

Türk Prysmian Kablo ve Sistemleri A.Ş.

The Annual Affiliation Report

2018

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1. DETAILS ABOUT THE PREPARATION AND APPROVAL OF THE ANNUAL AFFILIATION REPORT

1.1. Legal Basis of the Annual Affiliation Report

The Annual Affiliation Report for the Company's 2018 Fiscal Year has been prepared based on article 199 of the Turkish Commercial Code No 6102.

1.2. Principles of Preparation of the Annual Affiliation Report

The Board of Directors of the Company (subsidiary) issued this report to make disclosures about the controlling company and subsidiaries of the Company within the first three months of the current financial year as per article 199 of the Law. The report gives an explanation of all legal transactions carried out and all other measures taken or avoided by the Company during the 2017 fiscal year together with the controlling company, with a subsidiary of the controlling company, with the instruction of the controlling company in its interests or in the interests of any of its subsidiaries. The obligations, counter-obligations and measures taken in the legal transactions carried out are given together with the reason for measure and its pros and cons for the company. If the loss is offset, there is also information about how this actually happened during the current fiscal year or on which interests provided by the company it entitled the right for a claim.

(2) The Report has been prepared in line with the principles of fair and transparent accountability.

(3) The Board of Directors also stated, at the end of the report, whether an appropriate counter-obligation was provided in each legal transaction based on the conditions known to them at the time the Company made the legal transaction or took or avoided measures and whether or not the measure taken or avoided cause the company to lose money. If the Company lost money, the Board of Directors also stated whether or not losses have been offset.

1.3. Approval of the Annual Affiliation Report

The Annual Affiliation Report for the Company's 2018 Fiscal Year has been signed and approved by the Company's Chairman and Board members.

2. ISSUES COVERED IN THE ANNUAL AFFILIATION REPORT

2.1. The Relationship between the Controlling Company, Company and the Subsidiaries of the Controlling Company

Article 195 entitled "Group of Companies" of the Turkish Commercial Code No 6102 describes the Controlling Company and Subsidiary as follows:

1. a) If a commercial company holds, directly or indirectly,;
 - i. The majority of the voting rights of another commercial company or
 - ii. Has the right to secure the selection of sufficient members to form the majority in the Board of Directors pursuant to the Company's articles of association, or
 - iii. Possesses the majority of voting powers alone or together with other shareholders or partners in addition to its voting rights under a contract,
- b) If a commercial company controls another commercial company under a contract or by another means, the first company is the controlling company and the latter is the subsidiary. If at least one of these companies is headquartered in Turkey, then the provisions of this Law pertaining to Group of Companies shall apply.
2. Other than as provided hereinabove, a commercial company possessing the majority of the shareholding of another commercial company or shareholding sufficient to manage that company are proof of the controlling power of the first company.
3. A controlling company controlling another company through one or more subsidiaries is indirect controlling power.
4. Direct or indirect subsidiaries of the controlling company form the group of companies together with it. Controlling companies are parent companies, and controlled companies are subsidiaries.
5. If the controlling company of the group of companies is an enterprise which is nationally or internationally headquartered, then article 195 to 209 of the Law on "Group of Companies" and provisions about group of companies in the Law apply. The controlling shareholder means a real person or entity controlling a partnership directly or indirectly on its own or jointly. The focus point of the definition is the term "control". Control means directly or indirectly possessing the voting majority of an entity without the requirement to possess a minimum of fifty one percent of its share capital, or possessing the preferred stock although not possessing such majority or possessing the power to appoint or discharge the majority of the board members with voting power by means of having disposal rights on the majority of voting rights based on agreements with other shareholders or by any other means.

Under paragraph one of article 199 of the new Turkish Commercial Code No 6102, it is a legal obligation to issue an "affiliation report" within the first three months of the current financial year. The "affiliation report" that needs to be issued within this scope should basically contain the following information about the subsidiary;

- It relations with the controlling (parent) company,
- It relations with other subsidiaries,
- Legal transactions carried out by them with third parties in the interests of the company,
- Measures taken and avoided by the subsidiary in the interests of the controlling company and subsidiaries,

- The benefits obtained and losses suffered by the subsidiary due to its relations with other group companies.

2.2 TÜRK PRYSMIAN KABLO VE SİSTEMLERİ A.Ş. AT A GLANCE

Our Company started to carry out its operations under the title Türk Prysmian Kablo ve Sistemleri A.Ş. as a result of the international share transfer in 2005 after the ownership of the cable factory owned by Türk Siemens, which was found in 1964 in Mudanya , was transferred to Pirelli in 1999.

Our Company is a foreign capital company carrying out the “Manufacturing and Sale of Energy and Communication Cables”. Its line of business includes the manufacturing, import, export and trading of all sorts of cables, conductors, machinery, apparatus, tools and equipment as well as their spare parts and accessories.

The Prysmian Group, which our company is a subsidiary of, is an industry leader with over 20.000 personnel in 91 manufacturing facilities in more than 50 countries and an annual revenue of more than EUR8 billion.

Our Company continues its operations as an incorporated company with Draka Holding B.V. (83,75%) being the majority shareholder. 16,25% of publicly-traded Türk Prysmian are traded at the Istanbul Stock Exchange Inc.

2.3 Information about the Related Companies

2.3.1 Subsidiaries

Türk Prysmian - Prysmian Powerlink Adi Ortaklığı-1 (Partnership); one of the Company’s affiliates, was incorporated in 2013, further to the opinion provided by the Revenue Administration Department pertaining to taxation procedures of the Contract DB.KAB.7 Lapseki - Sutluce 380kV Submarine Cable Project. Ordinary partnership was established for the sole purpose of taxation of the project and 99.99% is owned by Türk Prysmian Kablo ve Sistemleri A.S. and 0.01% by Prysmian Powerlink S.r.l.

Türk Prysmian - Prysmian Powerlink Adi Ortaklığı-2 (Partnership); one of the Company’s affiliates, was incorporated in 2014, further to the opinion provided by the Revenue Administration Department pertaining to taxation procedures of the Contract DB.KAB.7 Lapseki - Sutluce-2 380kV Submarine Cable Project. Ordinary partnership was established for the sole purpose of taxation of the project and 99.99% is owned by Türk Prysmian Kablo ve Sistemleri A.S. and 0.01% by Prysmian Powerlink S.r.l.

2.3.2. Related Parties

Information on the related parties of our Company is given below.

Transactions with affiliates

Prysmian Cables and Systems OY/FINLAND
Prysmian Cables et Systemes France Prysmian
Cables y Sistemas S.A.
Prysmian Cavi e Sistemi S.r.l.
Draka Comteq Berlin GmbH & Co. KG
Prysmian Cavi e Sistemi Italia S.r.l. P.T.
Prysmian Cables Indonesia Prysmian S.p.A.
Prysmian Kabel und System GmbH
Prysmian Cables & Systems Ltd.
Fibre Ottiche Sud - F.O.S. S.r.l.
Draka Comteq UK Limited
Draka Comteq Fibre BV
Draka Cable Wuppertal GmbH
Prysmian Romania Cabluri si Sisteme
Draka Comteq Germany GmbH
Prysmian Cables & Systems B.V.
Prysmian Power Link Srl Milan
Prysmian MKM Magyar Kabel
Prysmian Tianjin Cables Co. Ltd.
Prysmian Australia Pty Ltd
Draka Cableteq
Draka Kabely SRO
Draka Comteq Denmark
SG Singapore Cables Manufacturers Pte Ltd
Prysmian Electronics S.r.l.
Draka Kabel Sverige AB
Prysmian Australia Pty Ltd
Prysmian Cables et Systemes France SAS
Prysmian Cabluri si Sisteme S.A.
Prysmian Netherlands B.V.
Singapore Cables Manufacturers Pte Ltd
Prysmian Kabel und Systeme GmbH Prysmian
Cables and Systems US
Prysmian Cables Y Sist. Mexico Prysmian
Denmark A/S
Draka Kabely S.R.O.
Draka Comteq Slovakia s.r.o
Draka Comteq Germany GmbH & Co
Diğer ilişkili şirketler

2.4. Information about the Conditions of Transactions between the Related Parties and Their Alignment with Market Conditions

2.4.1. Purchases from Related Parties

Due to the competitive nature of the industry and in order to satisfy the technological qualification requirements, companies are bidding for the projects together with their group companies, the total amounts relating to the procurement of commercial goods and services from related companies in addition to our company's general production and commercial activities in the year 2018 are as follows due to the "DB.KAB.7 Lapseki – Sütlüce 380kV Submarine Cable" project.

Transactions with affiliates	January 1 - December 31, 2018	
	Purchases of goods	Purchases of services
Prysmian Cables and Systems OY/FINLAND	261.184	
Prysmian Cables et Systemes France	168.476	
Prysmian Cables y Sistemas S.A.	12.118.559	
Prysmian Cavi e Sistemi S.r.l.	499.089	
Draka Comteq Berlin GmbH & Co. KG	4.186.221	
Prysmian Cavi e Sistemi Italia S.r.l.	41.111.485	
P.T. Prysmian Cables Indonesia	(164.179)	
Prysmian S.p.A.	453.205	
Prysmian Kabel und System GmbH	12.476.093	
Prysmian Cables & Systems Ltd.	263.238	
Fibre Ottiche Sud - F.O.S. S.r.l.	11.468.266	
Draka Comteq UK Limited	4.763.120	
Draka Comteq Fibre BV	1.010.016	
Draka Cable Wuppertal GmbH	1.970.645	
Prysmian Romania Cabluri si Sisteme	456.501	
Sindutch Cable Manufacturer Sd	459.923	
Draka Comteq Germany GmbH	2.280.627	
Prysmian Cables & Systems B.V.	614.537	
Prysmian Power Link Srl Milan	-	
Prysmian MKM Magyar Kabel	2.442.697	
Prysmian Tianjin Cables Co. Lt	838.484	
Draka Cableteq	-	
Draka Kabely SRO	110.090	
SG Singapore Cables Manufacturers Pte Ltd	1.636.599	
Prysmian Electronics S.r.l.	53.900	
Prysmian Wuxi Cable Company Lt	117.892	
Draka Comteq France SAS	2.300	
Türk Prysmian- Prysmian Power	1.133	
Türk Prysmian- Prysmian Powerli	356	
Prysmian Group Norge AS	145	
Prysmian Tianjin Cables Co. Ltd.	-	
	99.600.602	-

- The total amount of (year 2018) of raw material, commercial goods and other procurements made from related companies totalling TL 99.600.602 was lower than 10% of the cost of sales in the financial statements.
- There are no intra-group services and royalty fees. The amount of commercial goods and services procurements that were publicly disclosed was lower than 10% of the cost of sales in the financial statements of the last year (year 2018).

2.4.2 Sales to Related Parties

The sales we have made to our related companies in 2018 are listed below on company basis. All of the sales are commercial goods.

	January 1 - December 31, 2018
Transactions with affiliates	Sales of goods
P.T. Prysmian Cables Indonesia	18.699
Prysmian Australia Pty Ltd	73.916
Prysmian Cavi e Sistemi Italia S.r.l.	932.512
Prysmian Cables et Systemes France SAS	8.118.217
Prysmian Cabluri si Sisteme S.A.	11.354.953
Prysmian Cables & Systems Ltd.	4.380.912
Draka Comteq UK Limited	2.422.486
Prysmian Cables y Sistemas S.A.	2.854.708
Prysmian Netherlands B.V.	5.702.806
Singapore Cables Manufacturers Pte Ltd	667.190
Prysmian Cables Chile SPA	310.573
Prysmian Kablo S.R.O	287.921
Prysmian Group Baltics AS	143.594
Draka Comteq Germany GmbH & Co	140.890
Prysmian Kabel und Systeme GmbH	-
Draka Comteq Berlin GmbH & Co. KG	-
Prysmian Cables and Systems US	-
Prysmian Cables and Systems OY/FINLAND	-
Prysmian Cables Y Sist. Mexico	-
Prysmian Denmark A/S	-
Draka Kabely S.R.O.	-
Draka Comteq Slovakia s.r.o	-
Diğer ilişkili şirketler	-
	37.778.096

Besides; the project progress billing invoiced to Türk Prysmian - Prysmian Powerlink Partnership, which has been found solely for taxation purposes, within the scope of the “DB.KAB.7 Lapseki – Sütlüce 380kV Submarine Cable” project are invoiced by the partnership to TEİAŞ without adding any mark-up.

The amount of commercial goods and services procurements that were publicly disclosed was lower than 10% of the cost of sales in the financial statements of the last year (year 2018).

2.5 2.5. Information about the Conditions of Transactions between the Related Parties and Their Alignment with Market Conditions

2.5.1 Disclosures about Purchases

Our company manufactures some of the goods sold in its own facilities, and some of the goods are supplied by international group companies within the scope of specialty product orders. There is a division of labour in terms of specialization regarding cables and accessories among our group companies operating in more than 50 countries, and our company supplies both the commercial goods and products it sells and technical services from group companies which satisfy the group quality and supply requirements within the frame of the group transfer pricing directive.

The price charged to related companies within the scope of the Group Transfer Pricing Directive for the sale of goods and services is set based on adding a Mark-Up on top of the “variable costs”, which are specifically determined for the manufacturing company and under the competitive conditions of the country it is located, for the entire group by product group basis.

On the other hand, because in services procured from group companies, “the actual cost is determined and the price is reflected to include no mark-up” in services produced by distributing the management and IT expenses (SAG) born on behalf of the Group at our company’s group headquarters within the scope of the Group’s Transfer Pricing Directive among group companies, the optimum Transfer Pricing method to be used in relation to consistency with precedent is set by using Cost Plus zero Mark-Up.

2.5.2 Disclosures about Sales

The project progress billing invoiced to Türk Prysmian - Prysmian Powerlink Partnership, which has been found solely for taxation purposes within the scope of the “DB.KAB.7 Lapseki – Sütlüce 380kV Submarine Cable” project using the Cost plus Mark-Up method are invoiced by the Partnership to TEİAŞ without adding any mark-up. Therefore, it is understood that our sale to the related party is actually the contract price agreed with the non-related TEİAŞ and that it is exactly reflected using the Cost plus Zero Mark-Up method. Within the scope of this project, cost plus mark-up method was used in our intra-group procurements, and the transactions were carried out in line with the Group’s transfer pricing policy, according to market conditions and ordinary business practices.

3. CONCLUSION

The Report's conclusion covering the company's relationship with the parent company and subsidiaries as per the provisions of the Turkish Commercial Code no 6102 and the Capital Markets legislation;

- It was understood that our Company's long-term and continuous purchase of commercial good and services from its affiliates was not more than 10% of the cost of sales in the publicly disclosed 2018 financial statements, and that the selling transactions was not more than 10% of the total revenues in the publicly disclosed 2018 financial statements,
- That the transactions with our affiliates were carried out, by way of making counter promises measuring up with its peers, in line with the group transfer pricing directives and in conformity with Transfer Pricing rules with no distinction of countries or companies as per our company's board resolution of 09.05.2014 no 2014/16 and that they were reasonable within the frame of commercial standards;
- The audits and assessments found that, according to the known circumstances and conditions relating to Affiliated Party Transactions; in each legal transaction between our Company Türk Prysmian Kablo ve Sistemleri A.Ş. and the parent company and subsidiaries mention in article 199 of the Turkish Commercial Code, a suitable counter promise was ensured in each legal transaction in 2018, with no taken or avoided measures or the Company suffered no losses because a certain measure was taken or avoided.

As there were no losses, there was no need for loss offsetting.