

**Mavi Giyim Sanayi ve Ticaret
Anonim Őirketi and
Its Subsidiaries**

Condensed Consolidated Interim Financial Statements
As At and For The Nine Months Period Ended
31 October 2019

2 December 2019

This report contains 39 pages of financial statement explanatory notes.

Mavi Giyim Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

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Mavi Giyim Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries
Condensed Consolidated Interim Statement of Financial Position
As at 31 October 2019

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

		Unaudited	Audited
	<i>Notes</i>	31 October 2019	31 January 2019
ASSETS			
Current assets			
Cash and cash equivalents	5	344,908	266,571
Trade receivables		258,411	168,593
- Due from third parties	8	258,411	168,593
Other receivables		12,794	17,059
- Due from third parties		12,794	17,059
Inventories		515,027	457,229
Prepayments		47,822	37,985
Current tax asset		3,153	15,805
Other current assets		27,029	22,070
Total current assets		1,209,144	985,312
Non-current assets			
Other receivables		3,161	2,411
- Due from third parties		3,161	2,411
Property and equipment		175,646	159,739
Right of use assets	11	394,877	--
Intangible assets		214,265	194,454
- Other intangible assets		65,670	57,576
- Goodwill	10	148,595	136,878
Prepayments		268	114
Deferred tax assets		2,716	1,880
Total non-current assets		790,933	358,598
TOTAL ASSETS		2,000,077	1,343,910

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

Mavi Giyim Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries
Condensed Consolidated Interim Statement of Financial Position
As at 31 October 2019

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

		Unaudited	Audited
	<i>Notes</i>	31 October 2019	31 January 2019
LIABILITIES			
Current liabilities			
Short term borrowings	6	110,631	79,742
Short term contractual lease liabilities		187,429	--
- Due to related parties		1,486	--
- Due to third parties		185,943	--
Short term portion of long term borrowings	6	172,783	204,317
Trade payables		617,041	510,284
- Due to related parties	7-8	203,740	155,105
- Due to third parties	8	413,301	355,179
Payables to employees		28,547	32,512
Other payables		8,142	16,534
- Due to related parties	7	116	10,330
- Due to third parties		8,026	6,204
Deferred revenue		20,868	17,086
Provisions		17,218	13,034
- Provisions for employee benefits	12	4,444	2,679
- Other provisions	12	12,774	10,355
Derivatives	22	1,416	9,577
Current tax liabilities		22,205	2,732
Other current liabilities		6,585	11,116
Total current liabilities		1,192,865	896,934
Non-current liabilities			
Loans and borrowings	6	109,520	91,985
Long term contractual lease liabilities		231,707	--
- Due to related parties		3,473	--
- Due to third parties		228,234	--
Deferred revenue		3,902	119
Provisions		6,099	5,018
- Provisions for employee benefits	12	6,099	5,018
Deferred tax liabilities		--	12,686
Total non-current liabilities		351,228	109,808
TOTAL LIABILITIES		1,544,093	1,006,742

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Mavi Giyim Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries
Condensed Consolidated Interim Statement of Financial Position
As at 31 October 2019

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

		Unaudited	Audited
	<i>Notes</i>	31 October 2019	31 January 2019
EQUITY			
Equity attributable to owners of the Company			
Paid in share capital	<i>14</i>	49,657	49,657
Purchase of share of entities under common control		(35,757)	(35,757)
Other comprehensive income/expense not to be reclassified to profit or loss		(4,511)	(4,460)
<i>Remeasurement of defined benefit liability</i>		(4,511)	(4,460)
Other comprehensive income/expense to be reclassified to profit or loss		79,928	56,477
<i>Foreign currency translation reserve</i>		81,033	63,935
<i>Hedging reserve</i>		(1,105)	(7,458)
Legal reserves	<i>14</i>	19,771	19,771
Retained earnings		248,086	156,569
Net income		86,448	91,517
Non-controlling interests		12,362	3,394
Total equity		455,984	337,168
TOTAL EQUITY AND LIABILITIES		2,000,077	1,343,910

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

Mavi Giyim Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries
Condensed Consolidated Interim Statement of Profit or Loss and Other
Comprehensive Income
For the Nine Months Period Ended 31 October 2019

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

		Unaudited	Unaudited	Unaudited	Unaudited
	Notes	1 February – 31 October 2019	1 August – 31 October 2019	1 February – 31 October 2018	1 August – 31 October 2018
Revenue		2,148,254	808,134	1,777,714	715,238
Cost of sales		(1,079,165)	(400,392)	(846,462)	(340,945)
Gross profit		1,069,089	407,742	931,252	374,293
Administrative expenses		(117,369)	(38,088)	(96,377)	(32,272)
Selling, marketing and distribution expenses	15	(633,065)	(222,972)	(564,285)	(205,750)
Research and development expenses		(18,266)	(6,823)	(19,306)	(5,827)
Other income	16	6,373	5,293	9,106	4,177
Other expenses	16	(4,076)	(2,976)	(9,060)	(5,721)
Operating profit		302,686	142,176	251,330	128,900
Losses from investment activities	17	(749)	(570)	(559)	18
Operating profit before financial income		301,937	141,606	250,771	128,918
Finance income	18	8,108	2,700	4,287	3,509
Finance costs	19	(187,377)	(62,468)	(124,263)	(69,491)
Net finance costs		(179,269)	(59,768)	(119,976)	(65,982)
Profit before tax		122,668	81,838	130,795	62,936
Income tax expense		(27,699)	(18,462)	(29,548)	(14,471)
- Tax expense		(43,232)	(22,603)	(42,322)	(17,244)
- Deferred tax income		15,533	4,141	12,774	2,773
Net income		94,969	63,376	101,247	48,465
Non-controlling interests		8,521	4,618	7,256	5,632
Owners of the Company		86,448	58,758	93,991	42,833
Earnings per share	21	1.7409	1.1833	1.8928	0.8626
Earnings before interest, tax, depreciation and amortization (EBITDA)	25	510,185	213,267	304,340	148,573

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Mavi Giyim Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries
Condensed Consolidated Interim Statement of Profit or Loss and Other
Comprehensive Income

For the Nine Months Period Ended 31 October 2019

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

	Unaudited	Unaudited	Unaudited	Unaudited
<i>Notes</i>	1 February – 31 October 2019	1 August – 31 October 2019	1 February – 31 October 2018	1 August – 31 October 2018
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit liability	(65)	77	534	472
- Related tax	14	(17)	(118)	(104)
Items that are or may be reclassified to profit or loss				
Foreign operations - foreign currency translation differences	17,544	10,616	44,104	15,945
Cash flow hedging reserves	8,146	5,405	(21,608)	(21,217)
- Related tax	(1,792)	(1,189)	4,754	4,668
Other comprehensive income net of tax	23,847	14,892	27,666	(236)
Total comprehensive income	118,816	78,268	128,913	48,229
Total comprehensive income attributable to:				
Non-controlling interests	8,968	4,871	5,653	4,718
Owners of the Company	109,848	73,397	123,260	43,511

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

Mavi Giyim Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Condensed Consolidated Interim Statement of Changes In Equity

As at and for the Nine Months period ended 31 October 2019

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

	Share capital	Legal reserves	Purchase of share of entities under common control	Other comprehensive income/expense not to be reclassified to profit or loss	Other comprehensive income/expense to be reclassified to profit or loss		Retained earnings		Attributable to owners of the Company	Attributable to non-controlling interest	Total equity
				Remeasurement of defined benefit liability	Foreign currency translation reserve	Hedging reserve	Retained earnings	Net profit			
Balance as at 1 February 2018	49,657	17,427	(35,757)	(5,145)	25,310	656	111,717	85,871	249,736	(2,555)	247,181
Transfers	--	--	--	--	--	--	85,871	(85,871)	--	--	--
Dividend payment	--	--	--	--	--	--	(12,965)	--	(12,965)	(1,542)	(14,507)
Acquisition of NCI	--	2,344	--	--	--	--	(28,269)	--	(25,925)	--	(25,925)
Amendments to IFRS 9	--	--	--	--	--	--	215	--	215	--	215
Total comprehensive income	--	--	--	416	45,707	(16,854)	--	93,991	123,260	5,653	128,913
Balance as at 31 October 2018	49,657	19,771	(35,757)	(4,729)	71,017	(16,198)	156,569	93,991	334,321	1,556	335,877
Balance as at 1 February 2019	49,657	19,771	(35,757)	(4,460)	63,935	(7,458)	156,569	91,517	333,774	3,394	337,168
Transfers	--	--	--	--	--	--	91,517	(91,517)	--	--	--
Total comprehensive income	--	--	--	(51)	17,098	6,353	--	86,448	109,848	8,968	118,816
Balance as at 31 October 2019	49,657	19,771	(35,757)	(4,511)	81,033	(1,105)	248,086	86,448	443,622	12,362	455,984

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

Mavi Giyim Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries
Condensed Consolidated Interim Statement of Cash Flows
As at and for the Nine Months period ended 31 October 2019
(Amounts are expressed in thousands of Turkish Lira (“TL”), unless otherwise stated.)

		Unaudited	Unaudited
		1 February –	1 February –
Cash flow from operating activities	<i>Notes</i>	31 October 2019	31 October 2018
Net profit for the period		94,970	101,247
Depreciation and amortization expense	9,11	206,305	52,091
Interest income	18	(5,562)	(4,001)
Finance cost		181,151	78,954
Provision for unused vacation	12	2,420	1,194
Provision for employee severance indemnity		6,400	3,490
Fair value change of derivatives	18,19	851	32,421
Impairment loss on receivables		103	(554)
Expected credit losses corrections	16	(16)	(277)
Inventory obsolescence, reversals		10,089	2,177
Loss on disposal of property and equipment, net	17	749	559
Tax expense		27,698	29,548
Unrealized currency translation difference		3,179	(2,253)
		528,337	294,596
Changes in:			
Change in trade receivables		(90,817)	(107,607)
Change in inventory		(67,632)	(119,640)
Change in prepaid expenses		(11,778)	(13,102)
Change in other receivables		3,551	10,238
Change in other current and non-current assets		(4,961)	(12,279)
Change in employee benefits liabilities		(3,963)	12,605
Change in trade payables		58,122	167,197
Change in payables to related parties		48,671	(16,203)
Change in deferred revenue		7,565	1,857
Change in other payables		1,822	1,009
Change in short term and long-term provisions		2,419	4,052
Change in other liabilities		(4,531)	644
Cash flows used in operating activities		466,805	223,367
Employee benefits paid		(6,288)	(3,542)
Income tax paid		(12,045)	(25,622)
Net cash from operating activities		448,472	194,203
Cash flows from investing activities			
Acquisition of tangible assets	9	(59,896)	(39,781)
Proceeds from sale of tangible assets	9,17	5	80
Acquisition of intangible assets	9	(13,869)	(3,221)
Acquisition of subsidiary, net of cash acquired		(11,088)	(14,507)
Interest received		5,526	3,988
Net cash flow used in investing activities		(79,322)	(53,441)
Proceeds from loans and borrowings		473,417	259,601
Repayment of loans and borrowings		(451,986)	(280,805)
Payments of contractual lease liabilities		(180,263)	--
Proceeds of settlement of derivatives		(866)	(2,442)
Other financial payments		(64,337)	(48,562)
Dividend paid		--	(25,925)
Interest paid		(67,444)	(26,389)
Net cash flow used in financing activities		(291,479)	(124,522)
Net change in cash and cash equivalent		77,671	16,240
Cash and cash equivalents at the beginning of the year	5	262,023	262,474
Cash and cash equivalents at the end of the period	5	339,694	278,714

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

Mavi Giyim Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
As at and for the nine months period ended 31 October 2019
(Amounts are expressed in thousands of Turkish Lira (“TL”), unless otherwise stated.)

Notes to the condensed consolidated interim financial statements

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Mavi Giyim Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the nine months period ended 31 October 2019

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

1 Reporting entity

Mavi Giyim Sanayi ve Ticaret A.Ş. (the “Company” or “Mavi Giyim”), established in 1991, engages in wholesale and retail sales of ready-to-wear denim apparel. The product range includes knit and woven shirts, t-shirts, sweaters, jackets, skirts, dresses, accessories and denim bottoms for men, women and children.

The Company’s registered office is Sultan Selim Mahallesi, Eski Büyükdere Caddesi, No. 53, 34418 Kağıthane İstanbul/Turkey.

Export sales operations was started in 1994. Mavi Giyim has offices and showrooms in Heusenstamm, Düsseldorf, Sindelfingen, Munich, Hamburg, Berlin, Zurich, Salzburg, Prague, Brussels, Almere, Moscow, New York, New Jersey, Los Angeles, Atlanta, Dallas, Vancouver, Toronto and Montreal.

Shares of the Company has been traded at Borsa İstanbul (“BIST”) since 15 June 2017. As of 31 October 2019, the Company's main shareholders are Blue International Holding B.V., which owns 0.22% of the Company's share capital, and Fatma Elif Akarlılar, Hayriye Fethiye Akarlılar and Seyhan Akarlılar, each of whom own 9.062% of the Company's share capital (31 January 2019: Blue International Holding B.V., which owns 0.22% of the Company's share capital, and Fatma Elif Akarlılar, Hayriye Fethiye Akarlılar and Seyhan Akarlılar, each of whom own 9.062% of the Company's share capital). Blue International Holding B.V. is controlled by Fatma Elif Akarlılar, Hayriye Fethiye Akarlılar and Seyhan Akarlılar.

The condensed consolidated interim financial statements as at 31 October 2019 include financial position and the results of Mavi Giyim, Mavi Europe AG (“Mavi Europe”), Mavi Nederland BV (“Mavi Nederland”) and Mavi LLC (“Mavi Russia”), Eflatun Giyim Yatırım Ticaret Anonim Şirketi (“Eflatun Giyim”), Mavi Jeans Incorporated (“Mavi Canada”), Mavi Jeans Incorporated (“Mavi United States of America (“USA”). Mavi Giyim and its subsidiaries are referred here as the “Group” and individually “the Group entity” in this report.

The ownership interest of and voting power held by the Company as at and for the periods ended 31 October 2019 and 31 January 2019 are as follows:

Subsidiaries	Place of Incorporation	Principal Activities	Effective Shareholding %	
			31 October 2019	31 January 2019
Mavi Europe	Germany	Wholesale and retail sales of apparel	100.00	100.00
Mavi Nederland	Netherlands	Wholesale sales of apparel	100.00	100.00
Mavi Russia	Russia	Wholesale and retail sales of apparel	100.00	100.00
Eflatun Giyim	Turkey	Holding company	51.00	51.00
Mavi USA	USA	Wholesale and retail sales of apparel	51.00	51.00
Mavi Canada	Canada	Wholesale and retail sales of apparel	63.25	63.25
Mavi Kazakhstan ⁽¹⁾	Kazakhstan	Retail sales of apparel	100.00	100.00

⁽¹⁾ Mavi Kazakhstan is in the liquidation process and does no longer proceed any operations as of 31 October 2015. Mavi Kazakhstan financials have not been consolidated since its operations insignificant in terms of condensed consolidated interim financial statements, as of 31 October 2019.

As of 31 October 2019, Group’s total number of employees is 4,135 (31 January 2019: 3,911).

Mavi Giyim Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
As at and for the nine months period ended 31 October 2019
(Amounts are expressed in thousands of Turkish Lira (“TL”), unless otherwise stated.)

2 Basis of presentation of financial statements

2.1 Basis of accounting

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Group’s last annual condensed consolidated interim financial statements as at and for the year ended 31 January 2019 (‘last annual financial statements’). They do not include all of the information required to be a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant for an understanding of changes in the Group’s financial position and performance since the last annual financial statements.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on 2 December 2019. General Assembly has the authority to modify the condensed consolidated interim financial statements.

(b) Basis of measurement

A number of the Group’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The condensed consolidated interim financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value. The methods used to measure fair values are discussed further in Note 2.1 (e).

(c) Functional and presentation currency

The Company maintains its books of account and prepares its statutory financial statements in Turkish Lira (“TL”) which is the Company’s functional currency. The foreign subsidiaries maintain their books of account in accordance with the laws and regulations in force in the countries in which they are registered.

These accompanying condensed consolidated interim financial statements are presented in thousands of TL which is the Company’s functional currency except when the otherwise indicated. All other currencies are indicated in full unless otherwise indicated.

The table below summarizes functional currencies of the Group entities.

Company	Functional currency
Mavi Giyim	TL
Mavi Europe	Euro (“EUR”)
Mavi Nederland	Euro (“EUR”)
Mavi Russia	Rouble (“RUB”)
Mavi Kazakhstan	Kazakhstan Tenge (“KZT”)
Mavi USA	US Dollars (“USD”)
Mavi Canada	Canada Dollars (“CAD”)
Eflatun Giyim	TL

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2 Basis of presentation of financial statements (continued)

2.1 Basis of accounting (continued)

(d) Use of judgements and estimates

In preparing these condensed consolidated interim financial statements management has made judgements, estimates, and assumptions that affects the application of the Group’s accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The significant judgements made by the management in applying the Groups accounting policies and the key sources of estimation uncertainty were the same as those applied to the condensed consolidated interim financial statements as at and for the year ended 31 January 2019.

(e) Measurement of fair values

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

(i) Trade and other receivables

Short term trade and other receivables are measured at the original invoice amount since the promised amount of consideration for the effects of a significant financing component is not material and the period between the entity transfers a promised good or service to a customer and the customer pays for that good or service is less than one year. This fair value is determined at the initial recognition and the end of each reporting period for disclosure purposes.

(ii) Derivative financial liabilities

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

(iii) Other non-derivative financial liabilities

Fair value of other non-derivative financial liabilities is determined during the initial recognition and for disclosure purposes at the end of each period. Fair values are calculated as reduction of present values of prospective principal and interest cash flows with market interest rate at the measurement date. Fair values of current non-derivative financial liabilities are accepted same as their carrying values.

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2 Basis of presentation of financial statements (continued)

2.1 Basis of accounting (continued)

(e) Measurement of fair values (continued)

(iv) Property, plant and equipment

The fair value of property and equipment recognized as a result of a business combination is the estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

(v) Intangible assets

The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets. The fair value of customer relationships acquired in a business combination are determined according to the excess earnings methods and replacement cost approach.

2.2 Standards issued but not yet effective and not early adopted

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

The revised Conceptual Framework

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018 the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of ‘material’ and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The amended “definition of material” was added to the important definition and it was stated that this expression could lead to similar results by not giving and giving misstating information. In addition, with this amendment, the terminology used in its definition of material has been aligned with the terminology used in the Conceptual Framework for Financial Reporting (Version 2018). Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted.

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

Mavi Giyim Sanayi ve Ticaret Anonim Şirketi and Its Subsidiaries
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(Amounts are expressed in thousands of Turkish Lira (“TL”), unless otherwise stated.)

2 Basis of presentation of financial statements (continued)

2.2 Standards issued but not yet effective and not early adopted (continued)

Amendments to IFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. The IASB has issued amendments to IFRS 3 Business Combinations to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. With this amendments confirmed that a business must include inputs and a process, and clarified that the process shall be substantive and the inputs and process must together significantly contribute to creating outputs. It narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a concentration test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

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

2.3 Significant accounting policies

Except as described below (IFRS 16), the accounting policies applied in these interim financial statements are the same as those applied in the Group’s condensed consolidated financial statements as at and for the year ended 31 January 2019.

The financial statements in the condensed consolidated interim financial statements for the nine-months period ended on 31 October 2019 must be evaluated together with the financial statements in the condensed consolidated financial statements for the year ended 31 January 2019.

IFRS 16 Leases

The Group has initially adopted IFRS 16-Leases from 1 February 2019. At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at initial recognition date.

Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The effects of IFRS 16 lease standard on the Group’s financial statements are presented below:

	31 October		After IFRS 16
	2019	IFRS 16 Effect	Effect
Current Assets	1,210,932	(1,788)	1,209,144
Non Current Assets	395,624	395,309	790,933
Current Liabilities	1,005,436	187,429	1,192,865
Non Current Liabilities	124,887	226,341	351,228
Equity	476,233	(20,249)	455,984

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2 Basis of presentation of financial statements (continued)

2.3 Significant accounting policies(continued)

IFRS 16 Leases (continued)

	1 February –31 October 2019	IFRS 16 Effect	After IFRS 16 Effect
Operating profit	274,086	28,600	302,686
Operating profit before financial income	273,337	28,600	301,937
Financial expense	(124,649)	(54,620)	(179,269)
Profit before tax	148,688	(26,020)	122,668
Net income	115,199	(20,230)	94,969

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 February 2019. Accordingly, the comparative information presented for 2018 has not been restated, under IAS 17 and related interpretations.

Practical expedient

- The Group has applied a single discount rate to a reasonably similar portfolio of lease contracts,
- The Group rely on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review.
- The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options
- The Group rely on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review.
- Office equipment which have insignificant contract value are not included under the scope of IFRS 16.
- Initial direct costs incurred as at 1 February 2019 are not associated with the right of use assets.

Leases

The Group has not recognised a right of use asset and liability for lease contracts where rent amount is solely dependent on a performance obligation. In case such contracts include a minimum guaranteed rent payment along with a sales performance obligation, the Group has recognized a right of use asset and liability based on minimum guaranteed rent amount.

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2 Basis of presentation of financial statements (continued)

2.3 Significant accounting policies(continued)

IFRS 16 Leases (continued)

Right of use assets

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

The right of use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group’s accounting policies.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, changes in the assessment of whether an extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

3 Seasonality of operations

The condensed consolidated interim financial statements of the Group also comprise the effects of seasonality. Therefore, the nine months operating results for the period ended 31 October 2019 are not indicative of the results for the financial year.

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4 Operating segments

	1 February- 31 October 2019			1 August - 31 October 2019			1 February- 31 October 2018			1 August - 31 October 2018		
	Reportable segment			Reportable segment			Reportable segment			Reportable segment		
	Turkey	International	Total	Turkey	International	Total	Turkey	International	Total	Turkey	International	Total
Segment revenue ⁽¹⁾	1,772,866	375,388	2,148,254	677,782	130,352	808,134	1,447,653	330,061	1,777,714	572,326	142,912	715,238
-Retail	1,353,336	45,942	1,399,278	513,221	15,245	528,466	1,094,107	47,873	1,141,980	415,536	18,177	433,713
-Wholesale	371,661	287,868	659,529	145,364	99,446	244,810	328,982	261,305	590,287	147,258	114,610	261,868
-E-commerce	47,869	41,578	89,447	19,197	15,661	34,858	24,564	20,883	45,447	9,532	10,125	19,657
Segment profit before tax	109,157	13,511	122,668	71,548	10,290	81,838	110,264	20,531	130,795	40,489	22,447	62,936

	31 October 2019			31 January 2019		
	Reportable segment			Reportable segment		
	Turkey	International	Total	Turkey	International	Total
Total segment assets	1,662,261	337,816	2,000,077	1,100,349	243,561	1,343,910
Total segment liabilities	1,297,781	246,312	1,544,093	821,701	185,041	1,006,742

The Group has 2 strategic operating segments based on the geographical areas where revenues are generated. These divisions are managed separately because they require different trading and marketing strategies. International segment comprises Europe, USA, Canada, Russia and rest of the world.

⁽¹⁾ Segment revenue comprised of third party sales after elimination between consolidated entities.

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5 Cash and cash equivalents

As at 31 October 2019 and 31 January 2019, cash and cash equivalents comprises the following:

	31 October 2019	31 January 2019
Cash on hand	2,898	1,885
Cash at banks	161,557	129,636
<i>Demand deposits</i>	31,056	21,831
<i>Time deposits</i>	130,501	107,805
Other cash and cash equivalents	180,453	135,050
Cash and cash equivalents	344,908	266,571
Bank overdrafts	(5,214)	(4,548)
Cash and cash equivalents in the statement of consolidated cash flows	339,694	262,023

As at 31 October 2019 and 31 January 2019, other cash and cash equivalents consist of credit card receivables with maturities less than 3 months.

As at 31 October 2019 and 31 January 2019, the details of time deposits based on maturity dates and interest rates of the Group are as below:

	Maturity	Interest rate	31 October 2019
TL	1 November 2019	13.00%	121,060
USD	1 November 2019	2.20%	5,105
EUR	1 November 2019	0.10%	4,336
			130,501

	Maturity	Interest rate	31 January 2019
USD	1 February 2019	3.35%	70,938
EUR	1 February 2019	0.75%	36,867
			107,805

As at 31 October 2019 and 31 January 2019, there is no restriction or blockage on cash and cash equivalents. The Group’s exposure to foreign currency risk and sensitivity analyses are disclosed in Note 23.

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6 Loans and borrowings

As at 31 October 2019 and 31 January 2019, financial borrowings comprise the following:

	31 October 2019	31 January 2019
<u>Current liabilities</u>		
Unsecured bank loans	105,417	75,194
Current portion of unsecured bank loans	172,783	204,317
Bank overdraft (Note 5)	5,214	4,548
	283,414	284,059
<u>Non-current liabilities</u>		
Unsecured bank loans	109,520	91,985
	109,520	91,985

As at 31 October 2019 and 31 January 2019, loan and borrowings comprised the following:

	31 October 2019	31 January 2019
Bank loans	392,934	376,044
	392,934	376,044

As at 31 October 2019 and 31 January 2019, the repayments of loan agreements according to the original maturities comprised the following:

	31 October 2019	31 January 2019
Less than one year	283,414	284,059
One to two years	107,106	79,869
Two to three years	2,414	11,877
Three to four years	--	239
	392,934	376,044

As at 31 October 2019 and 31 January 2019, maturities and conditions of outstanding loans comprised the following:

31 October 2019					
	Currency	Nominal interest rate%	Maturity	Face value	Carrying amount
Unsecured bank loans	EUR	0.00%-4.10%	2019-2020	67,993	68,722
Unsecured bank loans	TL	0.00%-23.56%	2019-2022	258,876	259,996
Unsecured bank loans	USD	4.05%-5.07%	2019-2022	32,674	32,905
Unsecured bank loans	RUB	12.95%-13.94%	2020-2021	18,764	19,019
Unsecured bank loans	CAD	3.95%	2019	12,292	12,292
				390,599	392,934

31 January 2019					
	Currency	Nominal interest rate%	Maturity	Face value	Carrying amount
Unsecured bank loans	EUR	0.00%-3.50%	2019	46,995	47,321
Unsecured bank loans	TL	0.00%-37.75%	2019-2022	253,085	259,939
Unsecured bank loans	USD	4.05%-6.80%	2019-2022	30,950	31,235
Unsecured bank loans	RUB	12.95%	2020	29,411	29,777
Unsecured bank loans	CAD	3.70%	2019	7,772	7,772
				368,213	376,044

The Group’s exposure to foreign currency and sensitivity analyses for financial liabilities are disclosed in Note 23.

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7 Related party

Related parties in condensed consolidated interim financial statements are determined as key management personnel, board of directors, family members, subsidiaries controlled by the Company. Several related party transactions are carried out during ordinary course of the business.

As of 31 October 2019, the members of the Akarlılar Family (Fatma Elif Akarlılar, Hayriye Fethiye Akarlılar and Seyhan Akarlılar) are the controlling shareholders of the Group with a total ownership interest of 27.41% where 27.19% is the direct ownership interest and 0.22% is the indirect ownership interest through Blue International Holding B.V.

(a) Related party balances

As at 31 October 2019 and 31 January 2019, short term prepayments give to related parties comprised the following:

	31 October 2019	31 January 2019
Erak Giyim Sanayi Tic. A.Ş. (“Erak”) ⁽¹⁾	19,426	20,949
	19,426	20,949

(1) Advances given to Erak is related to fabric purchases and are tracked in prepayments.

	31 October 2019	31 January 2019
Due to related parties		
Erak ⁽¹⁾	181,690	149,035
Akay Lelmalabis Elgazhizah LLC (“Akay”) ⁽²⁾	22,050	6,070
	203,740	155,105

(1) Amounts due to Erak, a company controlled by immediate family members of the shareholder of the parent company, are for purchases of inventory. Amounts are without guarantee and non-interest bearing. Purchases from Erak have 90 days repayment date.

(2) Amount comprise of inventory purchases to subsidiary Akay situated in Egypt. Amounts are without guarantee and non-interest bearing Purchases from Akay have 90 days repayment date.

	31 October 2019	31 January 2019
Other payables to related parties		
Eflatun Giyim shareholders ⁽¹⁾	116	10,330
Short term other payables to related parties	116	10,330

(1) Payables to Eflatun Giyim shareholders mainly comprised of USD 1,942 thousand payables due to the acquisition of Eflatun Giyim. Amounts are without guarantee and non-interest bearing. The related amount has been paid as of 31 October 2019.

	31 October 2019	31 January 2019
Short term contractual lease liabilities to related parties		
Sylvia House Inc.	550	--
Mavi Jeans Holding Inc.	936	--
	1,486	--

	31 October 2019	31 January 2019
Long term contractual lease liabilities to related parties		
Sylvia House Inc.	1,324	--
Mavi Jeans Holding Inc.	2,149	--
	3,473	--

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7 Related party (continued)

(b) Related party transactions

For the nine months period ended 31 October 2019 and 2018, purchases from related parties of the Group comprised the following:

	1 February – 31 October 2019	1 August – 31 October 2019	1 February – 31 October 2018	1 August – 31 October 2018
Purchase from related parties				
Erak	366,130	99,953	275,654	85,600
Akay	58,904	16,687	74,255	35,941
	425,034	116,640	349,909	121,541

For the nine months period ended 31 October 2019 and 2018, the services from related parties of the Group comprised the following:

	1 February – 31 October 2019	1 August – 31 October 2019	1 February – 31 October 2018	1 August – 31 October 2018
Services from related parties				
Erak ⁽¹⁾	1,064	287	1,017	249
CM Objekt Heusenstamm	--	--	722	307
Sylvia House Inc. ⁽³⁾	539	187	500	177
Mavi Jeans Holding Inc. ⁽²⁾	689	232	547	251
	2,292	706	2,786	984

(1) The Group rented Çerkezköy and Bayrampaşa retail stores from Erak.

(2) Mavi Canada rented its Office and warehouse from Mavi Jeans Holding Inc.

(3) Mavi Canada rented its office in Yeltown, Vancouver from Sylvia House Inc.

(c) Information regarding benefits provided to the Group’s key management

For the nine months period ended 31 October 2019, short term benefits provided to senior management and board of directors amounted to TL 38,855 (31 October 2018: TL 33,003).

For the nine months period ended 31 October 2019, the Group does not have any payables to any board of director or key management personnel of the Group.

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8 Trade receivables and payables

Short term trade receivables

As at 31 October 2019 and 31 January 2019, short term trade receivables are as follows:

	<u>31 October 2019</u>	<u>31 January 2019</u>
Trade receivables from third parties	258,411	168,593
	258,411	168,593

As at 31 October 2019 and 31 January 2019, short term trade receivables from third parties are as follows:

	<u>31 October 2019</u>	<u>31 January 2019</u>
Trade receivables	220,809	137,955
Post-dated cheques	13,516	10,736
Endorsed cheques	3,059	3,082
Notes receivables	22,252	18,007
Expected credit losses (-)	(1,225)	(1,187)
Doubtful receivables	17,533	16,578
Allowance for doubtful receivables (-)	(17,533)	(16,578)
	258,411	168,593

Details related to Group’s exposure to foreign currency risk and sensitivity analysis for short term trade receivables is disclosed in Note 23.

Short term trade payables

As at 31 October 2019 and 31 January 2019, short term trade payables of the Group are as follows:

	<u>31 October 2019</u>	<u>31 January 2019</u>
Trade payables to third parties	413,301	355,179
Trade payables to related parties	203,740	155,105
	617,041	510,284

Trade payables mainly consist of unpaid amounts of trade purchases and ongoing expenditures.

Details related to Group’s exposure to foreign currency risk and sensitivity analysis for short term trade payables is disclosed in Note 23.

As at 31 October 2019 and 31 January 2019, short term trade payables due to third parties are as follows:

	<u>31 October 2019</u>	<u>31 January 2019</u>
Trade payables to third parties ⁽¹⁾	406,207	346,196
Expense accruals	7,094	8,983
	413,301	355,179

(1) Trade payables to third parties comprise import factoring payables amounting TL 90,066 (31 January 2019: TL 51,239). The Company performs import factoring for the good purchases from abroad. Within the scope of import factoring, foreign suppliers transfer their receivables from the Company to the financial institutions where the Company works with confirmation of assignment.

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9 Property and equipment and intangible assets

The amount of tangible and intangible assets purchased during the nine months period ended 31 October 2019 is TL 73,765 (31 October 2018: TL 43,002).

Net book value of tangible and intangible assets sold during the nine months period ended 31 October 2019 amounted to TL 754 (31 October 2018: TL 639).

The depreciation charge for the nine months period ended 31 October 2019 is TL 54,641 (31 October 2018: TL 52,091). The depreciation charge of TL 548 for the nine months period ended 31 October 2019 is capitalized in accordance with incentive program. (31 October 2018: none).

10 Goodwill

As at 31 October 2019, and 31 January 2019, the carrying amount of goodwill allocated to each cash generating unit is as follows;

	31 October 2019	31 January 2019
Mavi USA	131,681	121,163
Mavi Canada	13,181	11,982
Other	3,733	3,733
	148,595	136,878

As of 31 October 2019, the increase in goodwill is related to foreign currency translation differences on goodwill recognized at foreign subsidiaries.

11 Right of use assets

	Buildings	Store	Vehicles	Warehouse	Total
Cost					
1 February 2019 balance	23,602	436,517	6,163	3,580	469,862
Additions	27,942	43,596	95	297	71,930
Disposals	--	(3,108)	--	--	(3,108)
Effect of movements in exchange rates	1,993	3,575	188	311	6,067
Closing balance as of 31 October 2019	53,537	480,580	6,446	4,188	544,751

	Buildings	Store	Vehicles	Warehouse	Total
Accumulated depreciation					
Charge for the year	9,657	137,358	3,277	1,372	151,664
Disposals	--	(2,050)	--	--	(2,050)
Effect of movements in exchange rates	61	171	8	20	260
Closing balance as of 31 October 2019	9,718	135,479	3,285	1,392	149,874

Carrying value as of 31 October 2019	43,819	345,101	3,161	2,796	394,877
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12 Provisions, contingent assets and liabilities

Short term provisions

As at 31 October 2019 and 31 January 2019, short term provisions are as follows:

	31 October 2019	31 January 2019
Provision for employee benefits	4,444	2,679
Other short term provisions	12,774	10,355
	17,218	13,034

Short term provision for employee benefits consists of provision for vacation pay liability. For the periods ended 31 October, the movement of provision for vacation liability is as follows:

	2019	2018
1 February balance	2,679	2,359
Effect of movements in exchange rates	150	312
Payments	(805)	(837)
Current period provision	2,420	1,194
31 October balance	4,444	3,028

Short term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term vacation pay liability if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

In accordance with the existing labour law in Turkey, the Company is required to pay to the employee, whose employment is terminated due to any reasons, the wage of the deserved and unused vacation days over the gross prevailing wage and other benefits subject to contract at the date the contract is terminated. Vacation pay liability is the total undiscounted liability of the deserved and unused vacation days of all employees. Vacation pay liability is calculated by remaining number of unused vacation days and average daily salary.

As at 31 October 2019 and 31 January 2019, details of other short-term provisions are as follows:

	31 October 2019	31 January 2019
Return provision	5,640	5,014
Legal provision ⁽¹⁾	2,973	1,863
Other provisions	4,161	3,478
	12,774	10,355

⁽¹⁾ Legal provision mainly comprised of labour lawsuits.

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12 Provisions, contingent assets and liabilities (continued)

Short term provisions (continued)

For the nine months ended 31 October 2019 and 2018, the movement of short-term provision is as follows:

	Legal provision	Return provisions	Other provisions	Total
1 February 2019 balance	1,863	5,014	3,478	10,355
Current year provision	1,110	895	197	2,202
Effect of movements in exchange rates	--	242	376	618
Provisions used during year	--	--	--	--
Provisions cancelled during year	--	(511)	110	(401)
31 October 2019 balance	2,973	5,640	4,161	12,774

	Legal provision	Return provisions	Other provisions	Total
1 February 2018 balance	1,585	4,728	1,095	7,408
Current year provision	129	1,165	3,682	4,976
Effect of movements in exchange rates	--	932	271	1,203
Provisions used during year	--	(322)	(403)	(725)
Provisions cancelled during year	--	(443)	(959)	(1,402)
31 October 2018 balance	1,714	6,060	3,686	11,460

Long term provisions

As at 31 October 2019, long term provisions consist of severance pay liabilities in amount of TL 6,099 (31 January 2019: TL 5,018).

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13 Commitments

(a) Warranties, pledges and mortgages

As of 31 October 2019 and 31 January 2019, the Group's guarantee / pledge / mortgage ("GPM") position statement is as follows:

	31 October 2019				
	TL Equivalent	TL	EUR	RUB	USD
A. On behalf of its own legal personality of the total amount of GPMs	128,518	29,617	13,240	--	2,522
Guarantee	128,518	29,617	13,240	--	2,522
Pledge	--	--	--	--	--
Mortgage	--	--	--	--	--
B. Total amount of GPM included in the scope of consolidation given on behalf of subsidiaries	3,234	--	246	18,635	--
Guarantee	3,234	--	246	18,635	--
Pledge	--	--	--	--	--
Mortgage	--	--	--	--	--
C. Total amount of GPM given to conduct other 3rd parties to guarantee the depts.	--	--	--	--	--
Guarantee	--	--	--	--	--
Pledge	--	--	--	--	--
Mortgage	--	--	--	--	--
D. Total amount of other GPM	--	--	--	--	--
i. Total amount of GPM given on behalf of the main partners	--	--	--	--	--
Guarantee	--	--	--	--	--
Pledge	--	--	--	--	--
Mortgage	--	--	--	--	--
ii. Total amount of GPM given on behalf of other group companies which are not in the scope of B and C section	--	--	--	--	--
Guarantee	--	--	--	--	--
Pledge	--	--	--	--	--
Mortgage	--	--	--	--	--
iii. Total amount of GPM given on behalf of other group companies which are not in the scope of C section	--	--	--	--	--
Guarantee	--	--	--	--	--
Pledge	--	--	--	--	--
Mortgage	--	--	--	--	--
Total GPM	131,752	29,617	13,486	18,635	2,522

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13 Commitments (continued)

(a) Warranties, pledges and mortgages (continued)

	31 January 2019				
	TL Equivalent	TL	EUR	RUB	USD
A. On behalf of its own legal personality of the total amount of GPMs	76,726	17,670	6,916	--	3,282
Guarantee	76,726	17,670	6,916	--	3,282
Pledge	--	--	--	--	--
Mortgage	--	--	--	--	--
B. Total amount of GPM included in the scope of consolidation given on behalf of subsidiaries	2,974	--	261	17,578	--
Guarantee	2,974	--	261	17,578	--
Pledge	--	--	--	--	--
Mortgage	--	--	--	--	--
C. Total amount of GPM given to conduct other 3rd parties to guarantee the depts.	--	--	--	--	--
Guarantee	--	--	--	--	--
Pledge	--	--	--	--	--
Mortgage	--	--	--	--	--
D. Total amount of other GPM	--	--	--	--	--
i. Total amount of GPM given on behalf of the main partners	--	--	--	--	--
Guarantee	--	--	--	--	--
Pledge	--	--	--	--	--
Mortgage	--	--	--	--	--
ii. Total amount of GPM given on behalf of other group companies which are not in the scope of B and C section	--	--	--	--	--
Guarantee	--	--	--	--	--
Pledge	--	--	--	--	--
Mortgage	--	--	--	--	--
iii. Total amount of GPM given on behalf of other group companies which are not in the scope of C section	--	--	--	--	--
Guarantee	--	--	--	--	--
Pledge	--	--	--	--	--
Mortgage	--	--	--	--	--
Total GPM	79,700	17,670	7,177	17,578	3,282

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13 Commitments (continued)

(a) Warranties, pledges and mortgages (continued)

As of 31 October 2019, ratio of other GPM given by the Group to equity was 0% (31 January 2019: 0%).

As of 31 October 2019, letter of guarantees given to third parties for an amount of TL 59,102 are representing guarantee letters obtained as part of general loan agreements and given to Eximbank for the purpose of importing goods (31 January 2019: TL 15,343).

The Group has purchase commitments related to inventory amounting to TL 552,838 as of 31 October 2019 (31 January 2019: TL 576,921).

(b) Guarantees received

As of 31 October 2019, Group has received letter of guarantees for the amount of TL 10,522 as in the form of security (31 January 2019: TL 7,502).

14 Capital, reserves and other capital reserves

Paid-in capital

As of 31 October 2019 and 31 January 2019, paid capital is as follows:

	%	31 October 2019	%	31 January 2019
Akarlılar Family	27.19	13,500	27.19	13,500
Blue International	0.22	108	0.22	108
Publicly held	72.60	36,049	72.60	36,049
	100.00	49,657	100.00	49,657

As of 31 October 2019 paid-in capital of the Company comprises 49,657,000 shares issued of TL 1 each (31 January 2019: 49,657,000 shares).

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the Company’s share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Company’s share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. As at 31 October 2019, the Company’s legal reserves are amounting to TL 19,771 (31 January 2019: TL 19,771).

Hedging reserve

The hedging reserve consists of the effective portion of the cumulative net change in fair value of the hedged item until the hedging instrument is subsequently accounted for.

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15 Selling, marketing and distribution expenses

For the nine months periods ended 31 October 2019 and 2018, selling, marketing and distribution expenses comprised the following:

	1 February – 31 October 2019	1 August – 31 October 2019	1 February – 31 October 2018	1 August – 31 October 2018
Rent expenses	73,788	28,934	215,435	79,812
Personnel expenses	213,344	75,048	187,032	67,824
Depreciation and amortization expenses	183,932	61,873	40,213	12,775
Other	162,001	57,117	121,605	45,339
	633,065	222,972	564,285	205,750

16 Other income and expense

For the nine months periods ended 31 October 2019 and 2018, other income comprised the following:

	1 February – 31 October 2019	1 August – 31 October 2019	1 February – 31 October 2018	1 August – 31 October 2018
Foreign exchange gain, net	1,567	1,222	9	(17)
Interest income on trade receivables and payables, net	--	(148)	7,192	3,173
Salary protocol income	520	253	400	133
Income from expired gift cards	--	--	667	667
Decoration income	3,664	3,664	--	--
Reversal of expected credit loss	214	50	277	57
Damage compensation income ⁽¹⁾	70	--	160	35
Other	338	252	401	129
	6,373	5,293	9,106	4,177

⁽¹⁾ Income from insurance claims.

For the nine months periods ended 31 October 2019 and 2018, other expenses comprised the following:

	1 February – 31 October 2019	1 August – 31 October 2019	1 February – 31 October 2018	1 August – 31 October 2018
Foreign exchange loss, net	868	178	8,679	5,624
Expected credit loss	198	(67)	--	--
Interest expenses on trade receivables and payables, net	2,642	2,642	--	--
Decoration expense	73	--	--	--
Other	295	223	381	97
	4,076	2,976	9,060	5,721

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17 Gains and losses from investment activities

For the nine months periods ended 31 October 2019 and 2018, losses from investment activities comprised the following:

	1 February – 31 October 2019	1 August – 31 October 2019	1 February – 31 October 2018	1 August – 31 October 2018
Losses on sale of fixed assets	749	570	559	(18)
	749	570	559	(18)

18 Finance income

For the nine months periods ended 31 October 2019 and 2018, finance income comprised the following:

	1 February – 31 October 2019	1 August – 31 October 2019	1 February – 31 October 2018	1 August – 31 October 2018
Interest income on:				
Time deposits	5,562	2,157	4,001	3,613
	5,562	2,157	4,001	3,613
Change in fair value of forward contracts	--	--	286	(104)
Foreign exchange gain	2,540	538	--	--
Other	6	5	--	--
	8,108	2,700	4,287	3,509

19 Finance costs

For the nine months periods ended 31 October 2019 and 2018, finance costs comprised the following:

	1 February – 31 October 2019	1 August – 31 October 2019	1 February – 31 October 2018	1 August – 31 October 2018
Interest expense on:				
Interest expenses on purchases	45,740	11,565	36,742	15,850
Financial liabilities measured at amortised cost	61,949	18,507	30,392	14,064
Interest expenses on contractual lease liabilities	54,865	17,703	--	--
	162,554	47,775	67,134	29,914
Credit card commission expenses	7,168	2,682	4,732	1,732
Import financing expenses	9,949	6,122	5,899	2,923
Foreign exchange loss	5,375	5,374	12,602	1,753
Change in fair value of forward contracts	851	(24)	32,707	32,655
Other	1,480	539	1,189	514
	187,377	62,468	124,263	69,491

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20 Income taxes

Corporate tax rate of Turkey is 22% (31 October 2018 :22%). For the nine months period ended 31 October 2019, Group’s effective tax rate is 23% (31 October 2018 :23%).

21 Earnings per share

The amount of earnings per share is calculated by dividing the net period profit attributable to the owners of the Company shares by the weighted average share of the company's shares during the period. The calculation of earnings per share for the periods ended 31 October 2019 and 2018 is as follows:

	1 February – 31 October 2019	1 August – 31 October 2019	1 February – 31 October 2018	1 August – 31 October 2018
Net profit for the year attributable to owners of the Company	86,448	58,758	93,991	42,833
Weighted average number of ordinary shares (basic)	49,657,000	49,657,000	49,657,000	49,657,000
Earnings per share	1.7409	1.1833	1.8928	0.8626

22 Derivatives

As at 31 October 2019 and 31 January 2019, short term derivative liabilities are as follows:

	31 October 2019	31 January 2019
Liabilities from the forward exchange contracts	(1,416)	(9,562)
Other forward exchange contracts	--	(15)
	(1,416)	(9,577)

As of 31 October 2019, the Group has open forward exchange contracts to hedge the foreign currency risk on inventory purchases in amount of USD 10,956 thousand in equivalent of TL 62,848. By applying hedge accounting, the fair value difference of TL 1,416, resulting from such forward transactions, is recognized in other comprehensive income.

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23 Nature and level of risks related to financial instruments

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

The Group has exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The main currencies used in these transactions are Euro and USD.

The Group uses derivative financial instruments such as short-term forward foreign exchange contracts to hedge currency risk.

Currency of loans are mainly denominated in TL with match the cash flows generated from operations of the Group. In such way, Group protects itself from financial risks without using derivative instruments.

Interest rate risk

The Group is not exposed to risk of interest rate fluctuations since the total amount of floating interest rate loans and borrowings are insignificant.

Capital Management

The Board’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence; to sustain future development of the business and to maintain an optimal capital structure in order to reduce the cost of capital.

Currency Risk

The foreign currency exchange rates as at balance sheet date of the related periods are as follows:

	<u>31 October 2019</u>	<u>31 January 2019</u>
EUR / TL	6.3772	6.0339
USD / TL	5.7363	5.2781
RUB / TL	0.0894	0.0795
KZT / TL	0.0147	0.0137
CAD / TL	4.3789	3.9804

The foreign currency average exchange rates for the nine months period ended 31 October 2019 and 2018 are as follows:

	<u>1 February – 31 October 2019</u>	<u>1 February – 31 October 2018</u>
EUR / TL	6.3591	5.7477
USD / TL	5.6809	4.8704
RUB / TL	0.0873	0.0768
CAD / TL	4.2713	3.7510

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23 Nature and level of risks related to financial instruments (continued)

Market risk

Currency risk

As of 31 October 2019, the Group's foreign currency position specified in the following table arises from foreign currency denominated assets and liabilities.

	TL Equivalent	USD	EUR	Other
1. Trade receivables	10,531	1,471	--	2,093
2a. Monetary financial assets (including cash banks)	14,998	1,504	827	1,095
2b. Non-monetary financial assets	--	--	--	--
3. Other	2,863	468	27	--
4. Current assets (1+2+3)	28,392	3,443	854	3,188
5. Trade receivables	--	--	--	--
6a. Monetary financial assets	--	--	--	--
6b. Non-monetary financial assets	--	--	--	--
7. Other	--	--	--	--
8. Non-current assets (5+6+7)	--	--	--	--
9. Total assets (4+8)	28,392	3,443	854	3,188
10. Trade payables	4,433	399	293	278
11. Financial liabilities	29,521	504	4,176	--
12a. Monetary other liabilities	--	--	--	--
12b. Non-monetary other liabilities	--	--	--	--
13. Short term liabilities (10+11+12)	33,954	903	4,469	278
14. Trade payables	--	--	--	--
15. Financial liabilities	7,188	480	695	--
16a. Monetary other liabilities	--	--	--	--
16b. Non-monetary other liabilities	--	--	--	--
17. Long term liabilities (14+15+16)	7,188	480	695	--
18. Total liabilities (13+17)	41,142	1,383	5,164	278
19. Net Asset/(Liability) Position of derivative instruments (19a-19b)	(62,847)	(10,955)	--	--
19a. Hedged total asset	--	--	--	--
19b. Hedged total liabilities	62,847	10,955	--	--
20. Position of net foreign currency assets/liabilities (9-18+19)	(75,597)	(8,895)	(4,310)	2,910
21. Position of net foreign currency monetary assets/liabilities (=1+2a+5+6a-10-11-12a-14-15-16a)	(15,613)	1,592	(4,337)	2,910

As at 31 October 2019, Mavi Turkey has trade receivables amounting to TRY 36,263 from consolidated subsidiaries which comprise; EUR 2,890 thousand, USD 26 thousand, CAD 165 thousand and RUB 189,863 thousand. These amounts have been eliminated in consolidation. Considering these receivables, the Group's net foreign currency monetary assets position amounts to TL 20,650.

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23 Nature and level of risks related to financial instruments (continued)

Market risk (continued)

Currency risk (continued)

As of 31 January 2019 the Group's foreign currency position specified in the following table arises from foreign currency denominated assets and liabilities.

	TL Equivalent	USD	Euro	Other
1. Trade receivables	4,607	775	--	517
2a. Monetary financial assets (including cash. banks)	109,727	13,618	6,235	227
2b. Non-monetary financial assets	--	--	--	--
3. Other	1,889	349	8	--
4. Current assets (1+2+3)	116,223	14,742	6,243	744
5. Trade receivables	--	--	--	--
6a. Monetary financial assets	--	--	--	--
6b. Non-monetary financial assets	--	--	--	--
7. Other	--	--	--	--
8. Non-current assets (5+6+7)	--	--	--	--
9. Total assets (4+8)	116,223	14,742	6,243	744
10. Trade payables	(54,532)	(10,096)	(179)	(165)
11. Financial liabilities	(23,702)	(125)	(3,819)	--
12a. Monetary other liabilities	(10,250)	(1,942)	--	--
12b. Non-monetary other liabilities	--	--	--	--
13. Short term liabilities (10+11+12)	(88,484)	(12,163)	(3,998)	(165)
14. Trade payables	--	--	--	--
15. Financial liabilities	(2,365)	(448)	--	--
16a. Monetary other liabilities	--	--	--	--
16b. Non-monetary other liabilities	--	--	--	--
17. Long term liabilities (14+15+16)	(2,365)	(448)	--	--
18. Total liabilities (13+17)	(90,849)	(12,611)	(3,998)	(165)
19. Net Asset/(Liability) Position of derivative instruments (19a-19b)	(120,751)	(22,758)	(105)	--
19a. Hedged total asset	--	--	--	--
19b. Hedged total liabilities	120,751	22,758	105	--
20. Position of net foreign currency assets/liabilities (9+18-19)	146,125	24,889	2,350	579
21. Position of net foreign currency monetary assets/liabilities (=1+2a+5+6a-10-11-12a-14-15-16a)	23,485	1,782	2,237	579

As at 31 January 2019, Mavi Turkey has trade receivables amounting to TRY 20,426 from consolidated subsidiaries which comprise; EUR 1,945 thousand, USD 128 thousand, CAD 122 thousand and RUB 94,728 thousand. These amounts have been eliminated in consolidation. Considering these receivables, the Group's net foreign currency monetary assets position amounts to TL 43,911.

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23 Nature and level of risks related to financial instruments (continued)

Market risk (continued)

Currency risk (continued)

Sensitivity analysis

The Group's foreign exchange risk consists of movements of TL against Euro, US Dollar and Rouble and Australia Dollar.

The basis for performing sensitivity analysis to measure foreign exchange risk is to disclose total currency position of the Company. Total foreign currency position consists of all purchase/sales agreements in foreign currency and all assets and liabilities. Analysis does not include net foreign currency investments.

The Group's short term and long term borrowings are carried out in balance under pooling/portfolio model.

Foreign Currency Sensitivity Analysis				
31 October 2019				
	Profit/Loss		Equity	
	Appreciation of foreign currency	Devaluation of foreign currency	Appreciation of foreign currency	Devaluation of foreign currency
10% change of the USD against TL				
1- Net USD denominated asset/liability	913	(913)	913	(913)
2- Hedged portion of TL against USD risk(-)	--	--	6,285	(6,285)
3- Net effect of USD (1+2)	913	(913)	7,198	(7,198)
10% change of the EURO against TL				
4- Net EURO denominated asset/liability	(2,766)	2,766	(2,766)	2,766
5- Hedged portion of TL against EURO risk(-)	--	--	--	--
6- Net effect of EURO (4+5)	(2,766)	2,766	(2,766)	2,766
10% change of other against TL				
7- Net other denominated asset/liability	291	(291)	291	(291)
8- Hedged portion of TL against other risk(-)	--	--	--	--
9- Net effect of other (7+8)	291	(291)	291	(291)
Total (3+6+9)	(1,562)	1,562	4,723	(4,723)

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23 Nature and level of risks related to financial instruments (continued)

Market risk (continued)

Currency risk (continued)

Foreign Currency Sensitivity Analysis				
31 January 2019				
	Profit/Loss		Equity	
	Appreciation of foreign currency	Devaluation of foreign currency	Appreciation of foreign currency	Devaluation of foreign currency
10% change of the USD against TL				
1- Net USD denominated asset/liability	941	(941)	941	(941)
2- Hedged portion of TL against USD risk(-)	195	(195)	12,012	(12,012)
3- Net effect of USD (1+2)	1,136	(1,136)	12,953	(12,953)
10% change of the EURO against TL				
4- Net EURO denominated asset/liability	1,350	(1,350)	1,350	(1,350)
5- Hedged portion of TL against EURO risk(-)	--	--	63	(63)
6- Net effect of EURO (4+5)	1,350	(1,350)	1,413	(1,413)
10% change of other against TL				
7- Net other denominated asset/liability	58	(58)	58	(58)
8- Hedged portion of TL against other risk(-)	--	--	--	--
9- Net effect of other (7+8)	58	(58)	58	(58)
Total (3+6+9)	2,544	(2,544)	14,424	(14,424)

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24 Financial risk management

Fair values

The table below presents fair values and carrying amounts of financial assets and liabilities along with their amounts measured at fair value. If the carrying amount is an approximate assumption of the fair value, the table below does not include the fair value information of assets and liabilities not measured at fair value.

31 October 2019	Carrying amount			Fair value			
	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value							
Forward exchange contracts	--	--	--	--	--	--	--
Financial assets not measured at fair value							
Trade receivables from third parties	258,411	--	258,411	--	--	--	--
Other receivables to third parties ⁽¹⁾	12,794	--	12,794	--	--	--	--
Cash and cash equivalents	344,908	--	344,908	--	--	--	--
Total	616,113	--	616,113	--	--	--	--

	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value							
Forward exchange contracts	(1,416)	--	(1,416)	--	(1,416)	--	(1,416)
Financial liabilities not measured at fair value							
Other payables to related parties	--	(116)	(116)	--	--	--	--
Bank overdrafts	--	(5,214)	(5,214)	--	--	(5,214)	(5,214)
Bank loans	--	(387,720)	(387,720)	--	--	(387,720)	(387,720)
Trade payables to third parties	--	(413,301)	(413,301)	--	--	--	--
Other payables to third parties	--	(8,026)	(8,026)	--	--	--	--
Trade payables to related parties	--	(203,740)	(203,740)	--	--	--	--
Total	(1,416)	(1,018,117)	(1,019,533)	--	(1,416)	(392,934)	(394,350)

⁽¹⁾ Other receivables from third parties excludes deposits and guarantees given.

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24 Financial risk management (continued)

Fair values (continued)

	Carrying amount			Fair value			
	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 January 2019							
Financial assets measured at fair value							
Forward exchange contracts	--	--	--	--	--	--	--
Financial assets not measured at fair value							
Trade receivables from third parties	168,593	--	168,593	--	--	--	--
Other receivables to third parties ⁽¹⁾	17,059	--	17,059	--	--	--	--
Cash and cash equivalents	266,571	--	266,571	--	--	--	--
Total	452,223	--	452,223	--	--	--	--
Financial liabilities measured at fair value							
Forward exchange contracts	(9,577)	--	(9,577)	--	(9,577)	--	(9,577)
Financial liabilities not measured at fair value							
Other payables to related parties	--	(10,330)	(10,330)	--	--	--	--
Bank overdrafts	--	(4,548)	(4,548)	--	--	(4,548)	(4,548)
Bank loans	--	(371,496)	(371,496)	--	--	(371,496)	(371,496)
Trade payables to third parties	--	(355,179)	(355,179)	--	--	--	--
Other payables to third parties	--	(6,204)	(6,204)	--	--	--	--
Trade payables to related parties	--	(155,105)	(155,105)	--	--	--	--
Total	(9,577)	(902,862)	(912,439)	--	(9,577)	(376,044)	(385,621)

⁽¹⁾ Other receivables from third parties excludes deposits and guarantees given.

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24 Financial risk management (continued)

Fair value disclosures

The Group estimates the fair values of financial instruments based on market information readily available and proper valuation approaches. The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values for financial instruments measured at fair value in the statement of financial position, as well as the significant unobservable inputs used.

When measuring fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data.

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable	Intra-relationship between significant unobservable inputs and fair value measurement
Forward exchange contracts	Forward pricing: the fair value is determined using quoted forward Exchange rate and present value calculations based on high credit quality yield curves in the respective currencies.	Not applicable.	Not applicable.

Financial instruments not measured at fair value

Other financial liabilities ⁽¹⁾	Discounted cash flows: the valuation model considers the present value of expected payment, discounted using a risk-adjusted discounted rate.		
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⁽¹⁾ Other financial liabilities include bank loans.

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25 Ebitda reconciliation

EBITDA is not a defined performance measure in IFRS. EBITDA reconciliation for the nine month period ended 31 October 2019 and 2018 are as follows:

	Note	1 February – 31 October 2019	1 August – 31 October 2019	1 February – 31 October 2018	1 August – 31 October 2018
Profit		94,969	63,376	101,247	48,465
Income tax expense		27,699	18,462	29,548	14,471
Profit before tax		122,668	81,838	130,795	62,936
Adjustment for:					
-Net finance costs		179,269	59,768	119,976	65,982
-Receivables and payables, interest net	16	2,642	2,790	(7,192)	(3,173)
-Receivables and payables, foreign exchange net	16	(699)	(1,044)	8,670	5,641
-Depreciation and amortisation	9-11	206,305	69,915	52,091	17,187
EBITDA		510,185	213,267	304,340	148,573

26 Subsequent events

None.