

ÜLKER BİSKÜVİ SANAYİ A.Ş. AND ITS SUBSIDIARIES

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
(ORIGINALLY ISSUED IN TURKISH)**



**CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITOR'S REPORT
ORIGINALLY ISSUED IN TURKISH**

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Ülker Bisküvi Sanayi A.Ş.

A. Audit of the consolidated financial statements

1. Our opinion

We have audited the accompanying consolidated financial statements of Ülker Bisküvi Sanayi A.Ş. (the "Company") and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements comprising a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

2. Basis for opinion

Our audit was conducted in accordance with the Standards on Independent Auditing (the "SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the "POA"). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We hereby declare that we are independent of the Group in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3. Key audit matters

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



Key Audit Matters	How the key audit matter was addressed in the audit
<p>Fair value of available-for-sale financial assets</p>	
<p>As disclosed in Note 5, the companies conducting operations for Godiva brand are included in financial investments. These investments amounting to TRY 950 million were accounted at their fair value in the Group’s consolidated financial statements and there are no active market for these financial investments.</p> <p>The fair values of these financial investments were calculated by an independent valuation company using discounted cash flows and were checked with the comparable company method.</p> <p>Reasons why we focused on this topic:</p> <ul style="list-style-type: none"> • the fair value calculation includes data that cannot be easily observed in the market, the calculation depends on the growth rate, the weighted average cost of capital estimations (Note 2.4) and the achievement of projections for the next five years, • significance of financial assets in consolidated financial statements. 	<p>We determined that these financial investments were made based on the main areas of activity (USA, Canada and Other) of discounted cash flows, in US dollars and using growth rates and the weighted average cost of capital. The technical competency and independence of the valuation company that conducted the work was assessed by checking the relevant licenses.</p> <p>We, together with PwC Turkey valuation experts, communicated with experts from the independent valuation company and examined the valuation method and variables. Together with PwC experts, we determined that variables included in the calculation methods for the weighted average cost of capital rates are within the acceptable range in comparison with economic and financial data and comparable companies in the region. The reasonableness of the growth rates used was assessed by comparing the rates with the economic data for the relevant regions, and no inconsistency was detected.</p> <p>We obtained projections for the next five years based on the main activity areas and discussed their feasibility with Group management. We learned the status of specific region-based projects in estimations and assessed their impact on projections. We compared the previous business models with the current business models, determined the reasons for differences and, together with Group management, examined their affects on future models. We performed an analysis to test the sensitivity amounts of fair value work in scenarios with poor estimations. In our audit, we found no fair value change in calculated value which does not reasonable.</p> <p>We checked the mathematical accuracy of the fair value calculation and found no mistakes. We checked the sufficiency of the disclosure notes.</p>



Key Audit Matters	How the key audit matter was addressed in the audit
<p data-bbox="276 584 871 651">Impairment test for goodwill and reacquired rights</p> <p data-bbox="276 658 871 904">As disclosed in Note 13 and 14 as of 31 December 2019 goodwill amounting to TRY 388 million and reacquired rights amounting to TRY 236 million, were accounted in the Group consolidated financial statements. These assets have indefinite useful life and are applied yearly impairment tests in accordance with TFRS.</p> <p data-bbox="276 949 715 978">Reasons why we focused on this topic:</p> <ul data-bbox="276 1021 863 1451" style="list-style-type: none"> <li data-bbox="276 1021 863 1160">• the significance of the amounts in the consolidated financial statements which were accounted as goodwill, reacquired rights and fund as under common control in the equity; <li data-bbox="276 1205 863 1451">• important estimations such as weighted average cost of capital, growth rates and projections, which were made during impairment test and if these estimations had been different, the amount on the consolidated financial statements would have impaired significantly. 	<p data-bbox="887 658 1489 837">We examined used estimations with PwC experts compared estimations with economic and financial activities in the region. We paid special attention to ensuring that these assessments included variables in the first acquisition process.</p> <p data-bbox="887 882 1489 1084">We checked if the variables included in calculation methods for weighted average cost of capital are within acceptable ranges. The reasonableness of the growth rates used was assessed by comparing the rates with the economic data for the relevant regions.</p> <p data-bbox="887 1128 1489 1263">We examined the feasibility of the projections with Company management by comparing the projections with previous financial performance and current evaluations.</p> <p data-bbox="887 1308 1489 1420">We checked the mathematical accuracy of calculations and found no exception. We checked the sufficiency of the disclosure notes.</p>



Key Audit Matters	How the key audit matter was addressed in the audit
<p data-bbox="261 580 874 611">Fair value of buildings and land</p> <p data-bbox="261 618 874 1227">As disclosed in the Notes 2 and 12, the Group began to carry its land and buildings at their fair value as of 31 December 2018. The fair value of land and buildings in consolidated financial statements is TRY 1.163 million as of 31 December 2019, and TRY 647 million was recognised under equity as a change in fair value. Land and buildings were valued at the fair value reflecting market conditions as of 31 December 2017, in line with valuations reports obtained from licensed real estate valuation companies as per the provisions of capital markets legislation. During current period, it is assessed that there is no material change at fair values. Fair values were determined based on a method comparing the existing price of comparable real estate which was leased out or sold and located near the real estate in question.</p> <p data-bbox="261 1267 874 1442">Reasons why we focused on this topic are, significance of fair values in the consolidated financial statements and; their values were determined via estimations (room for negotiation, location adjustment, etc.)</p>	<p data-bbox="879 618 1492 757">The technical competency and independence of the valuation company that conducted the work was assessed by checking the relevant licenses, agreements and statements.</p> <p data-bbox="879 797 1492 972">The valuation work prepared for each property was obtained, and audit work was performed related with no material change at fair values. The carrying value of relevant property were checked for the accuracy of the increases in fair value.</p> <p data-bbox="879 1012 1492 1151">The accuracy of the valuation method was checked against the usage purpose of relevant property. Square meter areas used in fair value calculations were checked against the real estate title deeds.</p> <p data-bbox="879 1191 1492 1411">Various values used in average comparable value calculations by the valuation company were selected using the sampling method and compared with market values. Sensitivities created using estimations such as room for negotiation and location adjustment to the total value were assessed.</p> <p data-bbox="879 1451 1492 1626">Fair values in the valuation report were compared with the notes to assess if the values in notes and accounting records are consistent with the valuation report and the disclosure notes are sufficient in terms of TFRS.</p>



4. Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

5. Auditor's responsibilities for the audit of the consolidated financial statements

Responsibilities of independent auditors in an independent audit are as follows:

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

As part of an independent audit conducted in accordance with SIA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion

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

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

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



B. Other responsibilities arising from regulatory requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2019 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.
3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 5 March 2020.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

A handwritten signature in blue ink, appearing to read 'Baki Erdal', is written over a light blue horizontal line.

Baki Erdal, SMMM
Partner

Istanbul, 5 March 2020

**CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY
ISSUED IN TURKISH
ÜLKER BİSKÜVİ SANAYİ A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY
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ÜLKER BİSKÜVİ SANAYİ A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2019 AND
31 DECEMBER 2018
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated)**

ASSETS	Notes	Audited Current Period 31 December 2019	Audited Previous Period 31 December 2018
Current Assets		8.720.108	6.391.831
Cash and Cash Equivalents	4	5.080.978	3.378.761
Financial Investments	5	4.080	702
Trade Receivables			
- Due From Related Parties	7-33	2.106.741	1.564.689
- Other Trade Receivables	7	259.061	334.397
Other Receivables			
- Due From Related Parties	8-33	115.619	627
- Other Receivables	8	37.283	38.554
Derivatives Instruments	9	358.919	323.087
Inventories	10	592.698	604.554
Prepaid Expenses			
- Due To Related Parties	19-33	41.545	36.368
- Other Prepaid Expenses	19	42.946	39.690
Current Income Tax Assets		4.583	16.899
Other Current Assets	21	75.655	53.503
Non-Current Assets		4.071.644	4.278.041
Financial Investments	5	946.029	1.340.221
Other Receivables			
- Other Receivables	8	460	234
Investment Properties	11	21.155	21.036
Tangible Assets	12	2.383.177	2.276.366
Intangible Assets			
- Goodwill	13	388.047	331.975
- Other Intangible Assets	14	292.188	257.758
Prepaid Expenses	19	7.602	9.628
Deferred Tax Asset	31	32.986	40.823
TOTAL ASSETS		12.791.752	10.669.872

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY
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ÜLKER BİSKÜVİ SANAYİ A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2019 AND
31 DECEMBER 2018
(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated)

	<u>Notes</u>	Audited Current Period 31 December 2019	Audited Previous Period 31 December 2018
LIABILITIES			
Current Liabilities		6.800.011	1.844.865
Short Term Financial Liabilities	6	150.764	85.519
Short Term Portion of Long Term Financial Liabilities	6	5.088.239	369.129
Trade Payables			
- Due to related parties	7-33	607.365	520.308
- Other trade payables	7	617.233	593.789
Employee Benefit Related Liabilities	20	44.822	33.332
Other Payables			
- Due to Related Parties	8-33	113	1.177
- Other Payables	8	4.994	5.631
Deferred Revenue	22	11.854	37.351
Current Income Tax Liabilities	31	68.967	15.214
Short Term Provisions			
- Short Term Provisions for Employee Benefits	18	66.366	51.301
- Other Short Term Provisions	16	103.331	90.968
Other Current Liabilities	21	35.963	41.146
Non-Current Liabilities		1.057.509	5.145.275
Long Term Financial Liabilities	6	701.318	4.791.105
Long Term Provisions			
- Long Term Provisions for Employee Benefits	18	161.010	115.344
Deferred Tax Liabilities	31	195.181	238.826
SHAREHOLDERS' EQUITY	23	4.934.232	3.679.732
Equity Attributable To Equity Holders' of the Parent		4.411.329	3.296.237
Share Capital		342.000	342.000
Inflation Adjustments to Share Capital		108.056	108.056
Effect of Business Combinations Under Common Control		(485.419)	(498.670)
Other Comprehensive Income/Expense not to be Reclassified to Profit and Loss			
- Increases on Revaluation of Plant, Property and Equipment		647.779	647.779
- Actuarial Gains and Losses on Post-Employment Termination Benefit Obligation		(26.435)	(21.173)
- Gains from Financial Assets Measured at Fair Value through Other Comprehensive Income		513.939	1.099.942
-Other Gains		817.879	-
Other Comprehensive Income/Expense to be Reclassified to Profit and Loss			
- Currency Translation Adjustments		(57.006)	(89.429)
- Cash Flow Hedges		3.695	52.481
Restricted Reserves		131.587	131.587
Retained Earnings		1.509.952	822.885
Net Profit for the Period		905.302	700.779
Non-Controlling Interest		522.903	383.495
TOTAL LIABILITIES AND EQUITY		12.791.752	10.669.872

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED
IN TURKISH**

ÜLKER BİSKÜVİ SANAYİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF INCOME FOR THE YEARS ENDED 31 DECEMBER 2019 AND
31 DECEMBER 2018**

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

	Notes	Audited Current Period 1 January - 31 December 2019	Audited Previous Period 1 January - 31 December 2018
PROFIT OR LOSS			
Revenue	24	7.803.120	5.955.508
Cost of Sales (-)	24	(5.663.928)	(4.395.223)
GROSS PROFIT FROM OPERATIONS		2.139.192	1.560.285
General Administrative Expenses	25-26	(234.744)	(159.664)
Marketing, Sales and Distribution Expenses	25-26	(752.076)	(598.206)
Research and Development Expenses	25-26	(19.956)	(12.551)
Other Operating Income	27	87.331	114.557
Other Operating Expenses	27	(66.029)	(125.337)
OPERATING PROFIT FROM MAIN OPERATIONS		1.153.718	779.084
Income from Investment Activities	28	1.131.907	1.709.158
Expenses from Investment Activities	28	(125.248)	(13.599)
OPERATING PROFIT BEFORE FINANCIAL INCOME AND EXPENSES		2.160.377	2.474.643
Financial Income	29	554.695	1.285.301
Financial Expenses	30	(1.466.132)	(2.786.405)
PROFIT BEFORE TAX		1.248.940	973.539
Tax Expense		(237.716)	(185.918)
Corporate Tax Expense	31	(232.123)	(118.197)
Deferred Tax Expense	31	(5.593)	(67.721)
PROFIT FOR THE PERIOD		1.011.224	787.621
Distribution of the Profit for the Period			
Non-Controlling Interest		105.922	86.842
Equity Holders of the Parent		905.302	700.779
Earnings per Share	32	2,65	2,05

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED
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ÜLKER BİSKÜVİ SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED

31 DECEMBER 2019 AND 31 DECEMBER 2018

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

	Audited Current Period 1 January - 31 December 2019	Audited Previous Period 1 January - 31 December 2018
PROFIT FOR THE PERIOD	1.011.224	787.621
Other Comprehensive Income		
Not to be Reclassified To Profit and Loss	225.532	380.902
Actuarial Loss on Post-Employment Termination Benefit Obligation	(7.930)	(9.539)
Gains from Tangible Asset Revaluation	-	10.677
Gains from Financial Assets Measured at Fair Value through Other Comprehensive Income	201.405	399.836
Deferred Tax for the Items That Will not be Reclassified in Profit and Loss		
Actuarial Loss on Post-Employment Termination Loss Obligation, Deferred Tax Effect	1.586	452
Increases on Revaluation of Plant, Property and Equipment, Deferred Tax Effect	-	(532)
Gains from Financial Assets Measured at Fair Value through Other Comprehensive Income, Tax Effect	30.471	(19.992)
Items to be Reclassified to Profit and Loss	17.744	60.489
Currency Translation Adjustments	66.530	24.033
Cash Flow Hedges	(62.546)	47.252
Deferred Tax For The Items That Will be Reclassified to Profit and Loss		
Cash Flow Hedges, Deferred Tax Effect	13.760	(10.796)
OTHER COMPREHENSIVE INCOME	243.276	441.391
TOTAL COMPREHENSIVE INCOME	1.254.500	1.229.012
Distribution of Total Comprehensive Income		
Non-Controlling Interest	139.408	129.117
Equity Holders of the Parent	1.115.092	1.099.895

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ÜLKER BİSKÜVİ SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

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

	Accumulated Other Comprehensive Income To Be Reclassified Under Profit And Loss		Accumulated Other Comprehensive Income Not To Be Reclassified To Profit And Loss							Accumulated Profit					
	Share Capital	Inflation Adjustments to Share Capital	Effect of Business Combinations Under Common Control	Currency Translation Adjustments	Cash Flow Hedges	Revaluation Plant, Property and Equipment	Actuarial Gains and (Losses) on Post-Employment Termination Benefit Obligation	Financial Assets Fair Value Through Other Comprehensive Income	Other Gains	Restricted Reserves Appropriated From Profits	Net Profit For the Period	Retained Earnings	Equity Attributable to Equity Holders of the Parent	Non-Controlling Interest	Total
As of 1 January 2018	342.000	108.056	(559.686)	(67.666)	16.025	659.037	(15.401)	743.710	-	124.497	397.259	536.511	2.284.342	268.255	2.552.597
Transfer	-	-	61.016	-	-	(21.143)	-	(24.078)	-	7.090	(397.259)	374.374	-	-	-
Total comprehensive income	-	-	-	(21.763)	36.456	9.885	(5.772)	380.310	-	-	700.779	-	1.099.895	129.117	1.229.012
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	(88.000)	(88.000)	(13.877)	(101.877)
As of 31 December 2018	342.000	108.056	(498.670)	(89.429)	52.481	647.779	(21.173)	1.099.942	-	131.587	700.779	822.885	3.296.237	383.495	3.679.732
As of 1 January 2019	342.000	108.056	(498.670)	(89.429)	52.481	647.779	(21.173)	1.099.942	-	131.587	700.779	822.885	3.296.237	383.495	3.679.732
Transfer	-	-	13.251	-	-	-	461	(817.879)	817.879	-	(700.779)	687.067	-	-	-
Total comprehensive income	-	-	-	32.423	(48.786)	-	(5.723)	231.876	-	-	905.302	-	1.115.092	139.408	1.254.500
As of 31 December 2019	342.000	108.056	(485.419)	(57.006)	3.695	647.779	(26.435)	513.939	817.879	131.587	905.302	1.509.952	4.411.329	522.903	4.934.232

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

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ÜLKER BİSKÜVİ SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED

31 DECEMBER 2019 AND 2018

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated)

	<u>Notes</u>	Audited Current Period 1 January - 31 December 2019	Audited Previous Period 1 January- 31 December 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Profit for the Period		1.011.224	787.621
Adjustments to Reconcile Net Profit			
Adjustment for Depreciation and Amortization Expenses			
Depreciation expenses of tangible assets	11-12	165.471	145.905
Amortization expenses of intangible assets	14	5.639	3.399
Adjustment for Impairment Loss (Reversal)			
Provision for doubtful receivables	7	(9.307)	4.512
Adjustment for impairment loss of other financial investments Loss/(gain)			
Increase in financial investments		(104)	(83)
Decrease in financial investments		114.002	-
Adjustment for impairment loss of inventories	10	14.654	3.043
Adjustment for Provisions			
Adjustments for Provisions Related with Employee Benefits			
Provision for employment benefits	18	53.788	39.393
Provision for unused vacation	18	17.393	14.675
Provision for premium	18	48.488	24.158
Adjustments for Provision (Cancelled) Lawsuits		2.227	(108)
Adjustments for Other Provisions			
Change in Other Provisions (net)		11.506	48.311
Adjustments for Dividend Income		(83)	(231)
Adjustments for Interest Income and Expense			
Adjustments for Interest Income	28	(536.151)	(190.732)
Adjustments for Interest Expense			
Interest expense	30	413.353	330.265
Rediscounted interest expense (net)	27	5.239	7.863
Adjustments for Gains on Fair Values			
Fair Value Increase of Investment Properties	28	(1.115)	(4.844)
Adjustment for Tax Expenses	31	237.716	185.918
Adjustments for Losses (Gains) on Disposals of Non-Current Assets			
Adjustments for Gains Arised from Sale of Tangible Assets	28	1.846	1.577
Adjustments for Losses (Gains) on Disposals of other Adjustments for which Cash Effects are Investing of Financing Cash Flow			
Change in foreign currency of financial liabilities (net)	29-30	474.289	1.129.076
Change in foreign currency from investing activities (net)	28	(574.714)	(1.492.753)
Commission expenses and finance service income (net)		23.795	43.664
Income from derivative instruments (net)	29-30	-	(1.901)
Other Adjustments to Reconcile Profit/(Loss)			
Rent income	28	(10.444)	(8.576)
Net operating cash flows provided before changes in working capital		<u>1.468.712</u>	<u>1.070.152</u>

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED
IN TURKISH**

ÜLKER BİSKÜVİ SANAYİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated)

1. ORGANIZATION AND OPERATIONS OF THE GROUP

Ülker Bisküvi Sanayi A.Ş. (“the Company”) and its subsidiaries (all together “the Group”), comprises of the parent Ülker Bisküvi Sanayi A.Ş. (“the Company”) and fourteen subsidiaries in which the Company owns the majority share of the capital or which are controlled by the Company (2018: Fifteen)

Ülker Bisküvi Sanayi A.Ş. was established in 1944. The Company’s core business activities are manufacturing of biscuits, chocolate, chocolate coated biscuits, wafers and cakes.

Ülker Bisküvi Sanayi A.Ş. which is registered at the Capital Market Board, merged under its own title with Anadolu Gıda Sanayi A.Ş., whose shares have been quoted on Borsa Istanbul since 30 October 1996, as of 31 December 2003.

The headquarter of Ülker Bisküvi Sanayi A.Ş. is located Kısıklı Mah. Ferah Cad. No:1 Büyük Çamlıca Üsküdar/Istanbul.

As of 31 December 2019, the total number of people employed by the Group is 8.921, which contains 1.276 employees who worked as subcontractors (31 December 2018: 9.029, subcontractor: 1.180).

The ultimate parent and the controlling party of the Group is pladis Foods Limited. The ultimate controlling party is Yıldız Holding A.Ş.. pladis Foods Limited is subsidiary of Yıldız Holding A.Ş. with a shares of 100%. Yıldız Holding A.Ş. is managed by Ülker Family.

As of 31 December 2019 and 31 December 2018, the names and percentages of the shareholders holding more than 5% of the Company’s share capital are as follows:

Name of the Shareholders	31 December 2019		31 December 2018	
	Share	Percentage	Share	Percentage
pladis Foods Limited	174.420	51,00%	174.420	51,00%
Ülker Family Members and Yıldız Holding A.Ş.	25.580	7,48%	25.580	7,48%
Other	142.000	41,52%	142.000	41,52%
	342.000	100,00%	342.000	100,00%

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1. ORGANIZATION AND OPERATIONS OF THE GROUP (Continued)

As of 31 December 2019 and 31 December 2018, the details of the subsidiaries under consolidation in terms of direct and effective share of ownership and principal business activities are as follows:

Subsidiaries	31 December 2019		31 December 2018		Nature of Operation
	Ratio of Direct Ownership	Ratio of Effective Ownership	Ratio of Direct Ownership	Ratio of Effective Ownership	
Biskot Bisküvi Gıda Sanayi ve Ticaret A.Ş.	73,9%	73,9%	73,9%	73,9%	Manufacturing
Ülker Çikolata Sanayi A.Ş.	91,7%	91,7%	91,7%	91,7%	Manufacturing
Atlas Gıda Pazarlama Sanayi ve Ticaret A.Ş.	100,0%	100,0%	100,0%	100,0%	Trading
Reform Gıda Paz. San. ve Tic. A.Ş.	100,0%	100,0%	100,0%	100,0%	Trading
İstanbul Gıda Dış Ticaret A.Ş. (*)	-	-	100,0%	100,0%	Export
UI Egypt B.V.	51,0%	51,0%	51,0%	51,0%	Investing
Hi-Food for Advanced Food Industries	-	51,4%	-	51,4%	Manufacturing
Sabourne Investments Ltd	100,0%	100,0%	100,0%	100,0%	Investing
Food Manufacturers' Company	-	55,0%	-	55,0%	Manufacturing/Sales
Hamle Company Ltd LLP	100,0%	100,0%	100,0%	100,0%	Manufacturing/Sales
Ulker Star LLC	-	99,0%	-	99,0%	Sales
UI Mena BV	100,0%	100,0%	100,0%	100,0%	Investing
Amir Global Trading FZE	-	100,0%	-	100,0%	Sales
Ulker for Trading and Marketing	-	99,8%	-	99,8%	Sales
International Biscuits Company	100,0%	100,0%	100,0%	100,0%	Manufacturing/Sales

(*) On 27 December 2019, the Group sold 20,249,999 of the total 20,250,000 shares of İstanbul Gıda Dış Ticaret A.Ş., with a price of 114,854,580 Turkish Liras (one hundred fourteen million eight hundred fifty four thousand five hundred eighty).

Approval of Financial Statements:

The Board of Directors has approved the financial statements and given authorization for the issuance on 5 March 2020. The General Assembly has the authority to amend/modify the financial statements.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of the Presentation

Principles for Preparation of Financial Statements and Significant Accounting Policies

The accompanying consolidated financial statements are prepared in accordance with Communiqué Serial II, No:14.1, “Principles of Financial Reporting in Capital Markets” (“the Communiqué”) published in the Official Gazette numbered 28676 on 13 June 2013. According to Article 5 of the Communiqué, consolidated financial statements are prepared in accordance with the Turkish Accounting Standards (“TAS”) issued by Public Oversight Accounting and Auditing Standards Authority (“POAASA”). TAS contains Turkish Accounting Standards, Turkish Financial Reporting Standards (“TFRS”) and its addendum and interpretations (“TFRIC”).

The consolidated financial statements of the Group are prepared as per the CMB announcement of 7 June 2013 relating to financial statements presentations.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis of the Presentation (Continued)

Principles for Preparation of Financial Statements and Significant Accounting Policies (Continued)

In accordance with the CMB resolution issued on 17 March 2005, listed companies operating in Turkey are not subject to inflation accounting effective from 1 January 2005. Therefore, the consolidated financial statements of the Group have been prepared accordingly.

The Company and Subsidiaries in Turkey maintain their books of accounts and prepare their statutory financial statements in accordance with the Turkish Commercial Code ("TCC"), tax legislation, the Uniform Chart of Accounts issued by the Ministry of Finance and principles issued by CMB. The foreign subsidiaries maintain their books of account in accordance with the laws and regulations in force in the countries in which they are registered. These consolidated financial statements have been prepared under historical cost conventions except for land, buildings, financial assets and financial liabilities which are carried at fair value. The consolidated financial statements are based on the statutory records, which are maintained under historical cost conventions.

Functional and Presentation Currency

Financial statements of each subsidiary of the Group are presented in the currency of the primary economic environment in which the entities operate (its functional currency). The results and financial position of the each subsidiary are expressed in Turkish Lira, which is the presentation currency of the Group.

As of 31 December 2019, rates declared by Central Bank of Republic of Turkey are; 1 Euro = 6,6506 TL, 1 USD 5,9402 TL, 1 EGP = 0,3703 TL, 1 SAR = 1,5834 TL, 1 KZT = 0,0156 TL, 1 AED = 1,6186 TL (31 December 2018: 1 Euro = 6,0280 TL, 1 USD 5,2609 TL, 1 EGP = 0,2943 TL, 1 SAR = 1,4024 TL, 1 KZT = 0,0138 TL, 1 AED = 1,4336 TL). For the period between 1 January 2019 and 31 December 2019, average rates declared by Central Bank of Republic of Turkey are; 1 Euro = 6,3481 TL, 1 USD = 5,6712 TL, 1 EGP = 0,3380 TL, 1 SAR = 1,5121 TL, 1 KZT = 0,0148 TL, 1 AED = 1,5453 TL (1 January – 31 December 2018: 1 Euro = 5,6789 TL, 1 USD = 4,8301 TL, 1 EGP = 0,2711 TL, 1 SAR = 1,2878 TL, 1 KZT = 0,0139 TL, 1 AED = 1,3162 TL)

Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

(b) Changes in ownership interests in subsidiaries without change of control

Changes in the Group's ownership interests in subsidiaries that do not result in the loss of control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recorded directly in equity and attributed to owners of the Company.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis of the Presentation (Continued)

Consolidation (Continued)

(c) Losses control of subsidiaries

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable TAS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under TFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

2.2 New and Revised International Financial Reporting Standards

The Group has applied the standards which are relevant to its operations from the standards, amendments and interpretations applicable from 1 January 2019.

Standards, amendments and interpretations applicable as at 31 December 2019:

Amendment to TFRS 9, “Financial instruments”; effective from annual periods beginning on or after 1 January 2019.

Amendment to TAS 28, “Investments in associates and joint venture”; effective from annual periods beginning on or after 1 January 2019.

TFRS 16, “Leases”; effective from annual periods beginning on or after 1 January 2019

TFRIC 23, “Uncertainty over income tax treatments”; effective from annual periods beginning on or after 1 January 2019.

Annual improvements 2015-2017; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

TFRS 3 “Business combinations”; - a company remeasures its previously held interest in a joint operation when it obtains control of the business.

TFRS 11, “Joint arrangements”, – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

TAS 12, “Income taxes” – a company accounts for all income tax consequences of dividend payments in the same way.

TAS 23, “Borrowing costs” – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

Amendments to TAS 19, “Employee benefits” on plan amendment, curtailment or settlement’; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 New and Revised International Financial Reporting Standards (Continued)

Standards, amendments and interpretations applicable as at 31 December 2019 (Continued):

Use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and

Recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

Standards, amendments and interpretations that are issued but not effective as at 31 December 2019:

Amendments to TAS 1 and TAS 8 on the definition of material; effective from Annual periods beginning on or after 1 January 2020

Amendments to TFRS 3 - definition of a business; effective from Annual periods beginning on or after 1 January 2020.

Amendments to TFRS 9, IAS 39 and TFRS 7 – Interest rate benchmark reform; effective from Annual periods beginning on or after 1 January 2020.

TFRS 17, ‘Insurance contracts’; effective from annual periods beginning on or after 1 January 2021.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

The Group has finalized their assessments for TFRS 16 “Leases” as of 31 December 2019, and concluded that IFRS 16 does not have a significant impact on the consolidated financial statements.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of Significant Accounting Policies

The accounting policies applied in preparation of the accompanying financial statements are as follows. This accounting policy was applied in a consistent manner unless otherwise settled:

Revenue recognition

Group recognizes revenue when the goods or services is transferred to the customer and when performance obligation is fulfilled. Goods is counted to be transferred when the control belongs to the customer.

Group recognizes revenue based on the following five main principles according to TFRS 15 “Revenue from Contracts with Customers”:

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

Group evaluates each contracted obligation separately and respective obligations, committed to deliver the distinct goods or perform services, are determined as separate performance obligations. Group determines at contract inception whether the performance obligation is satisfied over time or at a point in time. When the Group transfers control of a good or service over time, and therefore satisfies a performance obligation over time, then the revenue is recognised over time by measuring the progress towards complete satisfaction of that performance obligation. When a performance obligation is satisfied by transferring promised goods or services to a customer, the Group recognises the revenue as the amount of the transaction price that is allocated to that performance obligation. The goods or services are transferred when the control of the goods or services is delivered to the customers. Following indicators are considered while evaluating the transfer of control of the goods and services, a) presence of Group’s collection right of the consideration for the goods or services, b) customer’s ownership of the legal title on goods or services, c) physical transfer of the goods or services, d) customer’s ownership of significant risks and rewards related to the goods or services, e) customer’s acceptance of goods or services. If Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less, the promised amount of consideration for the effects of a significant financing component is not adjusted. On the other hand, when the contract effectively constitutes a financing component, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised on an accrual basis as other operating income.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on weighted average basis. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of income/(loss) in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

Tangible Assets

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in shareholders’ equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Revaluations are made for not more than 5 years, not to differ materially from the book value of the fair value to be determined at the balance sheet date. All other tangible assets are shown by deducting accumulated depreciation from the historical cost value. Cost value includes direct asset and associative acquisition costs.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of Significant Accounting Policies (Continued)

Tangible Assets (Continued)

Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from the property, plant and equipment revaluation surplus to retained earnings. All other tangible assets are recognized at the value after accumulated depreciation and impairment are deducted from cost values.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Assets held under financial leasing are depreciated over their expected useful lives on the same basis as owned assets. Gain or loss from selling or abandoning from service of property, plant and equipment is equal to the difference between revenue and book value of assets and gain or loss is booked under statement of income.

Leases

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.

Lease - The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. 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.

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

Lease - The Group as lessee

Operating lease payments (also in the event that lease incentives are received to enter into operating leases, such incentives are recognized under Profit or Loss Statement) which out of the TFRS 16 scope are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of Significant Accounting Policies (Continued)

Business Combinations

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Business combinations are accounted in accordance with TFRS 3 "Business Combinations" except for the assets (or disposal groups) that are classified as held for sale in accordance with TFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that Standard.

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

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

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

Transactions with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For share purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. In case of the share sales to non-controlling interests, differences between any proceeds received and the relevant share of non-controlling interests are also recorded in equity.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of Significant Accounting Policies (Continued)

Investment Properties (Continued)

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property that is measured at fair value to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property that is measured at fair value, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

The fair value of investment properties is determined by the valuation institutions with sufficient experience in the valuation of accredited, similar investment properties determined by the CMB. Investment properties enter the 2nd level in the hierarchy table.

Intangible Assets

Intangible assets acquired separately

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

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (5–10 years).

Computer software development costs recognized as assets are amortized over their estimated useful lives.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognized separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. The cost of such intangible assets is initially recognized at their fair value at the acquisition date

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

Derecognition of intangible assets

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

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of Significant Accounting Policies (Continued)

Impairment of Assets:

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

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

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

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

When the Group borrows funds specifically for the purpose of the qualifying assets, the amount of borrowing costs eligible for capitalization is the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

General borrowings of the Group are capitalized to the applicable qualifying assets based on a capitalization rate. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the statement of income/ (loss) in the period in which they are incurred.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of Significant Accounting Policies (Continued)

Financial instruments

Financial assets

Classification and measurement

Group classified its financial assets in three categories; financial assets carried at amortized cost, financial assets carried at fair value through profit or loss, financial assets carried at fair value through other comprehensive income. Classification is performed in accordance with the business model determined based on the purpose of benefits from financial assets and expected cash flows. Management performs the classification of financial assets at the acquisition date.

(a) Financial assets carried at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, whose payments are fixed or predetermined, which are not actively traded and which are not derivative instruments are measured at amortized cost. They are included in current assets, except for maturities more than 12 months after the balance sheet date. Those with maturities more than 12 months are classified as non-current assets. The Group's financial assets carried at amortized cost comprise "trade receivables" and "cash and cash equivalents" in the statement of financial position. In addition, with recourse factoring receivables classified in trade receivables are classified as financial assets carried at amortized cost since collection risk for those receivables are not transferred to counterparty.

Impairment

Group has applied simplified approach and used impairment matrix for the calculation of impairment on its receivables carried at amortized cost, since they do not comprise of any significant finance component. In accordance with this method, if any provision provided to the trade receivables as a result of a specific events, Group measures expected credit loss from these receivables by the life-time expected credit loss. The calculation of expected credit loss is performed based on the past experience of the Group and its expectations for the future indications.

(b) Financial assets carried at fair value

Assets that are held by the management for collection of contractual cash flows and for selling the financial assets are measured at their fair value. If the management do not plan to dispose these assets in 12 months after the balance sheet date, they are classified as non-current assets. Group make a choice for the equity instruments during the initial recognition and elect profit or loss or other comprehensive income for the presentation of fair value gain and loss:

i) Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through other comprehensive income comprise of "financial assets" in the statement of financial position. Group carried these assets at their fair values. The fair value gains and losses are recognized in other comprehensive income after the deduction of impairment losses and foreign exchange income and expenses. When the financial assets carried at fair value through other comprehensive income are sold, fair value gain or loss classified in other comprehensive income is classified to retained earnings.

ii) Financial assets carried at fair value through other comprehensive income

Financial assets carried at fair value through other comprehensive income comprise of "financial assets" in the statement of financial position. Group carried these assets at their fair values. The fair value gains and losses are recognized in other comprehensive income after the deduction of impairment losses and foreign exchange income and expenses. When the financial assets carried at fair value through other comprehensive income are sold, fair value gain or loss classified in other comprehensive income is classified to retained earnings.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Recognition and de-recognition of financial instruments

All purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase or to sell the asset. These purchases or sales are purchases or sales generally require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the consolidated financial statements.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Financial Liabilities

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective yield method; any difference between proceeds, net of transaction costs, and the redemption value is recognized in the statement of profit or loss over the period.

Borrowing costs are charged to the statement of profit or loss when they are incurred. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade receivable

Trade receivables that are created by the Group by way of providing goods or services directly to a debtor are carried at amortized cost. Receivables with short-term maturities which have no predefined interest rate are measured at the original invoice amount unless the effect of imputed interest is significant.

A doubtful receivable provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The receivables in process of lawsuit or enforcement or in a prior stage, the customer having material financial difficulties, the receivable turning default or the possibility of material and unforeseeable delay in the future collection are included under objective evidences. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception. Also, Group has applied simplified approach and used impairment matrix for the calculation of impairment on its receivables carried at amortized cost, since they do not comprise of any significant finance component. In accordance with this method, if any provision provided to the trade receivables as a result of a specific events, Group measures expected credit loss from these receivables by the life-time expected credit loss. The calculation of expected credit loss is performed based on the past experience of the Group and its expectations for the future indications.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of Significant Accounting Policies (Continued)

Foreign Currency Transactions:

In preparing the consolidated financial statements of the Group, transactions in currencies other than TRY (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At balance sheet, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings,
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks,
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment,

They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill, brand and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate

Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Earnings Per Share:

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of Significant Accounting Policies (continued)

Events After the Reporting Period

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

The Group adjusts the amounts recognized in its financial statements if adjusting events occur after the balance sheet date.

Provisions, Contingent Assets and Contingent Liabilities:

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

The amount recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date, that is, the amount that an entity would rationally pay to settle the obligation at the balance sheet date.

If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement could be recognized as an asset when, and only when, it is virtually certain that reimbursement will be received and can be estimated reliably.

Related Party Disclosures:

Related parties in consolidated financial statements: A related party, persons or company that is related to the company that is preparing its consolidated financial statements.

(a) A person or a close member of that person’s family is related to an company if that person:

- (i) has control or joint control of the company,
- (ii) has significant influence over the company,
- (iii) is a member of the key management personnel of the ecompany or of a parent of the company.

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

- (i) The company members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One company is an associate or joint venture of the other company (or an associate or joint venture of a member of a group of which the other company is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The company is a post-employment benefit plan for the benefit of employees of either the company or a company related to the company. If the company is itself such a plan, the sponsoring employers are also related to the company.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party transactions: A company transaction is a transfer of resources, services or obligations between a company and a related party, regardless of whether a price is charged.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of Significant Accounting Policies (continued)

Government Grants and Incentives:

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight- line basis over the expected lives of the related assets, or alternatively netted off with the cost of related asset.

Current and deferred income tax

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

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from ‘profit before tax’ as reported in the income statement because of items of income or expense that are taxable or deductible in other years and it items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of Significant Accounting Policies (continued)

Current and deferred income tax (continued)

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

Current and deferred tax for the period

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

Employee Benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per TMS 19 (Revised) Employee Benefits (“TMS 19”).

The retirement benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation. All actuarial gains and losses calculated are recognized in the other comprehensive statement of profit or loss.

Statement of Cash Flows

In the statement of cash flows, cash flows during the period are classified under operating, investing or financing activities.

The cash flows arisen from operating activities indicate cash flows due to the Group entities’ operations.

The cash flows due to investing activities indicate the Group cash flows that are used for and obtained from investments (investments in property, plant and equipment and financial investments).

The cash flows due to financing activities indicate the cash obtained from financial arrangements and used in their repayment.

Share Capital and Dividends

Ordinary shares are classified as equity. Dividends distributed over the ordinary shares are classified as dividend liability after deducting retained earnings at the period in which the dividend distribution decision is made.

Shareholders’ Equity

In the restatement of shareholders’ equity items, the addition of funds formed due to hyperinflation such as the revaluation value increase fund in share capital is not considered as a contribution from shareholders. Additions of legal reserves and retained earnings to share capital are considered as contributions by shareholders. In the restatement of shareholders’ equity items added to share capital the capital increase registry dates or the payment dates are considered.

Revaluation fund included in the value increase funds is related to the value increase at the date of the transaction of the net assets owned by the Group before the sale transaction.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Summary of Significant Accounting Policies (continued)

Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- i. Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges)
- ii. Hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or,
- iii. Hedges of a net investment in a foreign operation (net investment hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 9. Movements in the hedging reserve in shareholders' equity are shown in Note 34. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs.

Goodwill

The amount of goodwill that arising in the purchase transaction, is valued at the cost value at the date of purchase transaction after deducting the impairment provisions, if any.

Goodwill that allocated to cash generating unit is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

An impairment loss is recognised for the amount by which the cash generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Impairment for goodwill is accounted to profit and loss. Impairment losses on goodwill are not reversed. Goodwill related with cash generating unit is considered at sales profit/loss.

The Group acquired business from its ultimate shareholder as under common control and accounted its book values as accounted at ultimate shareholder level including goodwill (Note 13).

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Critical Accounting Estimates, Assumptions and Judgements:

In the process of applying the entity's accounting policies, which are described in note 2.3, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements.

Reacquired Rights

The Group accounted for reacquired rights at fair value within scope of the reacquisition of rights which were provided exclusivity before to third parties. Reacquired rights have indefinite useful life and are not subject to amortization. Reacquired rights are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Reacquired rights comprises from products distribution rights in Saudi Arabia. Discounted cash flow used to identify goodwill is applied with 10,9% discount rate and 2.7% long term growth rate (2018: % 12,5 discount rate and % 3.0 long term growth rate). A change in discount rate by 1% effects amount of goodwill by TL 5,975 thousand (2018 : TL 5.716 thousand).

The brand of the Group is comprised of the business acquired from its main partner as a business combination that is subject to joint control, and its accounting values in the Group's records, at the level of the parent (Note 14). 2.6% royalty rate and 2.7% final growth rate were used in the royalty free method used to determine the value of the brand. 1% change in the royalty rates used does not cause a impairment.

Deferred taxes:

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between the financial statements as reported for TFRS purposes and financial statements prepared in accordance with the tax legislation. These differences arise from the differences in accounting periods for the recognition of income and expenses in accordance with TFRS and tax legislation. Group has deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future.

As of 31 December 2019, the Group has accounted for deferred tax assets by TL 21.115 thousand (2018 : TL 37.596 thousand) in consolidated financial statements due to the investment incentives regarding to expansion and product diversifications.

Fully or partial recoverability of tax assets are estimated based on available current evidences. The main factors which are considered include future earnings potential; cumulative losses in recent years; expiration dates of both loss carry-forwards and other tax assets; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset.

As of 31 December 2019, the Company has accounted for deferred income tax assets amounting to TL 75.059 thousand from the carry forward tax losses amounting to TL 15.012 thousand in the consolidated financial statements. As of 31 December 2018, the Company has accounted for deferred income tax assets amounting to TL 66.494 thousand from the carry forward tax losses amounting to TL 13.299 thousand in the consolidated financial statements

Fair values of derivative instruments and other financial instruments

The Group determines the fair values of its financial instruments without an active market using various market information for similar transaction, similar instruments with fair values and discounted cash flow analysis with an independent third party valuation company Duff and Phelps LLC which has compliance with the valuation competence criteria determined by CMB. 5 years discounted cash flow analysis is applied with 12,0% (2018: 9,4%) discount rate and 2,0% (2018: 1,8%) long term growth rate for G-New and 12,0% (2018: 9,7%) discount rate and 2,0% (2018: 1,8%) long term growth rate for Godiva Belgium which are Group's financial investments. A change in discount rate by 0,3% effects the fair value of G-New and Godiva Belgium amounting to TL 4.101 thousand (2018: TL 6.892 thousand).

Goodwill

The Group acquired business from its ultimate shareholder as under common control and accounted its book values as accounted at ultimate shareholder level including goodwill (Note 13). Discounted cash flow used to identify goodwill is applied with 10,5% discount rate and 2,7% long term growth rate. 1% change in the rates used does not cause a decrease in goodwill.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Financial Information Related to Subsidiaries:

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group as of 31 December 2019 and 2018.

Biskot Bisküvi Gıda Sanayi ve Ticaret A.S.

	2019	2018
Total assets	1.234.995	977.813
Total liabilities	755.898	567.787
Total shareholder's equity	479.097	410.026
Accumulated funds on non-controlling interests	124.930	106.926
Revenue	1.440.272	1.168.929
Net profit for the year	70.696	72.949
Cash flow generated / (used) from operating activities	102.465	(56.996)
Cash flow used in investment activities	(78.445)	(14.724)
Cash flow generated / (used) from financing activities	70.818	(44.704)

Food Manufacturers' Company

	2019	2018
Total assets	771.658	655.672
Total liabilities	241.852	280.264
Total shareholders' equity	529.806	375.408
Accumulated funds on non-controlling interests	238.413	168.993
Revenue	1.043.268	788.091
Net profit for the year	106.044	75.412
Cash flow generated from operating activities	156.410	89.605
Cash flow used in investment activities	(10.754)	(49.307)
Cash flow used in financing activities	(16.125)	(1.399)

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3. SEGMENTAL INFORMATION

The Group’s core business activities are manufacturing and marketing of biscuit, chocolate coated biscuit, wafer, cake and chocolate. The reports reviewed routinely by the decision makers of the Group comprise consolidated financial information of Ülker Bisküvi Sanayi A.Ş. and its subsidiaries. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions. The Group management has determined the operating segments based on the reports reviewed by the board of directors that are used to make strategic decisions. The board of directors review segmental analysis on gross profit and operational profit.

The Group, follows its operations with domestic (local operations of Turkish companies in Turkey) and international basis in accordance with TFRS 8. The information for 1 January – 31 December 2019 and 1 January - 31 December 2018.

	Domestic	Foreign	1 January- 31 December 2019
Revenue	4.728.447	3.074.673	7.803.120
Gross Profit	1.020.998	1.118.194	2.139.192
Operating Profit (*)	595.250	537.166	1.132.416
EBITDA (**)	676.098	627.428	1.303.526
EBITDA/Revenue	14,3%	20,4%	16,7%

Investment Expense	162.967	40.436	203.403
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	Domestic	Foreign	1 January- 31 December 2018
Revenue	3.709.288	2.246.220	5.955.508
Gross Profit	748.584	811.701	1.560.285
Operating Profit (*)	420.775	369.089	789.864
EBITDA (**)	497.507	441.661	939.168
EBITDA/Revenue	13,4%	19,7%	15,8%

Investment Expense	118.114	114.029	232.143
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(*) Profit before other income/expense.

(**) EBITDA (Earnings before interest, tax, depreciation and amortization) is calculated by adding back the non-cash expenses of depreciation and amortization to a firm's operating income. EBITDA isn't a measure of performance identified in TFRS, thus it may not be a tool for comparison for firms.

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4. CASH AND CASH EQUIVALENTS

	<u>31 December 2019</u>	<u>31 December 2018</u>
Cash on hand	180	421
Demand deposits	344.705	714.195
Time deposits	4.743.114	2.666.312
Impairment provision	(7.021)	(2.167)
	<u>5.080.978</u>	<u>3.378.761</u>

Details of time deposits are shown below:

<u>Currency Type</u>	<u>Annual Weighted Average Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2019</u>
TL	11,08%	January 2020	221.828
EUR	0,05%	January 2020	20.879
USD	2,69%	January 2020	4.449.625
GBP	0,15%	January 2020	5.217
EGP	11,01%	January 2020	21.925
KZT	10,00%	January 2020	23.640
			<u>4.743.114</u>

<u>Currency Type</u>	<u>Annual Weighted Average Effective Interest Rate</u>	<u>Maturity</u>	<u>31 December 2018</u>
TL	20,80%	January 2019	25.540
EUR	1,15%	January 2019	5.293
USD	1,21%	January 2019	2.613.527
GBP	0,25%	January 2019	732
EGP	14,01%	January 2019	7.574
KZT	9,00%	January 2019	13.646
			<u>2.666.312</u>

5. FINANCIAL INVESTMENTS

<u>Short Term Financial Investments:</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Available for sale financial assets	4.080	702
	<u>4.080</u>	<u>702</u>

<u>Long Term Financial Investments:</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Available for sales financial assets	946.029	1.340.221
	<u>946.029</u>	<u>1.340.221</u>

<u>Long Term Available for Sale Financial</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
G New, Inc	312.171	105.612
Godiva Belgium BVBA	633.658	1.234.409
Other	200	200
	<u>946.029</u>	<u>1.340.221</u>

Available for sale financial assets are presented at their fair values. Net changes in fair value of available for sale financial assets attributable to shareholders as at 31 December 2019 amounting to TL 513.939 thousand have been directly presented in other comprehensive income under equity.

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6. FINANCIAL LIABILITIES

	<u>31 December 2019</u>	<u>31 December 2018</u>
Short term liabilities	150.764	85.519
Short term portion of long term liabilities	5.088.239	369.129
Long term liabilities	701.318	4.791.105
	<u>5.940.321</u>	<u>5.245.753</u>
<u>Short Term Liabilities</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Bank loans	66.437	66.064
Non-trade payables to related parties (Note 33)	84.327	19.455
	<u>150.764</u>	<u>85.519</u>
<u>Short Term Portion of Long Term Liabilities</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Bank loans	5.074.414	369.129
Financial lease payables	13.825	-
	<u>5.088.239</u>	<u>369.129</u>
<u>Long Term Liabilities</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Bank Loans	652.490	4.791.105
Financial Lease Payables	48.828	-
	<u>701.318</u>	<u>4.791.105</u>

The syndication loans have received as of 20 April 2017 and 27 November 2017. Details of Group’s syndication loans are as follows: Syndication loan consists of two credit trenches which are USD 136.000.000 and EUR 225.144.922. 14 international banks joined to the syndication. Effective interest rate for both credit trenches are Euribor + 3,00 % for EUR, Libor + 3,10 % for USD and the maturity date is 20 April 2020. Principal payments of the loans are repaid at maturity with semi-annual interest payments.

Syndication loan consists of two credit trenches which are USD 111.498.684 and EUR 290.559.069. 15 international banks joined to the syndication. Effective interest rate for both credit trenches are Euribor + 3.00% for EUR , Libor + 2.90% for USD and the maturity date is 27 November 2020. Principal payments of the loans are repaid at maturity with semi-annual interest payments

The covenants which belong to syndicated loan are as follows:

- a) **Leverage:** The ratio of the consolidated net debt at balance sheet date to the last twelve months consolidated EBITDA (Earnings before interest, tax, depreciation and amortization) in the valid period should not be over 3,50 to 1.
- b) **Interest Coverage:** Consolidated interest coverage ratio of the Group should be at least 2 to 1.

In current year, the consolidated financial statements of the Group comply with the covenants of the syndication loan agreement.

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6. FINANCIAL LIABILITIES (Continued)

Liabilities:

31 December 2019

<u>Currency Type</u>	<u>Maturity</u>	<u>Effective Weighted Average Interest Rate</u>	<u>Short Term</u>	<u>Long Term</u>
TL	January 2020-April 2023	18,72%	98.153	48.828
EUR	February 2020-May 2023	3,01%	3.585.375	379.467
USD	January 2020-November 2020	4,92%	1.539.388	-
KZT	January 2020-January 2026	10,00%	6.379	273.023
SAR	January 2020-July 2020	4,00%	9.708	-
			<u>5.239.003</u>	<u>701.318</u>

31 December 2018

<u>Currency Type</u>	<u>Maturity</u>	<u>Effective Weighted Average Interest Rate</u>	<u>Short Term</u>	<u>Long Term</u>
TL	January 2019	25,70%	19.455	-
EUR	January 2019- May 2023	2,96%	294.503	3.302.700
USD	January 2019-November 2020	5,43%	118.456	1.238.120
EGP	March 2019-September 2019	18,75%	1.669	-
KZT	January 2019-December 2023	9,50%	4.765	241.871
SAR	January 2019-July 2020	4,16%	15.800	8.414
			<u>454.648</u>	<u>4.791.105</u>

The maturity detail of the bank loans is as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
to be paid within 1 year	5.225.178	454.648
to be paid within 1-2 years	273.085	4.336.860
to be paid within 2-3 years	215.508	145.670
to be paid within 3-4 years	98.892	145.332
to be paid within 4-5 years	52.004	102.776
Above 5 years	13.001	60.467
	<u>5.877.668</u>	<u>5.245.753</u>

Short Term Financial Lease Liabilities

	<u>31 December 2019</u>	<u>31 December 2018</u>
Financial lease liabilities	29.282	-
Future finance charges on finance leases (-)	(15.457)	-
	<u>13.825</u>	<u>-</u>

Long Term Financial Lease Liabilities

	<u>31 December 2019</u>	<u>31 December 2018</u>
Financial lease liabilities	65.895	-
Future finance charges on finance leases (-)	(17.067)	-
	<u>48.828</u>	<u>-</u>

The maturity detail of the financial lease liabilities is as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
to be paid within 1 year	13.825	-
to be paid within 1-2 years	18.108	-
to be paid within 2-3 years	23.720	-
to be paid within 3-4 years	7.000	-
	<u>62.653</u>	<u>-</u>

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6. FINANCIAL LIABILITIES (Continued)

The movement of ifnancial liabilities as of 31 December 2019 and 2018 is as follows

	2019	2018
Financial debt as of January 1	5.245.753	4.310.403
Addition	387.922	389.808
Repayments	(352.791)	(861.537)
Foreign Exchange difference	571.692	1.331.433
Interest Accrual differences	(191)	1.071
Currency translation differences	87.936	74.575
Closing balance – December 31	5.940.321	5.245.753

7. TRADE RECEIVABLES AND PAYABLES

	31 December 2019	31 December 2018
Short Term Due from Related Parties		
Due from related parties (Note 33)	2.106.741	1.564.689
	2.106.741	1.564.689
Other Trade Receivables		
Trade receivables	269.751	352.982
Notes receivables	83	766
Provision for doubtful receivables	(10.773)	(19.351)
	259.061	334.397
Total Short Term Trade Receivables	2.365.802	1.899.086

The movement of the allowance for doubtful receivables as of 31 December 2019 and 2018 is as follows:

	2019	2018
In accordance with TAS 39 as of 1 January	(19.351)	(8.212)
Accounting policy change for TFRS 9	-	(3.633)
Restated as of 1 January	(19.351)	(11.845)
Current period expense	(688)	(5.712)
Canceled provision	9.995	1.200
Sale of subsidiary	152	-
Currency translation differences	(1.136)	(3.032)
Collection	255	38
Closing balance	(10.773)	(19.351)
	31 December 2019	31 December 2018
Short Term Trade Payables		
Due to related parties (Note 33)	607.365	520.308
Trade payables	617.233	593.789
	1.224.598	1.114.097

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8. OTHER RECEIVABLES AND PAYABLES

	31 December 2019	31 December 2018
Other Receivables		
Due from related parties (Note 33)	115.619	627
Short term other receivables	37.283	38.554
	152.902	39.181
	31 December 2019	31 December 2018
Other Short Term Receivables		
VAT receivables	17.229	19.339
Deposits and guarantees given	18.277	13.440
Receivables from personnel	1.568	2.020
Other	209	3.755
	37.283	38.554
	31 December 2019	31 December 2018
Other Long Term Receivables		
Deposits and guarantees given	460	234
	460	234
	31 December 2019	31 December 2018
Other Payables		
Due from related parties (Note 33)	113	1.177
Other short term payables	4.994	5.631
	5.107	6.808
	31 December 2019	31 December 2018
Other Short Term Payables		
Deposits and guarantees received	124	3.214
Other short term payables	4.870	2.417
	4.994	5.631

9. DERIVATIVE INSTRUMENTS

As date of 20 April 2017, the Group received syndication loans which are USD 136.000.000 and EUR 225.144.922 respectively. Principal payments of the loans are repaid at maturity with semi-annual interest payments in parallel with repayment schedule, the Group entered into a cross currency fixed interest rate swap contracts amounting to USD 116.000.000 and EUR 30.000.000, respectively to manage its exposure to interest rate and foreign currency fluctuations.

Derivative instruments as of 31 December 2019 and 2018 are as follows:

	31 December 2019		31 December 2018	
	Contract Amount	Fair Value	Contract Amount	Fair Value
Derivative instruments held for hedge				
Cross Currency Fixed Interest Rate Swap	528.132	358.919	528.132	323.087
Total Asset	528.132	358.919	528.132	323.087

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10. INVENTORIES

Details of inventory are as follows;

	<u>31 December 2019</u>	<u>31 December 2018</u>
Raw materials	231.633	229.264
Work in progress	24.430	16.907
Finished goods	272.475	265.841
Trade goods	34.347	59.854
Other inventories	47.843	44.517
Allowance for impairment on inventory(-)	(18.030)	(11.829)
	<u>592.698</u>	<u>604.554</u>

Inventory is presented on cost value and allowance for impairment is booked for inventory valuing lower than cost.

The movement of allowance for impairment on inventory for the periods ended on 31 December 2019 and 2018 are below:

	<u>1 January- 31 December 2019</u>	<u>1 January- 31 December 2018</u>
Opening balance	(11.829)	(10.062)
Charge for the period	(14.654)	(3.043)
Reversal of provision	8.927	1.582
Currency translation differences	(474)	(306)
Closing balance	<u>(18.030)</u>	<u>(11.829)</u>

11. INVESTMENT PROPERTIES

	<u>1 January- 31 December 2019</u>	<u>1 January- 31 December 2018</u>
Opening balance	21.036	16.192
Gains from appreciation	1.115	4.844
Sale of subsidiary	(996)	-
Closing balance	<u>21.155</u>	<u>21.036</u>

The fair value of the Group's investment properties at 31 December 2019 has been calculated on the basis of a valuation carried out at that date by 31 December 2019, by independent valuers not related to the Group. NOVA Taşınmaz Değerleme ve Danışmanlık A.Ş. is one of the accredited independent valuers by Capital Markets Board of Turkey, and has appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation, which conforms to International Valuation Standards, based on market evidence of transaction prices for similar properties.

The rent income earned by the Group from its investment properties amounting to TL 1.382 thousand (31 December 2018: TL 992 thousand) as of 31 December 2019. Direct operating expenses arising from the investment properties in the current period amounting to TL 115 thousand. (31 December 2018: TL 74 thousand).

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12. TANGIBLE ASSETS

Movement of tangible assets between 1 January 2019 and 31 December 2019 is as follows:

Cost	1 January 2019	Addition	Disposal	Transfer	Sale of subsidiary	Revaluation increase	Currency Translation Differences	31 December 2019
	Land	714.750	-	-	-	-	-	5.280
Buildings	698.303	72.209	-	20.486	-	-	29.439	820.437
Machinery, plant and equipment	2.038.567	14.594	(14.832)	59.071	-	-	99.743	2.197.143
Vehicles	11.697	438	(474)	-	-	-	995	12.656
Furniture and fixture	95.810	6.131	(416)	7.925	(2.281)	-	4.867	112.036
Leasehold improvements	41.326	484	-	490	(814)	-	32	41.518
Other tangible assets	798	71	-	-	-	-	106	975
Construction in progress	44.470	104.298	(995)	(87.972)	-	-	3.847	63.648
	3.645.721	198.225	(16.717)	-	(3.095)	-	144.309	3.968.443
Accumulated Depreciation	1 January 2019	Charge for the Period	Disposal	Transfer	Sale of subsidiary	Revaluation increase	Currency Translation Differences	31 December 2019
Buildings	(346.062)	(22.332)	-	-	-	-	(9.372)	(377.766)
Machinery, plant and equipment	(925.608)	(129.421)	6.660	-	-	-	(47.056)	(1.095.425)
Vehicles	(7.054)	(1.612)	258	-	-	-	(735)	(9.143)
Furniture and fixture	(70.149)	(8.038)	409	-	2.149	-	(3.326)	(78.955)
Leasehold improvements	(19.545)	(3.986)	-	-	647	-	(9)	(22.893)
Other tangible assets	(937)	(82)	-	-	-	-	(65)	(1.084)
	(1.369.355)	(165.471)	7.327	-	2.796	-	(60.563)	(1.585.266)
Net Book Value	2.276.366							2.383.177

From depreciation and amortization expenses, TL 157.735 thousand (31 December 2018: TL 137.383 thousand) is included in cost of goods sold, TL 383 thousand (31 December 2018: TL 445 thousand) is included in research and development expenses, TL 3.082 thousand (31 December 2018: TL 2.561 thousand) is included in marketing and selling expenses, TL 9.910 thousand (31 December 2018: TL 8.915 thousand) is included in general and administrative expenses. There are TL 70.000 worth buildings acquired through financial leasing in the current period. There is not any mortgage or collateral on tangible assets in the current period.

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12. TANGIBLE ASSETS (Continued)

Movement of tangible assets between 1 January 2018 and 31 December 2018 is as follows:

Cost	1 January 2018	Addition	Disposal	Transfer	Sale of subsidiary	Revaluation increase	Currency Translation Differences	31 December 2018
	Land	731.003	-	(24.220)	-	-	-	7.967
Buildings	753.909	6.007	(151.408)	27.548	-	21.475	40.772	698.303
Machinery, plant and equipment	1.566.324	27.040	(10.067)	298.715	-	-	156.555	2.038.567
Vehicles	10.788	197	(1.248)	-	-	-	1.960	11.697
Furniture and fixture	79.632	4.065	(224)	5.449	-	-	6.888	95.810
Leasehold improvements	37.361	312	-	3.587	-	-	66	41.326
Other tangible assets	556	21	-	-	-	-	221	798
Construction in progress	189.917	187.639	(5.262)	(337.487)	-	-	9.663	44.470
	3.369.490	225.281	(192.429)	(2.188)	-	21.475	224.092	3.645.721

Accumulated Depreciation	1 January 2018	Charge for the Period	Disposal	Transfer	Sale of subsidiary	Revaluation increase	Currency Translation Differences	31 December 2018
	Buildings	(440.108)	(20.378)	142.637	-	-	(10.798)	(17.415)
Machinery, plant and equipment	(750.456)	(113.529)	6.924	-	-	-	(68.547)	(925.608)
Vehicles	(5.281)	(1.463)	1.002	-	-	-	(1.312)	(7.054)
Furniture and fixture	(58.599)	(6.926)	147	-	-	-	(4.771)	(70.149)
Leasehold improvements	(15.981)	(3.554)	-	-	-	-	(10)	(19.545)
Other tangible assets	(285)	(55)	-	-	-	-	(597)	(937)
	(1.270.710)	(145.905)	150.710	-	-	(10.798)	(92.652)	(1.369.355)

Net Book Value	2.098.780							2.276.366
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There are not any fixed assets acquired through financial leasing as of 31 December 2018. There is not any mortgage or collateral on tangible assets in the current period.

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12. TANGIBLE ASSETS (Continued)

The estimated useful lives of tangible assets are as follow:

	<u>Useful Life</u>
Buildings	25 – 50 year
Machinery, plant and equipments	4 – 20 year
Vehicles	4 – 10 year
Other tangible assets	4 – 10 year
Furniture and fixtures	3 – 10 year
Leasehold improvements	During rent period

The Group decided to apply revaluation model to land and buildings in accordance with TMS 16. Land and buildings were revalued with “compare with similars” technique on 15 January 2018. The revaluation was performed by Nova Taşınmaz Değerleme ve Danışmanlık A.Ş. authorized by Capital Markets Board. Properties were accounted on 31 December 2017 financial statements based on their fair values. The frequency of revaluations are related with the changes on the market values of the properties. If there is material change at the fair value, revaluation is performed. If not, properties are only subject to periodical revaluation.

13. GOODWILL

	<u>31 December 2019</u>	<u>31 December 2018</u>
1 January	331.975	253.507
Currency translation difference	56.072	78.468
Closing Balance	<u>388.047</u>	<u>331.975</u>

Goodwill details are as follow:

Company	<u>31 December 2019</u>	<u>31 December 2018</u>
UI Mena B.V.	373.272	319.335
IBC	14.775	12.640
	<u>388.047</u>	<u>331.975</u>

UI Mena B.V.

Yıldız Holding A.Ş. acquired United Biscuit Group as of 3 November 2014. Goodwill accounted at Yıldız Holding’s financial statement related with UI MENA operations is accounted to these financial statement by restating prior years.

International Biscuits Company

Yıldız Holding A.Ş. acquired United Biscuit Group as of 3 November 2014. Goodwill accounted at Yıldız Holding’s financial statement related with IBC acquisition is accounted to these financial statement by restating prior years.

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14. INTANGIBLE ASSETS

Movements of intangible assets between 1 January 2019 – 31 December 2019 are as follows:

Cost	1 January 2019	Addition	Disposal	Transfer	Sale of subsidiary	Currency Translation Differences	31 December 2019
Rights (*)	263.730	1.780	(16)	-	(1.561)	36.046	299.979
Other intangible assets	3.251	3.398	-	-	(798)	137	5.988
	266.981	5.178	(16)	-	(2.359)	36.183	305.967

Accumulated Amortization	1 January 2019	Charge for the Period	Disposal	Transfer	Sale of subsidiary	Currency Translation Differences	31 December 2019
Rights	(6.382)	(5.043)	16	-	1.480	(1.201)	(11.130)
Other intangible assets	(2.841)	(596)	-	-	799	(11)	(2.649)
	(9.223)	(5.639)	16	-	2.279	(1.212)	(13.779)
Net Book Value	257.758						292.188

Movements of intangible assets between 1 January 2018 – 31 December 2018 are as follows:

Cost	1 January 2018	Addition	Disposal	Transfer (Note 12)	Sale of subsidiary	Currency Translation Differences	31 December 2018
Rights (*)	185.326	6.782	-	2.137	-	69.485	263.730
Other intangible assets	3.120	80	-	51	-	-	3.251
	188.446	6.862	-	2.188	-	69.485	266.981

Accumulated Amortization	1 January 2018	Charge for the Period	Disposal	Transfer	Sale of subsidiary	Currency Translation Differences	31 December 2018
Rights	(2.608)	(3.059)	-	-	-	(715)	(6.382)
Other intangible assets	(2.959)	(340)	-	-	-	458	(2.841)
	(5.567)	(3.399)	-	-	-	(257)	(9.223)
Net Book Value	182.879						257.758

(*) As of 31 December 2019 Rights contain reacquired rights related with Saudi distribution agreements of Groups products in Saudi Arabia amounting to TL 236.349 thousand (31 December 2018: TL 209.321 thousand), the remaining amount TL 46.659 thousand (31 December 2018: TL 39.917 thousand) contains the right of Rana brand. Reacquired rights are not subject to depreciation and has indefinite useful life. Impairment test is applied every year of when there is any indicator that impairment may occur.

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14. INTANGIBLE ASSETS (Continued)

The intangible assets are amortized on a straight-line basis over their estimated useful lives.

	<u>Useful Life</u>
Rights	2 years - Indefinite life
Other intangible assets	2 – 12 years
Brand	Indefinite life

15. GOVERNMENT GRANTS AND INCENTIVES

Export operations and other foreign exchange activities performed under fundamentals and methods identified by Ministry of Finance and Undersecretariat of Foreign Trade are exempt from stamp duty and transaction stamps. Government grants are given for supporting foreign fair attendance with respect to the Credit Coordination Committee’s decision at 16 December 2004 with number 2004/11 which is prepared with respect to the decision Government Grants for Export. Group is also benefiting from tax incentive for export of the agricultural products with respect to the Credit Coordination Committee’s decision of 20/6 “Export return on Agricultural Products” 2000/5.

Group is benefiting from the energy and employment support incentives with respect to the “Law related with change in grants for investment and employment support, decision number 5084” effective from 6 February 2004 and published in the Ofical Gazette No.25365, with the intention of applying insurance and tax premium incentives, supplying energy support and acquiring free of charge land and property for investments in order to increase investments and employment.

Incentive of TL 135.000.000 have been approved by Ministry of Economy at 19 November 2013 with respect to the expansion and product diversification investment of Ülker Bisküvi San. A.Ş Gebze Factory and Ankara Factory, respectively. The investment completed on 11 November 2019. Biskot Bisküvi Gıda Sanayi ve Ticaret A.Ş. has obtained four investment incentives with regards to product diversifications investments by TL 210.800.770 in Karaman plant. The Group has utilized TL 86.118 thousand (2018: TL 62.801 thousand) portion of such incentives and accounted for defferred tax assets by TL 21.115 thousand for the remaining portion of these earned incentives (2018: TL 37.596 thousand) (Note 31).

The Group has received government incentives amounting TL 50.227 thousand in current year (2018: TL 40.655 thousand). In 2019, TL 11.451 thousand stems from employment grants, TL 1.315 thousand stems from agricultural products exports incentives, TL 30.338 thousand stems from investment incentives, TL 5.802 thousand stems from research and development grants, TL 1.321 thousand stems from other grants (2018: TL 7.890 thousand stems from employment grants, TL 1.389 thousand steps from agricultural products export incentives, TL 26.220 thousand stems from investment incentive, TL 4.432 thousand stems from research and development grants, TL 724 thousand stems from other grants).

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16. OTHER PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short Term Debt Provisions	31 December 2019	31 December 2018
Provisions for lawsuits	6.615	5.758
Provision for marketing activities	75.761	70.944
Other	20.955	14.266
	103.331	90.968

Movement for lawsuit provisions for December 2019 and 2018 is as follows:

	31 December 2019	31 December 2018
Opening balance	5.758	6.060
Charge for the period	2.227	399
Terminated provisions	(338)	(507)
Sale of subsidiary	(507)	-
Payment/relinquishment (-)	(525)	(194)
	6.615	5.758

a) Guarantees Given

(Balances denominated in foreign currencies have been presented in their original currency)

	31 December 2019			31 December 2018		
	TL	USD	EURO	TL	USD	EURO
A) CPM’s given in the name of own legal personality (*)	201.279	26.273	-	374.039	57.302	-
B) CPM’s given on behalf of the fully consolidated companies	-	-	87.922	226	-	87.922
C) CPM’s given on behalf of third parties for ordinary course of business (**)	-	-	97.270	-	-	96.294
D) Total amount of other CPM’s given						
i.Total amount of CPM’s given on behalf of the majority shareholder (**)	-	-	-	-	-	-
ii.Total amount of CPM’s given on behalf of the group companies which are not in scope of B and C	-	-	-	-	-	-
iii.Total amount of CPM’s given on behalf of third parties which are not in scope of C	-	-	-	-	-	-
Total	201.279	26.273	185.192	374.265	57.302	184.216

(*) Non-cash risk amounting to TL 55 million and USD 6,8 million.

(**) Includes the surety given for the group’s raw material supplier in relation to the raw material purchases to be made on behalf of the group.

(***) The ratio of other collaterals, pledges and mortgages given by the group to the group’s parent company’s equities is 0 as of 31 December 2019 (31 December 2018: 0).

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16. OTHER PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

a) Guarantees Given (Continued)

The company’s ultimate parent company Yıldız Holding A.Ş. and some Yıldız Holding Group entities including Ülker Bisküvi’s subsidiaries entered into syndicated loan agreement with some of the “creditors” of Yıldız Holding A.Ş. and Yıldız Holding Group entities.

The bank loans of Ülker Bisküvi’s subsidiaries which are totally TL 511,1 million and TL 72,4 million contingencies as of 8 June 2018, were increased to the level of Yıldız Holding A.Ş. through syndication. The company’s total debt has not increased as a result of the syndicated loan. Related Ülker Bisküvi’s subsidiaries became guarantors of Yıldız Holding A.Ş. as of the date of using the loan limited to the current total bank loan risk exposure.

b) Lawsuits Filed by and Against to the Group

As of 31 December 2019;

Lawsuits filed by the Group:

	TL	EUR
Compensation litigations	61	-
Action of debts	170	-
Criminal cases	175	-
	406	-

Lawsuits filed against to the Group:

	TL
Action of debts	870
Foreclosure litigations	1.243
Compensation litigations	4.502
	6.615

The provision of TL 6.615 thousand as of 31 December 2019 has been accounted for various court cases filed against the Group (31 December 2018: TL 5.758 thousand).

As of 31 December 2018;

Lawsuits filed by the Group:

	TL	EUR
Compensation litigations	60	-
Tax litigations (*)	2.914	-
Action of debts	-	172
Criminal cases	172	-
	3.146	172

(*) Major part of tax litigations are related to VAT return receivable litigations.

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16. OTHER PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

b) Lawsuits Filed by and Against to the Group (continued)

As of 31 December 2018; (continued)

Lawsuits filed against to the Group:

	<u>TL</u>
Action of debts	870
Foreclosure litigations	1.244
Compensation litigations	3.644
	<u>5.758</u>

Operational Leasing Agreements

The operating leases cover a one year period. All operational leasing agreements include a clause allowing the re-arrangement of the terms of the lease had the lessee renewed the contract under the current market conditions. The lessee does not have a right to purchase the asset at the end of the term.

The Group’s rental income from its operational leasing agreements for tangible assets and investment properties leased and common area usage collectional collected from suppliers and customers are TL 10.289 thousand (2018: TL 9.065 thousand). In the current year operational expenses related fix assets are TL 4.016 thousand (2018: TL 3.071 thousand). Due to non-cancellable rent agreements, the Group’s rental revenue to be received in the future periods is TL 11.378 thousand (2018: TL 10.658 thousand) and are all to be realized in a one year period. Due to non-cancellable rent agreements, the Group’s rent payments to be incurred in the future periods is TL 4.601 thousand (2018: TL 3.694 thousand) and are all payable in a one year period.

17. COMMITMENTS AND OBLIGATIONS

The Group’s export commitments amount to USD 199.532 thousand as of 31 December 2019 (2018: 207.833 thousand USD). The average period of export commitments are 2 years. If the export commitments will not be fulfilled, the Group will loss the tax advantage. Export commitments in 2019 have been mostly realized and it is expected to fulfil rest of commitments in 2020 (2018: all commitments have been realized completely).

18. PROVISION FOR EMPLOYEE BENEFITS

Short Term Liabilities for Employee Benefits	<u>31 December 2019</u>	<u>31 December 2018</u>
Unused vacation accrual	30.924	28.633
Performance premium accrual	35.442	22.668
	<u>66.366</u>	<u>51.301</u>
<u>Movement of Unused Vacation Provision</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Opening balance	28.633	22.614
Decrease in period	(15.715)	(12.383)
Increase in period	17.393	14.675
Sale of subsidiaries	(1.447)	-
Currency translation differences	2.060	3.727
Closing balance	<u>30.924</u>	<u>28.633</u>

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18. PROVISION FOR EMPLOYEE BENEFITS (Continued)

<u>Movement of Performance Premium Provision</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Opening balance	22.668	17.446
Cash payments in period	(35.704)	(21.705)
Increase in period	48.488	24.158
Sale of subsidiary	(2.063)	-
Currency translation differences	2.053	2.769
Closing balance	35.442	22.668

Long Term Liabilities for Employee

Benefits	<u>31 December 2019</u>	<u>31 December 2018</u>
Provision for employee termination benefits	161.010	115.344
	161.010	115.344

Under Turkish Labor Law, the Company is required to pay employment termination benefits to each entitled employee. Also, employees are entitled to be paid their retirement pay provisions who retired by gaining right to receive retirement pay provisions according to of the prevailing 506 numbered Social Insurance Law’s Article 60, as amended by 6 March 1981 dated, 2422 numbered and 25 August 1999 dated, 4447 numbered laws. Some transition provisions related to the pre-retirement service term was excluded from the law since the related law was changed as of 23 May 2002. The amount payable consists of one month’s salary limited to a maximum TL 6.730,15 for each period of service as of 31 December 2019 (2018: 6.017,60 TL). The subsidiaries at the Group calculate the provision for termination indemnities in accordance with the laws in the countries which they are located.

The liability is not funded, as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. TAS 19 requires actuarial valuation methods to be developed to estimate the entity’s obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability.

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2019, the provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 7,56% and a interest rate of 11,86%, resulting in a real discount rate of approximately 4,00% (2018: 4,67%). The Group assessed the probability of paying the termination benefits for employees who have completed 15 years and 3600 days with social security Premium payment as 100% if such employees started working prior to 8 September 1999 based on Law numbered 4447. The maximum liability is revised semi annually. The basis considered in calculating the provisions is the amount of maximum liability of TL 6.730,15 which became effective as of 1 January 2020. As of 2019 year end, the probability of resignation of employees is 3,9% (2018: 5,3%).

Movement of provision for employee termination benefits is as below:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Opening balance	115.344	82.958
Service cost	43.873	28.422
Interest cost	9.915	10.971
Actuarial loss)	7.930	9.539
Currency translation differences	5.070	7.552
Sale of subsidiary	(1.670)	-
Cash payments during year	(19.452)	(24.098)
Closing balance	161.010	115.344

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19. PREPAID EXPENSES

	31 December 2019	31 December 2018
Short Term Prepaid Expenses		
Advances given to related parties (Not 33)	41.545	36.368
Advances given to third parties	31.629	26.382
Prepaid expenses	11.317	13.308
	84.491	76.058
Long Term Prepaid Expenses		
Advances given to third parties	7.602	9.625
Prepaid expenses	-	3
	7.602	9.628

20. EMPLOYEE BENEFITS RELATED LIABILITIES

	31 December 2019	31 December 2018
Payables to personnel	29.709	22.116
Social security premiums payable	15.113	11.216
	44.822	33.332

21. OTHER ASSET AND LIABILITIES

	31 December 2019	31 December 2018
Other Current Asset		
VAT carried forward	74.619	52.544
Other	1.036	959
	75.655	53.503
Other Current Liabilities		
Taxes and fund payable	34.181	40.810
Other liabilities	1.782	336
	35.963	41.146

22. DEFERRED REVENUE

	31 December 2019	31 December 2018
Deferred revenue		
Advances received	7.804	37.117
Short term deferred revenue	4.050	234
	11.854	37.351

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23. SHAREHOLDERS’ EQUITY

a) Capital Structure

The composition of the Company’s paid-in share capital as of 31 December 2019 and 2018 is as follows:

Shareholders	31 December 2019		31 December 2018	
	Share	Percentage	Share	Percentage
pladis Foods Limited	174.420	51,00%	174.420	51,00%
Ülker Family Members and Yıldız Holding A.Ş.	25.580	7,48%	25.580	7,48%
Other	142.000	41,52%	142.000	41,52%
	342.000	100%	342.000	100%

b) Valuation Funds

Financial Asset Valuation Fund:

Financial Asset Valuation Fund is generated from the valuation of available for sale instruments with their fair values. When a financial asset valued at its fair value is disposed, the related portion in the valuation fund is directly recognized in that period’s profit and loss. When a financial instrument is revalued and a decrease in value is observed, the related portion in the valuation fund is directly recognized in that period’s profit and loss.

As of 31 December 2019 the Group has financial asset valuation fund after tax of TL 513.939 thousand (2018: TL 1.099.942 thousand).

Investment Property Valuation Fund:

Properties accounted as fixed assets in previous periods, might be transferred to investment property due to changes in usage patterns. In this way in 2012, Group classified some of the real estate properties as investment property and preferred to book under fair value method. Accordingly, the increase in the fair value amounting to TL 22.082 thousand during the first transfer, has been accounted as the increase in the fair value under equity. In the following period, the increase in the fair value of real estate amounting to TL 1.115 thousand in 2019 and TL 4.844 thousand in 2018 have been accounted under the income statement (Note 28).

Land and Buildings Revaluation Fund:

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in shareholders’ equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset’s original cost, net of tax, is reclassified from the property, plant and equipment revaluation surplus to retained earnings.

The Group revalued its land and buildings. As a result, revaluation fund after tax, accounted is amounting to TL 647.779 thousand as of 31 December 2019. (31 December 2018 : TL 647.779 thousand).

c) Other Gains

Other Gains	<u>31 Aralık 2019</u>	<u>31 Aralık 2018</u>
	817.879	-
	817.879	-

Group management accounted its dividend income from Godiva Belgium BVBA, in other comprehensive income within the scope of TFRS.

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23. SHAREHOLDERS' EQUITY (Continued)

d) Restricted Reserves

Restricted reserves appropriated from profit are composed of legal reserves. Legal reserves comprise of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions. According to the Turkish Commercial Code, legal reserves can be only used to offset losses unless they exceed the 50% of paid-in capital. Other than that, legal reserves must not be used whatsoever.

In accordance with the CMB's requirements which were effective until 1 January 2008, the amount generated from the first-time application of inflation adjustments on financial statements, and followed under the "accumulated loss" item was taken into consideration as a reduction in the calculation of profit distribution based on the inflation adjusted financial statements within the scope of the CMB's regulation issued on profit distribution. The related amount that was followed under the "accumulated loss" item could also be offset against the profit for the period (if any) and undistributed retained earnings and the remaining loss amount could be offset against capital reserves arising from the restatement of extraordinary reserves, legal reserves and equity items, respectively.

In addition, in accordance with the CMB's requirements which were effective until 1 January 2008, at the first-time application of inflation adjustments on financial statements, equity items, namely "Capital", "Premium on capital stock", "Capital" issue premiums", "Legal reserves", "Statutory reserves", "Special reserves" and "Extraordinary reserves" were carried at nominal value in the balance sheet and restatement differences of such items were presented in equity under the "Shareholders' equity inflation restatement differences" line item in aggregate. "Shareholders' equity inflation restatement differences" related to all equity items could only be subject to the capital increase by bonus issue or loss deduction, while the carrying value of extraordinary reserves could be subject to the capital increase by bonus issue; cash profit distribution or loss deduction

However, in accordance with the CMB's Decree Volume: XI; No: 29 issued on 1 January 2008 and other related CMB's announcements, "Paid-in capital", "Restricted reserves" and "Premium in excess of par" should be carried at their registered amounts in statutory records. Restatement differences (e.g. inflation restatement differences) arising from the application of the Decree should be associated with:

- "Capital restatement differences" account, following the "Paid-in capital" line item in the financial statements, if such differences are arising from "Paid-in Capital" and not added to capital;
- "Retained earnings/Accumulated loss", if such differences are arising from "Restricted reserves" and "Premium in excess of par" and has not been subject to profit distribution or capital increase.

Capital restatement differences can only be included in capital.

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23. SHAREHOLDERS’ EQUITY (Continued)

d) Restricted Reserves (continued)

Profit Distribution:

Publicly listed companies distribute dividends in accordance with the requirements of CMB as explained below: In accordance with the Capital Markets Board’s (the “Board”) Decree issued on 23 January 2014, in relation to the profit distribution of earnings derived from the operations, minimum profit distribution is not required for listed companies, and accordingly, profit distribution should be made based on the requirements set out in the Board’s Communiqué Serial:II, No: 19.1 “Principles of Dividend Advance Distribution of Companies That Are Subject To The CMB Regulations”, terms of articles of corporations and profit distribution policies publicly disclosed by the companies.

Differences arising in the evaluations made within the framework of TFRS and arising from inflation adjustments that are not subject to profit distribution or capital increase as of the report date have been associated with previous years' profit / loss.

Resources Available for Profit Distribution:

The Group has fund amounting to TL 2.498.996 thousand (2018: TL 1.100.394 thousand) that can be utilized for profit distribution.

e) Retained Earnings

Details of retained earnings are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Retained earnings	839.352	380.160
Extraordinary reserves	666.532	436.816
Inflation restatement differences of shareholders’ equity accounts other than capital and legal reserves	(18.214)	(18.214)
Other reserves	22.282	24.123
	<u>1.509.952</u>	<u>822.885</u>

f) Non-Controlling Interest/ Non-Controlling Interest Profit or Loss

The amount of non-controlling interest as of 31 December 2019 is equal to TL 522.903 thousand (2018: TL 383.495 thousand). The minority share of TL 105.922 thousand on operating results for the period of 1 January 2019 and 31 December 2019 has been presented separately from the profit for the same period in these consolidated statements of income. (2018: TL 86.842 thousand).

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24. REVENUE AND COST OF SALES

a) Revenue

The detail of operating income is as follows:

	2019	2018
Domestic sales(*)	8.497.206	6.575.955
Export sales	1.731.435	1.301.496
Sales returns and discounts (-)	(2.425.521)	(1.921.943)
Sales Income (net)	7.803.120	5.955.508
Cost of merchandises sold	(5.468.784)	(4.211.608)
Cost of trade goods sold	(195.144)	(183.615)
Cost of sales	(5.663.928)	(4.395.223)
Gross Profit	2.139.192	1.560.285

(*) Denotes domestic sales in Turkey and in countries where abroad subsidiaries are located.

b) Cost of Sales

	2019	2018
Raw materials	(4.362.124)	(3.321.557)
Personnel expenses	(592.936)	(461.464)
Production overheads	(383.220)	(337.054)
Depreciation and amortization expenses	(157.735)	(137.383)
Change in work-in-progress inventories	7.060	1.946
Change in finished goods inventories	20.171	43.904
Cost of merchandises sold	(5.468.784)	(4.211.608)
Cost of trade goods sold	(195.144)	(183.615)
Cost of sales	(5.663.928)	(4.395.223)

25. RESEARCH EXPENSES, MARKETING EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

	2019	2018
General administrative expenses	(234.744)	(159.664)
Marketing expenses	(752.076)	(598.206)
Research and development expenses	(19.956)	(12.551)
	(1.006.776)	(770.421)

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26. EXPENSES BY NATURE

The detail of operating expenses is as follow:

	2019	2018
General Administrative Expenses		
Personnel expenses	(94.206)	(75.374)
Operating expenses	(89.169)	(37.436)
Consultancy expenses	(18.465)	(15.401)
Depreciation and amortization expenses	(9.910)	(8.915)
Other	(22.994)	(22.538)
	(234.744)	(159.664)
Marketing Expenses		
Marketing operating expenses	(560.022)	(444.162)
Personnel expenses	(134.049)	(106.966)
Rent expenses	(15.111)	(11.636)
Depreciation and amortization expenses	(3.082)	(2.561)
Other	(39.812)	(32.881)
	(752.076)	(598.206)
Research Expenses		
Personnel expenses	(12.034)	(8.274)
Materials used	(2.195)	(1.081)
Depreciation and amortization expenses	(383)	(445)
Other	(5.344)	(2.751)
	(19.956)	(12.551)

27. OTHER OPERATING INCOME AND EXPENSES

a) The detail of other operating income is as follow:

	2019	2018
Foreign exchange gains	69.201	87.007
Provisions no longer required	2.338	9.217
Rediscount income	1.170	3.123
Service income	1.887	2.618
Other income	12.735	12.592
	87.331	114.557

b) The detail of other operating expense is as follow:

	2019	2018
Foreign exchange loss	(35.780)	(62.533)
Provision expenses	(10.534)	(8.009)
Donation expense	(9.876)	(21.769)
Financial expense on credit purchase	(6.409)	(19.981)
Other expenses	(3.430)	(13.045)
	(66.029)	(125.337)

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28. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

a) The detail of investment income is as follow:

	2019	2018
Foreign exchange gains	581.712	1.503.693
Interest income	536.151	190.732
Rent income	10.444	8.576
Fair value increase in investment property (Note 11)	1.115	4.844
Income on sales of tangible assets	2.402	1.082
Dividend income	83	231
	1.131.907	1.709.158

b) The detail of investment expenses is as follow:

	2019	2018
Fair value decrease in financial investment	(114.002)	-
Foreign exchange losses	(6.998)	(10.940)
Loss on sales of tangible assets	(4.248)	(2.659)
	(125.248)	(13.599)

29. FINANCIAL INCOME

	2019	2018
Foreign exchange gain	552.358	1.282.094
Other	2.337	3.207
	554.695	1.285.301

30. FINANCIAL EXPENSES

	2019	2018
Foreign exchange losses from financing	(1.026.647)	(2.411.170)
Interest expenses	(413.353)	(330.265)
Other	(26.132)	(44.970)
	(1.466.132)	(2.786.405)

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31. TAX ASSET AND LIABILITIES

The Group accounts deferred tax assets and liabilities for temporary timing differences rooted from differences between legal financial statements and financial statements prepared in accordance with TFRS. The differences in question are caused generally by the fact that some profit and loss accounts come up in different periods in legal financial statements and financial statements prepared in accordance with TFRS. These differences are specified below.

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, deferred tax positions of the firms with deferred tax assets is netted against those with deferred tax liabilities and reflected on a separate-entity basis.

The Law was published in the Official Gazette on 5 December 2017. Accordingly, the corporate income tax rate for all companies will be increased from 20% to 22% for the years 2018, 2019 and 2020. Therefore, deferred tax assets and liabilities shall be measured in accordance with materiality at the tax rate of 22% that are expected to apply to these periods when the assets is realised or the liability is settled, based on the Law that have been enacted. For the periods 2021 and after, the reversals of temporary differences will be measured by 20%. At the same time, the exemption to be applied over the capital gains from the sales of the real estate taxpayers held for at least two years was reduced from 75% to 50% with the regulation published in the Official Gazette dated 5 December 2017.

The rate applied in the calculation of deferred tax assets and liabilities for entities in Turkey is 22% (2018: 22%, 2020: 22%), for entities in Saudi Arabia and Kazakhstan is 20% (2018: 20%), for entities in Egypt 22,5% (2018: 22,5%), and for entity in Kyrgyzstan 10% (2018: 10%), for entity in the United Arab Emirates is zero (2018: Zero).

Deferred tax bases:

	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Indexation and useful life differences				
of tangible and intangible assets	-	-	1.114.931	1.103.449
Investment properties valuation				
differences	-	-	17.174	16.059
Marketable securities valuation				
differences	-	-	89.868	1.157.372
Derivative instruments	-	-	358.919	323.087
Profit margin elimination on				
inventories	(12.891)	(6.515)	-	-
Discount of trade receivables /				
payables (net)	-	-	487	5.804
Allowance of employee				
termination benefits	(122.368)	(87.259)	-	-
Provision of doubtful receivables	(11.987)	(8.463)	-	-
Previous year losses	(75.059)	(66.494)	-	-
Provision for lawsuits	(6.615)	(5.758)	-	-
Impairment on inventories	(14.986)	(11.670)	-	-
Provision for unused vacation	(16.148)	(15.340)	-	-
Other	(19.390)	(26.697)	17.601	16.721
	(279.444)	(228.196)	1.598.980	2.622.492

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31. TAX ASSET AND LIABILITIES (Continued)

Deferred tax bases: (continued)

	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Indexation and useful life differences of tangible and intangible assets	-	-	151.686	147.219
Investment properties valuation differences	-	-	1.717	1.606
Marketable securities valuation differences	-	-	4.493	57.869
Derivative instruments	-	-	78.962	71.079
Profit elimination on inventories	(2.836)	(1.433)	-	-
Discount of trade receivables / payables (net)	-	-	107	1.277
Allowance of employee termination benefits	(24.474)	(17.452)	-	-
Provision of doubtful receivables	(2.637)	(1.862)	-	-
Previous year losses	(15.012)	(13.299)	-	-
Provision for lawsuits	(1.455)	(1.267)	-	-
Impairment on inventories	(3.297)	(2.567)	-	-
Investment incentive	(21.115)	(37.596)	-	-
Provision for unused vacation	(3.553)	(3.375)	-	-
Other	(4.263)	(5.875)	3.872	3.679
	<u>(78.642)</u>	<u>(84.726)</u>	<u>240.837</u>	<u>282.729</u>

Movement of Deferred Tax Liabilities:

	2019	2018
1 January - reported	198.003	99.626
TFRS 9 implementation tax effect	-	(3.088)
1 January - restated	198.003	96.538
Taxes netted from funds recognised under equity	(45.817)	30.868
Currency Translation Differences	4.416	2.876
Deferred tax expense	5.593	67.721
	<u>162.195</u>	<u>198.003</u>

As of 31 December 2019, the Group calculated deferred tax assets of TL 75.059 thousand for deductible financial losses in the consolidated financial statements for the current year (31 December 2018: TL 66.494 thousand). The maturities of these losses are as follows:

	31 December 2019	31 December 2018
2025	75.059	66.494
Total	<u>75.059</u>	<u>66.494</u>

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31. TAX ASSET AND LIABILITIES (Continued)

Corporate tax

The Company and its Turkish subsidiaries are subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group’s results for the period.

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

The tax rate in 31 December 2019 is 22% (2018: 22%).

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate is 22% in 2019 (2018: 22%).

Losses are allowed to be carried five years maximum to be deducted from the taxable profit of the following years. However, losses occurred cannot be deducted from the profit occurred in the prior years retroactively.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1st-25th of April following the close of the accounting year to which they relate. The companies with special accounting periods, file their tax returns between 1st-25th of fourth month after fiscal year end. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

In Turkey, the tax legislation does not permit 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.

The corporate tax in Egypt where Hi-Food for Advanced Food Industries and Ulker for Trading and Marketing, a subsidiary of the Group is 22,5% (2018: 22,5%). The corporate tax rate in Saudi Arabia where Food Manufacturers’ Company and International Biscuits Company, subsidiaries of the Group is 20% (2018: 20%).

The corporate tax in Kazakhstan where Hamle Company Ltd LLP, a subsidiary of the Group is 20% (2018: 20%).

The corporate tax in Kyrgyzstan where Ülker Star LLC, a subsidiary of the Group is 10% (2018: 10%).

In UAE where Amir Global Trading FZE, a subsidiary of the Group is exempt from corporate tax earnings (2018: exempt).

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31. TAX ASSET AND LIABILITIES (Continued)

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 – 22 July 2006 is 10% and commencing from 22 July 2006, this rate has been changed to 15% upon the Council of Ministers’ Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Provision for taxation as of 31 December 2019 and 2018 is as follows:

	2019	2018
Total corporate tax provision	(232.123)	(118.197)
Prepaid taxes and funds	163.156	102.983
Taxation in the balance sheet	(68.967)	(15.214)
	2019	2018
Current period corporate tax expense	232.123	118.197
Deferred tax income	5.593	67.721
Tax expense in the income statement	237.716	185.918

The reconciliation of provision for taxation as of 31 December 2019 and 2018 are as follows:

	2019	2018
Reconciliation of taxation:		
Profit before taxation and non-controlling interest	1.248.940	973.539
Effective tax rate	22%	22%
Calculated tax	274.767	214.179
Tax effects of:		
-Non-deductible expenses	4.684	7.260
-Other non-taxable income	(19.015)	(17.395)
-Investment incentive	(22.770)	(12.086)
-Carry forward tax loss which were not subject to deferred tax	1.039	3.585
- Tax rate difference	(1.363)	(9.221)
-Other	374	(404)
Taxation in the income statement	237.716	185.918

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32. EARNINGS PER SHARE

A summary of the Group's weighted average number of shares outstanding as of 31 December 2019 and 2018 and computation of earnings per share set out here as follows:

	<u>2019</u>	<u>2018</u>
Weighted average number of common stock outstanding	34.200.000	34.200.000
Net profit	905.302	700.779
Basic Earnings per Share	<u>2,65</u>	<u>2,05</u>

33. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The detail of receivables from related parties is as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Trade receivables	2.106.741	1.564.689
Non-trade receivables	115.619	627
	<u>2.222.360</u>	<u>1.565.316</u>

The detail of trade and non-trade receivables is as follows:

	<u>31 December 2019</u>		<u>31 December 2018</u>	
	<u>Trade</u>	<u>Non-Trade</u>	<u>Trade</u>	<u>Non-Trade</u>
<i>Other Companies Controlled by the Principle Shareholder</i>				
Horizon Hızlı Tük. Ür. Paz. Sat. ve Tic. A.Ş.	901.132	-	764.899	-
Pasifik Tük. Ürün. Satış ve Ticaret A.Ş.	585.481	-	472.546	-
İstanbul Gıda Dış Ticaret A.Ş.	335.393	-	-	-
Yeni Teközel Markalı Ürünler Dağıtım Hizmetleri A.Ş.	159.344	-	107.634	-
G2M Eksper Satış ve Dağıtım Hizmetleri A.Ş. (*)	70.794	-	54.316	-
United Biscuits (UK) Ltd.	2.788	-	38.137	-
Teközel Gıda T. Sağ. Mrk. Hiz. San. Tic. A.Ş..	-	-	4.522	-
Other (**)	51.809	115.619	127.635	627
	<u>2.106.741</u>	<u>115.619</u>	<u>1.564.689</u>	<u>627</u>

(*) G2m Dağıtım Paz. and Tic. A.Ş. and Eksper Tüketim Mad. Sat. ve Paz. A.Ş. were merged as of 28 February 2019 and have been operating under the title of g2mEksper Satış ve Dağıtım Hizmetleri A.Ş. since 27 March 2019.

(**) 114.855 thousand TL portion of other receivables is the amount of receivables arised from the sales of İstanbul Gıda Dış Ticaret A.Ş. to Mustafa Yaşar Serdengeçti.

The Group's trade receivables from related parties mainly arise from sales to Horizon Hızlı Tüketim Ürünleri Pazarlama Satış ve Tic. A.Ş. and Pasifik Tük. Ürün. Satış ve Ticaret A.Ş. those make the sale and distribution of products throughout Turkey.

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33. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

The detail of advances given to related parties is as follow:

	31 December 2019	31 December 2018
Önem Gıda San. ve Tic. A.Ş.	41.545	36.368
	41.545	36.368

The detail of payables to related parties is as follows:

	31 December 2019	31 December 2018
Trade payables	607.365	520.308
Non-trade payables	113	1.177
	607.478	521.485

The detail of trade and non-trade payables to related parties is as follows:

	31 December 2019		31 December 2018	
	Trade	Non-Trade	Trade	Non-Trade
<i>Principle Shareholder</i>				
Yıldız Holding A.Ş.	96.125	-	61.240	-
<i>Other Companies Controlled by the Principle Shareholder</i>				
Önem Gıda San. ve Tic. A.Ş.	385.307	-	244.060	-
İstanbul Gıda Dış Ticaret A.Ş.	73.058	104	-	-
Besler Gıda ve Kimya San. ve Tic. A.Ş.	8.466	-	65.178	-
Adapazarı Şeker Fabrikası A.Ş.	8.268	-	38.251	-
United Biscuits (UK) Ltd.	7.925	-	42.619	922
pladis Foods Limited	4.491	-	-	-
Marsa Yağ San. ve Tic. A.Ş.	2.409	-	25.298	-
CCC Gıda San. ve Tic. A.Ş.	564	-	14.660	-
Other	20.752	9	29.002	255
	607.365	113	520.308	1.177

The detail of due to related parties as loan payable is as follows:

	31 December 2019	31 December 2018
Yıldız Holding A.Ş.	84.327	19.455
	84.327	19.455

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33. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

The detail of purchases from and sales to related parties is as follows:

	31 December 2019		31 December 2018	
	Purchases	Sales	Purchases	Sales
<i>Other Companies Controlled by the Principle Shareholder</i>				
Önem Gıda San. ve Tic. A.Ş.	1.952.092	558	1.103.034	412
Besler Gıda ve Kimya San. ve Tic. A.Ş.	254.416	4.526	245.588	2.370
United Biscuits (UK) Ltd.	94.811	115.359	79.876	95.254
CCC Gıda San. ve Tic. A.Ş.	68.227	3.538	27.459	1.023
Marsa Yağ San. ve Tic. A.Ş.	67.165	-	76.057	-
Pendik Nişasta San. A.Ş.	43.403	-	49.475	-
Horizon Hızlı Tük. Ür. Paz. Sat. ve Tic. A.Ş.	91	2.889.207	2.217	2.351.287
Teközel Gıda Tem. Sağ. Mark. Hizm. A.Ş.	-	-	226	37.019
Pasifik Tüketim Ürünleri Satış ve Tic. A.Ş.	-	1.450.278	-	1.059.082
Yeni Teközel Markalı Ürünler Dağıtım Hizmetleri A.Ş.	-	261.407	-	151.301
Other	32.109	373.048	97.909	285.553
	2.512.314	5.097.921	1.681.841	3.983.301

The Group mainly acquires raw materials from Besler Gıda ve Kimya Sanayi ve Ticaret A.Ş., which produces vegetable oil and margarine, Önem Gıda San. ve Tic. A.Ş and Pendik Nişasta San. A.Ş.. The major part of selling and distribution operations of the Group all Turkey are operated by Horizon Hızlı Tüketim Ürünleri Pazarlama Satış ve Tic. A.Ş. and Pasifik Tük. Ürün. Satış ve Ticaret.

The detail of income and expenses pertaining to interest, rent and services arising from transactions with related parties is as follows;

For the year ended 31 December 2019:

	Rent	Service	Interest and Foreign Exchange
	Income/(Expense) Net	Income/(Expense) Net	Income/(Expense) Net
<i>Principle Shareholder</i>			
Yıldız Holding A.Ş.	(161)	(200.998)	(96.626)
<i>Other Companies Controlled by the Principle Shareholder</i>			
pladis Foods Limited	-	(69.675)	-
Horizon Hızlı Tük. Ür. Paz. Sat. ve Tic. A.Ş.	16	(29.934)	112.249
Pasifik Tüketim Ürünleri Satış ve Tic. A.Ş.	81	(21.134)	53.911
United Biscuits (UK) Ltd.	9	(17.874)	4.260
Önem Gıda San. ve Tic. A.Ş.	2.889	(10.862)	6.324
İzsal Gayrimenkul Geliştirme A.Ş.	(1.991)	(2.684)	-
Besler Gıda ve Kimya San. Ve Tic. A.Ş.	-	13	(1.118)
CCC Gıda San. ve Tic. A.Ş.	(761)	1.659	(1.453)
Other	1.495	(15.177)	12.788
	1.577	(366.667)	90.335

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33. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

For the year ended 31 December 2018:

	Rent Income/(Expense) Net	Service Income/(Expense) Net	Interest and Foreign Exchange Income/(Expense) Net
<i>Principle Shareholder</i>			
Yıldız Holding A.Ş.	(703)	(154.944)	368.198
<i>Other Companies Controlled by the Principle Shareholder</i>			
Önem Gıda San. ve Tic. A.Ş.	2.727	(33.433)	4.658
Pasifik Tüketim Ürünleri Satış ve Tic. A.Ş.	104	(19.688)	17.160
Horizon Hızlı Tük. Ür. Paz. Sat. ve Tic. A.Ş.	15	(19.495)	41.916
United Biscuits (UK) Ltd.	-	(5.125)	1.256
İzsal Gayrimenkul Geliştirme A.Ş.	(1.778)	(1.738)	-
CCC Gıda San. ve Tic. A.Ş.	(124)	(54)	(8.650)
Besler Gıda ve Kimya San. ve Tic. A.Ş.	-	3	(1.916)
Other	666	(1.106)	16.739
	907	(235.580)	439.361

Benefits provided to members of BOD and key management personnel:

	31 December 2019	31 December 2018
Fees and other short term benefits	35.540	26.221
	35.540	26.221

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34. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENT

Additional Information on Financial Instruments

Capital risk management

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 6 and non-commercial debts to related parties explained in footnote 33, cash and cash equivalents disclosed in Note 4 and of derivative instruments disclosed in Note 9, equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 33.

The management of the Group considers the cost of capital and the risks associated with each class of capital. The management of the Group aims to balance its overall capital structure through the payment of dividends, new share issues and the issue of new debt or the redemption of existing debt.

The Group controls its capital with the liability / total capital ratio. Net liability is divided by total capital in this ratio. Cash and cash equivalents are subtracted from total loans to calculate the net liability. The shareholder’s equity is added to net liabilities to calculate the total capital.

Net liability / Total capital ratio as of 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Total financial liabilities / Related party non-trade	5.824.815	5.246.303
Negative: Cash & cash equivalent	(5.080.978)	(3.378.761)
Negative: Financial derivatives instruments	(358.919)	(323.087)
Net debt	384.918	1.544.455
Total shareholders’ equity	4.934.232	3.679.732
Total capital	5.319.150	5.224.187
Net debt/Total Capital Ratio	7%	30%

Financial Risk Factors

The risks of the Group, resulted from operations, include market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group’s risk management program generally seeks to minimize the effects of uncertainty in financial market on financial performance of the Group.

Risk management is implemented by finance department according to the policies approved by Board of Directors. The Group’s finance department provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyses exposures by degree and magnitude of risks. The written procedures are formed by Board of Directors to manage the foreign currency risk, interest risk, credit risk, use of derivative and non-derivative financial instruments and the assessment of excess liquidity.

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34. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

Credit Risk Management

Credit Risk of Financial Instruments	Receivables				Deposit in Bank	Derivative instruments
	Trade Receivables		Other Receivables			
	Related Party	Third Party	Related Party	Third Party		
2019						
Maximum net credit risk as of balance sheet date (*)	2.106.741	259.061	115.619	37.743	5.080.978	358.919
- The part of maximum risk under guarantee with collateral etc (**)	-	192.651	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	2.001.936	253.726	115.619	37.743	-	358.919
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	104.805	5.335	-	-	-	-
- The part under guarantee with collateral etc	-	-	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	5.080.978	-
- Past due (gross carrying amount)	-	10.773	-	-	-	-
- Impairment (-)	-	(10.773)	-	-	-	-
- The part of net value under guarantee with collateral etc	-	-	-	-	-	-
- Not past due (gross carrying amount)	-	-	-	-	5.087.999	-
- Impairment (-)	-	-	-	-	(7.021)	-
- The part of net value under guarantee with collateral etc	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

(*) Items that increase the credit reliability, such as; letter of guarantees received, are not taken into account in the calculation.

(**) Guarantees include letter of guarantees, guarantee notes and mortgages.

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34. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

Credit Risk Management (continued)

Credit Risk of Financial Instruments	Receivables					
	Trade Receivables		Other Receivables		Deposit in Bank	Derivative instruments
	Related Party	Third Party	Related Party	Third Party		
2018						
Maximum net credit risk as of balance sheet date (*)	1.564.689	334.397	627	38.788	3.378.340	323.087
- The part of maximum risk under guarantee with collateral etc (**)	-	56.232	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	1.476.561	322.756	627	38.788	-	323.087
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	88.128	11.641	-	-	-	-
- The part under guarantee with collateral etc	-	7.876	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	3.378.340	-
- Past due (gross carrying amount)	-	19.351	-	-	-	-
- Impairment (-)	-	(19.351)	-	-	-	-
- The part of net value under guarantee with collateral etc	-	-	-	-	-	-
- Not past due (gross carrying amount)	-	-	-	-	3.380.507	-
- Impairment (-)	-	-	-	-	(2.167)	-
- The part of net value under guarantee with collateral etc	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

(*) Items that increase the credit reliability, such as; letter of guarantees received, are not taken into account in the calculation.

(**) Guarantees include letter of guarantees, guarantee notes and mortgages.

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34. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

Credit Risk Management (continued)

Aging of overdue receivables as of 31 December 2019 and 2018 is as follows:

	Receivables		
	Trade Receivables	Other Receivables	Total Receivables
31 December 2019			
Overdue between 1-30 days	21.622	-	21.622
Overdue between 1-3 months	46.182	-	46.182
Overdue between 3-12 months	42.336	-	42.336
Overdue between 1-5 years	-	-	-
Overdue more than 5 years	-	-	-
Total overdue receivables	110.140	-	110.140
<i>The portion of under guarantee with collateral etc</i>	<i>-</i>	<i>-</i>	<i>-</i>

	Receivables		
	Trade Receivables	Other Receivables	Total Receivables
31 December 2018			
Overdue between 1-30 days	49.550	-	49.550
Overdue between 1-3 months	15.389	-	15.389
Overdue between 3-12 months	31.914	-	31.914
Overdue between 1-5 years	2.916	-	2.916
Overdue more than 5 years	-	-	-
Total overdue receivables	99.769	-	99.769
<i>The portion of under guarantee with collateral etc</i>	<i>7.876</i>	<i>-</i>	<i>7.876</i>

Collaterals held for the trade receivables that are past due and not impaired as of balance sheet date are as follows:

	2019	2018
	Fair Value	Fair Value
Guarantees Received	-	7.876
	-	7.876

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34. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The funding risk of the current and prospective debt demands is managed by maintaining the availability of lenders with high quality and in sufficient number.

Liquidity risk charts

The following table presents payments of the Group’s cash outflows for it’s on-balance sheet financial liabilities according to remaining maturities as at 31 December 2019 and 31 December 2018 . The amounts shown in the table are the contractual undiscounted cash flows and the Group’s liquidity management takes into account the expected undiscounted cash flows.

<u>Contractual maturity analysis 2019</u>	Carrying value	Total cash outflow according to contract (I +II+ III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Bank borrowing	5.877.668	6.009.732	151.857	5.196.431	596.439	65.005
Financial lease liabilities	62.653	95.177	7.321	21.961	65.895	-
Trade payables	1.224.598	1.224.789	1.220.909	3.880	-	-
Other payables	5.107	5.107	5.107	-	-	-
Total liabilities	7.170.026	7.334.805	1.385.194	5.222.272	662.334	65.005
Derivative instruments (Net)	358.919	343.104	-	343.104	-	-
Cash inflow regarding derivative instruments	888.581	908.337	-	908.337	-	-
Cash outflow regarding derivative instruments	(529.662<)	(565.233)	-	(565.233)	-	-

The expected maturities are same as the maturities per contracts.

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34. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

Liquidity risk management (continued)

<u>Contractual maturity analysis 2018</u>	<u>Carrying value</u>	<u>Total cash outflow according to contract (I +II+ III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Non-derivative financial liabilities						
Bank borrowing	5.245.753	5.538.813	66.943	390.869	5.081.001	-
Financial lease liabilities	-	-	-	-	-	-
Trade payables	1.114.097	1.119.695	1.093.161	26.534	-	-
Other payables	6.808	6.808	6.808	-	-	-
Total liabilities	6.366.658	6.665.316	1.166.912	417.403	5.081.001	-
Derivative instruments (Net)						
Cash inflow regarding derivative instruments	323.087	206.921	-	(37.638)	244.559	-
Cash inflow regarding derivative instruments	811.248	853.155	-	41.656	811.499	-
Cash outflow regarding derivative instruments	(488.161)	(646.234)	-	(79.294)	(566.940)	-

The expected maturities are same as the maturities per contracts.

Market Risk Management

The Group is subject to financial risks related with the foreign exchange currency.

Market risk management is also measured based on sensitivity analysis.

In the current year, the Group’s market risk management method or its market risk exposure have not changed when compared to prior year.

Foreign currency risk management

Transactions in foreign currencies expose the Group to foreign currency risk.

This risk mainly arises from fluctuation of foreign currency used in conversion of foreign assets and liabilities into Turkish Lira. Foreign currency risk arises as a result of trading transactions in the future and the difference between the assets and liabilities recognized. In this regard, the Group manages this risk with a method of netting foreign currency denominated assets and liabilities. The management reviews the foreign currency open position and provides measures when needed.

The group mainly faces USD, EUR, GBP, CHF and DKK currency risks.

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34. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

Foreign Currency Risk Management (continued)

The foreign currency denominated assets and liabilities of monetary and non-monetary items are as follows:

	31 December 2019				
	TL	USD	EUR	GBP	CHF
1. Trade Receivables	383.292	51.020	8.896	2.708	-
2a. Monetary Financial Assets	5.388.027	901.935	3.636	785	11
2b. Non-Monetary Financial Assets	-	-	-	-	-
3. Other	5.167	268	522	14	1
4. CURRENT ASSETS	5.776.498	953.223	13.054	3.507	12
5. Trade Receivables	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-
6b. Non-Monetary Financial Assets	-	-	-	-	-
7. Other	-	-	-	-	-
8. NON-CURRENT ASSETS	-	-	-	-	-
9. TOTAL ASSETS	5.776.498	953.223	13.054	3.507	12
10. Trade Payables	100.636	10.497	4.454	917	251
11. Financial Liabilities	5.124.763	259.148	539.105	-	-
12a. Other Monetary Financial Liabilities	7.751	1.166	124	-	-
12b. Other Non-monetary Financial Liabilities	2.867	393	80	-	-
13. CURRENT LIABILITIES	5.236.017	271.204	543.763	917	251
14. Trade Payables	-	-	-	-	-
15. Financial Liabilities	379.476	-	57.058	-	-
16a. Other Monetary Financial Liabilities	-	-	-	-	-
16b. Other Non-monetary Financial Liabilities	-	-	-	-	-
17. NON-CURRENT LIABILITIES	379.467	-	57.058	-	-
18. TOTAL LIABILITIES	5.615.484	271.204	600.821	917	251
19. Net Assets of Off Statement of Financial Position (19a-19b)	888.581	116.000	30.000	-	-
19a. Net Assets of Off Statement of Financial Position	-	-	-	-	-
19b. Net Liabilities of Off Statement of Financial Position	(888.581)	(116.000)	(30.000)	-	-
20. Net Foreign Currency Asset / (Liability) Position (9-18+19)	1.049.595	798.019	(557.767)	2.590	(239)
21. Monetary Items Net Foreign Currency Asset / (Liability) Position (1+2a+5+6a-10-11-12a-14-15-16a)	158.702	682.144	(588.209)	2.576	(240)
22. Total Fair Value of Financial Instruments Used to Hedge the Foreign Currency Position	358.919	46.403	12.522	-	-
23. Total value of Hedged Foreign Currency Assets	-	-	-	-	-
24. Total value of Hedged Foreign Currency Liabilities	-	-	-	-	-

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34. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

Foreign Currency Risk Management (continued)

	31 December 2018				
	TL	USD	EUR	GBP	CHF
1. Trade Receivables	229.628	27.963	13.209	435	-
2a. Monetary Financial Assets	4.006.762	760.408	897	139	-
2b. Non-Monetary Financial Assets	-	-	-	-	-
3. Other	7.016	729	520	7	-
4. CURRENT ASSETS	4.243.406	789.100	14.626	581	-
5. Trade Receivables	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-
6b. Non-Monetary Financial Assets	-	-	-	-	-
7. Other	8.050	26	1.305	7	-
8. NON-CURRENT ASSETS	8.050	26	1.305	7	-
9. TOTAL ASSETS	4.251.456	789.126	15.931	588	-
10. Trade Payables	140.448	17.050	7.741	571	54
11. Financial Liabilities	412.958	22.516	48.856	-	-
12a. Other Monetary Financial Liabilities	687	87	38	-	-
12b. Other Non-monetary Financial Liabilities	32.469	5.534	370	169	-
13. CURRENT LIABILITIES	586.562	45.187	57.005	740	54
14. Trade Payables	-	-	-	-	-
15. Financial Liabilities	4.540.820	235.344	547.893	-	-
16a. Other Monetary Financial Liabilities	-	-	-	-	-
16b. Other Non-monetary Financial Liabilities	-	-	-	-	-
17. NON-CURRENT LIABILITIES	4.540.820	235.344	547.893	-	-
18. TOTAL LIABILITIES	5.127.382	280.531	604.898	740	54
19. Net Assets of Off Statement of Financial Position (19a-19b)	791.104	116.000	30.000	-	-
19a. Net Assets of Off Statement of Financial Position	-	-	-	-	-
19b. Net Liabilities of Off Statement of Financial Position	(791.104)	(116.000)	(30.000)	-	-
20. Net Foreign Currency Asset / (Liability) Position (9-18+19)	(84.822)	624.595	(558.967)	(152)	(54)
21. Monetary Items Net Foreign Currency Asset / (Liability) Position (1+2a+5+6a-10-11-12a-14-15-16a)	(858.523)	513.374	(590.422)	3	(54)
22. Total Fair Value of Financial Instruments Used to Hedge the Foreign Currency Position	323.088	46.390	13.111	-	-
23. Total value of Hedged Foreign Currency Assets	-	-	-	-	-
24. Total value of Hedged Foreign Currency Liabilities	-	-	-	-	-

The Group’s export and import balances for the period of 1 December 2019 and 31 December 2018 are presented below:

	1 January – 31 December 2019	1 January – 31 December 2018
Total exports	1.731.435	1.301.496
Total imports	447.562	337.083

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34. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

Foreign currency risk sensitivity

The Group is exposed to foreign exchange risk arising primarily from USD and EUR. The table below shows, the foreign currency sensitivity of the Company arising from 10% change in US dollar and EUR rates. The rate used as 10% is a fair benchmark for the Company as it is limited to capital commitment threshold. This rate is the anticipated rate change of the Company’s senior management. Sensitivity analysis includes only the monetary items in foreign currency at year end and shows the effect of 10% increase in USD and in EUR foreign currency rates. Negative value implies the effect of 10% increase in USD and in EUR foreign currency rates against TL on the decrease in the net profit.

	<u>31 December 2019</u>		<u>31 December 2018</u>	
	Income / Expense		Income / Expense	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
In case of % 10 appreciation of USD against TL				
1 - US Dollar net asset / liability	474.113	(474.113)	331.107	(331.107)
2- Part of hedged from US Dollar risk (-)				
3- US Dollar net effect (1 +2)	474.113	(474.113)	331.107	(331.107)
In case of % 10 appreciation of EUR against TL				
4 -Euro net asset / liability	(371.242)	371.242	(337.822)	337.822
5 - Part of hedged from Euro risk (-)				
6- Euro net effect (4+5)	(371.242)	371.242	(337.822)	337.822
Total (3 + 6)	102.871	(102.871)	(6.715)	6.715

Interest risk management

Financial liabilities based on fixed and floating interest rates expose the Company to interest rate risk. The related risk is controlled by interest rate swap agreements and floating interest rate agreements by balancing the fixed and floating interest rate borrowings. Risk strategies are reviewed periodically considering the interest rate expectations and predetermined interest risks; which aims to establish optimum interest risk management regarding the balance sheet position and the interest expenses.

Interest rate sensitivity

Sensitivity analysis is determined based on the interest rate risk that the non-derivative instruments exposed to on the balance sheet date and is kept fixed during the reporting period. The Company management expects a fluctuation of 1% in Euribor interest rates. 1% increase or decrease is used in reporting the interest rate risk to the key management personnel and represents management’s assessment of the reasonably possible change in interest rates.

On the reporting date if Euribor/Libor interest rates had been 1% higher and all other variables were held constant:

Net income of the Group would have been decreased by TL 1.043 thousand (Net profit in 2018 would have been decreased by TL 1.498 thousand). This is mainly attributable to the Group’s exposure to interest rates on its variable rate borrowings. In case of 1% decrease in Libor/Euribor interest rate, the net profit of the Group for the current period would have increased by TL 1.043 thousand (Net profit in 2018 would have been increased by TL 1.498 thousand)

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34. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

The financial instruments that are sensitive to interest rate are as follows:

Fixed interest rate financial instruments		31 December 2019	31 December 2018
Financial Assets	Cash and Cash Equivalents	4.743.114	2.666.312
	Non-trade receivables from related parties	-	-
	Other Receivables	37.743	38.788
Financial Liabilities	Borrowings	875.965	809.967
	Loan Payables due to Related Parties	-	-
	Other payables to Related Parties	-	-
	Financial lease payables	62.653	-
	Other Payables	4.994	5.631
Floating interest rate financial instruments			
Financial Assets	Non-trade receivables from related parties	115.619	627
	Other receivables	-	-
Financial Liabilities	Borrowings	4.917.375	4.416.331
	Loan payables due to related parties	84.327	19.455
	Non-trade payables due to related parties	113	1.177

Other price risk

The Group is exposed to price risk due to the fluctuations in exchange rate and interest rate. The investigation on market information is examined and followed through appropriate valuation method regarding price risk by the Group. In current year, there have not been any changes compared to prior year in the market risk that the Group is exposed to or the administration or calculation methods of these risks.

Equity investments price sensitivity

The sensitivity analysis presented below has been prepared based on the equity investments price risks exposed.

As of reporting date, assuming that all other variables are held constant and when the values used in the valuation method increase/decrease by 10%:

As of 31 December 2019, as long as the equity investment are classified as available for sale and not disposed of or they are not impaired the net profit/loss will not be affected. (31 December 2018: none)

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35. FINANCIAL INSTRUMENTS

Fair Value of Financial Assets

Fair value measurements by level of the following fair value measurement hierarchy is as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The classification of the Company’s financial assets and liabilities at fair value is as follows:

	31 December 2019	Fair value hierarchy as of reporting date		
		Level 1 TL	Level 2 TL	Level 3 TL
Financial assets				
Financial assets at fair value through profit and loss				
- Shares	4.080	806	-	3.274
Financial assets at fair value through comprehensive income statement				
- Shares	945.829	-	-	945.829
- Derivative instruments	358.919	-	358.919	-
Total	1.308.828	806	358.919	949.103

	31 December 2018	Fair value hierarchy as of reporting date		
		Level 1 TL	Level 2 TL	Level 3 TL
Financial assets				
Financial assets at fair value through comprehensive income statement				
- Shares	702	702	-	-
Financial assets at fair value through comprehensive income statement				
- Shares	1.340.021	-	-	1.340.021
- Derivative instruments	323.087	-	323.087	-
Total	1.663.810	702	323.087	1.340.021

36. EVENTS AFTER THE BALANCE SHEET DATE

According to the decision of the board of directors of the company as of 25.02.2020, as a result of the increase in the duties and responsibilities of Mehmet Tütüncü, who is the chairman of the board and CEO, the request to leave the position of the CEO has been deemed appropriate and his duty as the Chairman of the Board of Directors continues and Mete Buyurgan also decided to be appointed as CEO.