

Türk Sanayicileri ve İşinsanları Derneđi and its Subsidiary

**Consolidated financial statements for the year
ended December 31, 2018 together with
independent auditors' report**

Türk Sanayicileri ve İşinsanları Derneği and its subsidiary

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Independent auditors' report

To the Board of Directors of
Türk Sanayicileri ve İşinsanları Derneği,

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Türk Sanayicileri ve İşinsanları Derneği ("TUSIAD") and its subsidiary (together referred as "the Association"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Association in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Association'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 Association or to cease operations, or has no realistic alternative but to do so

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



Building a better
working world

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association'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 Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association 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 Association 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, 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.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited



Pinar Şencetak, SMMM
Associate Partner

February 18, 2019
İstanbul, Turkey

Türk Sanayicileri ve İşinsanları Derneği**Consolidated statement of financial position****as at December 31, 2018****(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated)**

	Notes	December 31, 2018	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents	4	4.060.617	2.122.257
Financial investments		-	42.816
Membership fee receivables	5	481.996	158.500
Receivables related to activities	5	297.722	224.853
Inventories		7.383	7.445
Other current assets	6	164.602	330.903
Total current assets		5.012.320	2.886.774
Non-current assets			
Property and equipment, net	7	10.673.132	10.612.967
Other receivables and non-current assets		9.508	-
Total non-current assets		10.682.640	10.612.967
Total assets		15.694.960	13.499.741
Liabilities and equity			
Current liabilities			
Short-term bank borrowings	8	1.542.568	1.452.229
Payables related to activities	9	920.950	923.941
Other current liabilities	11	1.911.788	2.155.370
Provision for employment termination benefits	12	195.942	138.171
Total current liabilities		4.571.248	4.669.711
Non-current liabilities			
Long-term bank borrowings	8	2.411.322	3.275.146
Provision for long term employment termination benefits	12	1.169.881	940.896
Total non-current liabilities		3.581.203	4.216.042
Total liabilities		8.152.451	8.885.753
Equity			
Actuarial loss arising from defined benefit plans		(459.014)	(417.545)
Retained earnings		5.031.533	5.284.856
Net profit / (loss) for the period		2.969.990	(253.323)
Total equity		7.542.509	4.613.988
Total liabilities and equity		15.694.960	13.499.741

Türk Sanayicileri ve İşinsanları Derneği

**Consolidated statement of profit or loss and other comprehensive income
for the year ended December 31, 2018
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated)**

	Notes	January 1- December 31, 2018	January 1- December 31, 2017
Revenues and gains			
Annual membership fees		25.559.200	20.713.000
Membership entrance fees		2.261.500	2.414.000
Income from sponsorship and donations		2.751.425	379.444
Other income		1.602.295	687.426
Contributions for foreign communications fund		523.490	428.312
Total revenues and gains		32.697.910	24.622.182
Expenses and losses			
Cost of goods sold		(63)	(655)
General and administrative expenses			
Personnel expense		(13.037.582)	(11.546.485)
Expenses for contributions in organizations		(7.695.327)	(3.350.506)
Utilities expense		(2.636.207)	(1.356.189)
Meeting and representative expense		(2.411.854)	(2.240.286)
Sponsorship expense		(1.349.013)	(1.876.379)
Consultancy expense		(832.815)	(949.525)
Depreciation and amortization expense		(582.091)	(663.234)
Rent expense		(558.176)	(440.446)
Maintenance expense		(488.602)	(595.792)
Travel expense		(399.858)	(607.613)
Publishing expense		(258.053)	(260.606)
Communication expense		(257.020)	(257.819)
Transportation expense		(148.204)	(170.069)
Provision and other expense		(65.335)	(69.594)
Translation and copyright expenses		(24.912)	(101.175)
Doubtful provision expenses		-	(422.500)
Total general and administrative expenses	14	(30.745.049)	(24.908.218)
Other operating expenses, net	17	(17.185)	(93.980)
Foreign currency exchange income/(expense), net	16	25.650	(72.771)
Financial income, net	15	1.008.727	200.119
Profit / (loss) before tax		2.969.990	(253.323)
Tax expenses		-	-
Profit / (loss) for the year		2.969.990	(253.323)
Actuarial gain/(loss) arising from defined benefit plans		41.469	(300.115)
Other comprehensive income/(loss)		41.469	(300.115)
Total comprehensive income/(loss)		3.011.459	(553.438)

Türk Sanayicileri ve İşinsanları Derneği

Consolidated statement of changes in equity

for the year ended December 31, 2018

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated)

	Actuarial loss arising from defined benefit plans	Retained earnings	Net profit / (loss) for the period	Total
At December 31, 2016	(117.430)	4.825.423	459.433	5.167.426
Transfers	-	459.433	(459.433)	-
Other comprehensive loss	(300.115)	-	-	(300.115)
Net loss for the period	-	-	(253.323)	(253.323)
At December 31, 2017	(417.545)	5.284.856	(253.323)	4.613.988
Transfers	-	(253.323)	253.323	-
Other comprehensive income	(41.469)	-	-	(41.469)
Net profit for the period	-	-	2.969.990	2.969.990
At December 31, 2018	(459.014)	5.031.533	2.969.990	7.542.509

Türk Sanayicileri ve İşinsanları Derneği

**Consolidated statement of cash flows
for the year ended December 31, 2018
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated)**

	Notes	January 1- December 31, 2018	January 1- December 31, 2017
Profit/(loss) before tax		2.969.990	(253.323)
Adjustments to reconcile decrease in net assets to net cash flows from operating activities			
Depreciation and amortization expenses	7	582.090	663.234
Provision for employment termination benefits	12	328.225	729.805
Provision for impairment on receivables		-	422.500
Interest income	15	(1.125.226)	(520.502)
Interest expense	15	536.499	669.883
Unrealized foreign exchange losses related to borrowings	8	153.295	106.828
Cash inflows from operating activities before changes in operating assets and liabilities		3.444.873	1.818.425
Change in membership fee receivables	5	(141.504)	592.000
Change in receivables related to activities	5	(254.861)	1.005.037
Change in inventories		62	655
Change in other current assets		156.796	(216.777)
Change in payables related to activities		(2.991)	(809.328)
Change in other current liabilities and provisions		(326.523)	1.109.536
Employee termination benefits paid	12	-	(522.467)
Vacation pay liability paid	12	-	(7.966)
Net cash flows from operating activities		2.875.852	2.969.115
<i>Investing activities</i>			
Purchase of property and equipment and intangible assets	7	(642.255)	(77.199)
Purchase / (sales) of financial investments		42.816	(42.816)
Interest received	15	1.125.226	520.502
Net cash from investing activities		525.787	400.487
<i>Financing activities</i>			
Cash disbursements arising from financial borrowings	8	(926.787)	(1.878.022)
Interest paid		(536.492)	(669.883)
Net cash flows used in financing activities		(1.463.279)	(2.547.905)
Net increase in cash and cash equivalents		1.938.360	821.697
Cash and cash equivalents at the beginning of the period	4	2.122.257	1.300.560
Cash and cash equivalents at the end of period	4	4.060.617	2.122.257

Türk Sanayicileri ve İşinsanları Derneği

Notes to the consolidated financial statements

at December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated)

1. Organisation and nature of operations

Türk Sanayicileri ve İşadamları Derneği (TÜSİAD) was established in Turkey in 1971 as a non-profit organization. TÜSİAD’s main activities include the arrangement of knowledge sharing organizations such as meetings, seminars and congresses for Turkish industrialists and businessmen, and as a non-governmental organization. TÜSİAD expresses the views and opinions of the Turkish private business sector to government, and local and international authorities. As of January 18, 2018, the Association’s has changed its commercial title to “Türk Sanayicileri ve İşinsanları Derneği (TUSİAD)” with the official announcement on Turkey Trade Registry Gazette dated January 18, 2018.

TÜSİAD’s head office is located at Meşrutiyet Cad. No: 46 Tepebaşı, Istanbul and five representative offices are located in Ankara, Brussels - Belgium, Paris - France, Berlin – Germany and Washington D.C. - United States of America.

TÜSİAD employs 55 personnel at December 31, 2018 (December 31, 2017 - 56) including representative offices.

Subsidiary

TÜSİAD has the subsidiary Türk Sanayicileri ve İşinsanları Derneği İktisadi İşletmesi (“the Subsidiary”) (together referred as “the Association”) that is located at Meşrutiyet Cad. No: 46 Tepebaşı, Istanbul, in the head office of TÜSİAD. The Subsidiary is a participation of TÜSİAD who owns 100% of its shares.

The Subsidiary was established on November 24, 2009 for the purpose of providing continuous income to the Association and taking advantage in order to realize the aims of the Association. The objective of the Subsidiary is to provide consultancy services to the Association members through operating in trade, industrial and consultancy areas; to market and sell publications of the Association; to assume intangible rights and invest, sale, export and import those rights; to make arrangements with real and legal person; to arrange national and international meetings, conferences and exhibitions; to establish and join to partnerships; to hold economic, social, statistical research and publish, market and sell the research hold and to obtain short and long term loans.

2. Basis of presentation of financial statements

The consolidated statements of the Association are approved by the Board of Directors on February 18, 2019 and signed on its behalf by Secretary General. Since there is no specific deadline for the approval of financial statements prepared in accordance with International Financial Reporting Standards (IFRS) in Turkey, the General Assembly and some regulatory authorities have power to amend the statutory financial statements after issuance, which is the basis for the preparation of the IFRS financial statements, even it is not intended.

TÜSİAD and its subsidiary are incorporated in Turkey, and maintain their books and records and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the Turkish Commercial Code and Tax Legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. The consolidated financial statements of the Association have been prepared in accordance with International Financial Reporting Standards (IFRS) and have been prepared under the historical cost convention. The consolidated financial statements have been prepared from the statutory financial statements of the Association and presented in TL in accordance with IFRS with certain adjustments and reclassifications for the purpose of fair presentation.

Notes to the consolidated financial statements

at December 31, 2018 (continued)

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated)

2. Basis of presentation of financial statements (continued)

2.1 Basis of consolidation

The financial statements of the Subsidiary (Note 1) are consolidated on a line-by-line basis, and the carrying value of the “participation” held by TÜSİAD is eliminated against the related equity account of the Subsidiary.

All receivable and payable balances and transactions between TÜSİAD and the consolidated Subsidiary have been eliminated.

2.2 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2018 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of January 1, 2018.

i) The new standards, amendments and interpretations which are effective as at January 1, 2018 are as follows:

- IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity’s ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 effective date is 1 January 2018. The standard did not have a significant impact on the financial position and performance of the Associate as the date of this report.

- IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called ‘own credit’ issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The standard did not have a significant impact on the financial position or performance of the Associate.

- IFRS 4 Insurance Contracts (Amendments)

- IFRS 22 Foreign Currency Transactions and Advance Consideration

- IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

- IAS 40 Investment Property: Transfers of Investment Property (Amendments)

- Annual Improvements to IFRSs - 2014-2016 Cycle

The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

**Notes to the consolidated financial statements
at December 31, 2018 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated)**

2. Basis of presentation of financial statements (continued)

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

- IFRS 16 Leases
- Amendments to IAS 28 Investments in Associates and Joint Ventures (Amendments)
- IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)
- IFRIC 23 Uncertainty over Income Tax Treatments
- Annual Improvements to TFRSs - 2015-2017 Cycle
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Plan Amendment, Curtailment or Settlement” (Amendments to IAS 19)

3. Summary of significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are summarized below:

Significant accounting judgments and estimates

The preparation of the Association’s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and however, uncertainty about the disclosure of contingent liabilities, at the end of the reporting period. These assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Association’s accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

- Reserve for retirement pay liability is determined by using actuarial assumptions such as discount rates, future salary increase and employee’s turnover rates. The estimations include significant uncertainties due to their long-term nature. The details about reserve for employee benefits are provided in Note 12.
- The Association had made certain important assumptions in determining useful economic life of the tangible assets, which are detailed in Note 7.
- Membership fee receivables as of the balance sheet date related to the current year is recorded based on the assumption that all membership fees will be collected prior to the General Assembly in January of the subsequent year. (Note 13 and Note 5).

**Notes to the consolidated financial statements
at December 31, 2018 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated)**

3. Summary of significant accounting policies (continued)

Property and equipment and related depreciation

(i) Recognition and measurement:

Items of property and equipment are measured at cost, less accumulated depreciation and impairment losses. Costs such as professional fees and any other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management are recognized as elements of cost.

(ii) Subsequent costs:

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Association and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depreciation:

Depreciation on property and equipment is charged to profit or loss on a straight-line basis over the estimated useful lives of the related assets.

The useful lives and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from property and equipment items.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

Buildings	50 years
Leasehold improvements	10 years
Motor vehicles	5 years
Furniture and fixtures	5-20 years

(iv) Disposal:

Gains or losses on disposal of property and equipment with respect to their carrying amounts are included in the related income and expense accounts as appropriate.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains or losses on disposals or on impairments of equipment, furniture and fixtures with respect to their restated amounts are included in the related income and expense accounts, as appropriate (Note 7).

Foreign currency transactions and translation

The Association’s functional and presentation currency is TL. Transactions in currencies other than TL, foreign currencies, during the year have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated at the exchange rates prevailing at the balance sheet date. Exchange gains or losses arising on the settlement and translation of foreign currency items have been included in the consolidated statement of profit or loss (Note 16).

Foreign currency translation rates used by the Association as of respective year-ends are as follows:

Dates	USD / TL	EUR / TL
December 31, 2018	5,2609	6,0280
December 31, 2017	3,7719	4,5155

3. Summary of significant accounting policies (continued)

Provision for employment termination benefits

Provision for employment termination benefits represents the present value of the estimated total provision of the future probable obligation of the Association arising from the retirement of the employees calculated in accordance with the Turkish Labor Law. In accordance with existing social legislation and Turkish Labor Law in Turkey, the Association is required to make lump-sum termination indemnities to each employee whose employment is terminated due to retirement of for reasons other than resignation or misconduct and who has completed at least one year of service. Provision is made for the present value of the defined benefit obligation calculated using the projected unit credit method. All actual gains and losses are recognized in the consolidated statement of profit or loss in the period in which they occur (Note 12).

Revenue recognition

Annual membership fees

Annual membership fees are recognised when General Assembly approves contribution per member proposed by the Board of Directors and the member has the ability and the intention to pay the membership fees.

Contributions for Foreign Communications Fund

Revenues related to contributions for Foreign Communications Fund consist of the contributions received from participating firms for the publicity campaigns outside of Turkey. These revenues are recognised when received.

Membership entrance fees

Membership entrance fees are demanded from members once, as their application of membership is approved by the Board of Directors. Such fees are recognised on an accrual basis as the application of prospective member is approved.

Book and magazines sales

Revenues of the Subsidiary mainly consist of sales revenue from books and magazines as well as advertising income in the magazines. Revenues from sale of books and magazines are measured at the fair value of the consideration received or receivable. Revenues are recognised when the significant risks and rewards of ownership have been transferred to the buyer and when the recovery of the consideration is probable.

Income from sponsorships and donations

Income from sponsorships and donations consist of contributions obtained from members against operating expenditures arise in the normal course of the Association’s activities. These revenues are recognized when received.

Magazine advertising income

Magazine advertising income is the related to the ads published in the magazines and is recognized at the date the magazine is published.

Türk Sanayicileri ve İşinsanları Derneği

Notes to the consolidated financial statements at December 31, 2018 (continued) (Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Interest income on annual membership fees

Annual membership fees are determined on an incremental basis as the duration of payments defer in the period applicable. Amount exceeding the initial recognized annual membership fee revenue are recognized as interest income on membership fees (Note 15).

Financial interest income

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

Membership fee receivables

Membership fee receivables that are created by the General Assembly of the Association as a contribution from members to the operating expenses of the Association are carried at amortized cost. Membership fee receivables are recognized on an incremental explicit interest basis as the collection defer over the period applicable (Note 5).

The Board of Directors has the power to cease the membership if there is objective evidence that the Association will not be able to collect all amounts due. Uncollectible amount is derecognized from the financial statements of respective period.

Borrowings

Borrowings are recognized initially at the proceeds received, net of any transaction costs incurred. Subsequent to initial recognition, borrowings are stated at amortized cost on an effective interest basis. Any proceeds and the redemption value are recognized in the statement of activities over the period of the borrowings.

Inventories

Inventories consist of items including books amounting to TL 7.383 (2017 – TL 7.445) purchased for commercial activities and are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost basis, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Provision for taxes

The Subsidiary, which is founded by TUSIAD, is located in Istanbul and is subject to corporate tax.

In Turkey, the corporation tax rate as of December 31, 2018 is 22%. The corporation tax rate increased to 22% for the financial years 2018, 2019 and 2020. Corporate tax declaration should be made until the 25th of the fourth month after the related accounting period and should be paid in one instalment till the end of the same month. The tax legislation requires for a temporary tax of 22% (2017 – 20%) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax declarations and the related accounting records and can revise related tax accounts for a retrospective maximum period of five years. As of December 31, 2018 the Association has the right to offset its carryforward tax losses amounting to TL 88.986. The Subsidiary has not had any tax inspection for the related years.

3. Summary of significant accounting policies (continued)

Provisions

Provisions are recognized when the Association has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent liabilities and assets

Contingent liabilities are not recognized in the financial statements, but are disclosed. A contingent asset is not recognized in the consolidated financial statements, but disclosed when an inflow of economic benefits is probable.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Financial instruments and financial risk management

The Association's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Association's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Association.

Interest rate risk

The Association is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. The Association mitigates such risk through obtaining fixed interest rate borrowings.

Türk Sanayicileri ve İşinsanları Derneği

Notes to the consolidated financial statements

at December 31, 2018 (continued)

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Liquidity risk

The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders. Furthermore the Association collects membership fees of the following year early in the beginning of the year to redeem borrowings.

As of December 31, 2018 and 2017, the maturity profiles of financial assets and financial liabilities are summarized as follows:

December 31, 2018

	Carrying value	Total contractual cash outflow (I-II-III-IV)	Demand or up to 3 months (I)	3 months - 1 year (II)	1 - 5 years (III)	5 years and over (IV)
Short-term bank borrowings	1.542.568	1.640.661	518.415	1.122.246	-	-
Payables related to activities	920.950	920.950	920.950	-	-	-
Long-term bank borrowings	2.411.322	3.105.492	-	-	3.105.492	-
Total liabilities	4.874.840	5.667.103	1.439.365	1.122.246	3.105.492	-

December 31, 2017

	Carrying value	Total contractual cash outflow (I-II-III-IV)	Demand or up to 3 months (I)	3 months - 1 year (II)	1 - 5 years (III)	5 years and over (IV)
Short-term bank borrowings	1.452.229	1.516.378	416.602	1.099.776	-	-
Payables related to activities	923.941	923.941	923.941	-	-	-
Long-term bank borrowings	3.275.146	4.464.580	-	-	4.464.580	-
Total liabilities	5.651.316	6.904.899	1.340.543	1.099.776	4.464.580	-

Notes to the consolidated financial statements

at December 31, 2018 (continued)

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Credit risk

Ownership of financial assets involves the risk that counter-parties may be unable to meet the terms of their agreements. These risks are monitored by limiting the aggregate risk to any individual counter-party, assessed by the Association’s executives.

Currency risk

Foreign currency transactions result with foreign currency risk. List of the Association’s foreign currency denominated monetary assets and monetary liabilities at the balance sheet date is as follows:

	Currency	December 31, 2018		December 31, 2017	
		Original amount	TL equivalent	Original amount	TL equivalent
Cash and cash equivalents	USD	66.350	349.063	39.839	150.267
	EUR	65.209	393.080	138.916	627.275
Trade receivables and other assets	EUR	33.113	199.608	21.536	97.244
Foreign currency denominated assets			941.751	874.786	
Payables related to activities and other current liabilities	USD	(50.000)	(264.050)	-	-
	EUR	(5.000)	(30.211)	-	-
Bank borrowings	EUR	(100.914)	(608.313)	(132.608)	(598.790)
Foreign currency denominated liabilities			(902.574)	(598.790)	
Net foreign currency position			39.177	275.996	

The Association is mainly exposed to US Dollar and Euro currency risk.

The table below shows the sensibility of the effect of 20% increase in US Dollar and Euro currency rates. 20% is used in, the reporting currency risk to the key management and it represents the management’s expectation on the potential exchange currency fluctuations. Sensitivity analysis can only made on the year-end outstanding foreign currency denominated monetary items and it shows the year-end effects of the 20% of exchange currency increase on the related items. Positive value represents an increase in profit/loss.

	US Dollar effect		Euro effect	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
TL gain / (loss)	17.003	30.053	(9.167)	25.146

Notes to the consolidated financial statements

at December 31, 2018 (continued)

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The following methods and assumptions are used to estimate the fair value of the financial instruments that are not carried at fair value on the balance sheet:

Financial assets

The fair values of cash and short term deposits and other short term financial assets in the consolidated financial statements are considered to approximate their respective carrying values due to their short-term nature. The fair values of trade receivables after the deduction of doubtful receivable provisions are considered to approximate their respective carrying values.

Financial liabilities

The fair values of trade payables and other monetary liabilities are considered to approximate their respective carrying values, due to their short-term nature and foreign currency originated balances. Bank borrowings are stated at their amortized costs and transaction costs are included in the initial measurement of loans and bank borrowings.

Subsequent events

Post period-end events that provide additional information about the Association’s position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-period-end events that are not adjusting events are disclosed in the notes when material.

4. Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand	16.744	22.519
Cash on banks		
- Demand deposits	1.304.959	1.959.853
- Time deposits	2.738.914	139.885
Total	4.060.617	2.122.257

As of December 31, 2018, time deposits in terms of TL (December 31, 2017 –in terms of TL), have maturities less than a month. As of December 31, 2018, interest rate of TL terms of time deposits is 23,25% (December 31, 2017 – 6,00%).

At December 31, 2018, there are no blocked deposit balances in bank accounts (December 31, 2017 – None).

Türk Sanayicileri ve İşinsanları Derneği

Notes to the consolidated financial statements

at December 31, 2018 (continued)

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated)

5. Membership fee and receivables related to activities

	December 31, 2018	December 31, 2017
Membership fee receivables	481.996	581.000
Receivables related to activities (*)	297.722	290.358
Provision for doubtful member receivables (-)	-	(422.500)
Provision for doubtful related to activities receivables (-)	-	(65.505)
Total	779.718	383.353

(*) As of December 31, 2018 receivable related to activities mainly comprises donations, sponsorship receivables and also receivable for the advertisement published in the magazines of the Association.

	2018	2017
At January 1	(488.005)	(65.505)
(Charge)/Reversal for the period	488.005	(422.500)
Total	-	(488.005)

6. Other current assets

	December 31, 2018	December 31, 2017
Prepaid expenses (*)	89.991	315.633
Personnel job advances	29.889	15.270
VAT transferred	44.722	-
Total	164.602	330.903

(*) As of December 31, 2018 prepaid expenses mainly consist of prepaid payments of short term health insurance 21 KTL amount and short term project expenses 68 KTL amount.

Türk Sanayicileri ve İşinsanları Derneği

**Notes to the consolidated financial statements
at December 31, 2018 (continued)**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated)

7. Property and equipment

Tangible assets

The table below summarizes the movement of property, plant and equipment for the year ended December 31, 2018:

	January 1, 2017	Additions	December 31, 2017	Additions	December 31, 2018
Cost:					
Buildings	22.694.045	-	22.694.045	536.059	23.230.104
Motor vehicles	205.113	-	205.113	-	205.113
Furniture and fixtures	1.696.154	77.199	1.773.353	106.196	1.879.549
Leasehold improvements	62.722	-	62.722	-	62.722
	24.658.034	77.199	24.735.233	642.255	25.377.488
Accumulated depreciation:					
Buildings	(11.865.035)	(585.090)	(12.450.125)	(492.115)	(12.942.240)
Motor vehicles	(138.420)	(3.574)	(141.994)	(3.574)	(145.568)
Furniture and fixtures	(1.402.724)	(72.042)	(1.474.766)	(83.874)	(1.558.640)
Leasehold improvements	(52.853)	(2.528)	(55.381)	(2.527)	(57.908)
	(13.459.032)	(663.234)	(14.122.266)	(582.090)	(14.704.356)
Net book value	11.199.002		10.612.967		10.673.132

Buildings comprise head office building in Tepebaşı and representative office building in Brussels. The building in Brussels has been pledged as mortgage for borrowings from banks amounting EUR 123.802 (Note 8).

As of December 31, 2018, there are no capitalized interest costs on capitalized fixed assets (December 31, 2017: None).

Notes to the consolidated financial statements

at December 31, 2018 (continued)

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated)

8. Bank borrowings

	Effective interest rate per annum (%)	Currency	Original amount	TL equivalent	Maturity ranges
December 31, 2018					
Short-term borrowings	11,35%	TL	11.927	11.927	January 2019
Short-term portion of long-term borrowings	0,95-12,84%	TL	1.414.975	1.414.975	January 2019 - December 2019
Short-term portion of long-term borrowings	0,57%	EUR	19.188	115.666	January 2019 - December 2019
Total short-term borrowings				1.542.568	
Long-term borrowings	0,95-12,84%	TL	1.918.675	1.918.675	October 2018 - October 2021
Long-term borrowings	0,57%	EUR	81.726	492.647	March 2025
Total long-term borrowings				2.411.322	
December 31, 2017					
Short-term borrowings	11,35%	TL	11.920	11.920	January 2018
Short-term portion of long-term borrowings	0,95-12,84%	TL	1.353.665	1.353.665	January 2018 - December 2018
Short-term portion of long-term borrowings	0,57%	EUR	19.188	86.644	January 2018 - December 2018
Total short-term borrowings				1.452.229	
Long-term borrowings	0,95-12,84%	TL	2.763.000	2.762.999	October 2017 - October 2021
Long-term borrowings	0,57%	EUR	113.420	512.147	March 2025
Total long-term borrowings				3.275.146	

Movement of bank borrowings

2018

Opening January 1, 2018	4.727.375
Loan payments in 2018	(926.787)
Interest expense in 2018	536.499
Interest payments in 2018	(536.492)
Unrecognized foreign currency adjustments	153.295
December 31, 2018	3.953.890

The redemption schedule of long-term borrowings in TL as of December 31, 2018 and 2017 are as follows:

	2018	2017
2019	-	1.247.992
2020	1.230.755	1.059.862
2021-2025	1.180.567	967.292
Total	2.411.322	3.275.146

The Association has obtained long-term loan from Fortis Banque SA. The related loan was borrowed in November 2004 for the renovation of the Brussels office. The loan amounts to EUR 123.802 with an effective interest rate of 6.84% p.a. applicable at December 31, 2018 (December 31, 2017 – 6.84% p.a.). Such loan is collateralized with mortgage of representative office building in Brussels with an amount of EUR 1.090.732. Interest payments are made on a monthly basis. Interest payments are made on a monthly basis.

Türk Sanayicileri ve İşinsanları Derneği

Notes to the consolidated financial statements

at December 31, 2018 (continued)

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated)

9. Payables related to activities

	December 31, 2018	December 31, 2017
Supplier current accounts – domestic	920.950	923.941
Total	920.950	923.941

As of December 31, 2018, the average maturity of trade payables is 30 days (December 31, 2017: 30 days).

10. Taxation

According to the first article of Corporate Tax Law associations and foundations are not subject to corporation tax, since the definition of associations in Associations' Law implies that, an association is a legal entity which is established towards an aim which cannot be gaining profit from or sharing profit among members.

According to Value Added Tax Law, associations are not subject to calculate and pay Value Added Tax ("VAT") on services delivered, however purchases and services obtained are taxable. Accordingly TÜSİAD cannot deduct such VAT from its obligations to the government authorities, instead, recognize as expense in profit and loss accounts. However, as a legal entity, TÜSİAD is obliged to withholding tax on benefits provided to its employees and external consultants.

TÜSİAD is exempted from corporate tax according to Law No. 903 and the decision 90/84 of the Council of Ministers dated January 16, 1990. The Subsidiary, which is founded by TÜSİAD and located in Istanbul, is subject to corporate tax.

The corporate tax charge for the year ended December 31, 2018 is different than the amount computed by applying the statutory tax rate to loss before taxation as shown in the following reconciliation:

	December 31, 2018	December 31, 2017
Reconciliation of tax provision		
Profit / (loss) before taxes	2.969.990	(253.323)
Corporate tax at 22% (2017-20%)	(653.398)	50.665
Tax effect:		
- Tax exempt income / (loss)	697.775	(53.017)
- Carryforward tax losses (not recognized)/used	(44.377)	2.352
Total	-	-

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years. However, taxes losses cannot carried back to offset profits earned in previous periods. As of December 31, 2018 the Association has the right to offset its carryforward tax losses amounting to TL 88.986.

Türk Sanayicileri ve İşinsanları Derneği

Notes to the consolidated financial statements

at December 31, 2018 (continued)

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated)

11. Other current liabilities

	December 31, 2018	December 31, 2017
Deferred income (*)	1.232.036	1.338.778
Taxes and funds payable	340.676	300.737
Social security premiums payable	256.353	219.566
Audit fee accrual	52.500	47.500
Accrued expenses (**)	21.919	228.077
Payable to personnel	8.304	4.835
Provisions	-	15.877
Total	1.911.788	2.155.370

(*) Deferred income mainly consist of sponsorship incomes.

(**) Accrued expenses mainly consist of consultancy services.

12. Provisions for employment termination benefits

Short term provisions

	December 31, 2018	December 31, 2017
Provision for vacation pay liability	195.942	138.171
Total	195.942	138.171

Movement of the provision for unused vacation as of December 31, 2018 is as follows;

	2018	2017
At January 1	138.171	39.607
Provision for current year	57.771	106.530
Paid vacation	-	(7.966)
Total	195.942	138.171

Long term provisions

In accordance with the existing social legislation in Turkey, the Association is required to make lump-sum payments to employees whose employment is terminated due to retirement or for other reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay, maximum of TL 5.434 (2017 – TL 4.732) per year of employment at the rate of pay applicable at the date of retirement or termination.

The liability is not funded, as there is no funding requirement.

The reserve has been calculated by estimating the present value of the future probable obligation of the Association arising from the retirement of employees.

International Accounting Standards (“IAS”) 19 ‘Employee Benefits’ requires actuarial valuation methods to be developed to estimate the enterprise’s obligation under defined benefit plans.

Türk Sanayicileri ve İşinsanları Derneği

Notes to the consolidated financial statements

at December 31, 2018 (continued)

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated)

12. Provisions for employment termination benefits (continued)

Actuarial assumptions used in the calculation of the total liability are as follows:

	December 31, 2018	December 31, 2017
Discount rate	5,14%	4,67%
Retention rate to estimate to probability of retirement	95,50%	94,12%

Movements of the provision for employment termination benefits during the years were as follows:

	2018	2017
Balance January 1	940.896	539.973
Service cost	133.084	558.478
Interest cost	137.370	64.797
Paid during the year	-	(522.467)
Actuarial gain/(loss)	(41.469)	300.115
Balance at December 31	1.169.881	940.896

13. Fees and contributions

According to the Board of Directors decision dated January 13, 2006 the Association has established the "Foreign Communications Commission" for the purpose of improving the positive recognition of Turkey in European countries and creating public awareness during the course of European Union accession talks. In order to support above mentioned activities financially, special contributions are demanded from members of the Association, accumulated under Foreign Communication Fund. Although the contributions are unrestricted, Board of Directors has set certain rules for financial management of expenditures. According to these rules, the contributions and expenses are followed separately from other contributions and expenses. In 2018, the Subsidiary's revenues consist of book and magazine sales and magazine advertising income.

Türk Sanayicileri ve İşinsanları Derneği

Notes to the consolidated financial statements

at December 31, 2018 (continued)

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated)

14. General and administrative expenses

	January 1- December 31, 2018			January 1- December 31, 2017		
	Domestic offices	Foreign offices	Total	Domestic offices	Foreign offices	Total
Personnel expense	9.607.666	3.429.916	13.037.582	8.829.924	2.716.561	11.546.485
Expenses for contribution in organizations	6.425.094	1.270.233	7.695.327	2.552.853	797.653	3.350.506
Utilities expense	1.412.140	1.224.067	2.636.207	773.667	582.522	1.356.189
Meeting and representation expense	1.705.774	706.080	2.411.854	1.829.698	410.588	2.240.286
Sponsorship expense	411.150	937.863	1.349.013	565.077	1.311.302	1.876.379
Consultancy expense	832.815	-	832.815	949.525	-	949.525
Depreciation and amortization expense	582.091	-	582.091	663.234	-	663.234
Rent expense	65.250	492.926	558.176	58.050	382.396	440.446
Maintenance expense	488.602	-	488.602	595.792	-	595.792
Travel expense	109.253	290.605	399.858	104.051	503.562	607.613
Publishing expense	258.053	-	258.053	258.205	2.401	260.606
Communication expense	253.195	3.825	257.020	244.019	13.800	257.819
Transportation expense	148.204	-	148.204	170.069	-	170.069
Provision and other expense	65.335	-	65.335	69.594	-	69.594
Translation and copyright expenses	24.912	-	24.912	101.175	-	101.175
Doubtful provision expenses	-	-	-	422.500	-	422.500
Total	22.389.534	8.355.515	30.745.049	18.187.433	6.720.785	24.908.218

As mentioned in Note 13, the contributions and expenditures of Foreign Communication Commission are followed separately from other contributions and expenses. Expenses of Foreign Communication Commission incurred in the year ended December 31, 2018 and 2017 consist of personnel cost, meeting and seminar expenses, publicity expenses and expenses of external consultancy obtained.

15. Financial income, net

	January 1 - December 31, 2018	January 1 - December 31, 2017
Financial income:		
Interest income on membership fees	420.000	349.500
Interest income on time deposits	1.125.226	520.502
Total	1.545.226	870.002
Financial expenses:		
Interest expenses	(536.499)	(669.883)
Total	(536.499)	(669.883)
Financial income, net	1.008.727	200.119

Türk Sanayicileri ve İşinsanları Derneği

Notes to the consolidated financial statements

at December 31, 2018 (continued)

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated)

16. Foreign currency exchange income/(expenses), net

	January 1 - December 31, 2018	January 1 - December 31, 2017
Foreign currency exchange income	573.704	196.381
Foreign currency exchange expenses	(548.054)	(269.152)
Total	25.650	(72.771)

17. Other operating expenses, net

	January 1 - December 31, 2018	January 1 - December 31, 2017
Other miscellaneous expenses	(17.185)	(93.980)
Total	(17.185)	(93.980)

18. Subsequent event

None.