

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION
FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019
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 2019 and the related condensed interim statement of profit or loss, other comprehensive income, changes in equity and cash flows for the nine-month period then ended 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, 14 January 2020

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION AT 30 SEPTEMBER 2019

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ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET AT 30 SEPTEMBER 2019

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

	Notes	30 September 2019	31 December 2018
ASSETS			
Current assets:			
Cash and cash equivalents	4	345,568	598,576
Trade receivables			
- Other trade receivables		789,285	609,263
- Due from related parties	18	17,594	23,185
Other receivables			
- Other receivables		81,698	33,269
- Due from related parties	18	966,654	986,313
Derivative financial instruments	12	586	5,148
Receivables from service concession arrangements	5	140,083	158,453
Inventories		68,524	9,416
Other current assets	8	222,749	386,587
Total		2,632,741	2,810,210
Assets held for sale		629,396	604,317
Total current assets		3,262,137	3,414,527
Non-current assets:			
Other receivables			
- Other receivables		31	-
- Due from related parties	18	1,656,373	1,184,359
Financial assets		246	246
Receivables from service concession arrangements	5	1,181,586	1,167,479
Associates		490,997	378,523
Property, plant and equipment	9	9,078,360	8,889,428
Intangible assets		2,843,339	2,955,771
Right of use assets	10	46,718	-
Deferred tax assets	14	292,186	312,084
Other non-current assets	8	38,585	69,065
Total non-current assets		15,628,421	14,956,955
Total assets		18,890,558	18,371,482

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 2019

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

	Notes	30 September 2019	31 December 2018
LIABILITIES			
Current liabilities:			
Financial liabilities	6	4,157,959	3,362,648
Trade payables			
- Other trade payables		1,770,638	1,386,797
- Due to related parties	18	61,019	127,224
Other payables			
- Other payables	7	773,415	709,738
- Due to related parties	7, 18	34,441	28,604
Derivative financial instruments	12	38,002	8,522
Taxes on income		16,658	2,897
Other provisions		11,917	16,198
Other current liabilities	8	167,396	158,902
Total		7,031,445	5,801,530
Liabilities related to the asset held for sale		411,440	406,682
Total current liabilities		7,442,885	6,208,212
Non-current liabilities:			
Financial liabilities	6	7,674,933	7,888,475
Derivative financial instruments	12	138,007	33,076
Other payables			
- Other payables	7	16,241	20,014
Deferred tax liabilities	14	667,752	761,300
Provisions for employment benefits		29,287	23,281
Other non-current liabilities	8	56,667	57,314
Total non-current liabilities		8,582,887	8,783,460
Total liabilities		16,025,772	14,991,672
EQUITY			
Share capital	13	2,110,948	2,110,948
Revaluation fund	9	3,269,185	3,415,981
Share premium		916	916
Hedge reserves		(2,441,930)	(1,984,100)
Actuarial losses		(9,476)	(6,627)
Currency translation adjustment		325,838	281,388
Accumulated losses		(371,822)	(434,657)
Equity attributable to equity holders of the parent		2,883,659	3,383,849
Non-controlling interests		(18,873)	(4,039)
Total equity		2,864,786	3,379,810
Total liabilities and equity		18,890,558	18,371,482

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

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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

		1 January - Notes 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Revenue		5,477,175	1,866,063	3,515,957	1,592,810
Cost of sales (-)	15	(4,259,925)	(1,405,759)	(2,466,970)	(1,070,162)
Gross profit		1,217,250	460,304	1,048,987	522,648
General and administrative expenses (-)	15	(162,119)	(70,525)	(99,469)	(37,216)
Marketing and selling expenses (-)	15	(40,446)	(14,348)	(34,801)	(10,941)
Other income	16	280,465	85,448	197,631	117,028
Other expense (-)	16	(180,415)	(54,510)	(196,368)	(126,006)
Operating income		1,114,735	406,369	915,980	465,513
Share of gain/ (loss) of associates		48,293	41,618	37,193	27,232
Financial income	17	456,808	97,311	1,291,376	740,257
Financial expense (-)	17	(1,620,425)	(526,761)	(2,383,386)	(1,431,120)
(Loss) / income before taxation		(589)	18,537	(138,837)	(198,118)
Current income tax expense (-)	14	(49,382)	(15,890)	(19,766)	(7,333)
Deferred tax (expense)/ income	14	(48,824)	(46,854)	176,812	60,566
(Loss)/ income for the period		(98,795)	(44,207)	18,209	(144,885)
Income/ (loss) attributable to:					
Equity holders of the parent		(83,961)	(40,291)	43,772	(119,932)
Non-controlling interest		(14,834)	(3,916)	(25,563)	(24,953)
(Loss)/ income per share		(0.042)	(0.020)	0.022	(0.060)

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

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
(Loss)/ income for the period	(98,795)	(44,207)	18,209	(144,885)
Revaluation of property, plant and equipment (Note 2.7)	-	-	4,273,166	2,826,765
Changes in actuarial (losses)/gain on employment benefit obligations	(3,653)	(3,417)	(4,250)	(3,724)
Hedge reserves	(572,287)	185,460	(2,408,351)	(1,623,760)
Changes in currency translation adjustments	44,450	6,754	228,303	168,254
Deferred income tax related to other comprehensive income	115,261	(36,340)	(359,487)	(177,828)
Other comprehensive (loss)/ income	(416,229)	152,457	1,729,381	1,189,707
Total comprehensive (loss)/ income	(515,024)	108,250	1,747,590	1,044,822
Total comprehensive (loss)/ income attributable to:				
Equity holders of the parent	(500,190)	112,166	1,773,153	1,069,775
Non-controlling interests	(14,834)	(3,916)	(25,563)	(24,953)
Total comprehensive (loss)/ income	(515,024)	108,250	1,747,590	1,044,822

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 1 JANUARY - 30 SEPTEMBER 2019

(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 fund	Accumulated losses		
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
1 January 2019	2,110,948	916	(1,984,100)	(6,627)	281,388	3,415,981	(434,657)	(4,039)	3,379,810
Transfer	-	-	-	-	-	(146,796)	146,796	-	-
Total comprehensive loss	-	-	(457,830)	(2,849)	44,450	-	(83,961)	(14,834)	(515,024)
30 September 2019	2,110,948	916	(2,441,930)	(9,476)	325,838	3,269,185	(371,822)	(18,873)	2,864,786

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 1 JANUARY - 30 SEPTEMBER 2019

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

	Notes	1 January- 30 September 2019	1 January- 30 September 2018
Cash flows from operating activities:			
Loss before taxation		(589)	(138,837)
Depreciation and amortisation	15, 16	432,523	309,602
Interest income	16, 17	(199,040)	(192,136)
Interest expense	16, 17	1,239,175	901,049
Unrealized foreign exchange losses and currency translation differences		(8,134)	278,609
Loss/(gain) from financial derivative instruments	17	36,656	(14,694)
Change in provision for employment termination benefits		5,009	6,547
Provisions		(4,281)	(14,090)
Deferred financial income / (expense)		-	(599)
Gain from sale of tangible assets		(24)	(232)
Gain on associates		(48,293)	(37,193)
Indexation difference on receivables from service concession agreements	5	(111,628)	(166,656)
Indexation difference on deposits	7, 16	18,819	23,590
Other adjustments related to non-cash items		34,060	22,123
Net cash generated from operating activities before changes in operating assets and liabilities		1,394,253	977,083
Changes in trade receivables		(163,393)	(243,536)
Changes in other receivables		(210,861)	274,855
Changes in other current and non-current assets		185,158	(74,244)
Changes in trade payables		286,563	397,045
Changes in other payables		41,039	(25,002)
Changes in other liabilities		8,475	(71,031)
Changes in inventories		63,365	(15,286)
Collections from service concession arrangements	5	107,966	97,793
Subscriber connection fee	5	26,983	23,796
Termination benefits paid		(3,046)	(2,459)
Taxes paid		(26,037)	(13,597)
Net cash used in operating activities		1,710,465	1,325,417
Cash flows from investing activities:			
Purchase of property plant and equipment and intangible assets		(642,528)	(491,457)
Proceeds from sale of property, plant and equipment and intangible assets		1,391	480
Investments on service concession arrangements	5	(19,058)	(26,365)
Cash in flow/ (outflow) from sale / (purchase) of subsidiaries		29,546	(77,385)
Change in cash and cash equivalents related to assets held for sale		(24,102)	-
Net cash generated from/ (used in) investing activities		(654,751)	(594,727)
Cash flows from financing activities:			
Proceeds from issued debt instruments	6	452,521	169,000
Proceeds from bank borrowings	6	708,894	1,908,763
Proceeds from other financial liabilities	6	-	6,790
Repayment of bank borrowings	6	(885,253)	(1,167,409)
Repayment of issued debt instruments	6	(401,596)	(208,400)
Changes in related party balances		(14,421)	(796,143)
Interest paid		(1,107,710)	(762,256)
Interest received		34,450	69,042
Cash outflows related to payment of lease liabilities	6	(19,086)	-
Other cash inflow/ (outflow)	6	(84,465)	(37,577)
Net cash used in financing activities		(1,316,666)	(818,190)
Net decrease in cash and cash equivalents		(260,952)	(87,500)
Effect of foreign currency conversion differences on cash and cash equivalents		(18,362)	(50,828)
Cash and cash equivalents at the beginning of the period		582,683	317,570
Cash and cash equivalents at the end of the period	4	303,369	179,242

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 1 JANUARY - 30 SEPTEMBER 2019

(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, steam production and selling, distribution and retailing of electricity, trading electricity, distribution of gas and distribution and selling and distribution of solar panel. 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 Organize Sanayi Bölgesi, Pembe Cadde, No:13 Bursa, Türkiye.

The Company is registered to the Capital Markets Board (“CMB”), and its shares are publicly traded in Borsa Istanbul AŞ (“BIST”) since 2000. As at 30 September 2019, 32% of its shares are open for trading (31 December 2018: 32%).

The subsidiaries and associates of the Company are presented as below:

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”)	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 Elektrik”)	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”)	Electricity production	Pakistan
Zorlu Enerji Dağıtım AŞ (“Zorlu Enerji Dağıtım”) (**)	Natural gas distribution	Turkey
Zorlu Enerji Asia Holding Ltd. (“Zorlu Enerji Asia”)	Energy investment	Dubai
ZES Dijital Ticaret AŞ (“ZES Dijital”) (***)	Electricity sale, renting of electric vehicle and other	Turkey
ZJ Strong Energy for Renewable Energy Ltd Co. (“ZJ Strong”) (****)	Electricity production	Palestine
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 ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

- (*) Zorlu Osmangazi has 100% shares of Osmangazi Elektrik Dağıtım AŞ (“OEDAŞ”) and Osmangazi Elektrik Satış Perakende AŞ (“OEPSAŞ”).
- (**) Zorlu Enerji Dağıtım, which is 100% owned by Zorlu Enerji, has 90% of the shares of Trakya Bölgesi Doğal Gaz Dağıtım AŞ (“Trakya”) and Gazdaş Gaziantep Doğal Gaz Dağıtım AŞ (“Gazdaş”).
- (***) Ezotech has 100% shares of Ashdod Energy Ltd. (“Ashdod”) and Ramat Negev Energy Ltd. (“Ramat Negev”).
- (****) Zorlu Enerji joined the foundation of the company named “ZES Dijital Ticaret Anonim Şirketi”, established to operate electricity sale, electric vehicle leasing, electric vehicle charging station installation and energy management system development, with 100% share, and ZJ Strong Energy for Renewable Energy Ltd Co, established to build solar energy plants in various regions of Palestine in order to meet Palestine’s electricity need with solar energy and to operate in renewable energy and other energy areas, with 75% share.

As at 30 September 2019, the number of personnel employed was 2,235 (31 December 2018: 2,160).

The power plants of the Company located in Turkey and abroad are 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)
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	-
Wind				215.3	-
Gökçedağ	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	-
Natural Gas				99.7	239.5
Lüleburgaz	Zorlu Enerji	Lüleburgaz, Kırklareli	Cogeneration Natural Gas	49.5	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
TOTAL				738.9	239.5

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

(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	46.4
Dorad	Israel	Combined-Cycle Natural Gas (840 MW)	210.0	-
Ashdod	Israel	Cogeneration Natural Gas (64.54 MW, 40 ton/hour)	27.2	16.9
Ramat Negev	Israel	Cogeneration Natural Gas (126.4 MW, 70 ton/hour)	53.3	29.5
TOTAL			346.9	46.4

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

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM 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.

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.

This condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year then ended 31 December 2018.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

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.

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.

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

2.2 Basis of consolidation (Continued)

The table below sets out all subsidiaries and demonstrates the proportion of ownership interest as at 30 September 2019 and 31 December 2018. Financial statements of subsidiaries are consolidated using the full consolidation method.

Subsidiaries	Direct ownership interest by the Companies (%)	
	30 September 2019	31 December 2018
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 Solar 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 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	100.00
Zorlu Enerji Asia	100.00	100.00
ZES Dijital (*)	100.00	-
ZJ Strong Energy (*)	75.00	-

(*) Zorlu Enerji joined the foundation of the company named “ZES Dijital Ticaret Anonim Şirketi”, established to operate electricity sale, electric vehicle leasing, electric vehicle charging station installation and energy management system development, with 100% share, and ZJ Strong Energy for Renewable Energy Ltd Co, established to build solar energy plants in various regions of Palestine in order to meet Palestine’s electricity need with solar energy and to operate in renewable energy and other energy areas, with 75% share.

(**) The establishment registration procedures of Zorlu Enerji Dağıtım were completed on 20 April 2018, and Zorlu Enerji Dağıtım owns 90% of Gazdaş and Trakya shares. Non-controlling interests representing 10% of Trakya and Gazdaş are significant for the Group’s consolidated financial statements, and summary financial information related to Trakya and Gazdaş is disclosed in Note 3 in the natural gas distribution segment.

(***) As per the material event statement dated 30 October 2018, the start of the negotiations for the sale of the Rotor, Rüzgar, Gazdaş and Trakya was announced to the public. As of 31 December 2018, only Zorlu Rüzgar among the aforementioned companies, met the terms of the TFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” standard, and the assets and liabilities related to this subsidiary were classified as “assets held for sale” and “liabilities related to the asset held for sale”.

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM 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 2019 and 31 December 2018:

Associates	Direct ownership by the Company (%)	
	30 September 2019	31 December 2018
Dorad	25.00	25.00
Ezotech	42.15	42.15
Solad	42.15	42.15

2.3 Amendments in International Financial Reporting Standards

a) Standards, amendments and interpretations applicable as of 30 September 2019

- Amendment to IFRS 9, “Financial instruments”,
- Amendment to IAS 28, “Investments in associates and joint venture”,
- IFRS 16, “Leases”,
- IFRIC 23, “Uncertainty over income tax treatments”,
- Annual improvements 2015 - 2017,
- Amendments to IAS 19, “Employee benefits on plan amendment”, curtailment or settlement.

The amendments do not have a significant impact on the financial position or performance of the Group, except for the effect of IFRS 16 transition. The effects of transition to IFRS 16 are detailed in Note 2.4.

b) Standards, amendments and interpretations that are issued but not effective as at 30 September 2019

- Amendments to IAS 1 and IAS 8 on the definition of material,
- Amendments to IFRS 3, definition of a business,
- Amendments to IFRS 9, IAS 39 and IFRS 7 - interest rate benchmark reform,
- IFRS 17, “Insurance contracts”.

The Group will evaluate the effects of these amendments and will apply them starting from their effective dates.

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

2.4 Changes in significant accounting policies

The condensed consolidated interim financial information for the period then ended 30 September 2019 has been prepared in accordance with IAS 34. Except as described below the accounting policies used in the preparation of this condensed consolidated interim financial information are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2018.

Leasing:

The Group applied first time application requirements of IFRS 16 “Leases” out of the new standards, amendments and interpretations effective from 1 January 2019 in line with the requirement of transition of the related standards.

The effects of this standard-related accounting policy change and the first-time implementation of the relevant standards are as follows:

Group - as a lessee

If a contract regulates the right to control the use of an asset that is defined in the contract for a certain period and for a specific price, this contract is considered as a lease in its nature or includes a lease transaction. At the beginning of a contract, the Group assesses whether the contract is a lease or include a lease transaction. The Group considers the following conditions when assessing whether or not a contract transfers the right to control the use of a defined asset for a specified period of time:

- a) The existence of a clearly or implicitly identifiable asset that constitutes the subject of the lease.
- b) The lessee has the right to obtain almost all of the economic benefits from the use of the defined asset that constitutes the subject of the lease.
- c) The lessee has the right to manage the use of the defined asset that constitutes the subject of the lease. According to circumstances listed below, the tenant is deemed to have the right to manage the defined asset constituting the subject of the lease;
 - i. The lessee has the right to operate the property for the duration of its use (or to direct others to operate the entity in its own way) and the lessor does not have the right to change these operating instructions or
 - ii. Designing the asset (or certain features of the asset) in advance in a manner of how and for what purpose the asset will be used during its occupancy by the lessee.

In the event of a contract fulfills these conditions, the Group reflects the existence of a right to use and a lease liability to the consolidated financial statements at the date of the lease's actual start.

The right of use asset

The right-of-use asset initially recognized by the cost method and includes the followings:

- a) The first measurement amount of the lease liability to be recognized as the right of use asset,
- b) Deduction of all leasing incentives related to the lease, from the first measurement amount of the lease liability recorded as a right of use asset,
- c) All direct costs, that are related to the lease, incurred by the Group to be added to the first measurement amount of the lease liability, which will be recognized as a right of use asset, and

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

2.4 Changes in significant accounting policies (Continued)

- d) Estimated costs to be incurred by the Group shall be added to the initial measurement amount in relation to the dismantling and transporting of the defined asset constituting the subject of the lease, the restoration of the area in which it is placed, or the restoration of the defined asset as required by the terms and conditions of the lease.

In applying the cost method, the Group measures the right of use asset by:

- a) deducting the accumulated depreciation and accumulated impairment losses and
b) measuring the cost of the lease in accordance with the re-measurement of the lease liability.

The Group applies depreciation provisions in IAS 16 Property, Plant and Equipment while depreciating the right of use asset. In order to determine whether the right of use asset has been impaired or not and to recognize any impairment losses, the IAS 36 “Impairment of Assets” is implemented.

As of 30 September 2019 and 1 January 2019, the details of right of use assets accounted in the condensed consolidated interim financial information are as follows:

	30 September 2019	1 January 2019
Land	23,880	24,412
Buildings	4,527	4,637
Vehicles	18,311	29,055
Total right of use assets	46,718	58,104

Lease Liability

At the effective date of the lease, the Group measures its leasing liability at the present value of the lease payments not realized at that date. If the interest rate on the lease can be easily determined, this rate is used in discount; if the implied interest rate cannot be easily determined, the payments are discounted by using the alternative borrowing interest rate of the lessee.

Lease payments that are included in the measurement of the lease liability of the Group and the payments that are not occurred on the date when the lease is actually started consist of the following:

- a) Amount deducted from all types of rental incentive receivables from fixed payments.
b) Lease payments based on an index or a rate, lease payments made using an index or a rate at the time the initial measurement was actually started.
c) The penalty for termination of the lease in cases the lessee shows a sign of it will use an option to terminate the lease.

After the effective date of the lease, the Group measures its lease liability as follows:

- a) Increasing the book value by reflecting interest on lease liability,
b) Reducing the book value by reflecting the lease payments made,
c) Re-measures the book value to reflect any re-evaluations and reconfigurations, if any. The Group reflects the remeasured amount of the lease obligation to the financial statements as adjustment in the use of right.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

2.4 Changes in significant accounting policies (Continued)

Extension and early termination options

A lease obligation is determined by considering the extension of the contracts and early termination options. Most of the extension and early termination options included in the contracts consist of options that are jointly applicable by the Group and the lessor. However, if such extension and early termination options are at the Group's discretion in accordance with the contract and the use of the options is reasonably certain, the lease term shall be determined by taking this issue into account. If there is a significant change in the conditions, the evaluation is reviewed by the Group.

Variable lease payments

Company's lease contracts also include variable lease payments which are not in the scope of IFRS 16. Variable lease payments are recognised in profit or loss in the related period.

Exemptions and simplifications

Short-term lease agreements with a period of 12 months and less, have been assessed under the exemption granted by the IFRS 16 Leases Standard, and payments for these contracts are recognized as an expense in the period in which they are incurred.

First adoption IFRS 16 Leases Standard

The IFRS 16 Leases standard replaces the IAS 17 Leasing Operations, as of 1 January 2019, and the Group retrospectively (“cumulative effect method”) recognized the cumulative effect of applying the standard on its financial statements at once. Within the scope of the simplified transition application defined in the related standard, the comparative information of the financial statements and retained earnings have not been restated.

Under the first implementation of IFRS 16 Leases, before 1 January 2019, the lease commitments are accounted for as a lease obligation in accordance with IAS 17 in financial statements. This lease liability has been measured at the present value of the lease payments, which have not been realized as of the date of transition, discounted using the alternative borrowing interest rate at the date of initial application of the Group. The right to use of assets are accounted for an amount equal to the lease obligations (adjusted for the amount of prepaid or accrued lease payments) within the scope of simplified transition application in the related standard.

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

2.4 Changes in significant accounting policies (Continued)

The effects of IFRS 16 in the condensed consolidated interim financial information and statement of profit or loss for the period 30 September 2019 is presented below:

	Excluding IFRS 16 Effect 30 September 2019	Transition effect of IFRS 16	30 September 2019
ASSETS			
TOTAL CURRENT ASSETS	3,262,137	-	3,262,137
NON-CURRENT ASSETS			
Right of use assets	-	46,718	46,718
Property, plant and equipment	9,078,360	-	9,078,360
Intangible assets	2,843,339	-	2,843,339
Deferred tax assets	291,601	585	292,186
Other non-current assets items	3,367,818	-	3,367,818
TOTAL NON-CURRENT ASSETS	15,581,118	47,303	15,628,421
TOTAL ASSETS	18,843,255	47,303	18,890,558
LIABILITIES			
CURRENT LIABILITIES			
Short-term lease liabilities	2,526	20,323	22,849
Other current liabilities items	7,420,036	-	7,420,036
TOTAL CURRENT LIABILITIES	7,422,562	20,323	7,442,885
Long-term lease liabilities	27,111	29,001	56,112
Other non-current liabilities items	8,526,775	-	8,526,775
TOTAL NON-CURRENT LIABILITIES	8,553,886	29,001	8,582,887
EQUITY			
Net loss for the period	(81,973)	(1,988)	(83,961)
Other equity items	2,948,780	(33)	2,948,747
TOTAL EQUITY	2,866,807	(2,021)	2,864,786
TOTAL LIABILITIES AND EQUITY	18,843,255	47,303	18,890,558

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

2.4 Changes in significant accounting policies (Continued)

	Excluding IFRS 16 Effect 30 September 2019	Transition effect of IFRS 16	30 September 2019
Revenue	5,477,175	-	5,477,175
Cost of sales (-)	(4,276,679)	16,754	(4,259,925)
Gross profit	1,200,496	16,754	1,217,250
General administrative expenses (-)	(152,140)	(9,979)	(162,119)
Marketing and selling expenses (-)	(40,804)	358	(40,446)
Other operating income	280,465	-	280,465
Other operating expense (-)	(180,415)	-	(180,415)
Operating profit	1,107,602	7,133	1,114,735
Share of gain/ (loss) of associates	48,293	-	48,293
Financial income	456,808	-	456,808
Financial expenses (-)	(1,610,686)	(9,739)	(1,620,425)
Loss before tax	2,017	(2,606)	(589)
Current income tax expense (-)	(49,382)	-	(49,382)
Deferred income tax expense (-)	(49,409)	585	(48,824)
Net loss for the period	(98,774)	(2,021)	(98,795)
Loss attributable to:			
Equity holders of the parent	(81,973)	(1,988)	(83,961)
Non-controlling interest	(14,801)	(33)	(14,834)
Loss per share	(0.041)	(0.001)	(0.042)

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

2.4 Changes in significant accounting policies (Continued)

The effects of IFRS 16 in the earnings before interest, taxes, depreciation and amortization (“EBITDA”) for the period 30 September 2019 is presented below:

	Excluding IFRS 16 Effect 30 September 2019	Transition effect of IFRS 16	30 September 2019
Revenue	5,477,175	-	5,477,175
Cost of sales (-)	(4,276,679)	16,754	(4,259,925)
Gross profit	1,200,496	16,754	1,217,250
Operating expenses	(192,944)	(9,621)	(202,565)
Amortisation and depreciation expenses	336,377	11,956	348,333
Weighted average cost of capital (“WACC”) correction	195,471	-	195,471
EBITDA	1,539,400	19,089	1,558,489

As of 1 January 2019, the Group has added financing lease contract liabilities amounting to TL34,521 thousand to its discounted liabilities arising from current operating lease agreements and determined the total lease liabilities amounting to TL92,625 thousand.

In measuring lease liabilities, the Group has discounted its lease payments using the alternative borrowing rate and the discount rate applied for TL is in the range of 18-27%.

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 some portion of its investments are financed through borrowings and some portion through capital injection. As at 30 September 2019, the gross profit and EBITDA of the Group are TL1,217,250 thousand and TL1,558,489 thousand, respectively. The Group has TL371,822 thousand of accumulated loss and TL83,961 thousand of net loss as at and for the period ending 30 September 2019. Besides, the Group’s current liabilities exceeds its current assets by TL4,180,748 thousand.

Since major portion of the Group’s electricity sales is at pre-determined prices in USD within the scope of Renewable Energy Sources Mechanism (“YEKDEM”), it affects the gross profit as positively. In addition, foreign exchange losses arising from borrowings of the Companies which sell electricity in scope of YEKDEM have been hedged by the foreign exchange gains arising from the sales indexed to USD mainly.

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 3 January 2019.

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

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:

- Cost of energy purchases within the scope of unlicensed electricity production amounts to TL505,699 thousand and other cost of sales element amounts to TL72,347 thousand which are shown in the condensed consolidated interim statement of profit or loss for the nine-month period ended of 30 September 2018, are netted off with “revenue”. This reclassification has not any effect on accumulated losses and period income or loss.
- Investment inventories amounts to TL67,842 thousand which are shown in the other non-current assets in the consolidated balance sheet as of 31 December 2018, are reclassified to “property, plant and equipment”. This reclassification has not any effect on accumulated losses and period income or loss.
- Subscriber connection fee amounts to TL23,796 thousand and collections from service concession arrangements amounts to TL97,793 thousand are shown in the condensed consolidated interim statement of cash flows for the period 30 September 2018 are reclassified to other cash flows from investment activities to net cash used in operating activities.

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 TL2,293,152 thousand (31 December 2018: TL2,307,599 thousand). Deferred tax asset is not recognized carryforward tax losses for the remaining TL605,847 thousand (31 December 2018: TL130,747 thousand).

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

2.7 Critical accounting estimates, assumptions and judgments (Continued)

b) *Cash flow hedge*

As explained in Note 12, the Group uses investment loans amounting USD1,320,624 thousand and EUR27,365 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.

The estimations in budgets for YEKDEM sales income used for effectiveness test include estimations such as sales quantities.

c) *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 on 30 September 2018 and 31 December 2018, Avrupa Gayrimenkul Değerleme ve Danışmanlık AŞ was given the authority to determine the same for power plants installed in Turkey. The cost method was used for the valuation of plants that belong to Zorlu Enerji, and the income method (income capitalisation-DCF) was used for the valuation of other plants.

The assumptions used for the valuation of plants other than those belong to Zorlu Enerji Pakistan are mainly: USD weighted average cost of capital rate of 10%, risk free rate of 8% and risk premium rate of 2%, and the assumption used for the valuation of the plant that belongs to Zorlu Enerji Pakistan is mainly: USD weighted average cost of capital of 9.69%.

d) *Uninvoiced sales*

The costs of active energy and retail sale services provided to the customer but not invoiced are recognised at estimated amounts. Unbilled electricity costs of active energy and retail sale services are reflected in the consolidated financial statements by multiplying the relevant period’s tariff prices by the difference between the date of the customer’s most recent meter reading and the last day of the relevant period.

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.

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

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 EUR. In order to eliminate these risks, protection policies are applied in order to use various derivative instruments. In addition, foreign exchange losses arising from borrowings of the Companies which sell electricity in scope of YEKDEM have been hedged by the foreign exchange gains arising from the sales indexed to USD mainly (Note 12).

Foreign currency denominated assets and liabilities held by the Group as at 30 September 2019 and 31 December 2018 are as follows:

	30 September 2019	31 December 2018
Assets	2,604,413	2,377,341
Liabilities	(9,428,976)	(9,546,047)
Net position of derivative financial instruments	(392,855)	(365,212)
Foreign currency position, (net)	(7,217,418)	(7,533,918)

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM 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 2019 and 31 December 2018 are as follows:

	30 September 2019					31 December 2018				
	TL equivalent	USD	Euro	NIS	JPY	TL equivalent	USD	Euro	NIS	JPY
Cash and cash equivalents	81,198	13,750	542	21	1	206,719	39,087	67	488	1
Trade receivables	15,807	2,719	68	-	-	8,754	1,531	116	-	-
Due from related parties - short-term	829,619	146,599	-	-	-	936,574	171,854	5,033	1,523	-
Due from related parties - long-term	1,643,502	229,987	27,073	107,377	-	1,184,359	224,788	-	1,267	-
Other	34,287	3,727	2,134	-	-	40,935	3,011	4,163	-	-
Total assets	2,604,413	396,782	29,817	107,398	1	2,377,341	440,271	9,379	3,278	1
Trade payables	349,621	45,766	14,656	-	-	421,230	54,670	22,166	-	-
Short-term financial liabilities	2,021,014	320,587	33,440	-	-	2,153,988	353,493	48,821	-	-
Due to related parties - short-term	17,812	3,147	-	-	-	2,694	512	-	-	-
Due to related parties - long-term	-	-	-	-	-	2,120	403	-	-	-
Long-term financial liabilities	7,024,428	1,164,166	70,557	-	-	6,950,469	1,273,724	41,396	-	-
Other	16,101	2,591	233	-	-	15,546	2,955	-	-	-
Total liabilities	9,428,976	1,536,257	118,886	-	-	9,546,047	1,685,757	112,383	-	-
Net foreign currency position	(6,824,563)	(1,139,475)	(89,069)	107,398	1	(7,168,706)	(1,245,486)	(103,004)	3,278	1
Net position of derivative financial instruments	(392,855)	(69,420)	-	-	-	(365,212)	(69,420)	-	-	-
Net foreign currency position	(7,217,418)	(1,208,895)	(89,069)	107,398	1	(7,533,918)	(1,314,906)	(103,004)	3,278	1

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

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM 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 and NIS currencies denominated assets and liabilities to local currency. As at 30 September 2019 and 31 December 2018, had the TL appreciated or depreciated by 10% and 20% 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 2019 Gain/(Loss)		30 September 2019 Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
In case of 10% appreciation / depreciation USD against TL:				
USD net asset/(liability)	(684,126)	684,126	(684,126)	684,126
Amount hedged for USD risk (-)	747,354	(747,354)	-	-
USD net effect	63,228	(63,228)	(684,126)	684,126
In case of 10% appreciation / depreciation of EUR against TL:				
EUR net asset/(liability)	(55,077)	55,077	(55,077)	55,077
Amount hedged for EUR risk (-)	-	-	-	-
EUR net effect	(55,077)	55,077	(55,077)	55,077
In case of 10% appreciation / depreciation of NIS against TL:				
NIS net asset/(liability)	17,460	(17,460)	17,460	(17,460)
Amount hedged for NIS risk (-)	-	-	-	-
NIS net effect	17,460	(17,460)	17,460	(17,460)
Total net effect	25,611	(25,611)	(721,743)	721,743

The Group uses investment loans amounting to USD1,320,624 thousand and EUR27,365 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. The sensitivity analysis of the foreign currency hedged loans amounting to EUR27,365 thousand belonging to Zorlu Rüzgar is not included in the table above, since all assets and liabilities of Zorlu Rüzgar are classified as non-current assets / liabilities classified as held for sale.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

2.9 Financial risk management (Continued)

	31 December 2018		31 December 2018	
	Gain/(Loss)		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
In case of 20% appreciation /depreciation of USD against TL:				
USD net asset/(liability)	(1,383,518)	1,383,518	(1,383,518)	1,383,518
Amount hedged for USD risk (-)	1,034,726	(1,034,726)	-	-
USD net effect	(348,792)	348,792	(1,383,518)	1,383,518
In case of 20% appreciation /depreciation of EUR against TL:				
EUR net asset/(liability)	(124,182)	124,182	(124,182)	124,182
Amount hedged for EUR risk (-)	-	-	-	-
EUR net effect	(124,182)	124,182	(124,182)	124,182
In case of 20% appreciation /depreciation of NIS against TL:				
NIS net asset/(liability)	916	(916)	916	(916)
Amount hedged for NIS risk (-)	-	-	-	-
NIS net effect	916	(916)	916	(916)
Total net effect	(472,058)	472,058	(1,506,784)	1,506,784

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The fair values of financial instruments that are not traded in an active market have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate fair value. Accordingly, the estimates presented herein may differ from the amounts the Company could realise in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practicable to estimate fair value:

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

2.9 Financial risk management (Continued)

Monetary assets

Foreign currency denominated balances are translated into Turkish Lira with the rates at the balance sheet date. The fair values of balances denominated in foreign currencies, which are translated at period-end exchange rates, are considered to approximate their carrying values.

The fair values of certain financial assets carried at cost, including cash and cash equivalents are considered to approximate to their respective carrying values due to their short-term nature.

The carrying values of trade receivables along with the related allowances for uncollectibility are estimated to approximate to their fair values.

Monetary liabilities

The fair values of short term bank borrowings and other monetary liabilities are considered to approximate to their respective carrying values due to their short-term nature.

Since long term foreign currency loans generally have floating interest rate fair value is close to their book value. Fair value of long term bank loans are discounted amounts of contractual cash flows with the market interest rate.

Fair value estimation:

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

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Inputs other than quoted market prices included within level 1 that are observable for the asset or

Level 3: Inputs for the asset or liability that are not based on observable market data.

Fair values of translated foreign currency balances with year-end foreign exchange rates are considered to approximate their carrying values.

Cash and cash equivalents as at the carrying value of certain financial assets carried at cost, are considered to approximate their fair values due to their short-term.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to estimate the fair value an instrument are observable, the instrument is included in Level 2.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

2.9 Financial risk management (Continued)

The fair values of assets and liabilities as of 30 September 2019 and 31 December 2018 are as follows:

Derivative financial instruments	30 September 2019	31 December 2018
Level 1	-	-
Level 2	(175,423)	(36,450)
Level 3	-	-
	(175,423)	(36,450)

The fair value of powerplants belonging to Zorlu Enerji is determined by using “market approach and cost method” (Level 2) and fair values of all other power plants are determined by using “income approach - discounted cash flow analysis” (Level 3).

Property, plant and equipment	30 September 2019	31 December 2018
Level 1	-	-
Level 2	224,862	240,942
Level 3	7,644,432	7,949,839
	7,869,294	8,190,781

NOTE 3 - SEGMENT REPORTING

Group management has determined the reportable parts of the Group as distribution of electricity and distribution of gas, retail and wholesale of electricity 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 2019	Electricity distribution	Gas distribution	Retail and wholesale	Production/trading and other	Consolidation adjustments	Consolidation total
Revenue	565,391	1,017,177	3,025,924	1,728,015	(859,332)	5,477,175
Cost of sales	(351,164)	(975,183)	(2,874,299)	(916,787)	857,508	(4,259,925)
Gross profit	214,227	41,994	151,625	811,228	(1,824)	1,217,250
Operating expenses	(53,960)	(16,333)	(58,134)	(62,646)	(11,492)	(202,565)
Amortisation and depreciation expenses (*)	10,260	6,800	3,110	314,847	13,316	348,333
Weighted average cost of capital (“WACC”) correction (**)	126,618	68,853	-	-	-	195,471
EBITDA	297,145	101,314	96,601	1,063,429	-	1,558,489
Financial income/(expenses), net	(146,609)	(115,571)	25,959	(928,182)	786	(1,163,617)
Tax income/(expense)	(32,582)	(8,467)	(37,841)	(43,487)	24,171	(98,206)

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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

NOTE 3 - SEGMENT REPORTING (Continued)

1 July - 30 September 2019	Electricity distribution	Gas distribution	Retail and wholesale	Production/trading and other	Consolidation adjustments	Consolidation total
Revenue	214,528	196,098	1,036,380	685,648	(266,591)	1,866,063
Cost of sales	(136,292)	(213,995)	(996,997)	(324,467)	265,992	(1,405,759)
Gross profit	78,236	(17,897)	39,383	361,181	(599)	460,304
Operating expenses	(18,674)	(7,070)	(27,074)	(28,160)	(3,895)	(84,873)
Amortisation and depreciation expenses (*)	3,866	2,585	1,037	102,074	4,487	114,049
Weighted average cost of capital ("WACC") correction (**)	44,443	26,855	-	-	-	71,298
EBITDA	107,871	4,473	13,346	435,095	(7)	560,778
Financial income/(expenses), net	(35,872)	(20,879)	(14,513)	(358,972)	786	(429,450)
Tax income/(expense)	(16,545)	(1,569)	(4,195)	(57,550)	17,115	(62,744)
1 January - 30 September 2018	Electricity distribution	Gas distribution	Retail and wholesale	Production/trading and other	Consolidation adjustments	Consolidation total
Revenue	589,330	151,244	2,169,983	1,419,225	(813,825)	3,515,957
Cost of sales	(288,733)	(129,194)	(2,090,419)	(780,793)	822,169	(2,466,970)
Gross profit	300,597	22,050	79,564	638,432	8,344	1,048,987
Operating expenses	(37,155)	(6,022)	(40,580)	(39,615)	(10,898)	(134,270)
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	847,327	1,046	1,276,874
Financial income/(expenses), net	(45,980)	(331,360)	4,842	(721,395)	1,883	(1,092,010)
Tax income/(expense)	(69,147)	64,958	(3,894)	68,188	96,941	157,046
1 July - 30 September 2018	Electricity distribution	Gas distribution	Retail and wholesale	Production/trading and other	Consolidation adjustments	Consolidation total
Revenue	264,209	151,244	873,192	543,013	(238,848)	1,592,810
Cost of sales	(117,323)	(129,194)	(839,983)	(228,222)	244,560	(1,070,162)
Gross profit	146,886	22,050	33,209	314,791	5,712	522,648
Operating expenses	(9,950)	(6,003)	(16,684)	(12,015)	(3,505)	(48,157)
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	404,866	(3,022)	631,713
Financial income/(expenses), net	(14,192)	(331,360)	20,293	(366,073)	469	(690,863)
Tax income/(expense)	(36,423)	64,958	(5,532)	27,253	2,977	53,233
1 January - 30 September 2019	Electricity distribution	Gas distribution	Retail and wholesale	Production/trading and other	Consolidation adjustments	Consolidation total
Segment assets	1,720,591	1,333,868	1,113,811	18,776,265	(4,544,974)	18,399,561
Associates	-	-	-	490,997	-	490,997
Segment liabilities	1,237,462	2,291,072	1,011,739	13,723,622	(2,238,123)	16,025,772
1 January - 31 December 2018	Electricity distribution	Gas distribution	Retail and wholesale	Production/trading and other	Consolidation adjustments	Consolidation total
Segment assets	1,306,160	1,542,412	955,470	18,731,610	(4,542,693)	17,992,959
Associates	-	-	-	378,523	-	378,523
Segment liabilities	929,032	2,354,948	927,665	13,065,592	(2,285,565)	14,991,672

(*) An amortisation and depreciation amount of TL348,333 thousand (30 September 2018: TL258,171 thousand) has been presented in operating expenses, and amount of TL84,190 thousand (30 September 2018: TL51,431) has been presented in other operating expenses.

(**) WACC correction which is related to OEDAŞ, Gazdaş and Trakya, amounts to TL195,471 thousand which is presented in the other income is considered in EBITDA calculation (30 September 2018: TL103,986 thousand).

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NOTE 3 - SEGMENT REPORTING (Continued)

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

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
EBITDA (*)	1,558,489	560,778	1,276,874	631,713
Amortisation and depreciation expenses	(348,333)	(114,049)	(258,171)	(101,497)
Interest income related to distribution activities	(195,471)	(71,298)	(103,986)	(55,725)
Financial income/(expenses), net	(1,163,617)	(429,450)	(1,092,010)	(690,863)
Other operating income/ (expenses), net	100,050	30,938	1,263	(8,978)
Share of profit of associates	48,293	41,618	37,193	27,232
(Loss)/ income before tax from continued operations	(589)	18,537	(138,837)	(198,118)

(*) The Group's Israel investments have been accounted using equity method and EBITDA related to these investments amounting TL186,543 thousand (30 September 2018: TL152,730 thousand) was not taken into consideration in Group's total EBITDA.

NOTE 4 - CASH AND CASH EQUIVALENTS

	30 September 2019	31 December 2018
Cash	145	-
Banks		
- Time deposits	222,184	478,705
- Demand deposits	123,239	119,871
	345,568	598,576

The maturities of time deposits are less than 3 months and the average effective annual interest rates for time deposits are as follows:

	30 September 2019 (%)	31 December 2018 (%)
USD	0.87	0.79
PKR	11.95	5.76
TL	12.62	15.65
EURO	0.01	-

The details of cash and cash equivalents include the following for the purpose of the consolidated statements of cash flows as at 30 September 2019 and 2018:

	30 September 2019	30 September 2018
Cash and cash equivalents	345,568	182,568
Less: Restricted cash	(42,199)	(3,326)
	303,369	179,242

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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NOTE 5 - RECEIVABLES FROM SERVICE CONCESSION ARRANGEMENT

	30 September 2019	31 December 2018
Short-term receivables from service concession arrangement	140,083	158,453
Long-term receivables from service concession arrangement	1,181,586	1,167,479
	1,321,669	1,325,932

The receivables from service concession arrangement represent the amounts of the investments not yet recovered by the tariff.

As at 30 September 2019, TL707,441 thousand of the receivables from service concession arrangement is related to OEDAŞ (31 December 2018: TL726,794 thousand) and TL614,228 thousand is related to Gazdaş and Trakya (31 December 2018: TL599,138 thousand).

The maturity analysis of receivables from service concession arrangements has shown as below;

	30 September 2019	31 December 2018
Up to 1 years	140,083	158,453
Between 1 to 3 years	280,166	316,906
Between 3 to 5 years	280,166	316,906
More than 5 years	621,254	533,667
	1,321,669	1,325,932

The movements of the receivables from service concession arrangement for OEDAŞ are as follows:

	1 January - 30 September 2019	1 January - 30 September 2018
Opening balance	726,794	639,334
Additions	940	-
Collections (-)	(81,480)	(89,678)
Indexation differences	61,187	123,860
Closing balance	707,441	673,516

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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NOTE 5 - RECEIVABLES FROM SERVICE CONCESSION ARRANGEMENT (Continued)

The movements of the receivables from service concession arrangement for gas distribution companies are as follows:

	1 January - 30 September 2019	1 January - 30 September 2018
Opening balance	599,138	-
Additions due to acquisition	-	494,568
Gross investment	18,118	26,365
Subscriber connection fee	(26,983)	(23,796)
Net investment	(8,865)	2,569
Collections (-)	(26,486)	(8,115)
Indexation differences	50,441	42,796
Closing balance	614,228	531,818

NOTE 6 - FINANCIAL LIABILITIES

The detail of financial liabilities of the Group as at 30 September 2019 and 31 December 2018 is as follows:

	30 September 2019	31 December 2018
Short-term bank borrowings	1,210,665	763,761
Lease liabilities	22,849	7,538
Total short-term financial liabilities	1,233,514	771,299
Short-term portion of long-term bank borrowings	2,163,768	2,076,080
Issued bonds	344,454	351,086
Other issued securities	416,223	164,183
Total short-term portion of long term financial liabilities	2,924,445	2,591,349
Long-term bank borrowings	7,577,108	7,606,374
Lease liabilities	56,112	26,983
Other issued marketable securities	41,713	255,118
Total long-term financial liabilities	7,674,933	7,888,475
Total financial liabilities	11,832,892	11,251,123

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NOTE 6 - FINANCIAL LIABILITIES (Continued)

The detail of short-term bank borrowings and lease liabilities of the Group as at 30 September 2019 and 31 December 2018 is as follows:

	<u>Original currency</u>		<u>Weighted average effective interest rate per annum (%)</u>		<u>TL equivalent</u>	
	<u>30 September 2019</u>	<u>31 December 2018</u>	<u>30 September 2019</u>	<u>31 December 2018</u>	<u>30 September 2019</u>	<u>31 December 2018</u>
USD	24,926	31,510	9.44	8.51	141,059	165,773
EUR	4,252	11,374	8.79	8.01	26,291	68,563
TL	1,058,689	529,259	25.69	33.54	1,058,689	529,259
Other	208,346	206,050	16.13	11.13	7,475	7,704
					1,233,514	771,299

The detail of short-term portion of long-term bank borrowings, issued bonds, other issued securities and lease liabilities of the Group as at 30 September 2019 and 31 December 2018 is as follows:

	<u>Original currency</u>		<u>Weighted average effective interest rate per annum (%)</u>		<u>TL equivalent</u>	
	<u>30 September 2019</u>	<u>31 December 2018</u>	<u>30 September 2019</u>	<u>31 December 2018</u>	<u>30 September 2019</u>	<u>31 December 2018</u>
USD	295,661	321,983	8.46	8.61	1,673,176	1,693,921
EUR	29,188	37,447	4.70	4.59	180,488	225,731
TL	1,064,098	663,492	19.88	25.45	1,064,098	663,492
Other	186,256	219,431	16.13	11.13	6,683	8,205
					2,924,445	2,591,349

The detail of long-term bank borrowings, issued bonds and other long-term borrowings of the Group as at 30 September 2019 and 31 December 2018 is as follows:

	<u>Original currency</u>		<u>Weighted average effective interest rate per annum (%)</u>		<u>TL equivalent</u>	
	<u>30 September 2019</u>	<u>31 December 2018</u>	<u>30 September 2019</u>	<u>31 December 2018</u>	<u>30 September 2019</u>	<u>31 December 2018</u>
USD	1,164,166	1,273,724	8.46	8.61	6,588,132	6,700,932
EUR	70,557	41,396	4.70	4.59	436,296	249,537
TL	632,736	914,600	19.88	25.45	632,736	914,600
Other	495,234	625,992	16.13	11.13	17,769	23,406
					7,674,933	7,888,475

The commission paid during the period amounting TL58,159 thousand (30 September 2018: TL50,863 thousand) related to the borrowings obtained by Zorlu Enerji and its subsidiaries from financial institutions are deducted from the total loan amount. Such commission amount is amortized during the term of loans.

Letters of guarantees given, pledges and mortgages related to financial liabilities are explained in Note 11.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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NOTE 6 - FINANCIAL LIABILITIES (Continued)

The redemption schedule of the borrowings as at 30 September 2019 and 31 December 2018 is as follows:

	30 September 2019	31 December 2018
Up to 1 year	4,157,959	3,362,648
Up to 1 to 2 years	1,441,915	1,842,454
Up to 2 to 3 years	1,286,406	1,222,805
Up to 3 to 4 years	2,168,903	1,188,407
Up to 4 to 5 years	452,898	1,587,117
More than 5 years	2,324,811	2,047,692
	11,832,892	11,251,123

The movements of financial liabilities for the period 1 January - 30 September 2019 and 2018 are as follow:

	2019	2018
As at 1 January	11,251,123	7,389,473
Cash inflows from borrowings	708,894	1,908,763
Cash inflows from issued debt instruments	452,521	169,000
Cash inflows from other financial liabilities	-	6,790
Cash outflows due to the repayment of bank borrowings	(885,253)	(1,167,409)
Cash outflows from debt repayments of issued debt instruments	(401,596)	(208,400)
Cash outflows related to debt payments due to lease agreements	(19,086)	-
The impact of transition to IFRS 16	58,104	-
Interest expense related to lease liabilities	9,739	-
Effects of business combinations	-	656,913
Change in exchange differences and interest accruals	688,233	3,829,185
Other classifications	(29,787)	(28,740)
As at 30 September	11,832,892	12,555,575

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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NOTE 7 - OTHER PAYABLES

a) **Short-term other payables:**

	30 September 2019	31 December 2018
Deposit received	748,442	680,706
Other payables to related parties (Note 18)	34,441	28,604
Other	24,973	29,032
	807,856	738,342

Movement for deposit received is as follows:

	2019	2018
1 January	680,706	203,145
Effect of business combination	-	328,996
Additions and payments, net (*)	48,917	36,274
Indexation on deposits (Note 16)	18,819	23,590
30 September	748,442	592,005

(*) The balance amounts to TL48,917 thousand consists of the indexation effect of paid deposits amounting TL17,512 thousand (30 September 2018: TL6,199 thousand).

b) **Long-term other payables:**

	30 September 2019	31 December 2018
Other long-term payables	16,241	20,014
	16,241	20,014

NOTE 8 - OTHER ASSETS AND LIABILITIES

a) **Other current assets:**

	30 September 2019	31 December 2018
VAT receivable	71,286	131,745
Retail sales gross profit margin income accruals (Omega-4)	32,721	-
Insurance income accruals	29,761	38,231
Income accruals regarding unbilled electricity	20,990	8,943
Prepaid expenses	16,768	6,378
Advances given	15,725	12,864
Income accruals regarding natural gas sale	10,089	71,521
Income accruals from non-controlling expenses	7,190	10,216
Renewable energy sources price (YEK) (-	74,150
Other	18,219	32,539
	222,749	386,587

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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NOTE 8 - OTHER ASSETS AND LIABILITIES (Continued)

b) Other non-current assets:

	30 September 2019	31 December 2018
Income accruals from non-controlling expenses (*)	17,943	22,906
Revenue difference correction component (*)	16,188	29,538
VAT receivable	-	15,619
Other	4,454	1,002
	38,585	69,065

(*) EMRA regulates the distribution companies' revenues and expenses by setting ceiling amounts for distribution revenue and non-controlling expenses. Excess or shortage portions of revenues and expenses ceilings are charged to subsequent two years' tariffs which is set by EMRA. These portions of revenues and expenses are considered as an adjustment to the tariffs set by EMRA in the following second year from the origination.

c) Other current liabilities

	30 September 2019	31 December 2018
Taxes and funds payable (including VAT)	119,399	105,933
Advances received	17,294	18,230
Deferred revenue from retail sales gross profit margin	-	6,210
Other	30,703	28,529
	167,396	158,902

d) Other non-current liabilities

	30 September 2019	31 December 2018
Investment difference correction component (*)	55,851	55,851
Other	816	1,463
	56,667	57,314

(*) 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.

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NOTE 9 - PROPERTY, PLANT AND EQUIPMENT

As of 30 September 2019, the Group's cost and accumulation depreciation amounts related to its property, plant and equipments are TL10,939,188 thousand (30 September 2018: TL11,589,976 thousand) and TL1,860,828 thousand (30 September 2018: TL1,489,920 thousand) respectively. Depreciation expense of the nine month period of 2019 is TL 316,256 thousand (30 September 2018: TL235,051 thousand). The total amount of construction in progress in the nine month period is TL640,136 includes TL484,947 thousand amount is related to OEDAŞ investment.

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 31 December 2018, the Group has revalued its power plants and the revaluation fund has been accounted in the consolidated balance sheet. 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 2019 and 2018, the movements for revaluation fund are as follows:

1 January 2018	648,807
Revaluation fund	3,431,074
Depreciation transfer	(81,452)
30 September 2018	3,998,429
1 January 2019	3,415,981
Depreciation transfer	(146,796)
30 September 2019	3,269,185

Collateral, pledges and mortgages on property, plant and equipment are presented in Note 11.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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NOTE 10 - RIGHT OF USE ASSETS

As of 30 September 2019 and 1 January 2019, the details of right of use assets accounted in the condensed consolidated interim financial information are as follows:

	30 September 2019	1 January 2019
Land	23,880	24,412
Buildings	4,527	4,637
Vehicles	18,311	29,055
Total right of use assets	46,718	58,104

The movements for the right of use assets are as follows:

	31 December 2018	IFRS 16 effect	Additions	30 September 2019
Cost				
Land	-	24,412	163	24,575
Buildings	-	4,637	400	5,037
Vehicles	-	29,055	7	29,062
	-	58,104	570	58,674
Accumulated depreciation				
Land	-	-	695	695
Buildings	-	-	510	510
Vehicles	-	-	10,751	10,751
	-	-	11,956	11,956
Net book value	-	-		46,718

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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NOTE 11 - CONTINGENT ASSETS AND LIABILITIES

11.1 Contingent assets

	Currency	30 September 2019		31 December 2018	
		Original amount	TL equivalent	Original amount	TL equivalent
Letters of guarantees received	TL	357,657	357,657	283,041	283,041
Letters of guarantees received	USD	6,082	34,419	6,405	33,696
Letters of guarantees received	EUR	3,358	20,765	3,866	23,304
Cheques received	TL	40,182	40,182	19,168	19,168
Cheques received	USD	624	3,531	1,076	5,661
Cheques received	EUR	169	1,045	229	1,380
			457,599		366,250

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

11.2 Letters of guarantees/pledges/mortgages given

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

	Original currency	30 September 2019		31 December 2018	
		Original amount	TL equivalent	Original equivalent	TL amount
Letters of guarantees given	TL	2,809,774	2,809,774	2,803,751	2,803,751
Letters of guarantees given	EUR	178,233	1,102,121	180,786	1,089,777
Letters of guarantees given	USD	157,793	892,967	166,853	877,797
Letters of guarantees given	PKR	1,875,000	67,275	1,875,000	70,106
Letters of guarantees given	NIS	7,298	11,865	-	-
			4,884,002		4,841,431

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.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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

NOTE 11 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

The Group’s guarantees, pledges and mortgages (“GPM”) as at 30 September 2019 and 31 December 2018 are summarized as follows:

	Original currency	30 September 2019		31 December 2018	
		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	137,055	775,608	143,807	756,554
	EUR	170,583	1,054,817	173,136	1,043,663
	TL	2,783,154	2,783,154	2,775,233	2,775,233
	PKR	1,875,000	67,275	1,875,000	70,106
Total amount of GPM given for					
the subsidiaries and associates in					
the full scope of consolidation					
	TL	26,620	26,620	28,518	28,518
	USD	550	3,113	564	2,967
	EUR	7,300	45,140	7,300	44,004
Total amount of GPM given for					
the purpose of					
maintaining operating activities					
	USD	20,188	114,246	22,482	118,276
	EUR	350	2,164	350	2,110
	NIS	7,298	11,865	-	-
Total amount of other GPMs given					
		-	-	-	-
		4,884,002		4,841,431	

As mentioned in Note 2.4 the condensed consolidated interim financial information for the period then ended 30 September 2019 should be read in conjunction with the annual consolidated financial statements for the year then ended 31 December 2018. For this purpose the details of commitments are not presented in the notes for the period then ended 30 September 2019.

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NOTE 12 - DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments

	30 September 2019							
	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 hedge reserves (**)
Cross currency swap agreements held for hedging (*)	-	32,381	-	200,231	-	(9,599)	(2,390)	(15,860)
Cross currency swap agreements (*)	69,420	-	-	392,855	-	(8,038)	(5,847)	-
Interest rate swap agreements	-	-	62,680	62,680	586	-	(4,562)	-
Interest rate swap agreements held for hedging	575,235	-	-	3,255,312	-	(158,372)	(23,857)	(95,444)
	644,655	32,381	62,680	3,911,078	586	(176,009)	(36,656)	(111,304)
	31 December 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 hedge reserves (**)
Cross currency swap agreements held for hedging (*)	-	32,381	-	195,193	-	(3,651)	(2,929)	(4,929)
Cross currency swap agreements (*)	69,420	-	-	365,212	-	(2,191)	(27,909)	-
Interest rate swap agreements	-	-	340,630	340,630	5,148	-	12,679	-
Interest rate swap agreements held for hedging	655,235	-	-	3,447,126	-	(35,756)	(233)	(16,434)
	724,655	32,381	340,630	4,348,161	5,148	(41,598)	(18,392)	(21,363)

(*) The contract amount demonstrates the original contract amounts at the transaction date of cross currency transactions. The remaining portion of these transaction is USD61,089 thousand and EUR29,476 thousand.

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD

1 JANUARY - 30 SEPTEMBER 2019

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

NOTE 12 - 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 statement of profit or loss. Amounts recognized under equity are transferred to the consolidated statement of profit or loss in the period in which the hedged firm commitment or forecasted transaction affects the consolidated statement of profit or loss.

As at 30 September 2019, the Group has a forward purchase commitment amounts to USD69,420 thousand and EUR32,381 thousand against a sale commitment of TL314,554 thousand and USD37,710 thousand.

Non-derivative financial instruments

	<u>30 September 2019</u>			<u>31 December 2018</u>		
	Original amount		Carried at fair value through other comprehensive income (TL) (*)	Original amount		Carried at fair value through other comprehensive income (TL) (*)
	USD	EUR		USD	EUR	
Hedged amount for foreign currency risk	1,320,624	27,365	(2,330,626)	983,412	29,688	(1,962,737)
	1,320,624	27,365	(2,330,626)	983,412	29,688	(1,962,737)

(*) The Group uses investment loans amounting to USD1,320,624 thousand and EUR27,365 thousand as a hedging instrument against the USD exchange rate risk which 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 1 JANUARY - 30 SEPTEMBER 2019

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

NOTE 12 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The movement of derivative financial instruments is as follows:

	2019	2018
1 January	(36,450)	(6,672)
Related to income statement		
- Financial income/(expense)	(36,656)	14,694
Related to other comprehensive income		
- Hedge reserves	(112,426)	53,446
Addition due to acquisition	-	27,953
Transfer to liabilities of asset groups held for sale	10,109	-
30 September	(175,423)	89,421

The movement of non-derivative financial instruments is as follows:

	2019	2018
1 January	(1,962,737)	(610,552)
Related to other comprehensive income		
- Hedge reserves	(367,889)	(1,969,438)
30 September	(2,330,626)	(2,579,990)

NOTE 13 - EQUITY

Share capital

	30 September 2019	31 December 2018
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 2019 and 31 December 2018 are as follows:

	Share (%)	30 September 2019	Share (%)	31 December 2018
Zorlu Holding	48.7	974,478	48.7	974,478
Korteks	17.5	350,949	17.5	350,949
Publicly held (*)	32.0	639,623	32.0	639,623
Other	1.8	34,950	1.8	34,950
	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

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

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NOTE 14 - TAXES ON INCOME

Turkish tax legislation does not allow for the submission of tax returns over consolidated financial statements prepared by the parent company, which include its affiliates and associates. Accordingly tax considerations reflected in these consolidated financial statements have calculated separately for each of the companies in the scope of the consolidation.

In Turkey, corporation tax is payable at a rate of 22% for 2020, 2019 and 2018. Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income. Advance tax is declared by the 14th and paid by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. If, despite offsetting, there remains a paid advance tax amount, it may be refunded or offset against other liabilities to the government. Within the scope of the Law regarding Amendments to Certain Tax Laws and Other Laws No. 7061, which went into effect after promulgation in the Official Gazette dated 5 December 2017, the corporate income tax rate was raised from 20% to 22% for 2018, 2019 and 2020.

The taxation on income and expense for the Group for the period ended 30 September 2019 and 2018 is summarised as follows:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Current period tax expense	(49,382)	(15,890)	(19,766)	(7,333)
Deferred tax (expense)/income	(48,824)	(46,854)	176,812	60,566
Total tax (expense)/income	(98,206)	(62,744)	157,046	53,233

The reconciliation of taxation on income for the period ended 30 September 2019 and 2018 is as follows:

	1 January - 30 September 2019	1 January - 30 September 2018
(Loss)/ profit before tax	(589)	(138,837)
Local tax rate	%22	%22
Tax expense calculated with effective tax rate	130	30,544
Deductions and exemptions	51,873	152,754
Additions	(61,734)	(93,186)
Tax losses and other tax advantages (net effect)	(103,129)	26,719
Effect of tax rate change	3,782	27,126
Share of profit of associates	10,624	8,182
Other	248	4,907
Current income (expense)/tax income	(98,206)	157,046

Deferred taxes

The Group recognizes deferred income tax based on all temporary differences arising between their financial statements as reported for IFRS and its statutory tax financial statements.

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NOTE 14 - TAXES ON INCOME (Continued)

Within the scope of the Law regarding Amendments to Certain Tax Laws and Other Laws No. 7061, in the financial statements dated 30 September 2019, the deferred tax assets and liabilities were calculated using a tax rate of 22% for the portion of the temporary differences that will have a tax impact in 2019 and 2020, and using a tax rate of 20% for the portion of the temporary differences that will have a tax impact in 2021 and thereafter (31 December 2018: 22%).

	30 September 2019	31 December 2018
Deferred tax assets	292,186	312,084
Deferred tax liabilities	(667,752)	(761,300)
Deferred tax assets/(liabilities), net	(375,566)	(449,216)

	Temporary differences		Deferred tax assets/(liabilities)	
	30 September 2019	31 December 2018	30 September 2019	31 December 2018
Property, plant and equipment	3,435,539	3,513,914	(675,304)	(696,572)
Carry forward tax losses	(2,293,152)	(2,307,599)	489,875	492,729
Receivables from service concession arrangements	1,321,669	1,325,932	(279,041)	(280,267)
Credit commission and unearned credit finance expense	266,300	240,208	(54,113)	(48,258)
Indexation of deposits received	(279,763)	(260,944)	61,548	57,408
Derivative instruments	(175,423)	(36,450)	35,084	7,339
Other	(210,845)	(101,415)	46,385	18,405
Deferred tax assets/(liabilities), net			(375,566)	(449,216)

As of 30 September 2019, the Group recognized deferred tax assets for the carry forward tax losses amounting to TL2,293,152 thousand (31 December 2018: TL2,307,599 thousand) for which the Group believes it will utilize in the future, For the remaining carry forward tax losses amounting to TL605,847 thousand (31 December 2018: TL130,747 thousand), the Group has not recognized deferred tax assets.

The Group's expiration dates of recognized carry forward tax losses are as follows:

Due date	Losses
2019	27,522
2020	222,885
2021	373,367
2022	330,097
2023	1,259,755
2024	79,526
	2,293,152

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NOTE 14 - TAXES ON INCOME (Continued)

The Group's expiration dates of unrecognized carry forward tax losses are as follows:

Due date	Losses
2019	84,080
2020	191
2021	753
2022	81,930
2023	378
2024	438,515
	605,847

NOTE 15 - EXPENSES BY NATURE

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Direct materials and merchandise expenses	3,440,648	1,071,294	1,513,686	694,275
Depreciation and amortisation (*)	348,333	114,049	258,171	101,497
Employee and personnel expenses (**)	169,036	63,032	108,671	42,233
Other	504,473	242,257	720,712	280,314
	4,462,490	1,490,632	2,601,240	1,118,319

(*) The total amount of depreciation and amortization expense is TL432,523 thousand (30 September 2018 TL309,602 thousand). TL348,333 thousand (30 September 2018: TL258,171 thousand) of the amount is presented in cost of sales, general administrative and selling marketing expense and TL84,190 thousand (30 September 2018: TL51,431 thousand) of the amount is presented in other operating expense (Note 16).

(**) TL12,956 thousand (30 September 2018: TL11,754 thousand) is presented in marketing expenses, TL41,851 thousand (30 September 2018: TL43,954 thousand) is represented in general administrative expenses and remaining TL114,229 thousand (30 September 2018: TL52,963) is presented in cost of sales.

NOTE 16 - OTHER OPERATING INCOME AND EXPENSE

a) Other operating income:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Weighted average cost of capital ("WACC") correction	195,471	71,298	103,986	55,725
Gain on sale of subsidiaries (*)	29,546	-	-	-
Interest income from trading activities	21,153	7,197	8,029	3,574
Provisions released	7,361	3,728	7,462	2,965
Insurance income	3,059	(1,500)	34,115	16,391
Other	23,875	4,725	44,039	38,373
	280,465	85,448	197,631	117,028

(*) As per the material event disclosure dated 21 May 2019, Zorlu Enerji transferred all the shares of Çumra Güneş Enerjisi ve Üretim AŞ (Çumra) to KHM Enerji Turizm Ticaret Sanayi AŞ at the amount of USD6,400,000.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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NOTE 16 - OTHER OPERATING INCOME AND EXPENSE (Continued)

b) Other operating expense:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Depreciation of service concession arrangements	84,190	28,192	51,431	28,192
Indexation of deposits received (Note 7)	36,331	20,199	23,590	16,337
Interest expense from trading activities	26,622	5,011	2,881	218
Foreign exchange difference from trading activities	4,715	(11,935)	98,356	72,485
Other	28,557	13,043	20,110	8,774
	180,415	54,510	196,368	126,006

NOTE 17 - FINANCIAL INCOME AND EXPENSES

a) Financial income:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Foreign exchange gains	278,921	18,094	1,092,575	640,403
Interest income	177,887	79,217	184,107	112,289
Income on derivative instruments	-	-	14,694	(12,435)
	456,808	97,311	1,291,376	740,257

b) Financial expense:

	1 January - 30 September 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Interest expense (*)	1,212,553	416,130	898,168	462,113
Foreign exchange loss (*)	316,079	78,873	1,453,159	968,299
Loss on derivative instruments	36,656	12,842	-	-
Bank commission and other financial expenses	55,137	18,916	32,059	708
	1,620,425	526,761	2,383,386	1,431,120

(*) As at 30 September 2019, capitalized borrowing cost on property, plant and equipments is TL22,128 thousand (30 September 2018: TL46,539 thousand).

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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

NOTE 18 - RELATED PARTY TRANSACTIONS

i) **Related party balances:**

a) **Short-term trade receivables from related parties**

	30 September 2019	31 December 2018
Korteks	8,495	13,985
Zorluteks Tekstil Ticaret ve Sanayi AŞ (“Zorluteks”)	5,612	5,359
Other	3,487	3,841
	17,594	23,185

b) **Short-term other receivables from the related parties**

	30 September 2019	31 December 2018
Zorlu Holding (*)	685,102	648,347
Zorlu Endüstriyel ve Enerji Tesisleri İnşaat Ticaret AŞ (“Zorlu Endüstriyel”) (**)	127,358	94,957
Zorlu O&M Enerji Tesisleri İşletme ve Bakım Hizmetleri AŞ (“Zorlu O&M”) (**)	87,367	177,746
Other	66,827	65,263
	966,654	986,313

(*) The maturity of TL685,102 thousand of the Group’s total receivables from Zorlu Holding amounts to TL2,050,375 thousand is less than one year. Most of the receivables are denominated in USD and the applied interest rate is 9% (31 December 2018: 9% for USD). Part of the above-mentioned receivables include the back-to-back loans in TL, EUR and USD and the weighted average interest rates are 23%-24.7%, 8%-8.5% and 9.75%-11.75%, respectively (31 December 2018: for back to back loans in TL, EUR and USD 37.35%, 8.75% and 9.75%-11.75% respectively).

(**) 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 2018: 9% for USD). Part of Zorlu O&M receivable includes the back-to-back loans and the respective weighted average interest rate is 11.75%.

ZORLU ENERJİ ELEKTRİK ÜRETİM AŞ

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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

NOTE 18 - RELATED PARTY TRANSACTIONS (Continued)

i) Related party balances (Continued):

c) Long-term other receivables from related parties

	30 September 2019	31 December 2018
Zorlu Holding (*)	1,365,273	928,168
Ezotech (**)	174,573	147,452
Edeltech (**)	98,587	92,062
Solad (**)	17,940	16,677
	1,656,373	1,184,359

(*) The maturity of TL1,365,273 thousand of the Group’s total receivables from Zorlu Holding amounts to TL2,050,375 thousand is more than one year. Most of the receivables are denominated in USD and the applied interest rate is 9% (31 December 2018: TL648,347 thousand and 9% for USD). Part of the above-mentioned receivables include the back-to-back loans in TL, EUR and USD and the weighted average interest rates are 23%-24.7%, 8%-8.5% and 9.75%-11.75%, respectively (31 December 2018: for TL, EUR and USD 37.35%, 8.75% and 9.75%-11.75% respectively).

(**) The receivables from 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 2019	31 December 2018
Zorlu Doğalgaz Tedarik Ticaret AŞ (“Zorlu Doğal Gaz Tedarik”)	33,593	36,256
Vestel Ticaret AŞ (“Vestel Ticaret”)	9,502	4,721
Zorlu Endüstriyel	5,230	5,078
Zorlu O&M	5,096	5,288
Zorlu Doğal Gaz İthalat İhracat ve Toptan AŞ (“Zorlu Doğal Gaz”)	1,868	67,997
Other	5,730	7,884
	61,019	127,224

e) Short-term other payables to related parties

	30 September 2019	31 December 2018
Zorlu Endüstriyel	6,706	2,119
Korteks	-	6,085
Other	27,735	20,400
	34,441	28,604

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

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

NOTE 18 - RELATED PARTY TRANSACTIONS (Continued)

i) Related party balances (Continued):

f) Short-term bank borrowings

	30 September 2019	31 December 2018
Zorlu Faktoring	39,957	39,920
	39,957	39,920

ii) Transactions carried out with related parties for the period 1 January - 30 September 2019 and 2018 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 2019					
Korteks	92,868	-	30	(838)	3,310
Zorluteks	53,831	(11)	(38)	(112)	593
Zorlu Tesis Yönetimi AŞ ("Zorlu Tesis Yönetimi")	32,325	-	(606)	-	-
Meta Nikel Kobalt Madencilik Sanayi ve Ticaret AŞ ("Meta Nikel")	7,517	-	(25)	-	-
Zorlu Holding	44	(50)	(12,539)	119,520	93,674
Zorlu O&M	537	(52,410)	(257)	3,537	12,468
Zorlu Endüstriyel	35	(240)	(119)	6,683	8,078
Edeltech	-	-	20	3,104	7,115
Zorlu Doğal Gaz Tedarik	125	(231,535)	-	(491)	(2,013)
Other	4,465	(13,873)	(6,151)	(7,902)	22,650
	191,747	(298,119)	(19,685)	123,501	145,875

	Sales	Purchases	Operating expenses and other income/ (expenses), net	Interest income/ (expenses), net	Foreign exchange income/(expenses), net
1 July - 30 September 2019					
Korteks	35,537	-	20	(466)	-Zorluteks
	18,038	-	(4)	(80)	-
Zorlu Tesis Yönetimi	12,103	-	(220)	-	-
Meta Nikel	436	-	(10)	-	-
Zorlu Holding	-	(49)	(4,194)	52,210	(35,259)
Zorlu O&M	125	(17,252)	19	6,742	(2,743)
Zorlu Endüstriyel	-	(183)	(44)	5,054	(2,105)
Edeltech	-	-	10	1,069	(1,659)
Zorlu Doğal Gaz Tedarik	37	(72,045)	-	(7)	2
Other	1,615	(9,245)	(5,988)	95	916
	67,891	(98,774)	(10,411)	64,617	(40,848)

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

(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 2019 and 2018 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 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 Endüstriyel	331	(62)	(55)	14,449	40,434
Zorlu O&M	312	(51,540)	920	3,585	90,988
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)
Other	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)
Other	(12,633)	(1,468)	(1,614)	(88)	43,172
	47,926	(54,661)	(4,678)	63,840	609,578

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.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2019

(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 2019 and 2018 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 2019	1 July - 30 September 2019	1 January - 30 September 2018	1 July - 30 September 2018
Salaries	6,913	3,097	7,557	1,723

NOTE 19 - EVENTS OCCURRING AFTER REPORTING PERIOD

As per the material event disclosure dated 6 December 2019, the registration of the facilitated merger of Zorlu Hidroelektrik with Zorlu Enerji is completed in İstanbul and Bursa Trade Register.

As per the material event disclosure dated 2 December 2019, Zorlu Enerji joined the foundation of the company named “Zorlu Trade Elektrik Toptan Satış Anonim Şirketi”, established to operate in trading, wholesale, retail, import and export of electricity energy and / or capacity, as the sole founding shareholder with a share of TL500,000.

As per the material event disclosure dated 23 December 2019, by the Board of Directors of the Group, it was decided to transferred all the shares of 58,500,000 shares, each with a nominal value of TL 1, each of which is divided into 58,500,000 shares it held in Zorlu Rüzgar Enerjisi Üretimi AŞ, all the shares of which belonged to Zorlu Enerji, to İmbat Enerji AŞ, which is 100% subsidiary of Akfen Yenilenebilir Enerji AŞ under the share purchase agreement. The sales transaction will be completed after the Company receive all the necessary permission and approvals.

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