

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION
FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2018
TOGETHER WITH AUDITOR'S REVIEW REPORT**



REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

To the Board of Directors of Zorlu Enerji Elektrik Üretim A.Ş.

Introduction

We have reviewed the accompanying condensed consolidated interim balance sheet of Zorlu Enerji Elektrik Üretim A.Ş. and its subsidiaries as of 30 September 2018 and the related condensed interim statement of income, comprehensive income, changes in equity and cash flows for the nine-month period then ended and notes, comprising a summary of a significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

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

Çağlar Sürücü, SMMM
Partner

Istanbul, 5 December 2018

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION AT 30 SEPTEMBER 2018

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ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET AT 30 SEPTEMBER 2018

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

	Notes	30 September 2018	31 December 2017
ASSETS			
Current assets:			
Cash and cash equivalents	5	182,568	335,085
Derivative financial instruments	13	28,881	1,706
Trade receivables			
- Other trade receivables		606,301	260,106
- Due from related parties	18	43,307	66,954
Other receivables			
- Other receivables		34,112	26,054
- Due from related parties	18	1,350,912	1,141,843
Receivables from service concession arrangements	6	144,732	130,999
Inventories		31,776	16,490
Other current assets	7	390,574	367,330
Total current assets		2,813,163	2,346,567
Non-current assets:			
Other receivables			
- Other receivables		136	154
- Due from related parties	18	1,254,931	787,161
Financial assets		246	246
Derivative financial instruments	13	89,464	31,603
Receivables from service concession arrangements	6	1,060,602	508,335
Associates		430,818	258,379
Property, plant and equipment	8	10,100,056	5,326,348
Intangible assets	9	3,014,477	1,754,167
Deferred tax assets		327,583	193,830
Other non-current assets	7	195,451	78,260
Total non-current assets		16,473,764	8,938,483
Total assets		19,286,927	11,285,050

The accompanying notes form an integral part of this condensed consolidated interim financial information.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
AT 30 SEPTEMBER 2018**

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

	Notes	30 September 2018	31 December 2017
LIABILITIES			
Current liabilities:			
Financial liabilities			
- Borrowings	10	3,498,693	2,435,325
Trade payables			
- Other trade payables		1,657,638	805,877
- Due to related parties	18	47,716	98,366
Other payables			
- Other payables	11	618,788	288,799
- Due to related parties	11, 18	27,842	139,485
Derivative financial instruments	13	27,879	5,639
Taxes on income		6,081	-
Provisions for employment benefits		-	4,327
Other provisions	12	34,570	42,537
Other current liabilities	7	131,231	201,523
Total current liabilities		6,050,438	4,021,878
Non-current liabilities:			
Financial liabilities			
- Borrowings	10	9,056,882	4,954,148
Derivative financial instruments	13	1,046	34,342
Other payables			
- Other payables	11	24,449	27,453
- Due to related parties	11, 18	-	291,967
Deferred tax liabilities		674,462	251,244
Provisions for employment benefits		23,712	12,949
Total non-current liabilities		9,780,551	5,572,103
Total liabilities		15,830,989	9,593,981
EQUITY			
Share capital	14	2,110,948	2,110,948
Revaluation surplus		3,998,429	648,807
Share premium		916	916
Hedge reserves		(2,521,720)	(595,039)
Actuarial losses		(7,887)	(4,572)
Currency translation adjustment		420,516	192,213
Accumulated losses		(535,550)	(660,774)
Equity attributable to equity holders of the parent		3,465,652	1,692,499
Non-controlling interests		(9,714)	(1,430)
Total equity		3,455,938	1,691,069
Total liabilities and equity		19,286,927	11,285,050

The accompanying notes form an integral part of this condensed consolidated interim financial information.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

	Notes	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Revenue		4,094,003	1,870,415	2,605,720	1,140,104
Cost of sales (-)	15	(3,045,016)	(1,347,767)	(2,032,862)	(885,574)
Gross profit		1,048,987	522,648	572,858	254,530
General and administrative expenses (-)	15	(99,469)	(37,216)	(73,593)	(25,863)
Marketing and selling expenses (-)	15	(34,801)	(10,941)	(57,736)	(34,547)
Other income	16	197,631	117,028	110,543	26,044
Other expense (-)	16	(196,368)	(126,006)	(129,753)	(64,218)
Operating income		915,980	465,513	422,319	155,946
Share of gain of associates		37,193	27,232	18,544	17,964
Financial income	17	1,291,376	740,257	151,315	52,931
Financial expense (-)	17	(2,383,386)	(1,431,120)	(489,268)	(156,231)
Loss/ (income) before taxation		(138,837)	(198,118)	102,910	70,610
Current income tax expense (-)		(19,766)	(7,333)	(21,138)	(17,579)
Deferred tax income/ (expense)		176,812	60,566	(67,202)	(35,231)
Income/ (loss) for the period		18,209	(144,885)	14,570	17,800
Income/ (loss) attributable to:					
Equity holders of the parent		43,772	(119,932)	14,730	17,873
Non-controlling interest		(25,563)	(24,953)	(160)	(73)
Income/ (loss) per share		0.00022	(0.00060)	0.00009	0.00011

The accompanying notes form an integral part of this condensed consolidated interim financial information.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ**CONDENSED CONSOLIDATED INTERIM STATEMENT OF OTHER
COMPREHENSIVE INCOME FOR THE PERIOD BETWEEN
1 JANUARY - 30 SEPTEMBER 2018**

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.)

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Income/ (loss) for the period	18,209	(144,885)	14,570	17,800
Revaluation of property, plant and equipment (Note 2.7)	4,273,166	2,826,765	-	-
Changes in actuarial (losses)/gain on employment benefit obligations	(4,250)	(3,724)	(3,840)	(2,946)
Gain/ (loss) on hedges	(2,408,351)	(1,623,760)	26,538	2,542
Changes in currency translation adjustments	228,303	168,254	20,431	3,773
Deferred income tax related to other comprehensive income	(359,487)	(177,828)	(4,540)	80
Other comprehensive income	1,729,381	1,189,707	38,589	3,449
Total comprehensive income	1,747,590	1,044,822	53,159	21,249
Total comprehensive income attributable to:				
Equity holders of the parent	1,773,153	1,069,775	53,319	21,322
Non-controlling interests	(25,563)	(24,953)	(160)	(73)
Total comprehensive income	1,747,590	1,044,822	53,159	21,249

The accompanying notes form an integral part of this condensed consolidated interim financial information.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

	Attributable to equity holders of the parent							Non-controlling interests	Total equity
	Share capital	Share premium	Hedge reserves	Actuarial losses	Currency translation adjustment	Revaluation surplus	Accumulated losses		
1 January 2017	860,948	273	(466,825)	(2,118)	146,395	705,267	(764,676)	(1,080)	478,184
Transfer	-	-	-	-	-	(41,489)	41,489	-	-
Capital increase	1,250,000	643	-	-	-	-	-	-	1,250,643
Total comprehensive income	-	-	21,230	(3,072)	20,431	-	14,730	(160)	53,159
30 September 2017	2,110,948	916	(445,595)	(5,190)	166,826	663,778	(708,457)	(1,240)	1,781,986
1 January 2018	2,110,948	916	(595,039)	(4,572)	192,213	648,807	(660,774)	(1,430)	1,691,069
Non-controlling interests on acquisition of subsidiary	-	-	-	-	-	-	-	17,279	17,279
Transfer	-	-	-	-	-	(81,452)	81,452	-	-
Total comprehensive income	-	-	(1,926,681)	(3,315)	228,303	3,431,074	43,772	(25,563)	1,747,590
30 September 2018	2,110,948	916	(2,521,720)	(7,887)	420,516	3,998,429	(535,550)	(9,714)	3,455,938

The accompanying notes form an integral part of this condensed consolidated interim financial information.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

	Notes	1 January- 30 September 2018	1 January- 30 September 2017
Cash flows from operating activities:			
Income before taxation		(138,837)	102,910
Depreciation and amortisation	15, 16	309,602	202,021
Interest income		(192,136)	(99,725)
Interest expense	16, 17	901,049	317,864
Unrealized foreign exchange losses and currency translation differences		227,781	75,381
Loss/ (income) from financial derivative instruments	17	(14,694)	15,131
Change in provision for employment termination benefits		6,547	10,253
Provisions		(14,090)	(24,336)
Deferred financial income / (expense)		(599)	8,041
Loss/ (income) from sale of tangible assets		(232)	10,631
Gain on associates		(37,193)	(18,544)
Indexation differences of receivables from service concession agreements	6	(139,837)	(28,890)
Indexation difference on deposits	11	23,590	10,135
Expenses for termination of project license		-	45,894
Amortization of commission expenses		22,123	12,680
Net cash generated from operating activities before changes in operating assets and liabilities		953,074	639,446
Changes in trade receivables		(243,536)	(35,012)
Changes in other receivables		(6,176)	(10,910)
Changes in other current and non-current assets		(74,244)	55,502
Changes in trade payables		397,045	349,733
Changes in other payables		(25,002)	(13,101)
Changes in other liabilities		(71,031)	(198,206)
Changes in inventories		(15,286)	(14,686)
Termination benefits paid		(2,459)	(2,296)
Taxes paid		(13,597)	(21,485)
Net cash generated from operating activities		898,788	748,985
Cash flows from investing activities:			
Purchase of property plant and equipment and intangible assets		(491,457)	(655,662)
Investment on service concessions	6	(2,569)	(124,524)
Proceeds from sale of property, plant and equipment and intangible assets		480	33,912
Cash out flow from purchase of subsidiary	3	(77,385)	(1,217,599)
Receivables from service concession arrangements	6	70,974	21,868
Change in assets held for sale		-	9,465
Net cash generated used in investing activities		(499,957)	(1,932,540)
Cash flows from financing activities:			
Proceeds from issued debt instruments	10	169,000	110,770
Proceeds from bank borrowings	10	1,908,763	1,484,977
Proceeds from other financial liabilities	10	6,790	-
Repayment of bank borrowings	10	(1,167,409)	(837,175)
Repayment of issued debt instruments	10	(208,400)	(112,350)
Capital increase		-	1,250,000
Share premium increase		-	643
Changes in related parties balances		(515,112)	(194,876)
Change in financial assets		-	100
Interest received		69,042	16,713
Interest paid		(762,256)	(335,714)
Commission paid		(50,863)	(34,630)
Net cash (used in)/ generated from financing activities		(550,445)	1,348,458
Net (decrease)/ increase in cash and cash equivalents		(151,614)	164,903
Change in restricted cash		13,286	(7,371)
Cash and cash equivalents at the beginning of the period		317,570	80,303
Cash and cash equivalents at the end of the period	5	179,242	237,835

The accompanying notes form an integral part of this condensed consolidated interim financial information.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Zorlu Enerji Elektrik Üretim AŞ (“the Company” or “Zorlu Enerji”) and its subsidiaries (collectively referred to as (“the Group”)) is engaged in electricity and steam production and selling, distribution and trading electricity and distribution of gas. The Company was established by Zorlu Holding AŞ (“Zorlu Holding”) and Korteks Mensucat Sanayi ve Ticaret AŞ (“Korteks”) in 1993. Ultimate controlling party of the Company is Zorlu Holding. The Company is registered in Turkey and its registered address is as follows: Bursa Organized Industrial Zone, Pembe Street, No: 13 Bursa/Turkey. The Company is registered to the Capital Markets Board (“CMB”), and its shares are publicly traded in Borsa İstanbul AŞ (“BIST”) since 2000. As at 30 September 2018, 32% of its shares are open for trading (31 December 2017: 32%).

The subsidiaries and associates of the Company, their nature of business and registered addresses are presented as below (Zorlu Enerji and its subsidiaries and associates are called as “Group”).

Subsidiaries	Nature of business	Country
Rotor Elektrik Üretim AŞ (“Rotor”)	Electricity production	Turkey
Zorlu Hidroelektrik Enerji Üretim AŞ (“Zorlu Hidroelektrik”)	Electricity production	Turkey
Zorlu Jeotermal Enerji Elektrik Üretimi AŞ (“Zorlu Jeotermal”)	Electricity production	Turkey
Zorlu Enerji Pakistan Ltd. (“Zorlu Enerji Pakistan”)	Electricity production	Pakistan
Zorlu Wind Pakistan (Private) Ltd. (“Zorlu Wind Pakistan”)	Electricity production	Pakistan
Zorlu Solar Pakistan (Private) Ltd. (“Zorlu Solar Pakistan”)	Electricity production	Pakistan
Zorlu Rüzgar Enerjisi Elektrik Üretimi AŞ (“Zorlu Rüzgar”)	Electricity production	Turkey
Zorlu Doğal Elektrik Üretimi AŞ (“Zorlu Doğal”)	Electricity production	Turkey
Nemrut Jeotermal Elektrik Üretimi AŞ (“Nemrut Jeotermal”)	Electricity production	Turkey
Zorlu Solar Enerji Tedarik ve Ticaret AŞ (“Zorlu Solar”)	Electricity production and solar panel trading	Turkey
Zorlu Elektrik Enerjisi İthalat İhracat ve Toptan Ticaret AŞ (“Zorlu ElektrikToptan”)	Electricity trading	Turkey
Zorlu Osmangazi Enerji Sanayi ve Ticaret AŞ (“Zorlu Osmangazi”) (*)	Electricity distribution and trading	Turkey
Zorlu Enerji İsrail Ltd. (“Zorlu Enerji İsrail”)	Electricity production	Israel
Zorlu Renewable Pakistan (Private) Ltd. (“Zorlu Renewable Pakistan”)	Electricity production	Pakistan
Zorlu Sun Power (Private) Ltd. (“Zorlu Sunpower Pakistan”)	Electricity production	Pakistan
Zorlu Enerji Dağıtım AŞ (“Zorlu Enerji Dağıtım”) (**)	Gas distribution	Turkey
Zorlu Asia Holding Ltd. (“Zorlu Asia”)	Energy investment	Dubai

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

Associates	Nature of business	Country
Dorad Energy Ltd. (“Dorad”)	Electricity production	Israel
Ezotech Electric Ltd. (“Ezotech”) (***)	Electricity trading	Israel
Solad Energy Ltd. (“Solad”)	Electricity production	Israel

(*) Zorlu Osmangazi has 100% shares of Osmangazi Elektrik Dağıtım AŞ (“OEDAŞ”) and Osmangazi Elektrik Satış Perakende AŞ (“OEPSAŞ”).

(**) Transactions concerning Zorlu Enerji Dağıtım, which is 100% owned by Zorlu Enerji, taking over 90% of the shares of Trakya Bölgesi Doğal Gaz Dağıtım AŞ (“Trakya”) and Gazdaş Gaziantep Doğal Gaz Dağıtım AŞ (“Gazdaş”) were completed on 29 June 2018.

(***) Ezotech has 100% shares of Ashdod Energy Ltd. (“Ashdod”) and Ramat Negev Energy Ltd. (“Ramat Negev”).

As at 30 September 2018, the number of personnel employed was 2,167 (including Gazdaş and Trakya) (31 December 2017: 1,762).

The power plants of the Company located in Turkey and abroad is presented below together with their existing installed capacities:

Installed capacity in Turkey:

Power Plant	Company	Location	Type	Electricity Production Capacity (MW)	Steam Production Capacity (Ton/Hour)
Natural Gas				176.2	239.5
Lüleburgaz (*)	Zorlu Enerji	Lüleburgaz, Kırklareli	Cogeneration Natural Gas	126	209.5
Bursa	Zorlu Enerji	Bursa Organized Industrial Zone	Combined-Cycle Natural Gas	34.3	-
Yalova	Zorlu Enerji	Altınova, Yalova	Cogeneration Natural Gas	15.9	30.0
Wind				215.3	-
Gökçedağ (Rotor)	Rotor	Osmaniye	Wind	135.0	-
Sarıtepe	Zorlu Rüzgar	Osmaniye	Wind	57.0	-
Demirciler	Zorlu Rüzgar	Osmaniye	Wind	23.3	-
Hydroelectric				118.9	-
Tercan	Zorlu Doğal	Erzincan	Hydroelectric	15.0	-
Kuzgun	Zorlu Doğal	Erzurum	Hydroelectric	20.9	-
Ataköy	Zorlu Doğal	Tokat	Hydroelectric	5.5	-
Mercan	Zorlu Doğal	Tunceli	Hydroelectric	20.4	-
Çıldır	Zorlu Doğal	Kars	Hydroelectric	15.4	-
İkizdere	Zorlu Doğal	Rize	Hydroelectric	24.9	-
Beyköy	Zorlu Doğal	Eskişehir	Hydroelectric	16.8	-
Geothermal				305.0	-
Kızıldere I	Zorlu Doğal	Denizli	Geothermal	15.0	-
Kızıldere II	Zorlu Doğal	Denizli	Geothermal	80.0	-
Kızıldere III	Zorlu Doğal	Denizli-Aydın	Geothermal	165.0	-
Alaşehir I	Zorlu Jeotermal	Manisa	Geothermal	45.0	-
TOTAL				815.4	239.5

(*) As a result of the technical and financial evaluations, in October 2018 the Company applied to EMRA to amend the installed capacity of the power plant to 62.38 MW.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

Installed capacity in abroad:

Power Plant	Location	Type	Electricity Production Capacity (MW)	Steam Production Capacity (Ton/Hour)
Wind			56.4	-
Jhimpir	Pakistan	Wind	56.4	-
Natural Gas			290.5	110.0
Dorad (*)	Israel	Combined-Cycle Natural Gas	840.0	-
Ashdod (*)	Israel	Cogeneration Natural Gas	64.54	40.0
Ramat Negev (*)	Israel	Cogeneration Natural Gas	126.4	70.0
TOTAL			346.9	110.0

(*) Stake of Zorlu Enerji in Israel companies has been taken into consideration in the calculation of Total production capacity.

Important Developments in 2018

Activities related to natural gas distribution

In order to maintain the operational integrity under the consolidation of Zorlu Enerji, it was decided that the shares representing 90% of total shares of Trakya and Gazdaş, which operate in the natural gas distribution sector, have been acquired from the relevant Zorlu Group companies by Zorlu Enerji Dağıtım AŞ, which was established on 20 April 2018, at amounts to TL292,875 thousand on 29 June 2018. This transaction is accounted in accordance with IFRS 3 “Business Combinations” in these condensed consolidated interim financial information (Note 3).

The acquisition amount of Trakya and Gazdaş was paid to all other shareholders, except for Zorlu Holding. To simplify the Company’s balance sheet by lowering related party balances, the remaining debt of Zorlu Enerji Dağıtım to Zorlu Holding for the acquisition transaction amounts to TL200,875 thousand was deducted from Zorlu Enerji’s current receivables from Zorlu Holding.

Gazdaş operates in the field of natural gas distribution to residential and industrial institutions. Within the scope of the natural gas distribution license obtained by Gazdaş on 24 February 2006, it is responsible for planning, designing, constructing, operating, maintaining and extending the distribution network in line with the relevant legislation in the Gaziantep, Kilis and Nizip distribution area for 30 years, and it is responsible from the transfer of natural gas to subscribers and individual consumers through this network. Gazdaş extended its distribution license area in 2015 by including the Oğuzeli, Islahiye and Nurdağı districts in the license, and in 2017 by including the Araban and Yavuzeli districts.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

Important Developments in 2018 (Continued)

Trakya operates in the field of natural gas distribution to residential and industrial establishments. Within the scope of the natural gas distribution license obtained by Trakya on 25 January 2006, it is responsible for planning, designing, constructing, operating, maintaining and extending the distribution network in line with the relevant legislation to the distribution network in Edirne, Tekirdağ, Kırklareli and Lüleburgaz, Çerkezköy, Muratlı, Kavaklı, Büyükkarıştıran, Evrensekiz, Kızılpınar, Kapaklı, Karaağaç, Veliköy, Ulaş, Misinli, Velimeşe and Babaeski districts for 30 years, and it is responsible from the transfer of natural gas to subscribers and individual consumers through this network. Trakya extended its distribution license area by including the Keşan, İpsala and Süloğlu districts in 2015, the Süleymanpaşa, Şarköy, Malkara, Hayrabolu, Ergene (except Çordaş) and Saray districts of Tekirdağ Municipality in 2016, the Uzunköprü, Lalapaşa, Havsa, Yenimuhacir, Meriç, Subaşı, Küplü, Enez and Yenikarpuzlu districts of Edirne and the Pınarhisar, Vize and Ahmetbey districts of Kırklareli in its distribution license in 2017.

Activities related to electricity distribution

Zorlu Osmangazi's main operations are to develop projects in the field of energy, to invest, to distribute electricity to subscriptions and to sell electricity to subscribers.

Zorlu Osmangazi's subsidiaries are as follows:

Subsidiaries	Nature of business	Country
OEPSAŞ	Retails electricity sales	Turkey
OEDAŞ	Electricity distribution	Turkey

Zorlu Osmangazi acquired all OEDAŞ and OEPSAŞ shares for USD360,000,000 on 2 February 2017. OEDAŞ was established in 2005 and conducts the distribution of electricity energy within the borders of Eskişehir, Afyon, Bilecik, Kütahya and Uşak provinces. The main fields in which OEDAŞ operates is the development of projects in the energy field, investing, and distributing and selling electricity to subscribers. The public shares of the Company were privatised in 2009. OEPSAŞ, the authorized supply company in the Osmangazi Electricity Distribution Region, sells electricity to retailers subject to regulation in the relevant region through retail sales tariffs approved by EMRA. The Company also sells electricity to individual consumers.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL INFORMATION

2.1 Financial reporting standards

The condensed consolidated interim financial information of the Group have been prepared in accordance with International Accounting Standard 34 (“IAS 34”). The Group maintains its books of account and prepares its statutory financial information in Turkish Lira (“TL”) in accordance with the requirements of the Turkish Commercial Code (the “TCC”), related regulations and tax legislation. This condensed consolidated interim financial information is based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with IAS 34.

This condensed consolidated interim financial information is prepared under the historical cost convention, adjusted, where required by IAS 34 to measure certain items at fair value.

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(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL INFORMATION (Continued)

2.1 Financial reporting standards (Continued)

The preparation of condensed consolidated interim financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the condensed consolidated interim financial information are disclosed in Note 2.7.

2.2 Basis of consolidation

The condensed consolidated interim financial information include the accounts of the parent company, Zorlu Enerji and its subsidiaries on the basis set out in sections below. The condensed interim financial information of the companies included in the scope of consolidation have been prepared as at the date of the condensed consolidated interim financial information and have been prepared in accordance with IAS 34. The results of subsidiaries are included or excluded from their effective dates of acquisition or disposal, respectively.

Subsidiaries

Zorlu Enerji controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Zorlu Enerji has power over a subsidiary when Zorlu Enerji has existing rights that give it the current ability to direct the relevant activities that significantly affect the subsidiary’s returns. Power arises from rights and the existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Zorlu Enerji controls another entity.

Subsidiaries including the structured entities are the companies controlled by the Group. The Group’s control is provided by the ability to affect the variable returns through its power over the subsidiaries. Subsidiaries are consolidated from the date on which the control is transferred to the Group and are no longer consolidated from the date that control ceases.

The balance sheets and statements of profit or loss the subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by Zorlu Enerji and its subsidiaries are eliminated against the related equity. Intercompany transactions and balances between Zorlu Enerji and its subsidiaries are eliminated with the scope of consolidation accounting.

Disposal of subsidiaries

If the Group loses control of a subsidiary, it recognizes any investment retained in the former subsidiary at its fair value when control is lost and any difference between the fair value and net book value of investment is accounted for as gain or loss. That fair value shall be regarded as the fair value on initial recognition of a financial asset, when appropriate, the cost on initial recognition of an investment in an associate or joint venture. Additionally, assets and liabilities that were previously recognized as other comprehensive income attributable to that subsidiary are accounted for as if those were disposed the Group. This may result in a fact that these amounts previously recognized as other comprehensive income may be classified to profit or loss.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL INFORMATION (Continued)

2.2 Basis of consolidation (Continued)

Non-controlling interests

The minority shares in the net assets and operating results of subsidiaries are separately classified in the consolidated balance sheets and consolidated statements of loss as “non-controlling interests”.

The Group applies a policy of treating transactions with non-controlling interests as transactions with owners of the parent. Regarding the 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 accounted for in equity. For disposals to non-controlling interests, differences between any proceeds received and the relevant share of non-controlling interests are also accounted for in equity.

The table below sets out all subsidiaries and demonstrates the proportion of ownership interest as at 30 September 2018 and 31 December 2017.

Subsidiaries	Direct and indirect ownership interest by the Company and its Subsidiaries (%)	
	30 September 2018	31 December 2017
Rotor	100.00	100.00
Zorlu Hidroelektrik	100.00	100.00
Zorlu Jeotermal	100.00	100.00
Zorlu Enerji Pakistan	100.00	100.00
Zorlu Wind Pakistan	99.70	99.70
Zorlu Rüzgar	100.00	100.00
Zorlu Doğal	100.00	100.00
Nemrut	75.00	75.00
Zorlu Solar	100.00	100.00
Zorlu Elektrik	100.00	100.00
Zorlu Solar Pakistan	99.70	99.70
Zorlu Osmangazi	100.00	100.00
Zorlu Enerji İsrail	100.00	100.00
Zorlu Renewable Pakistan	99.70	99.70
Zorlu Sun Power	99.70	99.70
Zorlu Enerji Dağıtım (*)	100.00	-
Zorlu Asia (**)	100.00	-

(*) Zorlu Enerji Dağıtım’s foundation registration transactions were completed by 20 April 2018.

(**) Zorlu Asia’s foundation registration transactions were completed by 28 May 2018.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL INFORMATION (Continued)

2.2 Basis of consolidation (Continued)

Investment in Associates

The Group's investments in associates are accounted under the equity method of accounting. Investments in associates are undertakings over which the Group generally has between 20% and 50% of the voting rights and the Group has significant influence and which are not subsidiaries or joint ventures of the Group. The investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The consolidated statement of income/loss reflects the Group's share of the results of operations of the associates.

The equity method is abandoned if the carrying value of the investment in the associate is zero or the significant effect of the Group has ended, as long as the Group does not incur an obligation or commitment in relation to the associate. After the Group's share in the associate has decreased to zero, additional provision and recognition of the liability has been incurred if the Group is exposed to legal or constructive obligation or has made payments on behalf of the associate.

The table below sets out all associates and demonstrates the proportion of ownership interest as at 30 September 2018 and 31 December 2017:

Associates	Direct ownership interest by the Company and its associates (%)	
	30 September 2018	31 December 2017
Solad Energy Ltd.	42.15	42.15
Dorad Energy Ltd.	25.00	25.00
Ezotech Electric Ltd.	42.15	42.15

2.3 Amendments in International Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at 30 September 2018:

- **IFRS 9, Financial instruments;** effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. Based on the assesment performed by the Group management, this standart has not any material effect on the financial information.
- **IFRS 15, Revenue from contracts with customers;** effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. Based on the assesment performed by the Group management, this standart has not any material effect on the financial information.

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(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL INFORMATION (Continued)

2.3 Amendments in International Financial Reporting Standards (Continued)

- **Amendment to IFRS 15, Revenue from contracts with customers**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas at guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard. Based on the assessment performed by the Group management, this standart has not any material effect on the financial information.

Amendments to IFRS 4, Insurance contracts regarding the implementation of IFRS 9, ‘Financial Instruments’; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

- give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
- give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.
- **Amendment to IAS 40, Investment property** relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
- **Amendments to IFRS 2, Share based payments** on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.
- **Annual improvements 2014-2016**; effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:
 - IFRS 1, ‘First time adoption of IFRS’, regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,
 - IAS 28, ‘Investments in associates and joint venture’ regarding measuring an associate or joint venture at fair value.

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(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL INFORMATION (Continued)

2.3 Amendments in International Financial Reporting Standards (Continued)

- **IFRIC 22, Foreign currency transactions and advance consideration;** effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice. The Group has considered effect of this standart on the financial information.
- b) *Standards, amendments and interpretations that are issued but not effective as at 30 September 2018:*
 - **Amendment to IFRS 9, Financial instruments;** effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.
 - **Amendment to IAS 28, Investments in associates and joint venture;** effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.
 - **IFRS 16, Leases;** effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15‘Revenue from Contracts with Customers’ is also applied. This standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right of use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL INFORMATION (Continued)

2.3 Amendments in International Financial Reporting Standards (Continued)

- **IFRIC 23, Uncertainty over income tax treatments;** effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.
- **IFRS 17, Insurance contracts;** effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.
- **Annual improvements 2015-2017;** effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:
 - IFRS 3, ‘Business combinations’, – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
 - IFRS 11, ‘Joint arrangements’, – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
 - IAS 12, ‘Income taxes’ – a company accounts for all income tax consequences of dividend payments in the same way.
 - IAS 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 IAS 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:
 - 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.

The Group is evaluating the effect of the aforementioned changes within its operations and apply changes starting from effective date. It is expected that the application of these amendments and interpretations will not have a material effect on the condensed consolidated interim financial information of the Group.

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(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL INFORMATION (Continued)

2.4 Summary of significant accounting policies

The condensed consolidated interim financial information for the period then ended 30 September 2018 has been prepared in accordance with IAS 34 “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial information for the year then ended 31 December 2017, which have been prepared in accordance with IFRSs. The accounting policies applied by the Group for the changes in operations during the period are presented below:

a) Accounting policies related to revenue from natural gas distribution segment:

The Group determines the volume of natural gas sold to subscribers based on the index value shown in each subscriber’s meter. Meters are read monthly and the index values are recorded. Natural gas sales revenue is recorded on an accrual basis based on the weighted average retail sale price, which is calculated based on the reading periods and is approved by EMRA, for the sale amount calculated as the difference between the index on the last reading date and the reading on the previous reading date.

Retail price includes natural gas unit purchase price, system usage fee and other factors. According to Natural Gas Market Distribution and Customer Services Regulation, the Group may not charge any fee to subscribers other than the retail price approved by EMRA and other service fees determined by EMRA.

The Group reflects the sale of natural gas to the subscribers as gross to the consolidated financial statements as per the EMRA regulations. In this context, the Group bills the natural gas purchased to its subscribers without adding any profit margins. The Group accounts revenue as gross due to its fundamental responsibility for providing natural gas to its subscribers.

Accounting policy concerning subscriber connection income

The Group collects a certain subscription fee for each subscriber in order to fund the infrastructure investments to be made in the region where the subscriber is located and to deliver the natural gas to the subscribers. Subscriber connection fee amounts determined by EMRA are collected once and not refunded during the signing of the agreement. These amounts are recognized as revenue in the consolidated income statement in the period which they are collected.

Late fee income

Unpaid natural gas sales invoices are collected together with the late fee. The late fee interest rate is applied on daily basis in accordance with the law no.6183 for the invoiced receivables that have passed the due date. Late fee income is recognized in other operating income at the end of the period on an accrual basis.

IFRIC 12, “Service concession arrangements” regulate recognition of the service concession arrangements given by public entities to private industry. The service concession arrangement concerning electricity and natural gas distribution is recognised within the framework of IFRIC 12 by the Group.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL INFORMATION (Continued)

2.4 Summary of significant accounting policies (Continued)

As per the conditions of arrangements based on the contracts within the scope of IFRIC 12, the Group operates as a service provider with the title "operator". An operator builds and renovates the infrastructure used to provide a public service, operates the infrastructure during the determined period and maintains the infrastructure.

Financial assets are depreciated within 22 years as per the concession arrangements concerning natural gas distribution activities (Note 6).

TL60,733 thousand which is mainly the cost of investment for the first 8 years till the occurrence of regulatory asset based amount, has been reflected to the financial statements as a contract cost under the intangible asset (Note 9). The cost value of this intangible asset has been amortized throughout the license period.

b) Intangible assets

Intangible assets acquired before 1 January 2005 are carried at restated cost in power of purchase of TL as at 31 December 2004 less accumulated depreciation and impairment losses. Intangible assets acquired after 1 January 2005 are carried at cost less accumulated depreciation and impairment losses. Intangible assets comprise licenses, computer softwares, service concession arrangements, customer relationships and goodwill.

Licenses

Commercial enterprise licences acquired separately are shown with their costs. Commercial enterprise licences have limited useful lives and they are tracked using their values after the accumulated amortisation is deducted from the cost. The amortisation of the commercial enterprise licences is recognised at the cost of the licenses throughout their useful lives of 15-30 years using the straight-line method.

Computer softwares

Computer softwares are recorded at acquisition cost and amortised on a straight-line basis over their estimated useful lives of 3 - 15 years. Where an indication of impairment exists, the carrying amount of any intangible assets is assessed and written down immediately to its recoverable amount.

Service concession arrangement

Service concession arrangements owned as a result of business combinations are recognised at their fair values at the acquisition date. The duration of the electricity distribution service concession arrangement and natural gas distribution service concession arrangement were determined to be 20 and 18 years, respectively. The service concession arrangement contracts will be amortised during this time (Note 3).

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(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL INFORMATION (Continued)

2.4 Summary of significant accounting policies (Continued)

Customer relationships

Customer relationships acquired as a result of business combinations related OEPSAŞ are recognised at their fair value at the acquisition date. The duration of customer relationships is determined to be 20 years. Customer relationships are amortised by straight line method in accordance with their expected useful lives (20 years).

Business combinations and goodwill

A business combination is the bringing together of separate legal entities or businesses into one reporting entity. Business combinations are recognised using the acquisition method in accordance with IFRS 3.

Cost of the acquisition incurred as a result of the acquisition of an enterprise is allocated to identifiable assets, obligations and contingent obligations of the enterprise on the date of acquisition. The difference between the cost of the acquisition and the fair value of identifiable assets, obligations and contingent obligations of the entity on the date of acquisition is recognised in the condensed consolidated interim financial information as goodwill. In business combinations the assets, intangible assets and contingent obligations that are not covered by the financial statements of the acquired entity but that could be separated from the goodwill are recognised in the condensed consolidated interim balance sheet at their fair values. The goodwill previously recognised in the financial statements of the acquiree is not considered to be an identifiable asset.

If the Group’s share of the net fair value of the identifiable assets, obligations and contingent obligations is more than the cost of the business combination the excess is accounted for in the consolidated statement of income in the related period.

Goodwill should be tested for impairment annually and more frequently if impairment indicators are present. Carrying amount of goodwill and higher of fair value less costs of disposal and value in use compared. Impairment losses are recognised as an expense immediately in profit or loss and not reversible for subsequently periods (Note 3).

2.5 Going concern assumption

The Group has prepared its condensed consolidated interim financial information on a going concern basis in a foreseeable future. The Group is at investment stage and majority of its investments are financed through borrowings. As at 30 September 2018, the gross profit and EBITDA of the Group are TL1,048,987 thousand and TL1,314,067 thousand, respectively. The Group has TL535,550 thousand of accumulated loss and TL18,209 thousand of net income as at and for the period ending 30 September 2018. Besides, the Group’s current liabilities exceeds its current assets by TL3,237,275 thousand. The Group does not foresee any issue with respect to going concern due the following facts:

It is expected that the Group’s projects will have a positive impact on the current ratio, and thus, on profitability.

Since major portion of the Group’s electricity sales is at pre-determined prices in USD within the scope of feed-in tariff, it affects the gross profit as positively. In addition, foreign exchange losses arising from borrowings have been hedged by the foreign exchange gains arising from the sales indexed to USD mainly.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL INFORMATION (Continued)

2.5 Going concern assumption (continued)

The Group’s ultimate parent company, Zorlu Holding AŞ has declared its intend to provide necessary support to the Group to continue on a going concern basis, in the support letter dated 2 January 2018.

Zorlu Enerji Dağıtım, a 100% subsidiary of the Company, acquired 90% of the shares of Gazdaş and Trakya, which operates in the natural gas sector, at amounts to TL292,875 thousand in order to provide the consolidated operational integrity.

The Group plans to reduce its payables with the cash inflow and profitability provided by its current projects and the completion of its ongoing projects. Therefore, the Group management does not foresee any risks regarding going concern and has prepared this consolidated financial statements under the assumption that the Group will continue its operations on a going concern basis in the foreseeable future.

2.6 Comparatives and restatement of prior year financial statements

The condensed consolidated interim financial statements of the Group for the current year is prepared in comparison with the prior year in order to be able to determine the financial position and performance trends. For the purposes of effective comparison, comparative condensed consolidated interim financial statements can be reclassified when deemed necessary, where descriptions on significant differences are disclosed.

The Group has performed the following reclassifications:

- Interest income arising from trading activities amounting TL205 thousand and foreign exchange gains arising from trading activities amounting TL9,634 thousand which are shown in the financial income in the consolidated interim financial statement for the period ending 30 September 2017, are classified to the other operating income. Interest expense arising from trading activities amounting TL732 thousand and, foreign exchange loss from trading activities amounting TL8,987 thousand which are shown in the financial expense in the condensed consolidated interim financial information for the period ending 30 September 2017, are classified to the other operating expenses.
- The personnel expenses amounting TL57,623 thousand, which is shown in the selling and marketing expenses in the condensed consolidated interim financial information for the period ending 30 September 2017, is classified to cost of sales.
- The payables to Zorlu Faktoring amounts to TL5,709 thousand, which is shown in the “other payables to related parties” in the consolidated balance sheet dated 31 December 2017, is reclassified to short-term financial liabilities.
- The receivable amounting TL11,705 thousand, which is shown in the “other trade receivables” in the consolidated financial statement dated 31 December 2017, is reclassified to “trade receivables from related parties”.
- The expense accrual amounting TL10,349 thousand, which is shown in the “other current liabilities” in the consolidated balance sheet dated 31 December 2017, is reclassified to “trade payables to other parties”.

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(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL INFORMATION (Continued)**2.7 Critical accounting estimates, assumptions and judgments**

The preparation of condensed consolidated interim financial information in conformity with IAS 34 requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the periods in which they become known. The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date and the significant judgments are set out below:

a) Deferred tax asset on cumulative tax losses

Deferred tax assets are accounted for only where it is likely that related temporary differences and accumulated losses will be recovered through expected future profits. When accounting for deferred tax assets it is necessary to make critical estimations and evaluations with regard to taxable profits in the future periods. According to the future projections, deferred tax assets are recognized on the carryforward tax losses amounts to TL2,520,187 thousand (31 December 2017: TL1,385,602 thousand). Deferred tax asset is not recognized carryforward tax losses for the remaining TL534,710 thousand (31 December 2017: TL460,685 thousand).

b) Fair value of interest rate swaps

Interest rate swaps are initially recognized at the acquisition cost reflecting the fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Changes in the fair value of derivative instruments are directly attributable to the consolidated income statement except when it is determined to be effective in hedging and when the gains and losses are related to the hedging relationship of the period in which it is related to the consolidated income statement.

c) Cash flow hedging

As explained in Note 13, the Group applies cash flow hedge accounting to its foreign currency denominated project finance loans amounting USD985,940 thousand and EUR86,223 thousand and feed-in tariff sales revenue which is denominated USD.

The estimations in budgets for feed-in tariff sales income used for effectiveness test include sales quantities, sales prices and foreign exchange rates. During the said effectiveness test, the net present value of sales and loan principal payments are calculated, the net present value change between the two periods is tested on a fractional basis and the stress test is performed for the interest rates used in order to calculate the net present value changes for the relevant period. Based on the sensitivity analysis performed for the estimations used in effectiveness tests, the Group concluded that 20% increase/decrease in estimations do not have any significant effect on the assessment of effectiveness tests.

d) Explanations for revaluation method and fair value measurement

Group has chosen revaluation method among application methods mentioned under IAS 16 with respect to measurement and disclosure of the Group's power plants at fair value commencing from 31 December 2013. On 30 September 2018, A A Baig & Co. Chartered Accountants was given the authority to determine the market value of the power plant belonging to Zorlu Enerji Pakistan, and Avrupa Gayrimenkul Değerleme ve Danışmanlık AŞ was given the authority to determine the same for some power plants installed in Turkey.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL INFORMATION (Continued)

2.7 Critical accounting estimates, assumptions and judgments (Continued)

The parameters and valuation methods used in these valuation studies are summarized below:

Companies	Valuated powerplant type	Valuation period	Valuation company	Valuation method	Valuation assumptions		
					Weighted capital cost rate (%) (USD)	Ris k free rate of return (%) (USD)	Risk premium (%) (USD)
Zorlu Doğal	Kızıldere II, III Geothermal Power Powerplants	30.09.2018	Avrupa Gayrimenkul	DCF	10	8	2
Rotor	Gökçedağ Wind Power Powerplant	30.09.2018	Avrupa Gayrimenkul	DCF	10	8	2
Zorlu Jeotermal	Alaşehir I Geothermal Power Powerplant	30.09.2018	Avrupa Gayrimenkul	DCF	10	8	2
Zorlu Rüzgar	Sarıtepe/Demirciler Wind Power Powerplants	30.09.2018	Avrupa Gayrimenkul	DCF	10	8	2
Zorlu Enerji Pakistan	Wind Power Powerplant	30.09.2018	A A Baig & Co. Chartered Accountants	DCF	9.69	6.09	3.6

Electricity prices used in the business plans increased or decreased by 10% and if all other variables are held constant, property, plant and equipment amount recognized in the condensed consolidated interim financial statements would have been increased or decreased by TL963,441 thousand. Electricity sales volumes used in the business plans increased or decreased by 10% and if all other variables are held constant, property, plant and equipment amount recognized in the condensed consolidated interim financial statements would have been increased or decreased by TL896,539 thousand. The weighted capital cost rate used in the business plans increased or decreased by 10% and if all other variables are held constant, property, plant and equipment amount recognized in the condensed consolidated interim financial statements would have been decreased or increased by TL434,541 thousand.

e) Uninvoiced sales

Electricity supplied to customers but not billed yet is accounted upon estimated amounts. Total unbilled electricity amount is reflected to financial statements by multiplying the difference between the reading date of customer's meter and the last date of relevant period with the tariff prices of the period.

f) Provisions

The Group management is reflecting the best estimation to the financial statements based on the best available data and results might differ when fulfilling the liabilities. As at 30 September 2018, the Group is subject to some lawsuits. Depending on the reviews of legal counsels, Company is evaluating the probable results of these lawsuits and reserving required provisions in the financial statements.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL INFORMATION (Continued)

2.7 Critical accounting estimates, assumptions and judgments (Continued)

g) *Intangible assets recognition as part of business combination*

Zorlu Enerji Dağıtım, a 100% subsidiary of the Company, acquired 90% of the shares of Gazdaş and Trakya, which operates in the natural gas sector, at amounts to TL292,875 thousand in order to provide the operational integrity. This acquisition is accounted in accordance with IFRS 3 "Business Combinations" (Note 3). As part of the acquisition accounting applied under IFRS 3, the purchase price of Trakya and Gazdaş has been allocated as the intangible asset amounting TL1,113,818 thousand. The goodwill amounting TL137,382 thousand has been reflected to the condensed financial information for this acquisition.

In determining the fair value of the intangible, the major assumptions used in the models are as follows:

- discount rate: 16.3% – 18.1%

2.8 Seasonality of Operations

Business volume shows seasonal changes according to the structure of the industry in which the Group operates. In the gas distribution segment, business volume is higher in the first and fourth quarters corresponding to winter months and for the wind and hydroelectric power plants, which are under production and trading segment, business volumes are higher in second and third quarters and in the fourth quarter of the year, respectively. Seasonality does not have a significant impact on the volume of business in the remaining segments of the Group.

2.9 Financial risk management

Foreign exchange risk

The sources used by the Company in financing its investments are predominantly foreign currency denominated. The Company is exposed to foreign exchange risk arising from the translation of the amounts denominated in USD and Euro. In order to eliminate these risks, protection policies are applied in order to use various derivative instruments. Kızıldere II, Kızıldere III and Alaşehir I geothermal power plants and Gökçedağ, Sarıtepe and Demirciler wind power plants sell the electricity generated against USD within the scope of YEKDEM.

Foreign currency denominated assets and liabilities held by the Group as at 30 September 2018 and 31 December 2017 are as follows:

	30 September 2018	31 December 2017
Assets	2,676,304	2,262,862
Liabilities	(11,459,420)	(6,320,888)
Net position of derivative financial instruments	(424,375)	735
Foreign currency position, (net)	(9,207,491)	(4,057,291)

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL INFORMATION (Continued)

2.9 Financial risk management (Continued)

TL equivalent of assets and liabilities denominated in foreign currency held by the Group at 30 September 2018 and 31 December 2017 are as follows:

	30 September 2018					31 December 2017				
	TL equivalent	USD	Euro	NIS	JPY	TL equivalent	USD	Euro	NIS	JPY
Cash and cash equivalents	80,515	3,036	8,851	491	1	180,365	40,762	5,834	249	1
Trade receivables	12,916	2,053	89	-	-	11,027	2,829	79	-	-
Due from related parties - short term	1,327,617	214,063	-	27,500	-	1,238,947	318,344	-	35,116	-
Due from related parties - long term	1,214,977	196,390	5,021	2,222	-	787,161	205,320	-	11,695	-
Other	40,279	3,228	3,013	-	-	45,362	10,408	1,352	-	-
Total assets	2,676,304	418,770	16,974	30,213	1	2,262,862	577,663	7,265	47,060	1
Trade payables	612,665	50,794	44,366	-	630	284,992	51,219	20,330	-	-
Short term financial liabilities	2,377,859	323,944	62,928	-	-	1,286,809	265,313	63,354	-	-
Due to related parties - short term	4,618	771	-	-	-	1,335	354	-	-	-
Due to related parties - long term	-	-	-	-	-	291,967	73,534	3,234	-	-
Long term financial liabilities	8,464,278	1,290,505	105,589	-	-	4,455,785	1,044,780	114,047	-	-
Total liabilities	11,459,420	1,666,014	212,883	-	630	6,320,888	1,435,200	200,965	-	-
Net foreign currency position	(8,783,116)	(1,247,244)	(195,909)	30,213	(629)	(4,058,026)	(857,537)	(193,700)	47,060	1
Net position of derivative financial instruments	(424,375)	48,347	(102,724)	-	-	735	123,170	(102,724)	-	-
Net foreign currency position	(9,207,491)	(1,198,897)	(298,633)	30,213	(629)	(4,057,291)	(734,367)	(296,424)	47,060	1

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL INFORMATION (Continued)

2.9 Financial risk management (Continued)

The Group is mainly exposed to foreign exchange risk through the impact of rate changes in the translation of USD, EUR, NIS and JPY currencies denominated assets and liabilities to local currency. As at 30 September 2018 and 31 December 2017, had the TL appreciated or depreciated by 20% and 10% respectively against USD, EUR and NIS with all other variables held constant, the effect over current period consolidated net income and equity would be as follows:

	30 September 2018 Gain/(Loss)		30 September 2018 Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
In case of 20% appreciation of USD against TL:				
USD net asset/liability	(1,436,327)	1,436,327	(1,436,327)	1,436,327
Amount hedged for USD risk (-)	1,181,196	(1,181,196)	-	-
USD net effect	(255,131)	255,131	(1,436,327)	1,436,327
In case of 20% appreciation of EUR against TL:				
EUR net asset/liability	(415,130)	415,130	(415,130)	415,130
Amount hedged for EUR risk (-)	119,859	(119,859)	-	-
EUR net effect	(295,271)	295,271	(415,130)	415,130
In case of 20% appreciation of NIS against TL:				
NIS net asset/liability	9,966	(9,966)	9,966	(9,966)
Amount hedged for NIS risk (-)	-	-	-	-
NIS net effect	9,966	(9,966)	9,966	(9,966)
In case of 20% appreciation of JPY against TL:				
JPY net asset/liability	(7)	7	(7)	7
Amount hedged for JPY risk (-)	-	-	-	-
JPY net effect	(7)	7	(7)	7
Total net effect	(540,443)	540,443	(1,841,498)	1,841,498

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL INFORMATION (Continued)

2.9 Financial risk management (Continued)

	31 December 2017 Gain/(Loss)		31 December 2017 Equity	
	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:				
USD net asset/liability	(276,996)	276,996	(276,996)	276,996
Amount hedged for USD risk (-)	384,841	(384,841)	-	-
USD net effect	107,845	(107,845)	(276,996)	276,996
In case of 10% appreciation of EUR against TL:				
EUR net asset/liability	(133,850)	133,850	(133,850)	133,850
Amount hedged for EUR risk (-)	26,931	(26,931)	-	-
EUR net effect	(106,919)	106,919	(133,850)	133,850
In case of 10% appreciation of NIS against TL:				
NIS net asset/liability	5,117	(5,117)	5,117	(5,117)
Amount hedged for NIS risk (-)	-	-	-	-
NIS net effect	5,117	(5,117)	5,117	(5,117)
Total net effect	(6,043)	6,043	(405,729)	405,729

NOTE 3 - BUSINESS COMBINATIONS

In order to maintain operational integrity in the Group, it was decided that the total shares representing 90% of Trakya and Gazdaş, which distribute natural gas, have been acquired by the Zorlu Enerji Dağıtım (owned 100% shares by Zorlu Enerji), from the Zorlu Group companies at amounts to TL292,875 thousand. The acquisition transaction of Gazdaş and Trakya was completed on 29 June 2018 and for the acquisition transaction, the figures for the period between 30 June 2018 and 30 September 2018 have been taken into consideration. The acquisition transaction is accounted in accordance with IFRS 3 “Business Combinations” in these condensed consolidated interim financial information.

The fair values of the identifiable assets, liabilities and contingent liabilities acquired through the purchase of Gazdaş and Trakya shares were determined as a result of the best estimation of management and shown in the consolidated financial information.

To create synergy with the energy production and wholesale operations, which the Group’s related parties already carry out, Zorlu Enerji Dağıtım acquired the shares of Trakya and Gazdaş and included natural gas distribution operation in its portfolio. This synergy has been recorded as goodwill.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - BUSINESS COMBINATIONS (Continued)

Information on the goodwill calculation and the acquired net assets is as follows:

Total purchase consideration	292,875
Net identifiable assets acquired	(155,493)

Goodwill	137,382
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Fair values of the assets and liabilities recognised as a result of the acquisition are as follows:

	30 June 2018
Cash and cash equivalents	14,615
Trade receivables	52,514
Derivative financial assets	28,751
Other receivables	7,306
Prepaid expenses	218
Receivables from service concession arrangements	494,568
Other current and non-current assets	72,142
Property plant and equipment	11,044
Intangible assets	1,188,777
Deferred tax assets	117,093
Borrowings	(656,913)
Trade payables	(302,829)
Other payables	(619,833)
Payables related to employee benefits	(2,510)
Short-term provisions	(1,796)
Derivative financial liabilities	(797)
Deferred tax liabilities	(222,760)
Other liabilities	(6,820)

Net identifiable assets acquired	172,770
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Less: Non-controlling interest	(17,277)
Add: Goodwill	137,382

Net assets acquired	292,875
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The net cash outflow due to acquisition is presented below:

Total purchase consideration	(292,875)
Cash and cash equivalents - acquired	14,615
Amount netted of with related party balances	200,875

Net cash outflow due to acquisition	(77,385)
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ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 – BUSINESS COMBINATIONS (Continued)

The movement of the goodwill in the current period is as follows:

Opening balance	485,368
New acquisition related (Trakya and Gazdaş)	137,382
Closing balance	622,750

NOTE 4 - SEGMENT REPORTING

Group management has determined the reportable parts of the Group as distribution, retail and wholesale and producing and trading according to the activity groups.

Decision making authority of the Group considers Earnings before interest, taxes, depreciation and amortization ("EBITDA") as the most appropriate method for comparability with other companies within the same industry. The segment information in industrial basis is presented below:

1 January - 30 September 2018	Electricity distribution	Gas distribution and parent	Retail and wholesale	Production/trading and other	Consolidation adjustments	Consolidation total
Revenue	589,330	151,244	2,675,682	1,419,225	(741,478)	4,094,003
Cost of sales	(288,733)	(129,194)	(2,596,118)	(780,793)	749,822	(3,045,016)
Gross profit	300,597	22,050	79,564	638,432	8,344	1,048,987
Operating income/(expense) (*)	(37,155)	(6,022)	(40,580)	(2,422)	(10,898)	(97,077)
Amortisation and depreciation expenses (**)	-	3,201	2,860	248,510	3,600	258,171
Weighted average cost of capital ("WACC") correction (***)	79,313	24,673	-	-	-	103,986
EBITDA	342,755	43,902	41,844	884,520	1,046	1,314,067
Financial income	1,802	25,129	280,219	1,881,842	(897,616)	1,291,376
Financial expense	(47,782)	(356,489)	(275,377)	(2,603,237)	899,499	(2,383,386)
1 July - 30 September 2018	Electricity distribution	Gas distribution and parent	Retail and wholesale	Production/trading and other	Consolidation adjustments	Consolidation total
Revenue	264,209	151,244	1,125,365	543,013	(213,416)	1,870,415
Cost of sales	(117,323)	(129,194)	(1,092,156)	(228,222)	219,128	(1,347,767)
Gross profit	146,886	22,050	33,209	314,791	5,712	522,648
Operating income/(expense) (*)	(9,950)	(6,003)	(16,684)	15,217	(3,505)	(20,925)
Amortisation and depreciation expenses (**)	-	3,201	1,435	102,090	(5,229)	101,497
Weighted average cost of capital ("WACC") correction (***)	31,052	24,673	-	-	-	55,725
EBITDA	167,988	43,921	17,960	432,098	(3,022)	658,945
Financial income	(104)	25,129	186,282	1,119,446	(590,496)	740,257
Financial expense	(14,088)	(356,489)	(165,989)	(1,485,519)	590,965	(1,431,120)

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 4 - SEGMENT REPORTING (Continued)

1 January - 30 September 2017	Electricity distribution	Retail and wholesale	Production/trading and other	Consolidation adjustments	Consolidation total	
Revenue	562,911	1,537,793	1,149,129	(644,113)	2,605,720	
Cost of sales	(352,321)	(1,512,001)	(806,244)	637,704	(2,032,862)	
Gross profit	210,590	25,792	342,885	(6,409)	572,858	
Operating income/(expense) (*)	(12,570)	(37,008)	(50,745)	(12,462)	(112,785)	
Amortisation and depreciation expenses (**)	-	781	153,546	16,881	171,208	
Weighted average cost of capital (“WACC”) correction (***)	24,407	-	-	-	24,407	
EBITDA	222,427	(10,435)	445,686	(1,990)	655,688	
Financial income	1,610	24,172	357,603	(232,070)	151,315	
Financial expense	(13,010)	(33,474)	(674,085)	231,301	(489,268)	
1 July - 30 September 2017	Electricity distribution	Retail and wholesale	Production/trading and other	Consolidation adjustments	Consolidation total	
Revenue	215,954	663,123	573,031	(312,004)	1,140,104	
Cost of sales	(166,646)	(659,501)	(383,342)	323,915	(885,574)	
Gross profit	49,308	3,622	189,689	11,911	254,530	
Operating income/(expense) (*)	(4,772)	(10,848)	(7,258)	(19,568)	(42,446)	
Amortisation and depreciation expenses (**)	-	343	47,256	10,836	58,435	
Weighted average cost of capital (“WACC”) correction (***)	9,352	-	-	-	9,352	
EBITDA	53,888	(6,883)	229,687	3,179	279,871	
Financial income	(17,489)	6,525	82,093	(18,198)	52,931	
Financial expense	(2,538)	(11,741)	(158,994)	17,042	(156,231)	
1 January - 30 September 2018	Electricity distribution	Gas distribution and parent	Retail and wholesale	Production/trading and other	Consolidation adjustments	Consolidation total
Segment assets	1,002,222	1,317,620	956,118	19,408,323	(3,828,174)	18,856,109
Associates	-	-	-	430,818	-	430,818
Segment liabilities	583,727	2,184,159	997,757	14,095,822	(2,030,476)	15,830,989
1 January - 31 December 2017	Electricity distribution	Retail and wholesale	Production/trading and other	Consolidation adjustments	Consolidation total	
Segment assets	915,468	742,563	12,933,997	(3,565,357)	11,026,671	
Associates	-	-	258,379	-	258,379	
Segment liabilities	700,235	871,601	9,563,450	(1,541,305)	9,593,981	

(*) Includes general administrative expenses, marketing expenses and shares of profit of the associates.

(**) The amortisation and depreciation expenses amounting TL258,171 thousand are related to the amounts in operating expenses, and does not consist of the depreciation/amortisation amount classified in other expenses (30 September 2017: TL171,208 thousand).

(***) WACC correction amounts to TL103,986 thousand which is presented in the other income is considered in EBITDA calculation (30 September 2017: TL24,407 thousand).

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 4 - SEGMENT REPORTING (Continued)

Reconciliation between EBITDA and income before tax from continued operations is as follows:

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
EBITDA	1,314,067	658,945	655,688	279,871
Amortisation and depreciation expenses	(258,171)	(101,497)	(171,208)	(58,435)
Income related to distribution activities	(103,986)	(55,725)	(24,407)	(9,352)
Financial income	1,291,376	740,257	151,315	52,931
Financial expenses	(2,383,386)	(1,431,120)	(489,268)	(156,231)
Other operating income, net	1,263	(8,978)	(19,210)	(38,174)
(Loss)/ income before taxation	(138,837)	(198,118)	102,910	70,610

NOTE 5 - CASH AND CASH EQUIVALENTS

	30 September 2018	31 December 2017
Cash	84	158
Banks		
- Time deposits	97,624	222,831
- Demand deposits	84,860	112,096
	182,568	335,085

The maturities of time deposits are less than 1 year and the average effective annual interest rates for time deposits are as follows:

	30 September 2018 (%)	31 December 2017 (%)
TL	17.74	10.13
EUR	0.75	0.23
USD	0.30	1.17
PKR	5.76	3.88

The details of cash and cash equivalents include the following for the purpose of the consolidated statements of cash flows as at 30 September 2018 and 2017:

	30 September 2018	30 September 2017
Cash and cash equivalents	182,568	263,063
Less: Restricted cash	(3,326)	(25,228)
	179,242	237,835

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 6 - RECEIVABLES FROM SERVICE CONCESSION ARRANGEMENT

	30 September 2018	31 December 2017
Short-term receivables from service concession arrangement	144,732	130,999
Long-term receivables from service concession arrangement	1,060,602	508,335
	1,205,334	639,334

The receivables from service concession arrangements are related with the amounts which are expected to be received through the tariff.

As at 30 September 2018, TL673,517 of the financial assets regarding concession arrangements belongs to OEDAŞ (31 December 2017: TL639,334) and TL531,817 thousand belongs to Gazdaş and Trakya (31 December 2017: None).

The breakdown of the receivables from service concession arrangement in the current period is as follows:

	30 September 2018	30 September 2017
Opening balance	639,334	-
Additions due to acquisition	494,568	150,203
Investments	2,569	124,524
Redemptions (-)	(70,974)	(21,868)
Indexation differences	139,837	28,890
Closing balance	1,205,334	281,749

NOTE 7 - OTHER ASSETS AND LIABILITIES

a) Other Current Assets:

	30 September 2018	31 December 2017
VAT receivable	147,469	150,452
Income accruals for renewable energy sources price difference and retail sales gross profit margin (Omega-4)	75,092	-
Insurance income accruals	40,570	45,843
Income accruals for ongoing lawsuits	33,211	42,346
Prepaid expenses	31,753	17,731
Advances given	18,161	37,364
Income accruals regarding unbilled electricity	16,457	22,572
Income accruals regarding natural gas sale	9,380	-
Other	18,481	51,022
	390,574	367,330

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 7 - OTHER ASSETS AND LIABILITIES (Continued)

b) Other non-current assets:

	30 September 2018	31 December 2017
Investment inventory (*)	105,142	10,691
Accruals for income difference adjustments	35,783	31,751
Prepaid expenses	26,908	2,230
Non-controlling expenses	17,508	10,311
VAT receivable	7,636	19,673
Advance given	1,835	3,604
Other	639	-
	195,451	78,260

(*) TL57,389 thousand (31 December 2017: TL10,691 thousand) is related to the electricity maintenance materials belongs to OEDAŞ and remaining TL47,753 thousand (31 December 2017: None) is related to inventory of Gazdaş and Trakya.

c) Other current liabilities

	30 September 2018	31 December 2017
Investment difference correction component (*)	26,204	104,815
Taxes and funds payable (including VAT)	54,354	40,692
Advances received	15,071	4,587
Deferred distribution revenue (**)	9,407	37,630
Other	26,195	13,799
	131,231	201,523

(*) In case of difference between the net investment expenditures made by distribution companies and the investment ceiling considered in the tariff calculations within the framework of the Communiqué Regarding the Arrangement of Distribution System Revenue published by EMRA, the corresponding amortization, real fair value and tax difference amounts, are reflected to the tariff calculations in the following periods taking into consideration in the component calculations.

(**) EMRA regulates the distribution companies' revenues by setting ceiling amounts for distribution meter reading, transmission and theft-loss revenue. Excess or shortage portions of revenues ceilings are charged to two years' later tariffs which is set by EMRA. This portion of revenue is considered as an adjustment to the tariffs set by EMRA in the following second year from the origination.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2018	Additions (*)	Transfers (**)	Revaluation surplus	Disposals	Effect of business combination	Currency translation difference	30 September 2018
Cost:								
Land	57,699	479	(7)	-	(68)	874	-	58,977
Land improvements	164,605	-	-	-	-	-	-	164,605
Buildings	43,100	78	-	-	-	707	-	43,885
Plant and machinery	5,498,727	44,236	640,300	4,273,166	(128)	5,262	208,213	10,669,776
Motor vehicles	1,595	-	-	-	(224)	2,447	-	3,818
Furniture and fixtures	28,180	3,452	883	-	(83)	8,539	389	41,360
Construction work in progress (*)	721,005	504,390	(641,176)	-	-	-	13,268	597,487
Leasehold improvements	7,492	157	-	-	-	2,419	-	10,068
	6,522,403	552,792	-	4,273,166	(503)	20,248	221,870	11,589,976
Accumulated depreciation:								
Land improvements	33,332	6,858	-	-	-	-	-	40,190
Buildings	11,386	634	-	-	-	130	-	12,150
Plant and machinery	1,138,112	224,573	-	-	(128)	396	49,865	1,412,818
Motor vehicles	843	206	-	-	(44)	1,410	-	2,415
Furniture and fixtures	12,342	2,746	-	-	(83)	5,816	-	20,821
Leasehold improvements	40	34	-	-	-	1,452	-	1,526
	1,196,055	235,051	-	-	(255)	9,204	49,865	1,489,920
Net book value	5,326,348							10,100,056

(*) The Group's total investment as at 30 September 2018 was TL506,959 thousand, TL504,390 thousand was accounted under property, plant and equipment and TL2,569 thousand was accounted under receivables from service concession arrangements.

(**) The amounts are related to Kızıldere III geothermal energy powerplant belongs to Zorlu Doğal.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2017	Additions (*)	Disposals	Currency translation difference	Transfers	30 September 2017
Cost:						
Land	50,294	4,222	-	-	-	54,516
Land improvements	157,771	56	-	-	-	157,827
Buildings	43,100	-	-	-	-	43,100
Plant and machinery	4,482,206	13,797	(10,904)	914	-	4,486,013
Motor vehicles	1,373	203	(185)	-	-	1,391
Furniture and fixtures	26,720	7,864	(8,798)	-	-	25,786
Construction work in progress (*)	561,126	785,220	(41,213)	-	(27,378)	1,277,755
Leasehold improvements	671	5	-	-	-	676
	5,323,261	811,367	(61,100)	914	(27,378)	6,047,064
Accumulated depreciation:						
Land improvements	24,604	6,512	-	-	-	31,116
Buildings	10,549	628	-	-	-	11,177
Plant and machinery	986,277	148,480	(620)	162	-	1,134,299
Motor vehicles	686	180	(84)	-	-	782
Furniture and fixtures	11,585	2,513	(2,316)	-	-	11,782
	1,033,701	158,313	(3,020)	162	-	1,189,156
Net book value	4,289,560					4,857,908

(*) The Group's total investment as at 30 September 2017 was TL909,744 thousand, TL785,220 thousand was accounted under property, plant and equipment and TL124,524 thousand was accounted under receivables from service concession arrangements.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Group has chosen revaluation method among application methods mentioned under IAS 16 with respect to measurement and disclosure of the Group’s power plants at fair value commencing from 31 December 2013. As at 30 September 2018, the Group has revalued a significant portion of its power plants, mainly the ones sell the electricity in foreign currency, and the revaluation surplus has been accounted in the accompanying condensed consolidated interim financial information. The valuation studies related to the domestic power plants at the mentioned date have been performed by Avrupa Gayrimenkul Değerleme ve Danışmanlık AŞ and the valuation study related to the plant established in Pakistan has been performed by A A Baig & Co. Chartered Accountants.

As at 30 September 2018 and 30 September 2017, the movements for revaluation surplus are as follows:

1 January 2017	705,267
Depreciation transfer	(41,489)
30 September 2017	663,778
1 January 2018	648,807
Revaluation surplus	3,431,074
Depreciation transfer	(81,452)
30 September 2018	3,998,429

Collateral, pledges and mortgages on property, plant and equipment are presented in Note 12.

Breakdown of depreciation and amortisation expenses under cost of sales, marketing expense, general administrative expense and other operating expense have been presented in Note 15 and Note 16.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 9 - INTANGIBLE ASSETS

	1 January 2018	Additions	Currency Translation	Additions due to acquisition (*)	30 September 2018
Cost					
Rights	1,334,814	7,420	34	1,215,455	2,557,723
-Service concession arrangements	918,126	-	-	1,113,818	2,031,944
-Customer relationships	352,574	-	-	-	352,574
- Contract cost	-	-	-	90,472	90,472
-Other rights	64,114	7,420	34	11,165	82,733
Goodwill	485,368	-	-	137,382	622,750
Licenses	4,537	1,248	-	5,493	11,278
	1,824,719	8,668	34	1,358,330	3,191,751
Accumulated depreciation					
Rights	69,523	74,346	-	32,171	176,040
-Service concession arrangements	42,626	51,431	-	-	94,057
-Customer relationships	16,194	13,316	-	-	29,510
-Contract cost	-	856	-	28,883	29,739
-Other rights	10,703	8,743	-	3,288	22,734
Licenses	1,029	205	-	-	1,234
	70,552	74,551	-	32,171	177,274
Net book value	1,754,167				3,014,477

	1 January 2017	Additions	Disposal	Transfer	Additions due to acquisition	30 September 2017
Cost						
Rights	34,303	2,964	(6,859)	27,378	1,266,938	1,324,724
-Service concession arrangements	-	-	-	-	918,126	918,126
-Customer relationships	3,762	-	-	-	348,812	352,574
-Other rights	30,541	2,964	(6,859)	27,378	-	54,024
Goodwill	83,131	-	-	-	402,237	485,368
Licenses	3,100	995	-	-	-	4,095
	120,534	3,959	(6,859)	27,378	1,669,175	1,814,187
Accumulated depreciation						
Rights	8,339	1,046	(6,859)	-	42,521	45,047
-Service concession arrangements	-	-	-	-	30,814	30,814
-Customer relationships	-	-	-	-	11,707	11,707
-Other rights	8,339	1,046	(6,859)	-	-	2,526
Licenses	828	141	-	-	-	969
	9,167	1,187	(6,859)	-	42,521	46,016
Net book value	111,367					1,768,171

(*) Note 3.

Breakdown of depreciation and amortisation expenses under cost of sales, marketing expense, general administrative expense and other operating expense have been presented in Note 15 and Note 16.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 10 - FINANCIAL LIABILITIES

The detail of financial liabilities of the Group as at 30 September 2018 and 31 December 2017 is as follows:

	30 September 2018	31 December 2017
Short-term bank borrowings	732,553	814,002
Short-term portion of long-term bank borrowings	2,278,823	1,177,825
Issued bonds	313,868	308,102
Other issued securities	167,092	132,361
Financial leasing liabilities	6,357	3,035
Total short-term financial liabilities	3,498,693	2,435,325
Long-term bank borrowings	8,503,982	4,509,972
Issued bonds	173,909	242,688
Other issued marketable securities	348,385	176,040
Financial leasing liabilities	30,606	25,448
Total long-term financial liabilities	9,056,882	4,954,148
Total financial liabilities	12,555,575	7,389,473

The detail of short-term bank borrowings and financial leasing liabilities of the Group as at 30 September 2018 and 31 December 2017 is as follows:

	<u>Original currency</u>		<u>Weighted average effective interest rate per annum (%)</u>		<u>TL equivalent</u>	
	30 September 2018	31 December 2017	30 September 2018	31 December 2017	30 September 2018	31 December 2017
USD	9,983	17,324	7.29	6.40	59,798	65,345
EUR	15,528	14,711	7.52	6.70	107,924	66,430
TL	562,842	685,262	33.48	16.90	562,842	685,262
PKR	172,652	-	12.37	-	8,346	-
					738,910	817,037

The detail of short-term portion of long-term bank borrowings, issued bonds and other issued securities of the Group as at 30 September 2018 and 31 December 2017 is as follows:

	<u>Original currency</u>		<u>Weighted average effective interest rate per annum (%)</u>		<u>TL equivalent</u>	
	30 September 2018	31 December 2017	30 September 2018	31 December 2017	30 September 2018	31 December 2017
USD	313,961	247,989	8.44	7.4	1,880,687	935,388
EUR	47,400	48,643	3.68	3.6	329,450	219,650
TL	542,370	458,486	22.19	15.3	542,370	458,486
Other	150,517	140,462	12.37	12.37	7,276	4,764
					2,759,783	1,618,288

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 10 - FINANCIAL LIABILITIES (Continued)

The detail of long-term bank borrowings, issued bonds and other long-term borrowings of the Group as at 30 September 2018 and 31 December 2017 is as follows:

	<u>Original currency</u>		<u>Weighted average effective interest rate per annum (%)</u>		<u>TL equivalent</u>	
	<u>30 September 2018</u>	<u>31 December 2017</u>	<u>30 September 2018</u>	<u>31 December 2017</u>	<u>30 September 2018</u>	<u>31 December 2017</u>
USD	1,290,505	1,044,780	8.44	7.4	7,730,381	3,940,806
EUR	105,589	114,047	3.68	3.6	733,897	514,977
TL	562,429	473,954	22.19	15.3	562,429	473,954
Other	624,224	719,674	12.37	12.37	30,175	24,411
					9,056,882	4,954,148

The loan obtained from financial institutions by Zorlu Enerji and its subsidiaries including loan agreement commissions amounting TL50,683 thousand regarding the aforementioned loan were deducted from the total loan amount.

Letters of guarantees given, pledges and mortgages related to financial liabilities are explained in Note 12.

The redemption schedule of the borrowings as at 30 September 2018 and 31 December 2017 is as follows:

	30 September 2018	31 December 2017
Up to 1 year	3,498,693	2,435,325
Up to 1 to 2 years	1,810,863	1,334,776
Up to 2 to 3 years	1,459,923	849,075
Up to 3 to 4 years	1,249,602	572,503
Up to 4 to 5 years	2,057,680	570,121
More than 5 years	2,478,814	1,627,673
	12,555,575	7,389,473

The movements of financial liabilities for the period 1 January - 30 September 2018 and 2017 are as follow:

	2018	2017
As at 1 January	7,389,473	5,355,925
Cash inflows from borrowings	1,908,763	1,484,977
Cash inflows from issued debt instruments	169,000	110,770
Cash inflows from other financial liabilities	6,790	-
Cash outflows due to the repayment of bank borrowings	(1,167,409)	(837,175)
Cash outflows from debt repayments of issued debt instruments	(208,400)	(112,350)
Change in exchange differences and interest accruals	3,829,185	133,044
Effect of business combination	656,913	-
Other classifications	(28,740)	14,037
As at 30 September	12,555,575	6,149,228

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 11 - OTHER PAYABLES

a) Short-term other payables:

	30 September 2018	31 December 2017
Deposit received (*)	599,739	207,262
Other payables to related parties (Note 18)	27,842	139,485
Other short-term payables	19,049	81,537
	646,630	428,284

(*) Deposits received are related with the subscription fee payments made by customers.

Movement for deposit received is as follows:

	2018	2017
1 January	207,262	-
Effect of business combination	328,996	166,895
Additions and payments, net	39,891	15,492
Indexation on deposits (Note 16)	23,590	10,135
30 September	599,739	192,522

b) Long-term other payables:

	30 September 2018	31 December 2017
Other long-term payables	24,449	27,453
Other payables to related parties (Note 18)	-	291,967
	24,449	319,420

NOTE 12 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

12.1 Short-term other provision

	30 September 2018	31 December 2017
Provisions for the claims	34,570	42,537

12.2 Long-term other provision

	30 September 2018	31 December 2017
Provisions for employment benefits	23,712	12,949

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 12 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

12.3 Contingent assets

	Currency	30 September 2018		31 December 2017	
		Original amount	TL equivalent	Original amount	TL equivalent
Letters of guarantees received	TL	259,171	259,171	205,540	205,540
Letters of guarantees received	USD	7,421	44,453	11,395	42,981
Letters of guarantees received	EUR	4,305	29,922	3,768	17,014
Letters of guarantees received	JPY	-	-	2,064	69
Cheques received	TL	19,168	19,168	18,979	18,979
Cheques received	USD	865	5,182	1,905	7,185
Cheques received	EUR	295	2,050	180	813
			359,946		292,581

Guarantee letters received consist of the letters, cheques and notes received from customers in relation to the Group's operations.

As per the agreement signed with Dedeli Yatırım İnşaat Taahhüt Elektrik Dağıtım Sanayi Ticaret AŞ (“Dedeli”), from which the Company took over the OEDAŞ and OEPSAŞ shares, the Company has obtained various collaterals regarding the existing lawsuits. As at 30 September 2018, the ongoing guarantee is the collateral amounting to TL9,000 thousand. Also, as per the said agreement, Dedeli has a liability to the Group up to a total amount of TL100,000 thousand, including but not limited to the related collaterals.

12.4 Letters of guarantees/pledges/mortgages given

The commitments and contingent liabilities of the Group are summarized as follows:

	Original currency	30 September 2018		31 December 2017	
		Original amount	TL equivalent	Original equivalent	TL amount
Letters of guarantees given	TL	1,361,657	1,361,657	1,368,054	1,368,054
Letters of guarantees given	EUR	180,786	1,256,553	182,237	822,891
Letters of guarantees given	USD	158,395	948,818	159,753	602,572
Letters of guarantees given	PKR	1,875,000	90,638	1,875,000	63,600
			3,657,666		2,857,117

Letters of guarantees given generally consist of letters given to government agencies for the electricity and gas transmission and distribution (mainly to “EMRA” and government agencies providing electricity and gas transmission and distribution) and natural gas suppliers for the procurement of natural gas and banks for borrowings obtained.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 12 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

12.4 Letters of guarantees/pledges/mortgages given (Continued)

The Group's guarantees, pledges and mortgages ("GPM") as at 30 September 2018 and 31 December 2017 are summarized as follows:

	30 September 2018			31 December 2017	
	Original currency	Original amount	TL equivalent	Original equivalent	TL amount
GPM's given by the Group					
Total amount of GPM's given for companies' own legal entity	USD	135,557	812,014	137,265	517,750
	EUR	173,136	1,203,381	174,587	788,347
	TL	1,333,655	1,333,655	1,339,920	1,339,920
	PKR	1,875,000	90,638	1,875,000	63,600
Total amount of GPM given for the subsidiaries and associates in the full scope of consolidation	TL	28,002	28,002	28,134	28,134
	USD	564	3,378	314	1,184
	EUR	7,300	50,739	7,300	32,963
Total amount of GPM given for the purpose of maintaining operating activities	USD	22,274	133,426	22,174	83,638
	EUR	350	2,433	350	1,581
Total amount of other GPMs given		-	-	-	-
			3,657,666		2,857,117

The ratio of other guarantees, pledges and mortgages given by the Group to the total equity is 0% as at 30 September 2018 (31 December 2017: 0%).

Details concerning the guarantees, pledges and mortgages that the Company and its subsidiaries gave within the scope of project financing loans and on behalf of their legal entities are given below:

Zorlu Enerji Elektrik Üretim AŞ

Since Katılım Varlık Kiralama AŞ and TFKB Varlık Kiralama AŞ is the issuer and Zorlu Enerji is the beneficiary of the funds in the sukuk transaction, which amounts to TL200 million and was issued on 20 April 2018 and amounts to TL100 million and was issued on 24 March 2015, Zorlu Enerji and Zorlu Holding became the guarantor of Katılım Varlık Kiralama AŞ and TFKB Varlık Kiralama AŞ.

Zorlu Enerji became the guarantor for the Zorlu Osmangazi's bond issuance amounts to TL175 million and dated 5 December 2017, to ensure that payments are made in full, in cash and on time should the principal and/or coupon payments of debt instruments to be issued by Zorlu Osmangazi not be done within the determined periods and/or periods determined in a case of early depreciation.

As per the sale of the Lüleburgaz steam generator of Zorlu Enerji, a sell and lease-back financial leasing agreement was signed between Şeker Finansal Kiralama AŞ and Zorlu Enerji on 24 August 2017. Zorlu Holding is guarantor for the financial leasing liabilities of Zorlu Enerji resulted from sell and lease back agreement signed for the sale of steam generator. The receivables of Zorlu Enerji arising from the steam agreement with Zorluteks Tekstil Tic. ve San. AŞ ("Zorluteks") were transferred to Şeker Finansal Kiralama AŞ in the scope of financial leasing transactions.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 12 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

12.4 Letters of guarantees/pledges/mortgages given (Continued)

Rotor Elektrik Üretim AŞ

Rotor has signed a long-term loan agreement with the consortium of a group of financial institutions amounts to EUR130 million as at 8 May 2009 related to the 135 MW electricity production powerplant located in Osmaniye. In addition to the loan agreement, mortgage, commercial enterprise pledge, share pledge, account pledge, assignment of receivables and assignment of insurance receivables agreements are signed. As per mortgage agreement signed between the Company and the Bank, a pledge amounts to EUR130,000,000 has placed on the property of the Company. As per commercial pledge agreement, a commercial pledge amounts to TL119,654,194 has placed on Company's fixed assets and it is included in the collateral, pledges and mortgages given by the Company note. Commercial enterprise pledge upper limit is EUR235,000,000. Zorlu Holding and Zorlu Enerji are guarantor for Rotor's loan obtained from the consortium of several financial institutions amounting EUR130 million.

Zorlu Enerji Pakistan Ltd.

As at 26 October 2011, Zorlu Enerji Pakistan Ltd. subsidiary of Zorlu Enerji, signed a long term loan agreement with International Finance Corporation ("IFC"), the Asian Development Bank ("ADB"), Eco Trade and Development Bank ("ECO") and local consortium leader Habib Bank Limited ("HBL") amounting USD111million with a maturity of up to 12 years for financing of its wind energy power plant with a capacity of 56.4 MW in Pakistan/Jhimpir established in Jhimpir, the Sindh region of Pakistan. Zorlu Holding is guarantor for this loan. In addition to the loan agreement, account pledge, share pledge, assignment of insurance receivables, pledge on deed, assignment of project rights and mortgage agreements are signed. As per mortgage agreement signed between Zorlu Enerji Pakistan and the Bank, a pledge amounts to USD118,625,000 and PKR1,875,000,000 has placed on the property of the Company.

Zorlu Doğal Elektrik Üretimi AŞ

On 27 October 2015, a loan agreement amounts to USD815 million (USD785 million in cash and USD30 million in non-cash) and having a 14 years term has been signed on 27 October 2015 between Zorlu Doğal, Akbank TAŞ, Türkiye Garanti Bankası AŞ, Türkiye İş Bankası AŞ and Türkiye Sınai Kalkınma Bankası AŞ for the refinancing of its existing debts and for financing the investment in the Kızıldere III geothermal power plant, which is planned to be constructed in Denizli. In addition to the said loan agreement, account pledge, share pledge, assignment of receivables and assignment of shareholder receivables agreement are signed. Also, Zorlu Doğal signed a loan agreement amounts to USD190 million with European Bank for Reconstruction and Development ("EBRD"), Akbank TAŞ, Türkiye İş Bankası AŞ and Türkiye Sınai Kalkınma Bankası AŞ on 6 April 2017 for the purpose of financing the second unit (65.5 MW) of the Kızıldere III Geothermal Energy Plant. In addition to the loan contract, they also signed contracts for an account pledge, a share pledge, the transfer of receivables and stakeholder receivables transfers. EPIAŞ's receivable transfer amount cap in the scope of the transfer of receivables agreement is TL9,500,000 thousand. Since EPIAŞ's receivable transfer amount is the cap, it is not included in the collateral, pledges and mortgages given by the Company note. Zorlu Holding and Zorlu Enerji are guarantor for Zorlu Doğal's loan obtained amounts to USD955 million and TL99 million.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 12 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

12.4 Letters of guarantees/pledges/mortgages given (Continued)

Zorlu Jeotermal Enerji Elektrik Üretimi AŞ

The 14 year term loan agreement has been signed on 25 November 2013 between Zorlu Jeotermal and Yapı Kredi AŞ with a credit line up to USD113million in order to finance the project. Pursuant to the material disclosure dated 24 June 2015, the project capacity was increased to 45MW. Hence, an amended loan agreement was signed between aforementioned parties and the credit line were increased to USD148 million. In addition to the said loan agreement, account pledge, share pledge, assignment of receivables and assignment of shareholder receivables agreement are signed. In addition to the aforementioned credit agreement, account pledge, share pledge, consecutive lending and takeover contracts were signed. As per the Commercial Enterprise Pledge Contract, a commercial enterprise lien equal to TL1,060,800 thousand was granted. As per the transfer of receivables agreement, the cap for the receivable transfer amount of EPIAŞ was determined to be TL2,155,000 thousand. Since the EPIAŞ receivable transfer amount is the cap, it is not included in the collateral, pledges and mortgages given by the Company note. Zorlu Holding and Zorlu Enerji are also guarantor for Zorlu Jeotermal's loan obtained from Yapı ve Kredi AŞ amounting USD148 million,

Zorlu Rüzgar Enerjisi Elektrik Üretimi AŞ

Pursuant to the material disclosure dated 24 November 2014, Zorlu Rüzgar, which is 100% subsidiary of the Company, signed two loan agreements amounts to EUR40 million with Türkiye Sınai Kalkınma Bankası and EUR41.3 million with Bayerische Landesbank as a part of ECA financing with German Trade Finance Agency (Euler Hermes) contribution, in order to finance Sarıtepe and Demirciler wind power plant projects which are planned to established in Bahçe/Osmaniye and to have 80.3 MW installed capacity. In addition to the loan agreement, account pledge, share pledge, assignment of receivables, assignment of electricity production license, and commercial enterprise pledge agreements are signed. As per commercial pledge agreement, a commercial pledge amounts to TL193 thousand has placed on Company's fixed assets. As per the transfer of receivables agreement, the cap for the EPIAŞ receivable transfer amount is TL870,000 thousand. Since the EPIAŞ receivable transfer amount is the cap, it is not included in the collateral, pledges and mortgages given by the Company note. Zorlu Enerji is guarantor for Zorlu Rüzgar's loan obtained amounts to EUR80,6 million loan obtained from Türkiye Sınai Kalkınma Bankası and Bayerische Landesbank.

Other

Zorlu Holding is guarantor for Zorlu Enerji's loan obtained from Export Development Canada amounts to USD100 million and loan obtained from Kuwait Investment Authority amounts to USD250 million and loan obtained by Trakya and Gazdaş amounting USD216 million in respect of gas distribution license extension. Gazdaş and Trakya are the guarantor of each other in respect of loan agreements. In addition to loan agreement, assignment of receivables, account pledge, share pledge, consecutive lending and assignment of license transfer agreements are signed between Gazdaş, Trakya and the Bank.

The rest of the guarantee given amounts to TL772,230 thousand consists of letters given to government agencies for the electricity transmission and distribution (mainly to EMRA and government agencies providing electricity transmission and distribution), to natural gas suppliers for the procurement of natural gas and to banks for the bank loans obtained.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 13 - DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments

30 September 2018								
	Contract amount (USD)	Contract amount (EUR)	Contract amount (TL)	Total contract amount (TL)	Fair value asset	Fair value liability	Carried at fair value through profit or loss	Carried at fair value under equity (*)
Cross currency swap agreements held for hedging	160,275	32,381	-	1,185,143	84,689	(27,837)	(11,395)	32,656
Interest rate swap agreements	-	-	340,630	340,630	16,429	-	23,960	-
Interest rate swap agreements held for hedging	655,235	-	-	3,924,989	17,227	(1,088)	2,129	25,613
	815,510	32,381	340,630	5,450,762	118,345	(28,925)	14,694	58,269
31 December 2017								
	Contract amount (USD)	Contract amount (EUR)	Contract amount (TL)	Total contract amount (TL)	Fair value asset	Fair value liability	Carried at fair value through profit or loss	Carried at fair value under equity (*)
Cross currency swap agreements held for hedging	160,275	-	-	604,541	33,309	-	(1,324)	27,706
Interest rate swap agreements	-	-	414,630	414,630	-	(7,531)	(1,637)	-
Interest rate swap agreements held for hedging	562,610	-	-	2,122,109	-	(32,450)	(10,499)	(12,193)
	722,885	-	414,630	3,141,280	33,309	(39,981)	(13,460)	15,513

(*) The amount was presented as netted off deferred tax in “Hedge Reseves” account under equity.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 13 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Derivative financial instruments are initially recognized in the consolidated balance sheet at cost and subsequently are re-measured at their fair value. The derivative instruments of the Group consist of interest rate swap and cross currency swaps.

On the date a derivative contract is entered into, the Group designates certain derivatives as either a hedge of the fair value of a recognized asset or liability (“fair value hedge”) or a hedge of a forecasted transaction or a firm commitment (“cash flow hedge”). Interest rate swap transactions provide effective economic hedges under the Group risk management position and qualify for hedge accounting under the specific rules and are therefore treated as derivatives held for hedging. Changes in the fair value of derivatives, designated as cash flow hedges and qualified as effective, are recognized in “Other comprehensive income/(expenses) to be reclassified to profit or loss” under “hedge reserves” whereas ineffective portion is recognized in the consolidated income statement. Amounts recognized under equity are transferred to the consolidated income statement in the period in which the hedged firm commitment or forecasted transaction affects the consolidated income statement.

As at 30 September 2018, the Group has a forward sales commitment amounts to EUR102,724 thousand, USD74,823 thousand and TL44,855 thousand against a purchase commitment of USD123,170 thousand and TL267,418 thousand.

Non-derivative financial instruments

	<u>30 September 2018</u>			<u>31 December 2017</u>		
	Original amount		Carried at fair value through other comprehensive income	Original amount		Carried at fair value through other comprehensive income
	USD	EUR		USD	EUR	
Hedged amount for foreign currency risk	985,940	86,223	(2,579,989)	1,020,056	60,556	(610,552)
	985,940	86,223	(2,579,989)	1,020,056	60,556	(610,552)

(*) The Group uses investment loans amounting to USD985,940 thousand and EUR86,223 thousand as a hedging instrument against the USD spot exchange rate risk the Group is exposed to due to highly probable YEKDEM sales income, and applies cash flow hedge accounting as a result of the effectiveness tests performed.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 14 - EQUITY

Share capital

	30 September 2018	31 December 2017
Limit on registered share capital	3,000,000	3,000,000
Issued capital	2,000,000	2,000,000

The Group's shareholders and shareholding structure as at 30 September 2018 and 31 December 2017 are as follows:

	Share (%)	30 September 2018	Share (%)	31 December 2017
Zorlu Holding (*)	48.7	974,478	45.7	914,665
Korteks	17.5	350,949	17.5	350,949
Publicly held (**)	32.0	639,623	32.0	639,623
Other	1.8	34,950	4.8	94,763
	100.0	2,000,000	100.0	2,000,000
Adjustment to share capital		110,948		110,948
Total		2,110,948		2,110,948

(*) Zorlu Holding AŞ raised its share in the Company from 45.7% to 48.7% by acquiring Zorlu Enerji's shares with TL59,813 thousand nominal value on 28 June 2018, which represented 2.99% of company capital.

(**) TL329,207 thousand and the portion equivalent to 16.46% of the total capital represent the shares that belong to Zorlu Holding.

NOTE 15 - EXPENSES BY NATURE

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Direct materials and merchandise expenses	2,091,732	971,880	1,353,890	650,736
System usage expenses	502,973	192,404	400,704	156,182
Depreciation and amortisation (*)	258,171	101,497	171,208	58,435
Employee and personnel expenses (**)	108,671	42,233	77,152	28,280
Repair and maintenance expenses	59,669	24,057	45,407	15,020
Consultancy expenses	15,346	6,423	9,409	3,295
Outsourcing expenses	13,070	3,646	13,028	4,599
Energy expenses	4,141	1,662	3,548	1,478
Other	125,513	52,122	89,845	27,959
	3,179,286	1,395,924	2,164,191	945,984

(*) The total amortisation and depreciation amount is TL309,602 thousand (30 September 2017: TL202,021 thousand). The depreciation amount in cost of sales, general administrative and marketing expenses is TL235,051 thousand (30 September 2017: TL158,313 thousand). The amortisation amount in other operating expenses is TL51,431 thousand (30 September 2017: TL30,814 thousand) and remaining amortisation expense amounts to TL23,120 thousand (30 September 2017: TL12,895 thousand) is in cost of sales, general administrative and marketing expenses.

(**) The total amount of employee and personnel expenses is TL108,671 thousand and TL11,754 thousand of the amount accounted under selling and marketing expenses (30 September 2017: TL2,658 thousand), TL43,954 thousand of amount accounted under general and administrative expense (30 September 2017: TL18,665 thousand) and TL52,963 thousand of the amount is accounted under cost of sales (30 September 2017: TL 55,829 thousand).

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 16 - OTHER OPERATING INCOME AND EXPENSE

a) Other operating income:

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Weighted average cost of capital ("WACC") correction (*)	103,986	55,725	24,407	9,352
Insurance income (**)	34,115	16,391	41,916	3,837
Foreign exchange differences from trading activities	18,469	14,933	9,634	3,467
Risk sharing income	11,887	10,943	-	-
Provision released	7,462	2,965	11,876	1,009
Other	21,712	16,071	22,710	8,379
Other operating income	197,631	117,028	110,543	26,044

(*) This amount represents the profit earned on investment performed by electricity distribution segment.

(**) Insurance income is related to the damage indemnity income that has been collected or is expected to be collected in connection with the insurance policies where the Group's business and its components are covered against all risks such as machinery breakdown, profit loss, fire, etc.

b) Other operating expense:

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Foreign exchange difference from trading activities	98,356	72,485	8,987	4,106
Depreciation of service concession arrangements	51,431	28,192	30,813	11,811
Indexation of deposits received (Note 11)	23,590	16,337	10,135	10,135
Provisions expenses	4,709	2,208	4,014	1,146
Interest expense from trading activities	2,881	218	732	598
Cancellation of project license	-	-	45,894	45,894
Other	15,401	6,566	29,178	(9,472)
Other operating expense	196,368	126,006	129,753	64,218

NOTE 17 - FINANCIAL INCOME AND EXPENSES

a) Financial income:

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Foreign exchange gains	1,092,575	640,403	51,990	17,462
Interest income	184,107	112,289	99,325	35,469
Profit on derivatives	14,694	(12,435)	-	-
Financial incomes	1,291,376	740,257	151,315	52,931

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 17 - FINANCIAL INCOME AND EXPENSES (Continued)

b) Financial expense:

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Foreign exchange loss	1,453,159	968,299	130,297	40,536
Interest expense	898,168	462,113	317,132	108,762
Commission expense and other financial expenses	32,059	708	26,708	4,628
Loss on derivatives	-	-	15,131	2,305
	2,383,386	1,431,120	489,268	156,231

NOTE 18 - RELATED PARTY TRANSACTIONS

i) Related party balances:

a) Short-term trade receivables from related parties

	30 September 2018	31 December 2017
Korteks	14,592	35,358
Zorlu Tesis Yönetimi AŞ	9,333	3,095
Zorlu Doğal Gaz İth. İhr. ve Toptan AŞ ("Zorlu Doğal Gaz")	8,526	-
Zorluteks Tekstil Ticaret ve Sanayi AŞ ("Zorluteks")	6,978	14,343
Meta Nikel Kobalt Madencilik Sanayi ve Ticaret AŞ ("Meta Nikel")	2,240	11,705
Other	1,638	2,453
	43,307	66,954

Applied interest rate for for USD, EUR and TL trade receivables from related parties are 9%, 6% and 39% respectively (31 December 2017: USD and EUR balances: 6%, TL balances: 18%).

b) Short-term other receivables from the related parties

	30 September 2018	31 December 2017
Zorlu Holding (*)	903,835	-
Zorlu O&M Enerji Tesisleri İşletme ve Bakım Hizmetleri AŞ ("Zorlu O&M") (**)	226,877	162,753
Zorlu Endüstriyel ve Enerji Tesisleri İnşaat Ticaret AŞ ("Zorlu Endüstriyel") (**)	74,296	911,406
Dorad (***)	45,337	38,185
Edeltech Ltd. ("Edeltech") (***)	21,066	18,043
Other	79,501	11,456
	1,350,912	1,141,843

(*) USD150,000 thousand portion (equivalent of TL898,530 thousand) of the Group's short-term receivables from Zorlu Holding was restructured with regard to the Board of Director decision dated 7 November 2018 and it was decided that it will be collected in short-term. The remaining USD885 thousand (equivalent of TL5,305 thousand) portion belongs to Zorlu Elektrik Toptan within the scope of consolidation and is short-term. All of the receivables are denominated in USD and the applied interest rate is %9 (31 December 2017: None).

(**) The maturity of other short term receivables from Zorlu Endüstriyel and Zorlu O&M are less than one year and the interest rate for these financial receivables are 9% for USD balances (31 December 2017: 6%). Part of Zorlu O&M receivable include the one-to-one reflection loans and the respective weighted average interest rates is %11.75.

(***) Other receivables from Dorad and Edeltech are short term receivables and the receivables are related with the power plants in Israel.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 18 - RELATED PARTY TRANSACTIONS (Continued)

c) Long-term other receivables from related parties

	30 September 2018	31 December 2017
Zorlu Holding (*)	988,981	598,467
Ezotech (**)	167,966	105,139
Edeltech (**)	87,765	62,830
Solad (**)	8,638	8,698
Dorad (**)	1,581	12,027
	1,254,931	787,161

(*) With regard to the Board of Director decision dated on 7 November 2018, it has been decided that the TL 898,530 thousand portion Zorlu Enerji's total receivables amounting to TL 1,887,511 thousand from Zorlu Holding shall be collected within a year. It was also decided that the remaining TL 988,981 thousand receivable will be collected in lump sum with its interest by the end of 2025 with the interest rate determined by Zorlu Group in accordance with market conditions. The interest rate for the USD portion of the Group's receivable from Zorlu Holding is %9, the interest rate is %39 for the portion in TL receivables, and %6 for the portion in EUR receivables. Part of the above-mentioned receivables include the one-to-one reflection loans in TL TL and USD that the Company provided to Zorlu Holding and the respective weighted average interest rates are %44 and %11 (31 December 2017: None).

(**) The receivables from Dorad, Ezotech, Solad and Edeltech consist of the amounts provided for the power plant projects in Israel.

d) Short-term trade payables to related parties

	30 September 2018	31 December 2017
Zorlu Doğalgaz Tedarik Ticaret AŞ (*)	32,705	451
Zorlu O&M (*)	8,204	20,476
Zorlu Holding (*)	1,108	46,250
Zorlu Endüstriyel (*)	346	27,166
Zorlu Doğal Gaz (*)	266	1,111
Other	5,087	2,912
	47,716	98,366

(*) Applied interest rate for for USD, EUR and TL trade payables from related parties are 9%, 6% and 39% respectively (31 December 2017: USD and EUR balances: 6%, TL balances: 18%).

e) Short-term other payables to related parties

	30 September 2018	31 December 2017
Zorlu O&M Pakistan	21,756	10,700
Zorlu Endüstriyel	2,348	1,335
Korteks	-	90,305
Other	3,738	37,145
	27,842	139,485

The amounts provided to the Company for financing purposes are either directly used or are carried out through one-to-one reflection loans. The interest rates for the loans provided are respectively % 9, %6 and %39 for USD, EUR and TL borrowings (31 December 2017: USD and EUR %6, for TL %18).

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(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 18 - RELATED PARTY TRANSACTIONS (Continued)

f) Long-term other payables to related parties

	30 September 2018	31 December 2017
Zorlu Holding (*)	-	291,967
	-	291,967

(*) The amounts provided to the Company for financing purposes are either directly used or are carried out through one-to-one reflection loans. Zorlu Holding's receivables from direct financing to our Company are mainly in USD and are longer than one year. The interest rate is 6% in USD for 31 December 2017 and 18% in TL. For 31 December 2017, the amounts granted by Zorlu Holding in the form of one-to-one credit reflectances are denominated in Euro and the maturity is longer than one year.

ii) Transactions carried out with related parties for the period 1 January - 30 September 2018 and 2017 are as follows:

	Sales	Purchases	Operating expenses and other income/ (expenses), net	Interest income/ (expenses), net	Foreign exchange income/(expenses), net
1 January - 30 September 2018					
Korteks	76,237	-	-	8,433	44,321
Zorluteks	34,008	(4)	(110)	347	(220)
Zorlu Tesis Yönetimi	23,436	-	(413)	913	-
Meta Nikel	9,374	-	(17)	1,157	-
Zorlu O&M	312	(51,540)	920	3,585	90,988
Zorlu Endüstriyel	331	(62)	(55)	14,449	40,434
Zorlu Holding	50	-	(6,962)	82,713	726,614
Dorad	-	-	-	3,071	15,433
Edeltech	-	-	26	3,029	42,194
Zorlu Doğal Gaz Tedarik	-	(33,950)	-	(104)	(12)
Diğer	2,185	(4,431)	(6,169)	21	69,521
	145,933	(89,987)	(12,780)	117,614	1,029,273

	Sales	Purchases	Operating expenses and other income/ (expenses), net	Interest income/ (expenses), net	Foreign exchange income/(expenses), net
1 July - 30 September 2018					
Korteks	33,173	-	-	2,750	34,744
Zorluteks	13,522	(3)	(61)	1,565	(220)
Zorlu Tesis Yönetimi	9,114	-	(92)	239	-
Meta Nikel	4,334	-	(5)	240	-
Zorlu O&M	269	(19,234)	247	4,275	53,985
Zorlu Holding	48	-	(3,141)	49,207	440,378
Zorlu Endüstriyel	99	(6)	(23)	2,226	(733)
Dorad	-	-	-	1,202	11,094
Edeltech	-	-	11	2,234	27,212
Zorlu Doğal Gaz Tedarik	-	(33,950)	-	(10)	(54)
Diğer	(12,633)	(1,468)	(1,614)	(88)	43,172
	47,926	(54,661)	(4,678)	63,840	609,578

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 SEPTEMBER 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 18 - RELATED PARTY TRANSACTIONS (Continued)

ii) Transactions carried out with related parties for the period 1 January - 30 September 2018 and 2017 are as follows (Continued):

	Sales	Purchases	Operating expenses and other income/ (expenses), net	Interest income/ (expenses), net	Foreign exchange income/(expenses), net
1 January - 30 September 2017					
Korteks	47,323	-	-	(8,513)	54
Zorluteks	25,934	(1)	(61)	(5,030)	(1,897)
Zorlu Tesis Yönetimi	23,599	-	(373)	-	-
Meta Nikel	10,524	-	(17)	1	-
Zorlu Holding	520	(1)	(4,729)	(16,820)	(1,641)
Zorlu Endüstriyel	387	(7,710)	(161)	33,407	(11,017)
Zorlu O&M	75	(45,245)	(1,405)	(2,142)	825
Dorad	-	-	-	3,301	4,590
Edeltech	-	-	11	1,784	691
Zorlu Doğal Gaz	-	(24,389)	(749)	(4,726)	(475)
Zorlu Doğal Gaz Tedarik	-	(9,764)	10	(90)	1
Diğer	9,558	(5,313)	(4,620)	(5,938)	1,190
	117,920	(92,423)	(12,094)	(4,766)	(7,679)
	Sales	Purchases	Operating expenses and other income/ (expenses), net	Interest income/ (expenses), net	Foreign exchange income/(expenses), net
1 July - 30 September 2017					
Korteks	19,260	-	-	(7,735)	13
Zorlu Tesis Yönetimi	11,809	-	(153)	-	-
Zorluteks	8,633	(1)	54	(5,030)	(2,049)
Meta Nikel	6,040	-	(6)	-	-
Zorlu Holding	193	(1)	(1,809)	(4,635)	(4,480)
Zorlu Endüstriyel	146	(7,457)	126	8,114	2,654
Zorlu O&M	3	(17,419)	(761)	(7,938)	2,911
Dorad	-	-	-	858	243
Edeltech	-	-	22	583	980
Zorlu Doğal Gaz	-	(24,389)	(464)	(4,726)	(475)
Zorlu Doğal Gaz Tedarik	-	(9,764)	-	(18)	1
Diğer	810	(1,021)	(865)	(906)	1,570
	46,894	(60,052)	(3,856)	(21,433)	1,368

Sales to related parties generally indicate the electricity sale transactions carried out within the framework of the main operations. Purchase and sale transactions also include service purchases and sales between related companies.

Operating income and expenses generally include invoicing transactions resulted from common expenses.

The interest income/expense and foreign exchange gains/losses include the foreign exchange gains/losses and the interest income/expense arising from financial transactions between subsidiaries.

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(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 18 - RELATED PARTY TRANSACTIONS (Continued)

iii) Key management compensations for the periods between 1 January - 30 September 2018 and 2017 are as follows:

For the purpose of this consolidated financial statements, key management compensation consists of the payments made to Group shareholders and top management (General Manager and Vice General Managers and directors).

	1 January - 30 September 2018	1 July - 30 September 2018	1 January - 30 September 2017	1 July - 30 September 2017
Salaries	7,557	1,723	4,580	1,041

NOTE 19 - EVENTS OCCURRING AFTER REPORTING PERIOD

- Pursuant to material event disclosure dated 18 October 2018, the Company, as a result of its technical and financial evaluations, was made application to modify the installed capacity of the natural gas-fuelled cogeneration plant in Lüleburgaz, Kırklareli to 62.38MW from 125.99 MW.
- Pursuant to material event disclosure dated 30 October 2018, in order to consider various strategic options such as strategic and/or financial partnership or a share and/or asset sale in an effort to use the assets in its portfolio in the most productive way possible, the Group authorised:
 - İş Yatırım Menkul Değerler AŞ in order to investigate the sales opportunities of some or all of the shares and/or assets of Trakya Gaz Dağıtım AŞ and Gazdaş Gaziantep Doğalgaz Dağıtım AŞ and to this end to meet with potential buyers if required,
 - Garanti Yatırım Menkul Kıymetler AŞ in order to investigate the potential opportunities to sell the shares of Rotor Elektrik Üretim AŞ and Zorlu Rüzgar Enerjisi Üretimi AŞ or the wind power plants under them (Gökçedağ WPP with 135MW installed power, Sarıtepe WPP with 57MW installed power and Demirciler WPP with 23.3MW installed power), and to this end to meet with potential buyers if required.
- Pursuant to material event disclosure dated 1 November 2018, it was announced that issuing a commercial bill with a fixed interest rate, a nominal value of TL67,000 thousand and a maturity term of 113 days, and a financial bill with a floating rate and a nominal value of TL13,610 thousand, were completed as at 1 November 2018 in order to sell to qualified investors without a public offering. Ak Yatırım Menkul Değerler AŞ intermediated the issuance.
- Pursuant to material event disclosure of Zorlu Enerji Elektrik Üretim AŞ dated 9 November 2018, Zorlu Rüzgar has been authorized to modify the license of the Sarıtepe wind power plant and Demirciler wind power plant in Bahçe, Osmaniye from 30 years to 49 years.
- Pursuant to material event disclosure of Zorlu Enerji Elektrik Üretim AŞ dated 16 November 2018, Rotor has been authorized to modify the license of the wind power plant in Bahçe, Osmaniye from 30 years to 49 years.
- Pursuant to material event disclosure of Zorlu Enerji Elektrik Üretim AŞ dated 22 November 2018, Zorlu Enerji has been authorized to modify the pre-license of the Alibeyhöyüğü Solar Power Plant Project in Çumra, Konya from 30 months to 42 months.