-in share capital (not indexed to the inflation). The second legal reserve is allocated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions

Dividends

The Company's 2017 consolidated net income has been compared with its statutory net income and TL 1.135.532 was determined as an amount available for dividend distribution. Company's Board of Directors decided that on 8 February 2018, 2017 net profit in the amount of TL 1.135.532 shall be set aside, as the extraordinary legal reserved in order to further strengthen the balance sheet structure under the provisions of the Company's Articles of Association. This decision has subjected to the Company's Ordinary General Assembly was convened for the year 2017.

During the year ended 31 December 2017 there is no consolidated profit for the year 2016, no amount is determined as available for dividend distribution.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

22. PAID IN CAPITAL, RESERVES AND RETAINED EARNINGS (CONTINUED)

Other reserves

The amounts transferred directly to equity, instead of statement of profit or loss as of the reporting date are as follows:

	31 December 2018	31 December 2017
Gains on revaluation of property, plant and equipment	4.283.816	-
Currency translation differences	417.238	218.920
Gains due to change in fair value of financial liability attributable to change in credit risk of liability	64.852	-
Share based payment reserve (Note 23)	9.528	9.528
Cash flow hedge reserve	(185.382)	(88.367)
Reserve for hedge of net investment in a foreign operation	(350.099)	(211.185)
Losses on change in value of time value of options	(351.007)	-
Actuarial loss arising from employee benefits	(628.350)	(526.583)
Difference arising from acquisition of subsidiary	(1.320.942)	(1.320.942)
	1.939.654	**(1.918.629)**

Reserves on hedges of net investment in foreign operations

The Company recognizes the differences arising on the translation of monetary items that are associated with the hedge of net investment in a foreign operation in other comprehensive income (Note 15).

Cash flow hedge reserve

The Group entered into interest rate swaps in order to hedge it position against changes in interest rates. Accordingly, effective fair value changes of these instruments are recognized directly in equity at cash flow hedge reserve (Note 15).

Earnings/losses per share

The calculation of the basic earnings/losses per share attributable to the ordinary equity holders of the Company is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Weighted average number of ordinary shares outstanding during the year	350.000.000.000	350.000.000.000
Net profit/(loss) for the year attributable to equity holder of the Company	(1.391.261)	1.135.532
Basic earnings/(losses) per share (in full Kuruş)	(0,3975)	0,3244

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

23. SHARE BASED PAYMENT

According to the Turkish Council of Ministers decision dated 12 December 2007, which was published in the Turkish Official Gazette on 26 December 2007, 52.500.000.000 (45%) shares of Türk Telekom owned by the Treasury, the minority shareholder of Türk Telekom, has been sold as at 15 May 2008, through an initial public offering ("IPO") (such shares correspondence to corresponding to 15% Türk Telekom's shares). During the IPO, 12.299.160.300 of such shares have been allocated to the employees of Türk Telekom, PTT and small investors together with 5.220.503.800 shares allocated to domestic investors with high purchasing power with discounted price varying according to the payment terms and application date (compared to the price applied to the other corporate investors for the remaining shares of 34.980.335.900. The discounts provided to Türk Telekom employees have been considered as within the scope of IFRS 2 ("Share Based Payment") by the management of Türk Telekom considering the fact that Türk Telekom receives services from its employees. The Group has reflected the fair value of the discounts provided to Türk Telekom employees, amounting to TL 9.528, as an expense in the consolidated statement of profit or loss for year ended 31 December 2008 and credited the same amount into the equity as a share based payment reserve.

The market price during the IPO :	TL 4,60
The average price applied to the employees of Türk Telekom :	TL 4,2937
The number of shares sold to Türk Telekom's employees (lot) :	31.104.948
Total benefits provided to the employees :	TL 9.528

The management of Türk Telekom decided that the discounts provided to PTT's employees, small investors and domestic investors with high purchasing power are not within the scope of IFRS 2 by considering the fact that;

a) Türk Telekom has not received any benefits (goods and services) in exchange for the discounts provided these groups to and

b) The Treasury provided these discounts not as a party acting as a shareholder of Türk Telekom but rather as a State Authority in order to increase the number of small investors as it has been done in all other privatization enhanced through an IPO.

The fair value of the discounts provided to these groups amounts to approximately TL 34.000 in 2008, at the year of the transaction.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

24. COMMITMENTS AND CONTINGENCIES

Guarantees received and given by the Group are summarized below:

		31 December 2018		31 December 2017	
		Original currency	**TL**	**Original currency**	**TL**
Guarantees received	**USD**	146.157	768.918	148.101	558.621
	TL	837.781	837.781	794.884	794.884
	Euro	31.190	188.016	37.966	171.434
			1.794.715		**1.524.939**
Guarantees given (*)	**USD**	172.418	907.075	176.395	665.344
	TL	523.470	523.470	407.836	407.836
	Euro	159.114	959.139	212.114	957.801
	Other	–	–	43	43
			2.389.684		**2.031.024**

(*) Guarantees given amounting to US Dollar 151.500 (31 December 2017: US Dollar 151.500) is related to the guarantee provided to the ICTA by TT Mobil with respect to the TT Mobil Concession Agreement, guarantees given amounting to Euro 12.840 (31 December 2017: Euro 12.840) is related with the guarantee provided for 3G license and guarantees given amounting to Euro 57.281 (31 December 2017: Euro 57.281) is related with the guarantee provided for 4.5G license.

The Company's guarantee, pledge and mortgage (GPM) position as at 31 December 2018 and 31 December 2017 is as follows:

	31 December 2018	31 December 2017
A. GPMs given on behalf of the Company's legal personality	2.389.684	2.031.024
B. GPMs given in favor of subsidiaries included in full consolidation	1.531.807	1.163.655
C. GPMS given by the Company for the liabilities of 3rd parties in order to run ordinary course of business	1.278.718	1.985.846
D. Other GPMs	–	–
i. GPMs given in favor of parent company	–	–
ii. GPMs given in favor of Company companies not in the scope of B and C above	–	–
iii. GPMs given in favor of third party companies not in the scope of C above	–	–
Total	**5.200.209**	**5.180.525**

Based on law 128/1 of Turkish Code of Obligations, the Group has given guarantee to distributors amounting to TL 1.278.718 for the financial obligation that would arise during the purchase of devices that will be sold as commitment sales by the Group (31 December 2017: TL 1.985.846). The guarantees has given to the banks 25.489 TL, 215.837 TL, 37.792 TL Akbank T.A.Ş., Türkiye Garanti Bankası A.Ş. ve Türkiye İş Bankası A.Ş. respectively.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other commitments

The Group has purchase commitments for sponsorships, advertising and insurance services at the amounting to 6.500 USD equivalent to 34.196 TL (31 December 2017: TL 91.193) as at 31 December 2018. Payments for these commitments are going to be made in a 3-year period.

The Group has purchase commitments for fixed assets amounting to 85.565 USD , 14.758 Euro and 324.899 TL equivalent to 864.009 TL (31 December 2017: TL 1.124.637) as at 31 December 2018.

Türk Telekom concession agreement

The Concession Agreement was entered into between the Company and ICTA on 14 November 2005 following the privatization of the Company and the resultant reduction in the public shareholding to less than 50%. The Concession Agreement covers:

-the performance of the telecommunications services which are within the scope of the Agreement;

-the establishment and operation of necessary telecommunications facilities and the submission of these facilities to the use of other operators or persons and institutions making a demand as per the law;

-the marketing and provision of telecommunications services.

The Concession Agreement places an obligation on the Company, in the event of termination or non-renewal of the Concession Agreement, to transfer all equipment affecting the operation of the system together with all its functions and in good condition, and all immovable properties where such equipment is installed and which the Company uses, to the ICTA, or to any other institution to be designated by ICTA, at no cost.

In case ICTA determines that the Company has not fulfilled its obligations stemming from the Concession Agreement and has not corrected the situation within a period granted to it, or that there is a court decision on bankruptcy or composition against the Company, the Company is granted a grace period of not less than 90 days commencing from written notification by ICTA, to fulfil its obligations. Within this grace period, the Company submits a remedy program for its abovementioned obligations to ICTA. In case ICTA accepts the remedy program, the matters in dispute shall be re-examined at the end of the program provided. If the program is not accepted, then ICTA may terminate the Concession Agreement upon expiry of the period granted to the Company.

The Concession Agreement places also a number of obligations with respect to delivering services on the Company in relation to the provision of telecommunications services.

The Consession Agreement requires that the Company shall meet all payments accrued as a result of the Concession Agreement and the establishment and operation of the telecommunication network in accordance with the applicable legislation or agreements concluded by the Government of the Republic of Turkey. These payments specifically includes the permit and utilization fees for the use of frequencies. In addition, the Company is required to pay the ICTA 0,35% of its net sales revenue, as contribution share towards ICTA's expenses.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Türk Telekom concession agreement (continued)

Under the Concession Agreement, requests for access in relation to the infrastructure should be met to the extent technically possible and without discrimination. The Company is further required to publish reference access and interconnection offers approved by the ICTA.

The Concession Agreement also contains an obligation on the Company to provide universal services. According to article 6 entitled "Revenues for Universal Service" of the Universal Service Law No:5369, the Company declares the amount of 1% of its net sales revenue to the Ministry of Transport, Maritime Affairs and Communications until the end of April of the following year and the company inform up to the following month. This amount shall be transferred within the same period to the account of the central accounting department of the Ministry and shall be registered as revenue in the budget under the name of "Revenues for Universal Service".

The tariffs to be charged by the Company are subject to the approval of the ICTA unless expressly provided to the contrary in any regulation issued by the ICTA.

The content of customer bills is governed by relevant laws and regulations. It is possible to issue a separate invoice for each service, as well as to issue one single invoice for more than one service rendered to a subscriber. The cost of each service shall be demonstrated separately, in the event of preparation of one single invoice for more than one service. A detailed bill is sent to the subscribers upon request, to the extent technically possible and subject to the payment of a fee.

Other provisions of the Concession Agreement provide for the confidentiality of communications and the establishment of effective methods to answer customer complaints.

TT Mobil GSM and IMT-2000/UMTS concession agreement and IMT Authorization Certificate

Regarding to Gsm and IMT-2000/UMTS concession agreement and IMT Authorization Certificate, the Company shall provide fixed guarantee by cash and/or letter of bank guarantee amounting to 6% of the Company's Licence fee and right of use fee. In case it is identified that TT Mobil does not fulfill its contractual obligations, ICTA will have the right to record as revenue these guarantees.

Concession Agreement for Licensing of Establishment and Operation of GSM-1800 Digital Cellular Mobile Telephone System

A concession agreement was entered into between TT Mobil and the ICTA ("the TT Mobil Concession Agreement") on 12 January 2005 which replaced and superseded the previous GSM 1800 license agreements in place in relation to Aycell and Aria. After GSM 900 Frequency Band bidding done by ICTA on 20 June, 2008, agreement was rearranged, the contract ("the TT Mobil Concession Agreement") was rearranged after the Authorization Tender for IMT Services and Infrastructures made by ICTA on 26 August 2015.

The TT Mobil concession agreement covers the establishment, development and operation of a GSM 1800 network and delivery of the system to the Authority or the establishment to be designated by the Authority at the end of the contracted term as being in an operating condition.

Pursuant to the TT Mobil Concession Agreement, TT Mobil was granted to use 75 channels in the 1800 MHz band and 12 channels in the 900 MHz band. The term of the TT Mobil Concession Agreement is 25 years from 11 January 2001.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concession Agreement for Licensing of Establishment and Operation of GSM-1800 Digital Cellular Mobile Telephone System (continued)

TT Mobil may apply to the ICTA for renewal between dates 24 and 6 months before the end of TT Mobil Concession Agreement. ICTA may renew the license of TT Mobil by evaluating the renewal request according to legislation on that date.

In the event of expiry or non-renewal, TT Mobil is under an obligation to transfer the network management centre, being the central operation units of the GSM 1800 system, gateway switchboards and central subscription works systems (including all kinds of technical hardware), together with all equipment affecting the operation of the system and the immovable properties used by TT Mobil to the ICTA or to the establishment to be designated by ICTA at no cost.

TT Mobil is also committed to renew the network in line with technological improvements and international agreements and maintain the adequacy of the network by means of technology until the end of the agreement.

License fees were paid prior to the issuance of the concession agreement.

TT Mobil provided a performance bond in the amount of US Dollar 151.500. TT Mobil, additional to that bond, provided performance bond amounting TL 760 corresponding to 6% of bidding amount after GSM 900 Additional Frequency Band bidding by ICTA on 20 June 2008. Should the operator is understood to not perform its contractual obligations, the Authority shall record and confiscate the final guarantee as income.

The TT Mobil Concession Agreement provides that the license may be transferred with the approval of the ICTA and within the terms of the Authorization Ordinance. However, no transfer may be made to an entity which already has a GSM 900 or GSM 1800 license in Turkey, or to related parties of such an entity, to the companies or subsidiaries which is owned or managed somehow by shareholders of entity or to the management of such entity and their first and second blood relatives and relative affinities. In cases such issues are determinate; GSM 1800 license given to them by ICTA is cancelled.

Regarding transfer of shares regulation clauses at the date of the transaction will be applied. The approval of the Competition Authority is also required for any change of control, being a transfer of the shares.

Fund payable to the Treasury

TT Mobil will pay an amount equal to 15% of the gross sales on a monthly basis to the Treasury, except for the default interest imposed on their subscribers for their late payments, indirect taxes, financial obligations such as charges and fees, and the accrual amounts accounted for reporting purposes.

Contribution share to the ICTA

TT Mobil shall pay 0,35% of the annual net sales to the ICTA as contribution share to the ICTA's expenses, latest on the last working day of April of the following year.

Coverage area

TT Mobil has guaranteed and undertook to cover (up to 2 Watt outdoors) at least 50% of the population of Turkey within three years after 11 January 2001 and at least 90% of the population of Turkey within five years after 11 January 2001. However, the localities where there are less than 10.000 inhabitants shall not be taken into consideration. This coverage area refers to the area to be covered by TT Mobil alone, and will not be contributed by national roaming. Upon request of the ICTA, yearly utmost two settling areas shall be covered with priority by TT Mobil. TT Mobil has completed its related liabilities with respect to coverage at 31 December 2004.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concession Agreement for Licensing of Establishment and Operation of GSM-1800 Digital Cellular Mobile Telephone System (continued)

Service offerings

TT Mobil agrees and undertakes to provide the services specified within the frame of GSM memorandum of understanding applied by GSM association including, but not limited to the services specified by GSM license agreement (call forwarding, barring of outgoing and incoming calls, technical assistance for subscribers and free call forwarding to police and other public emergency services).

Service quality

TT Mobil will comply with the telephone service quality standards set down in the International Telecommunication Union ("ITU-T") recommendations in the GSM 1800 international standards. These standards require blocking rate of the licensed indoor network to be 5% and the call failure rate not to be more than 2%.

Tariffs

TT Mobil may freely determine its tariffs provided that these tariffs are not contrary to the regulations of the ICTA

Emergencies

TT Mobil will take the necessary measures with priority in order to satisfy the requirements and the needs of subscribers and users in emergencies, provided that the public authorities and enterprises will have priority in the case of health and security emergencies or fire and other disasters. TT Mobil has to provide at least two base stations for the use of Ministry of Transport, Maritime Affairs and Communications in emergency.

Investment plans

TT Mobil pursuant to the relevant regulation, until the first day of December every year, TT Mobil will present its investment plan for the following calendar years to the ICTA. These plans will be valid for 3 years and will contain information about the dynamic demand forecasts, and number and locations of the exchange stations, base stations and base control stations to be established, the period of operation, and the investment costs. Within 120 days of receipt of the investment plan, the ICTA will approve the compliance of plans to the article 6^{th} of the agreement. Investment plan will be presented so as to inform the ICTA after the requirements arising from the article 6^{th} of the agreement are met.

National roaming

TT Mobil may enter into contracts with other licensed GSM networks in Turkey for national roaming purposes. Roaming contracts and the financial clause of the contracts has to be presented to ICTA before signature procedures completed.

Suspension of operations

If deemed necessary for public security and national defense in case of war, general mobilization, etc. the Authority may temporarily or permanently suspend all or a part of the operational activities of TT Mobil and may directly operate the network. The period of suspension as above will be added to the term of the license and the income of such a period, if any, will belong to TT Mobil.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concession Agreement for Licensing of Establishment and Operation of GSM-1800 Digital Cellular Mobile Telephone System (continued)

Termination of the agreement by the ICTA

The ICTA may cancel the license or terminate the Agreement for the following reasons;

i) A final judgment of the competent courts for insolvency of TT Mobil or its composition with creditors,

ii) Determination of the failure of TT Mobil to perform its contractual obligations hereunder and to remedy its default in a reasonable period of time granted,

iii) Determination that TT Mobil extends its activities beyond the frequencies allocated hereunder or other frequencies that may be allocated by the ICTA to TT Mobil for use in the GSM 1800 System, and failure of TT Mobil to cease such activities in a reasonable period of time granted,

iv) Failure of TT Mobil to pay the license fees hereunder.

However, that except for point (iv) above, TT Mobil will be given the opportunity to fulfill its obligations within a period not less than 90 days of written notice by the ICTA. During this period of time, TT Mobil will furnish to the ICTA a corrective action program for fulfillment of its obligations. If this program is accepted by the ICTA, the points of disagreement will be revised at the end of the program. If this program is not acceptable, the ICTA may terminate the Agreement at the end of the time period provided to TT Mobil

Upon termination of the Agreement, TT Mobil shall transfer all of the GSM 1800 system equipment to the ICTA without any remuneration.

Insurance

TT Mobil will maintain adequate all risk insurance for the telecommunication facilities and services established and operated until the end of the license term.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concession Agreement of the Establishment and Operation of IMT2000/UMTS Infrastructures and Provision of Services

The Concession Agreement with ICTA has been signed on 30 April 2009 and Avea has been granted with 3G license for an amount of Euro 214.000 excluding VAT. The term of the license is 20 years effective from the signature date of the Agreement. 3G services have been launched on 30 July 2009. The contract ("the Avea Concession Agreement") was rearranged after the Authorization Tender for IMT Services and Infrastructures made by ICTA on 26 August 2015.

According to this Agreement;

- TT Mobil shall provide subscribers' and users' 112 calls and other emergency situation calls to public security institutions and other public institutions, and to direct those calls to the centers requested by the said institutions, free of charge bearing all costs.
- TT Mobil shall keep at least 2 units of IMT-2000/UMTS mobile base stations to be used in emergency situations under the request of the Ministry of Transport and Communication.
- Within the first 5 years by the signature of the Agreement, TT Mobil shall obtain the approval of the ICTA for each assignment of TT Mobil shares in ratio exceeding 10% to persons and entities other than the current shareholders and subsidiaries of the current shareholders. Any type of share assignment leading a change in the control of TT Mobil shall be subject to the approval of the ICTA.
- TT Mobil has granted a bank letter of guarantee amounting to 12.840 which is 6% of the license fee, for to act as final guarantee. Should the TT Mobil is understood to not perform its contractual obligations; ICTA shall record and confiscate the final guarantee as income. In such confiscation of final guarantee as income is realized, TT Mobil shall grant new final guarantee within 30 days. Should the new final guarantee not granted within the said period, the Agreement might be terminated.
- During the term of the Agreement, TT Mobil shall each year submit its investment plan related to the subsequent calendar year, till 1 December to the ICTA. This plan shall be prepared for three years and shall include such information as the number, location, coverage areas, investment costs with respect to exchange centres, base stations and control stations to be established, as well as the realization ratio of the previous year's investment plan and reasons of deviation, if any.
- TT Mobil will pay an amount equal to 15% of the gross sales on a monthly basis to the Treasury, except for the default interest imposed on their subscribers for their late payments, indirect taxes, financial obligations such as charges and fees, and the accrual amounts accounted for reporting purposes.
- TT Mobil shall pay 0.35% of the annual net sales to the ICTA as contribution share to the ICTA's expenses, latest on the last working day of April of the following year.

Coverage Area Obligations:

Following the signature of the Agreement, TT Mobil shall have under coverage the population within the borders of;

- metropolitan municipalities within 3 years,
- all the municipalities of all provinces and districts within 6 years,
- all the residential locations having a population of more than 5.000 within 8 years,

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concession Agreement of the Establishment and Operation of IMT2000/UMTS Infrastructures and Provision of Services (continued)

Coverage Area Obligations: (continued)

- residential locations having a population of more than 1.000 within 10 years.

These are the areas which are to be covered by TT Mobil alone and this obligation shall not be fulfilled through roaming.

TT Mobil should maintain service quality in accordance with ICTA regulations, ETSI (European Telecommunications Standards Institute) standards and ITU (International Telecommunication Union) standards, decisions and recommendations given by ITU.

Upon request of the ICTA, yearly utmost two settling areas shall be covered with priority by TT Mobil.

If there is any delay in fulfillment of the coverage area obligations, except the force major conditions, an administrative fine shall be applied within the frame of Relevant Legislation. If there is any delay in fulfillment of the coverage area obligations for a period of more than two years, then the Agreement might be terminated by the ICTA.

The Investments for hardware and software being used in the electronic communications network

Except for the investments made in the lease of place, towers, piles, pipes, containers, channels, energy transfer lines and similar infrastructure plants; each year TT Mobil shall fulfill the following requirements for its investments related to electronic communications network (hardware, software etc.);

a) To procure at least 40% of such investments from vendor companies employing a R&D center established in Turkey and engaged in developing R&D projects in relation with the information and communication technologies provided at least 200 engineers functioning in such company in the first year after the signature of the Agreement, at least 300 engineers in the second year and at least 500 engineers for the third and subsequent years or from vendor companies employing a R&D center with at least 150 engineers functioning in the first year after the signature of the Agreement, at least 250 engineers in the second year and at least 350 engineers for the third and subsequent years however such company to employ also a Technical Assistance Centre with at least 50 engineers in the said first year, at least 100 engineers in the second year and at least 150 engineers in the third and subsequent years.

A vendor company may not establish the R&D center and Technical Assistance Centre together with another vendor company; but may establish with a company, organization or institution resident in Turkey. The vendor company shall have at least 50% share of such centers. Said organization or institution resident in Turkey shall not employ other R&D centers and Technical Assistance Centers that have been established together with other vendor companies functioning in information and communication technologies area.

The university associates may also be employed part time, as engineers to be employed by the vendor company. The number of the university associates may not exceed 5% of the total number of engineers stated above.

TT Mobil is obliged to perform its investments regarding the electronic communications network by auditing and determining whether vendor companies comply with the foregoing terms and conditions.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concession Agreement of the Establishment and Operation of IMT2000/UMTS Infrastructures and Provision of Services (continued)

The Investments for hardware and software being used in the electronic communications network (continued)

b) To procure at least 10% of such investments from the vendors in quality of Small and Medium Sized Entities and established in Turkey for the purpose of product and system development.

All the independent software and hardware units to be used in the network of TT Mobil shall have open interface connections with each other.

ICTA may perform audits regarding the execution of this obligation or may commission another organization or institution to perform such auditing when deems necessary. The costs to arise from such audits shall be paid by TT Mobil.

Should TT Mobil is understood to procure goods and services through methods against the foregoing terms and conditions, an administrative monetary penalty shall be applied to TT Mobil up to 1% of its turnover of the previous calendar year.

Should TT Mobil not perform the said obligations, a penalty as 40% of total amount of its investments in the network (hardware, software etc.), except for the investments for lease of place, towers, piles, pipes, containers, channels, energy transfer lines and similar infrastructure plants, shall be applied separately to TT Mobil for each year. This clause is valid for the first three years following the signature date of the Agreement. Annual periods start with the signing of the concession agreement.

Termination of the Agreement by ICTA:

The Authority might terminate the Agreement for the following reasons;

- A bankruptcy or bankrupt's certificate decision on TT Mobil given by the judicial authorities,
- TT Mobil not performing some of its contractual obligations and not correcting such breach in the given period,
- TT Mobil operating under the frequencies other than the ones allocated to itself by ICTA,
- Termination of TT Mobil Concession Agreement
- TT Mobil not performing national roaming obligation stated in the contract

In such circumstances, ICTA gives TT Mobil the opportunity to fulfill its obligations within 90 days after the written notice. In case TT Mobil cannot fulfill all the obligations within this period, the Agreement will be terminated by ICTA. The license fee or any other fee is not reimbursable in case of a termination of agreement. In the case of cancellation of agreement by ICTA, TT Mobil will alienate all data and documents which constitute system, software affecting the running of system (including tower, beam, blare, container, channel, energy transmission lines, antenna etc), stated and in the usage of TT Mobil to ICTA or to the entity ICTA enounces by making sure that there is no pledge, mortgage, levy and related legal blockages on them and they are free of cost and works free of problems.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concession Agreement of the Establishment and Operation of IMT2000/UMTS Infrastructures and Provision of Services (continued)

The Investments for hardware and software being used in the electronic communications network (continued)

The contract ("the TT Mobil Concession Agreement") was rearranged after the Authorization Tender for IMT Services and Infrastructures made by ICTA on 26 August 2015.

TT Mobil has been authorized to provide IMT service and Limited Use Authorization Certificate on 27 October 2015.

According to the Authorization Certificate;

- TT Mobil shall provide emergency call services in line with the regulations of ICTA, free of charge bearing all costs and comply with the regulations of ICTA in relation to this matter.
- TT Mobil shall keep at least 2 mobile base stations so as to be used for the provision of IMT services upon the Ministry's request, in the case of disaster and emergency.
- Within the first 5 years by the signature of the Agreement, TT Mobil shall obtain the approval of the ICTA for each assignment of TT Mobil shares in ratio exceeding 10% to persons and entities other than the current shareholders and subsidiaries of the current shareholders. Any type of share assignment leading a change in the control of TT Mobil shall be subject to the approval of the ICTA.
- TT Mobil has granted a bank letter of guarantee amounting to Euro 57.300 which is 6% of the total fee, for to act as final guarantee. Should be understood that TT Mobil to not perform its contractual obligations; ICTA shall record and confiscate the final guarantee as income. In such confiscation of final guarantee as income is realized, TT Mobil shall grant new final guarantee within 30 days. Should the new final guarantee not granted within the said period, the Authorization might be terminated by ICTA.
- TT Mobil will pay an amount equal to 15% of the gross sales on a monthly basis to the Treasury, except for the default interest imposed on their subscribers for their late payments, indirect taxes, financial obligations such as charges and fees, and the accrual amounts accounted for reporting purposes.
- TT Mobil shall pay the administrative fee at the rate and in the way determined by ICTA in accordance with the applicable law.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Certificate of Rights and Obligations regarding the Installation and Operation of IMT Infrastructure and Provision of IMT Services (continued)

Coverage Area Obligations:

Following the authorization, TT Mobil shall put at least

- 95% of Turkey's population within 8 years
- 90% of the population in each province and district within 8 years
- 99% of highways, high speed and very high speed train routes and tunnels longer than 1 km within 3 years
- 95% of divided highways within 6 years
- 90% of conventional train routes within 10 years

under coverage. Additionally, following the authorization, TT Mobil shall put at least

- 99% of highways, high speed and very high speed train routes and tunnels longer than 1 km added after the first year within 2 years of its entering into service
- 95% of divided highways added after the fourth year within 2 years of its entering into service
- 90% of conventional train routes added after the eight year within 2 years of its entering into service

under coverage.

Areas covered by TT Mobil pursuant to the IMT-2000/UMTS Concession Agreement shall be deemed to be also covered under this authorization on condition that the service quality criteria set forth in the respective article are satisfied. Additionally, areas covered by TT Mobil under this authorization for the purpose of provision of IMT services shall be deemed to be covered in the determination of the coverage obligation of IMT-2000/UMTS services.

Coverage obligation shall be fulfilled by TT Mobil on its own and not through national roaming. However, TT Mobil shall be entitled to share radio access network in the areas under the coverage obligation.

Maximum two settlements per year shall be primarily brought by TT Mobil under coverage upon ICTA's request and under the service quality standards determined for such areas.

In the event that the fulfilment of coverage obligation is delayed for any reason other than force majeure events, administrative fine shall be applied pursuant to the applicable law. In the event that the fulfilment of the coverage obligation is delayed for more than two (2) years, the Authorization might be terminated by ICTA.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Certificate of Rights and Obligations regarding the Installation and Operation of IMT Infrastructure and Provision of IMT Services (continued)

Service quality obligation:

TT Mobil shall ensure data download at minimum 2 Mbps in the areas subject to coverage obligation at a probability of 95% per user. The matters related to the inspection of this obligation shall be determined by ICTA.

These data transmission speeds are minimum values and ICTA shall determine service quality obligations required to be ensured by TT Mobil taking into account ETSI standards, ITU standards, decisions and recommendation, our national development targets, technological improvements and user requirements.

Sharing the Radio Access Network:

On condition that the provisions of the applicable law are not breached, TT Mobil may install and operate the radio access network to be installed for the provision of IMT services together with other operators authorized to provide IMT services and further, lease necessary transmission lines from authorized operators in order to materialize the connections within the radio access network.

This right shall not remove the obligations of TT Mobil under the authorization and shall not constitute a reason for non-fulfilment of such obligations. TT Mobil shall not avoid fulfilling its obligations under the authorization due to reasons arising from the sharing. TT Mobil shall, in the case of sharing, be obliged to take all measures required to prevent any interruption of services it provides under the authorization.

In all settlements having a population less than 10.000, TT Mobil shall, following the authorization, be obliged to:

a) install antenna facilities to be installed under the authorization (excluding in-building antenna facilities) in such manner that facilitates active sharing of radio access network with other operators and share such facilities with the operators,
b) In the event that there exists any antenna facilities installed by other operators at the settlements in question following the authorization for the antenna facilities to be newly installed by TT Mobil under this authorization, TT Mobil shall use such antenna facility by active sharing of radio access network.

Following this authorization, the antenna facilities newly installed under IMT-2000/UMTS Concession Agreements shall also be subject to the obligation prescribed by this paragraph.

TT Mobil shall be obliged to actively share radio access network in the antenna facilities to be newly installed under this authorization in order to cover highways, high speed railways and divided highways following the authorization. Following this authorization, the antenna facilities newly installed under IMT-2000/UMTS Concession Agreements shall also be subject to the aforementioned obligation.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Certificate of Rights and Obligations regarding the Installation and Operation of IMT Infrastructure and Provision of IMT Services (continued)

Investments and communication services related to the hardware and software used in the network

Except investments made for property lease, tower, pole, pipe, container, conduit, power transmission lines and similar infrastructure; TT Mobil shall, following the authorization, be obliged to provide:

a) At least 40% of its investments and communication services related to the network (such as hardware, software);Within two (2) years, from supplier companies established in Turkey as to develop R&D projects in the field of information and communication technologies, employing at least 500 engineers and 100 researchers; within four (4) years, from supplier companies having a R&D center, employing 500 engineers and 250 researchers, or within two (2) years, from supplier companies established in Turkey as to develop R&D projects in the field of information and communication technologies, employing at least 350 engineers and 100 researchers and also within two (2) years from supplier companies having a Technical Assistance Center employing at least 150 engineers, within four (4) years from supplier companies having R&D center employing 350 engineers and 250 researchers and within four (4) years from supplier companies having a Technical Assistance Center employing at least 150 engineers.

b) At least 10% of its investments from products produced in Turkey and from SMEs established to develop products and systems in Turkey.

Up to 60 within 2 years and up to 150 within 4 years following the authorization, of the personnel of TT Mobil employed in the status of researcher at the R&D center established by TT Mobil for the purpose of developing R&D projects in the field of information and communication technologies shall be taken into account under the obligation related to the number of the researchers set forth in the sub-paragraph (a) of this paragraph provided that such center is organized as an independent unit under TT Mobil's organization or all shares of the center are owned by TT Mobil.

Teaching staff of universities who work part-time at R&D centers under the applicable law or while working at universities carry out academic studies requested by the supplier and/or TT Mobil may be included in the researchers to be employed by the supplier and/or TT Mobil at R&D centers. The number of teaching staff may not excess 10% of total number of researchers referred to in this subparagraph (a).

A supplier company may establish R&D and technical assistance centers together with institutions or bodies, except other suppliers, established in Turkey, which operate in the field of information and communication technologies and do not have a R&D or technical assistance center established with other suppliers. The supplier companies must hold at least 50% of the shares of such centers.

All independent software and hardware units to be used by TT Mobil in the network shall be interconnected through explicit interfaces.

TT Mobil shall be obliged to materialize its investments and communication services relating to the network (such as hardware, software) by checking and verifying whether or not the supplier companies and Small Entities ("SME") fulfil the conditions stated above.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Certificate of Rights and Obligations regarding the Installation and Operation of IMT Infrastructure and Provision of IMT Services (continued)

Investments and communication services related to the hardware and software used in the network (continued)

TT Mobil shall be obliged to supply its investments and communication services relating to the network (hardware or software such as base station, switching, router), except investments relating to property lease, tower, pole, container, channel, power transmission lines and similar facilities, from the products determined to be domestic product under the Law No 4734 and applicable law at least by 30% within the first year, at least by 40% within the second year and at least by 45% within subsequent years following the authorization. Such items among the products supplied by the supplier companies and SMEs to TT Mobil, which are determined to be domestic products shall be taken into account under this obligation. TT Mobil contemplating that it will not be able to fulfil its obligations set forth in the this paragraph due to the availability condition of the products determined to be domestic products, supply capacity of the producers and other conditions shall apply to ICTA indicating the reasons, no later than six (6) months before the expiry of the obligation period. ICTA may reduce or terminate the obligation for the respective period if it deems necessary.

Additional to the obligation in the paragraph above; investments specified in the paragraph above, to be measured for periods of 4 years, following the authorization TT Mobil shall be obliged to supply from the products determined to be domestic product under the Law No 4734 and applicable law a minimum average of 30% in the first 4 years, 40% in the second 4 years and 45% in the third 4 years. Such items among the products supplied by the supplier companies and SMEs to TT Mobil, which are determined to be domestic products shall be taken into account under this obligation. TT Mobil contemplating that it will not be able to fulfil its obligations set forth in the this paragraph due to the availability condition of the products determined to be domestic products, supply capacity of the producers and other conditions shall apply to ICTA indicating the reasons, no later than six (6) months before the expiry of the obligation period. ICTA, provided that Ministry's opinion to be taken, may reduce or terminate the obligation for the respective period if it deems necessary.

Whether or not the obligations under this article have been fulfilled shall be evaluated with the obligations of TT Mobil under the IMT-2000/UMTS Concession Agreement.

Cancelation of Authorization**:**

ICTA may terminate the Authorization Certificate for the following reasons;

- A bankruptcy or bankrupt's certificate decision on TT Mobil given by the judicial authorities,
- TT Mobil not performing some of its contractual obligations and not correcting such breach in the given period,
- TT Mobil operating under the frequencies other than the ones allocated to itself by ICTA and not ceasing these operation within the given period,
- Termination of one of TT Mobil's Concession Agreements signed earlier,
- TT Mobil not performing its obligations stated in the article related to confidentiality of the communication, national security and public order

In such circumstances, ICTA gives TT Mobil the opportunity to fulfill its obligations within 90 days after the written notice. In case TT Mobil cannot fulfill all the obligations within this period, the Authorization Certificate will be terminated by ICTA.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Certificate of Rights and Obligations regarding the Installation and Operation of IMT Infrastructure and Provision of IMT Services (continued)

The Termination of the Authorization Certificate by ICTA (continued)

The license fee or any other fee is not reimbursable in case of a termination of agreement. In the case of cancelation of agreement by ICTA, TT Mobil will alienate all data and documents which constitute system, software affecting the running of system (including tower, beam, blare, container, channel, energy transmission lines, antenna etc), stated and in the usage of TT Mobil to ICTA or to the entity ICTA enounces by making sure that there is no pledge, mortgage, levy and related legal blockages on them and they are free of cost and works free of problems.

Legal proceedings of Türk Telekom

Disputes between the Company and Municipalities

For contribution to the infrastructure investment and municipality share, municipalities filed against the Company and as at 31 December 2018, total provision including the nominal amount and legal interest charge which is amounting to TL 51.059 (31 December 2017: TL 50.258) is recognized.

Disputes between the Group and the ICTA

The Company has filed various lawsuits against ICTA. These lawsuits are related with the sector-specific and tariff legislations and legislations with respect to the other operators in the market. The sector-specific disputes generally stem from the objections with respect to the provisions of interconnection legislation, legislation with respect to telecommunication services and infrastructure. As of 31 December 2018, TL 37.359 provision provided for ICTA penalties and amounts to be repaid to customers due to ICTA resolutions (31 December 2017: TL 23.131).

TT Mobil's Treasury Share investigation

Law numbered 7061 "Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation" was published on the Official Gazette numbered 30261 on 5 December 2017. According to mentioned Law, the provisional clause was added to Telegraph and Telephone Law numbered 406, which regulates restructuring provisions on contribution share to universal service, contribution share to authority expenses, administrative fee, radio fee, penalty fee and ancillaries thereof under dispute or under examination. In regard to the provisional clause, the Company has decided to utilize the restructuring provisions regarding treasury share, contribution share to universal service, contribution share to authority expenses, administrative fee, radio fee, penalty fee and ancillaries thereof which are the subject of finalized investigations

The Company, applied for restructuring on 24 January 2018 and terminated all the disputes, relating the subject, by waiving/accepting. Within the scope of restructuring provisions, total amount calculated in this context is TL 312.181, which includes TL 210.463 principal and TL 101.718 interest (based on Domestic Producer Price Index, Yİ-UFE). Payments were made in six equal installments (plus deferred payment interest) in two-month periods beginning in January 2018. The last installment was paid on 30 November 2018

The Ministry of Customs and Trade administrative fine

The Ministry of Customs and Trade conducted an audit at TT Mobil over the value added services that are provided to the subscribers and as a result of this inspection, an administrative fine amounting to TL 138.173 was imposed against TT Mobil based on the allegation that distant sales rules were disregarded.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Ministry of Customs and Trade administrative fine(continued)

Upon such administrative fine, applications were filed respectively for the settlement first and then for the abolishment of the said administrative action with The Ministry of Trade. Our application for the abolishment of administrative fine was refused, and the settlement was rejected by TT Mobil in the course of settlement. A cancelation case has been initiated with stay of execution request regarding the penalties claimed.

According to management decision, as of 31 December 2018 the Company has recognized no provision in the consolidated financial statements that has been made for fulfillment of the obligation to the extent that it is not probable that a material outflow of resources embodying economic benefit will have occurred.

Other issues

Provision has been provided in the consolidated financial statements for the probable court cases against the Group based on the lawyers' assessments. The provision for such court cases is amounting to 56.946 TL as at 31 December 2018 (31 December 2017: TL 47.668). For the rest of the cases, Group lawyers commented that basis of those cases are not realistic and should be appealed. Therefore, no provision has been provided for these cases.

25. SUPPLEMENTARY CASH FLOW INFORMATION

Other explanations

	31 December 2017	Cash flows	Non-cash flows			31 December 2018
			Acquition	Foreign exchange movement	Other non-cash changes	
Financial liabilities	16.489.139	(3.454.010)	1.040.703	6.134.272	(291.280)	19.918.824
Obligations under finance leases (Note 7)	2.599	(826)	--	821	--	2.594
Derivative financial instruments (Note 15)	309.441	(1.572)	--	--	425.069	732.938
Total liabilities from financing activities	**16.801.179**	**(3.456.408)**	**1.040.703**	**6.135.093**	**133.789**	**20.654.356**

"Other outflows of cash" in net cash used in operating activities represents change in restricted cash. Restricted cash amount is disclosed in Note 4. "Other outflows of cash, net" in net cash used in financial activities represents change in other financial payment. "Other adjustment for non-cash items" in adjustments to reconcile net profit to cash provided by operating activities represents change in TFRS Interpretation 12.

Capitalized subscriber acquisition and retentions costs amounting to 661.273 TL are disclosed in "Purchases of property, plant, equipment and intangible assets" in consolidated statement of cash flows.

26. SUBSEQUENT EVENTS

Turk Telekom's Board of Directors resolved in accordance with Clause 7 of Articles of Association of Turk Telekom and paragraph 3 of Clause 31 of Capital Markets Law that, subject to completion of all the necessary procedures in accordance with the relevant legislation, and in particular the legislation of the Capital Markets Board, one or more foreign currency and / or Turkish Lira denominated debt capital market instruments shall be issued overseas without being offered to the public within one year from the approval of the Capital Markets Board, in the structure of a conventional Eurobond and/or sukuk up to a total amount of USD 500 Million or its equivalent (including the equivalent of USD 500 Million). As of 7 January, within this resolution scope, necessary approval application has been made to the Capital Market Board.

Number of members and independent board members of the Board of Directors to be nominated by the Group A, B and Group C Shareholders have been revised by the amendment to the article 8 of the Articles of Association at on the Extraordinary General Meeting dated 25.01.2019. Accordingly;

The board of directors shall be composed of nine (9) members nominated by the Shareholders,

(a) the Group A Shareholder shall be entitled to nominate five (5) persons for election as Directors;

(b) provided that the Treasury and Turkish Wealth Fund, as Group B Shareholders shall hold:

– 30% or more of the Shares, the Treasury shall be entitled to nominate three (3) persons for election as Independent Board Members who carry the independence criteria as defined in the Capital Markets legislation; or

– 15% or more of the Shares (but less than 30% of the Shares) the Treasury shall be entitled to nominate two (2) persons for election as Independent Board Members who the carry the independence criteria as defined in the Capital Markets legislation;

– During the calculation of 15 % and 30 % of the Shares mentioned in above paragraphs, the amount of Group B Shares and Group D Shares held by the Treasury and Turkish Wealth Fund shall be taken into account together.

(c) As long as the Treasury and Turkish Wealth Fund holds 15% or more of the Shares (but less than 30% of the Shares), the Group A shareholder shall be entitled to nominate one (1) person, who carry the independence criteria as defined in the Capital Markets legislation, for election as Independent Board Members and five (5) persons for election as Director.

(d) while the Treasury holds the C Group Privileged Share, the Treasury shall be entitled to nominate, a further one (1) person, for election as Director for the C Group Privileged Share.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

27. REVENUE

	1 January 2018 - 31 December 2018	1 January 2017 - 31 December 2017
Mobile	7.534.284	6.638.683
Broadband	5.532.700	4.899.033
Fixed voice	2.603.183	2.603.435
Corporate data	1.690.211	1.492.416
International revenue	926.220	639.019
IFRIC 12 revenue	771.141	704.315
Tv	305.669	228.135
Other	1.067.492	934.518
	20.430.900	**18.139.554**

28. OPERATING EXPENSES

	1 January 2018 - 31 December 2018	1 January 2017 - 31 December 2017
Cost of sales (-)	(11.249.445)	(10.029.082)
Marketing, sales and distribution expenses (-)	(2.409.985)	(2.404.461)
General administrative expenses (-)	(1.784.341)	(1.706.962)
Research and development expenses (-)	(147.779)	(124.737)
	(15.591.550)	**(14.265.242)**

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

29. EXPENSES BY NATURE

	1 January 2018 - 31 December 2018	1 January 2017 - 31 December 2017
Personnel expenses	(3.018.853)	(2.861.189)
Taxes	(2.004.943)	(1.635.517)
Domestic interconnection	(1.270.446)	(1.202.488)
Repair and maintanance expenses	(836.017)	(721.877)
TFRS Interpretation 12 related fixed assets additions and capex provision expenses	(682.426)	(623.288)
Advertisement expenses	(637.419)	(597.423)
International interconnection	(636.511)	(425.480)
Utilities	(578.716)	(407.888)
Rent expenses	(562.822)	(500.661)
Cost of sales and cost of equipment sales of technology companies	(502.519)	(468.631)
Other expenses	(1.125.684)	(1.801.568)
Total operating expenses (excluding depreciation and amortization expense)	**(11.856.356)**	**(11.246.010)**
Depreciation, amortization	**(3.717.763)**	**(2.906.444)**
Impairment expenses	**(17.431)**	**(112.788)**
Total operating expenses	**(15.591.550)**	**(14.265.242)**

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

30. OTHER OPERATING INCOME / (EXPENSES)

	1 January 2018 - 31 December 2018	1 January 2017 - 31 December 2017
Interest and discount gains	140.221	127.972
Rental income	35.616	26.743
Indemnity income	21.649	31.048
Foreign exchange gains	3.318	44.869
Other	30.565	60.491
Other operating income	**231.369**	**291.123**
Foreign exchange losses	(298.763)	(135.723)
Litigation provision compensation and penalty expenses	(92.345)	(248.852)
Interest expenses on employee benefit obligations (Note 21)	(64.738)	(57.084)
Interest and discount losses	(34.399)	(72.195)
Other	(2.229)	(27.116)
Other operating expense (-)	**(492.474)**	**(540.970)**

31. INCOME/(EXPENSE) FROM INVESTING ACTIVITIES

	1 January 2018 - 31 December 2018	1 January 2017 - 31 December 2017
Gain from scrap sales	105.503	112.307
Gain on sales of property, plant and equipment	24.785	18.091
Income from investing activites	**130.288**	**130.398**
Losses from sales on property, plant and equipment	(12.960)	(5.610)
Expense from investing activites (-)	**(12.960)**	**(5.610)**

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

32. FINANCIAL INCOME / (EXPENSE)

	1 January 2018 - 31 December 2018	1 January 2017 - 31 December 2017
Gain on derivative instruments	444.713	420.785
Interest income on bank deposits and delay charges	270.547	181.787
Foreign exchange gains	575.308	119.389
Gains on change in fair value of bills, bonds and notes issued	131.538	–
Other	393	346
Financial Income	**1.422.499**	**722.307**
Foreign exchange losses	(5.821.839)	(1.510.419)
Interest expense	(1.050.389)	(563.762)
Loss on derivative instruments	(884.451)	(393.165)
Other	(115.640)	(57.772)
Financial expenses	**(7.872.319)**	**(2.525.118)**
Financial expenses, net	**(6.449.820)**	**(1.802.811)**

33. TAXATION ON INCOME

	31 December 2018	31 December 2017
Corporate tax payable:		
Current corporate tax provision	22.725	651.405
Prepaid taxes and funds (-)	(16.260)	(627.061)
Tax payable	**6.465**	**24.344**

	1 January 2018 - 31 December 2018	1 January 2017 - 31 December 2017
Tax expense:		
Current tax expense:		
Current income tax expense	(22.725)	(671.216)
Adjustments in respect of income tax of previous year	2.245	(25.576)
Deferred income (Note 11) :		
Deferred tax income	651.500	353.997
	631.020	**(342.795)**

As of 31 December 2018 deferred tax expense amounting to TL 365.034 (31 December 2017: TL 19.810 income) are recognized in other comprehensive income.

33. TAXATION ON INCOME (CONTINUED)

The Company and its subsidiaries located in Turkey are subject to taxation in accordance with the tax regulations and the legislation effective in Turkey where the Group companies operate. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month.

In Turkey, corporate tax rate is 22% as of 31 December 2018 (2017: 20%). However, according to the Article 91 of the Law numbered 7061 "Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation" which was published on the Official Gazette numbered 30261 on 5 December 2017 and according to the provisional clause 10 added to the Corporate Tax Law numbered 5520; corporate tax rate for the taxation periods of 2018, 2019 and 2020 is amended to 22%, which would later be applied as 20% at the end of these periods. During these periods, Council of Ministers is entitled to decrease the corporate tax rate of 22% to 20%.

The tax legislation provides for a temporary tax of 22% (2017: 20%) to be calculated and paid based on earnings generated for each quarter for the period ended 31 December 2017. The amounts thus calculated and paid are offset against the final corporate tax liability for the year. With the amendment to the Law, corporate rate is set to 22% for the years 2018, 2019 and 2020.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

Dividend payments made to resident and non-resident individuals, non-resident legal entities and corporations resident in Turkey (except for the ones exempt from corporate and income tax), are subject to an income tax of 15%.

Dividend payments made from a corporation resident in Turkey to a corporation also resident in Turkey are not subject to income tax. Furthermore, income tax is not calculated in case the profit is not distributed or transferred to equity.

The dividend income (excluding the participation certificates of investment funds and profit shares derived from the share certificates of investment trusts) derived by entities from the participation in the capital of another resident entity is exempt from corporate tax. Furthermore, 75% of the income derived by entities from the sale of participation shares and real estates (immovable property) preferential rights, founders' shares and redeemed shares which are carried in assets at least for two years is exempt from corporate tax as of 31 December 2018. However, according to the amendments by Law numbered 7061, this rate is educed from 75% to 50% with regard to immovable properties and tax declarations starting from 2018 will be calculated using 50% for immovable properties.

In order to be able to benefit from the exemption, the relevant income should be kept under a fund account in the liabilities and should not be withdrawn from the enterprise for 5 years. The sales amount should be collected by the end of the second calendar year following the year of sale.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

33. TAXATION ON INCOME (CONTINUED)

The reconciliation between tax expense and the product of accounting profit multiplied by applicable tax is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Profit before tax	(2.022.281)	1.478.327
Tax at the corporate tax rate of (22%)	444.902	(295.665)
Tax effects of:		
- expenses that are not deductible in determining taxable profit	(42.663)	(36.023)
- tax rate difference of subsidiaries	2.999	744
- deferred tax asset recognition from cash capital increase	60.907	36.734
- deferred tax asset recognized / (derecognized) from previous years' tax losses carried forward by subsidiaries	113.845	43.825
- the effect of increasing corporate tax ratio from %20 to %22	–	(22.190)
- adjustments and tax losses of subsidiaries not subject to deferred tax	51.030	(70.220)
Tax expense for the year	**631.020**	**(342.795)**

Investment Incentives

TT Mobil has obtained investment incentive certificates from the Turkish government authorities in connection with certain major capital expenditures, which entitle TT Mobil, among other things, to:

a) A 100% exemption from customs duty on machinery and equipment to be imported,

b) An investment allowance of 100% on approved capital expenditures,

The investment allowance indicated in (b) above is deductible from current or future taxable profits for the purposes of corporation tax; however, such investment allowances are subject to a withholding tax. At 31 December 2018, investment allowances amount to TL 9.542.318 (2017: TL 7.633.791). Unrecognized deferred tax asset is TL 121.145 (2017: TL 91.637).

The Law foresaw that the taxpayers that have investment allowance rights obtained under the scope of the previous provisions valid before 24 April 2003 and the provisions of the amended article 19 of the Income Tax Law (amended with Law No 4842) that were effective until 31 December 2005 would be able to utilize their investment allowance rights only for their income generated in the years 2006, 2007, and 2008.

However on 15 October 2009, the Constitutional Court decided to cancel the phrases which abolish the investment allowances after 2008 and limit the use of investment allowance incentive allowance with the years 2006, 2007 and 2008. The annulment decision is effective after being published in the Official Gazette no 27456 dated 8 January 2010. Accordingly, TT Mobil may utilize those unused incentive in the future.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk policies of the Group are managed centrally with the support of a committee. All Group companies meet their cash needs determined in business plans approved by their boards, by using credits or capital increase with guidance of the central management. The Group may choose long or short term financing according to their financing needs and market assumptions.

The Group's risk management policies are designed to identify and analyze the risks faced by the Group, to determine appropriate risks limits and controls, and to observe commitment to these limits. Risk management policies and systems are constantly under review to reflect changes in the Group's activities and market conditions.

The Group audit committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group audit committee is assisted in its oversight role by internal audit.Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

Financial risk factors

The Group's principal financial instruments comprise forward market transactions, bank loans and cash and short-term deposits. The main purpose of these financial instruments is to raise funds for the Group's operations and to hedge interest rate risk. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The board reviews and agrees to policies for managing each of these risks.

Credit risk

	Receivables						
	Trade Receivables		Other receivables				
31 December 2018	Related Parties	Third Parties	Related Parties	Third Parties	Deposits and banks	Derivative Instruments	Other
Maximum credit risk exposed to as at the reporting date (A+B+C+D+E)	10.489	5.268.309	–	105.914	4.494.393	237.402	–
- Guaranteed portion of the maximum risk	–	37.073	–	–	–		–
A. Carrying amount of financial assets not overdue or not impaired	10.489	3.922.429	–	105.914	4.494.393	237.402	
B. Carrying amount of financial assets with rediscussed conditions that are considered overdue or impaired if not rediscussed							
C. Carrying amount of financial assets overdue but not impaired	–	1.345.880	–	–	–	–	–
-Amount secured via guarantees	–	–	–	–	–	–	–
D. Carrying amount of assets impaired	–	–	–	–	–	–	–
-Overdue (gross book value)	–	(3.241.202)	–	(42.759)	–	–	–
-Impairment (-)	–	3.241.202	–	42.759	–	–	–
E. Off balance sheet items with credit risk	–	–	–	–	–	–	–

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

	Receivables						
	Trade Receivables		Other receivables				
31 December 2017	Related Parties	Third Parties	Related Parties	Third Parties	Deposits and banks	Derivative Instruments	Other
Maximum credit risk exposed to as at the reporting date (A+B+C+D+E)	23.707	4.884.031	–	91.731	4.099.906	616.718	–
- Guaranteed portion of the maximum risk	–	17.232	–	–	–	–	–
A. Carrying amount of financial assets not overdue or not impaired	23.707	3.546.112	–	91.731	4.099.906	616.718	–
B. Carrying amount of financial assets with rediscussed conditions that are considered overdue or impaired if not rediscussed	–	–	–	–	–	–	–
C. Carrying amount of financial assets overdue but not impaired	–	1.337.919	–	–	–	–	–
-Amount secured via guarantees	–	–	–	–	–	–	–
D. Carrying amount of assets impaired	–	–	–	–	–	–	–
-Overdue (gross book value)	–	2.840.298	–	24.186	–	–	–
-Impairment (-)	–	(2.840.298)	–	(24.186)	–	–	–
E. Off balance sheet items with credit risk	–	–	–	–	–	–	–

Financial losses due to Group's receivables and financial assets which result from not implementing agreement clauses related to financial assets by a customer or other party constitutes credit risk.

When determining the credit risk exposure as at the balance sheet date, items like guarantees received, which increase the credit worthiness have not been considered. The aging for assets overdue but not impaired for has been provided in Note 6.

As of 31 December 2018, the maximum credit risk Company exposure is reflected by presenting all financial assets from carrying amount on consolidated balance sheet.

Liquidity risk

Liquidity risk is uncertainty to cover future financial obligations.

The Group's objective is to maintain a balance between current assets and liabilities through close monitoring of payment plans and cash projections.

The Group manages current and long-term funding by maintaining adequate reserves, banking facilities, reserve borrowing facilities and loan agreements with suppliers through continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2018 and 2017 based on contractual undiscounted payments (including interest payments not due yet).

Contract based maturities as at 31 December 2018	**Book value**	**Total contract based cash outflow (I+II+III+IV)**	**Less than 3 months (I)**	**3 to 12 months (II)**	**1 to 5 years (III)**	**More than 5 years (IV)**
Non-derivative financial liabilities						
Financial liabilities and bills,bonds and notes issued	19.918.824	23.245.870	315.164	7.088.059	14.985.281	857.366
Obligations under finance leases	2.594	2.599	158	476	1.965	−
Trade payables	3.845.124	3.845.124	3.732.338	112.786	−	−
Other payables (*)	1.417.484	1.452.543	1.190.109	−	262.434	−
Related parties	110	110	110	−	−	−
Derivative financial liabilities (net)	**732.938**	**737.926**	**79.697**	**364.471**	**325.707**	**(31.949)**

Contract based maturities as at 31 December 2017	**Book value**	**Total contract based cash outflow (I+II+III+IV)**	**Less than 3 months (I)**	**3 to 12 months (II)**	**1 to 5 years (III)**	**More than 5 years (IV)**
Non-derivative financial liabilities						
Financial liabilities and bills, bonds and notes issued	16.489.139	19.062.316	253.002	2.717.940	12.493.807	3.597.567
Obligations under finance leases	2.599	2.602	154	465	1.983	−
Trade payables	4.066.558	4.066.870	3.739.500	327.370	−	−
Other payables (*)	1.300.601	1.322.274	947.043	−	375.231	−
Related parties	2.326	2.326	−	2.326	−	−
Derivative financial liabilities (net)	**309.441**	**309.441**	**6.069**	**23.766**	**104.747**	**174.859**

(*) Other payables item includes other payables, employee benefit obligations and other current liabilities. Taxes and other payables contained within employee benefit obligations and advances contained within other current liabilities are excluded.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk

Foreign Currency Risk

	31 December 2018					31 December 2017				
	TL Equivalent	**US Dollar**	**Euro**	**GBP**	**Other**	**TL Equivalent**	**USD**	**Euro**	**GBP**	**Other**
1. Trade receivables	315.683	22.861	28.884	3	15.201	248.843	25.209	34.052	–	–
2a. Monetary financial assets (Cash and banks accounts included)	3.286.197	336.639	250.863	17	2.040	2.023.846	366.988	141.646	–	–
2b. Non-monetary financial assets	–	–	–	–	–	–	–	–	–	–
3. Other	108.766	922	17.232	–	29	111.129	5.452	20.056	–	–
4. Current assets (1+2+3)	**3.710.646**	**360.422**	**296.979**	**20**	**17.270**	**2.383.818**	**397.649**	**195.754**	**–**	**–**
5. Trade receivables	–	–	–	–	–	1.660	440	–	–	–
6a. Monetary financial assets	36.481	6.934	–	–	–	59.006	15.643	–	–	–
6b. Non-monetary financial assets	–	–	–	–	–	–	–	–	–	–
7. Other	–	–	–	–	–	677	2	149	–	–
8. Non-current assets (5+6+7)	**36.481**	**6.934**	**–**	**–**	**–**	**61.343**	**16.085**	**149**	**–**	**–**
9. Total assets (4+8)	**3.747.127**	**367.356**	**296.979**	**20**	**17.270**	**2.445.161**	**413.734**	**195.903**	**–**	**–**
10. Trade payables	2.044.960	302.973	70.387	–	19.113	1.629.635	327.159	87.558	50	3
11. Financial liabilities	6.707.528	917.725	311.789	–	–	2.419.330	354.105	239.991	–	–
12a. Monetary other liabilities	9.561	201	1.411	–	–	14.929	199	3.140	–	–
12b. Non-monetary other liabilities	–	–	–	–	–	–	–	–	–	–
13. Short-term liabilities (10+11+12)	**8.762.049**	**1.220.899**	**383.587**	**–**	**19.113**	**4.063.894**	**681.463**	**330.689**	**50**	**3**
14. Trade payables	–	–	–	–	–	–	–	–	–	–
15. Financial liabilities	13.159.080	1.798.103	613.709	–	–	13.988.494	2.643.710	889.533	–	–
16 a. Monetary other liabilities	85.271	16.095	99	–	–	216.834	31.252	21.914	–	–
16 b. Non-monetary other liabilities	–	–	–	–	–	–	–	–	–	–
17. Long-term liabilities (14+15+16)	**13.244.351**	**1.814.198**	**613.808**	**–**	**–**	**14.205.328**	**2.674.962**	**911.447**	**–**	**–**
18. Total liabilities (13+17)	**22.006.400**	**3.035.097**	**997.395**	**–**	**19.113**	**18.269.222**	**3.356.425**	**1.242.136**	**50**	**3**
19. Net asset/(liability) position of off balance sheet derivative instruments (19a-19b)	**10.070.310**	**1.824.600**	**78.180**	**–**	**–**	**3.614.894**	**1.605.000**	**(540.140)**	**–**	**–**
19a. Total asset amount hedged	–	–	–	–	–	–	–	–	–	–
19b. Total liability amount hedged	(10.070.310)	(1.824.600)	(78.180)	–	–	(3.614.894)	(1.605.000)	540.140	–	–
20. Net foreign currency asset/(liability) position (9-18+19)	**(8.188.963)**	**(843.141)**	**(622.236)**	**20**	**(1.843)**	**(12.209.167)**	**(1.337.691)**	**(1.586.373)**	**(50)**	**(3)**
21. Net asset/(liability) position of foreign currency monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	**(18.368.039)**	**(2.668.663)**	**(717.648)**	**20**	**(1.872)**	**(15.935.867)**	**(2.948.145)**	**(1.066.438)**	**(50)**	**(3)**
22. Fair value of FX swap financial instruments	**(448.013)**	**(85.159)**	**–**	**–**	**–**	**365.659**	**96.943**	**–**	**–**	**–**
23. Hedged amount of foreign currency assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
24. Hedged amount of foreign currency liabilities	**(10.070.310)**	**(1.824.600)**	**(78.180)**	**–**	**–**	**(3.614.894)**	**(1.605.000)**	**540.140**	**–**	**–**

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

Foreign currency risk (continued)

The Group has transactional currency exposures mainly with respect to the financial liabilities and trade payables. Foreign currency denominated borrowings are stated in Note 5.

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar and Euro exchange rate, with all other variables held constant, of the Group's net profit for the year (due to changes in the fair value of monetary assets and liabilities):

31 December 2018	**Profit/Loss**		**Other comprehensive income**	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
Appreciation of USD against TL by 10%:				
1- USD net asset/liability	(1.398.652)	1.398.652	–	–
2- Hedged portion of USD risk (-) (*)	287.143	(196.188)	98.573	(70.465)
3- USD net effect (1+2)	**(1.111.509)**	**1.202.464**	**98.573**	**(70.465)**
Appreciation of Euro against TL by 10%:				
4- Euro net asset/liability	(422.151)	422.151	–	–
5- Hedged portion of Euro risk (-)	186.468	(156.462)	(52.525)	19.659
6- Euro net effect (4+5)	**(235.683)**	**265.689**	**(52.525)**	**19.659**
Appreciation of other foreign currencies against TL by 10%:				
7- Other foreign currency net asset/liability	(245)	245	–	–
8- Hedged portion of other foreign currency (-)	–	–	–	–
9- Other foreign currency net effect (7+8)	**(245)**	**245**	**–**	**–**
Total (3+6+9)	**(1.347.437)**	**1.468.398**	**46.048**	**(50.806)**

(*)Including the fair value differences of cross currency, interest rate swap and option contracts.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

Foreign currency risk (continued)

31 December 2017	Profit/Loss		Other comprehensive income	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Appreciation of USD against TL by 10%:				
1- USD net asset/liability	(1.137.335)	1.137.335	–	–
2- Hedged portion of USD risk (-)	55.277	(86.024)	(11.895)	11.895
3- USD net effect (1+2)	**(1.082.058)**	**1.051.311**	**(11.895)**	**11.895**
Appreciation of Euro against TL by 10%:				
4- Euro net asset/liability	(472.427)	472.427	–	–
5- Hedged portion of Euro risk (-)	55.520	(55.520)	–	–
6- Euro net effect (4+5)	**(416.907)**	**416.907**	**–**	**–**
Appreciation of other foreign currencies against TL by 10%:				
7- Other foreign currency net asset/liability	(25)	25	–	–
8- Hedged portion of other foreign currency (-)	–	–	–	–
9- Other foreign currency net effect (7+8)	**(25)**	**25**	**–**	**–**
Total (3+6+9)	**(1.498.990)**	**1.468.243**	**(11.895)**	**11.895**

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk

The value of a financial instrument will fluctuate as a result of changes in market prices. The Group's interest rate risk is primarily attributable to its borrowings.

The interest-bearing financial liabilities have variable interest rates, whereas the interest bearing financial assets have a fixed interest rate and future cash flows associated with these financial instruments will not fluctuate in amount. The Group is subject to interest risk due to financial liabilities and finance lease obligations. Policy of the Group is to manage this risk through fixed and variable rates borrowings. In order to cover for these risks, the Group has entered into interest rate swaps (Note 15).

The interest rate risk table is presented below:

	31 December 2018	31 December 2017
Financial instruments with fixed interest rate		
Financial assets	3.693.827	3.467.650
Financial liabilities	(5.040.115)	(4.070.254)
	(1.346.288)	(602.604)
Effect of hedging	(7.546.710)	(5.687.597)
	(8.892.998)	**(6.290.201)**
Financial instruments with variable interest rate		
Financial liabilities	(14.878.709)	(12.418.885)
Effect of interest rate swaps	7.546.710	5.687.597
	(7.331.999)	**(6.731.288)**

If the base point of denominated interest rates for financial instruments with variable interest rate was higher 0,25%, with all other variables held constant, the Group's income before tax and minority interest would be lower by TL 6.529 (31 December 2017: TL 6.640) and interest rate was lower 0,25%, with all other variables held constant, the Group's income before tax and minority interest would be higher by TL 6.229 (31 December 2017: TL 6.185) as of 31 December 2017.

On the other side because of hedging, if the base point of interest rate higher/lower 0.25%, equity would be higher by TL 57.004 (31 December 2017: TL 40.856), if the base point of interest rate lower 0,25%, equity would be lower by TL 57.858 (31 December 2017: TL 41.472).

Explanation on the presentation of financial assets and liabilities at their fair values

The below table summarizes the carrying and fair values of financial asset and liabilities in the Group's consolidated financial statements.

Due to their short-term nature, the fair value of trade and other receivables represents their book value. The fair value of borrowings with fixed interests is obtained by calculating their discounted cash flows using the market interest rate effective at the reporting date. The fair value of foreign currency denominated borrowings with variable interests is obtained by discounting the projected cash flows using estimated market interest rates.

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Explanation on the presentation of financial assets and liabilities at their fair values (continued)

	Carrying amount		Fair value	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Financial assets				
Cash and cash equivalents	4.494.536	4.100.204	4.494.536	4.100.204
Trade and other receivables (including related parties)	5.384.712	4.999.469	5.384.712	4.999.469
Financial investments (*)	11.995	11.840	(*)	(*)
Derivative financial assets	237.402	616.718	237.402	616.718
Financial liabilities				
Bank borrowings	15.040.979	12.732.751	15.039.834	12.731.473
Bills, bonds and notes issued	4.877.845	3.756.388	4.877.845	3.828.882
Financial leasing liabilities	2.594	2.599	2.594	2.599
Trade payables and other liabilities (including related parties) (**)	5.262.718	5.369.485	5.262.718	5.369.485
Derivative financial liabilities	732.938	309.441	732.938	309.441

(*) Group's share in Cetel is carried at cost. Information on fair value of share in Cetel is not available.

(**)Trade payables and other liabilities item includes trade and other payables, employee benefit obligations and other liabilities contained within other current liabilities. Taxes and other payables contained within employee benefit obligations and advances contained within other current liabilities are excluded.

Fair value hierarchy table

The group classifies the fair value measurement of each class of financial instruments according to the source, using the three-level hierarchy, as follows:

Level 1: Market price valuation techniques for the determined financial instruments traded in markets (unadjusted)

Level 2: Other valuation techniques includes direct or indirect observable inputs

Level 3: Valuation techniques does not contains observable market inputs

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Explanation on the presentation of financial assets and liabilities at their fair values (continued)

Fair value hierarchy table as at 31 December 2018 is as follows:

			Fair Value Measurement		
	Date of Valuation	**Total**	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial assets measured at fair value:					
Derivative Financial Assets:					
Cross currency swaps	31 December 2018	200.921	–	200.921	–
Interest rate swaps	31 December 2018	36.481	–	36.481	–
Financial liabilities measured at fair value:					
Bills, bonds and notes issued	31 December 2018	4.877.845	4.877.845	–	–
Derivative Financial Liabilities:					
Interest rate swaps	31 December 2018	84.004	–	84.004	–
Cross currency swaps	31 December 2018	648.934	–	648.934	–
Other financial liabilities not measured at fair value					
Bank loans	31 December 2018	15.039.834	–	15.039.834	–

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Explanation on the presentation of financial assets and liabilities at their fair values (continued)

Fair value hierarchy table as at 31 December 2017 is as follows:

			Fair Value Measurement		
	Date of Valuation	**Total**	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial assets measured at fair value:					
Derivative Financial Assets:					
Cross currency swaps	31 December 2017	557.712	–	557.712	–
Interest rate swaps	31 December 2017	59.006	–	59.006	–
Financial liabilities measured at fair value:					
Derivative Financial Liabilities:					
Interest rate swaps	31 December 2017	117.389	–	117.389	–
Cross currency swaps	31 December 2017	192.052	–	192.052	–
Other financial liabilities not measured at fair value					
Bank loans	31 December 2017	12.731.473	–	12.731.473	–
Bills, bonds and notes issued	31 December 2017	3.828.882	3.828.882	–	–

Capital management policies

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or return capital to shareholders. No changes were made in the objectives, policies or processes during the years 2017 and 2018.