AKKÖK HOLDİNG A.Ş.

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016 TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

(ORIGINALLY ISSUED IN TURKISH)

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CONVENIENCE TRANSLATION INTO ENGLISH OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH

To the Board of Directors of Akkök Holding A.Ş.

Report on the audit of the consolidated financial statements

Our Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of Akkök Holding A.Ş. and its subsidiary (collectively will be referred as the "Group") as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statements of financial position as at 31 December 2016;
- the consolidated statements of comprehensive income for the year then ended;
- the consolidated statements of changes in equity for the year then ended;
- the consolidated statements of cash flows for the year then ended and;
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with these requirements IESBA Code.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Baki Erdal, SMMM
Partner

Istanbul, 14 July 2017

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

AKKÖK HOLDİNG A.Ş.

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AKKÖK HOLDİNG A.Ş.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2016 AND 2015

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

	Notes	2016	2015
ASSETS			
Cash and cash equivalents	6	713,092	645,036
Financial investments	7	43,800	-
Derivative financial instruments	20	809	7,189
Trade receivables		925,885	696,146
Due from related parties	*9*	*28,506*	*32,738*
Other trade receivables	*10*	*897,379*	*663,408*
Other receivables		5,859	16,823
Due from related parties	*9*	*1,044*	*12,575*
Other receivables		*4,815*	*4,248*
Inventories	11	417,653	264,432
Current income tax assets		7,674	2,934
Prepaid expenses	12	27,806	22,751
Other current assets	18	113,614	97,788
Current Assets		**2,256,192**	**1,753,099**
Trade receivables		58,306	59,804
Other trade receivables	*10*	*58,306*	*59,804*
Other receivables		109,564	82,824
Due from related parties	*9*	*109,534*	*82,794*
Other receivables		*30*	*30*
Financial investments	7	9,141	38,056
Investments accounted for using the equity method	8	556,973	652,173
Investment properties	13	485,761	507,868
Property, plant and equipment	14	1,154,454	1,076,026
Intangible assets		264,488	281,978
Goodwill	*5*	*51,415*	*51,415*
Other intangible assets	*15*	*213,073*	*230,563*
Inventories	11	291,205	317,618
Prepaid expenses	12	55,364	18,133
Deferred tax assets	28	12,405	10,956
Derivative financial instruments	20	1,881	535
Other non-current assets	18	4,710	3,281
Non-current Assets		**3,004,252**	**3,049,252**
TOTAL ASSETS		**5,260,444**	**4,802,351**

The consolidated financial statements for period 1 January - 31 December 2016 were approved by the Board Directors on 14 July 2017.

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

AKKÖK HOLDİNG A.Ş.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2016 AND 2015

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

	Notes	2016	2015
LIABILITIES			
Short term borrowings	19	980,331	1,003,536
Short term portion of long term borrowings	19	317,783	232,312
Derivative financial instruments	20	1,653	2,271
Trade payables		638,751	421,248
Due to related parties	*9*	*26,948*	*45,957*
Other trade payables	*10*	*611,803*	*375,291*
Liabilities for employee benefits		4,188	1,503
Other payables		6,209	5,148
Other payables to third parties		*6,209*	*5,148*
Deferred income	12	64,848	21,740
Current income tax liabilities	28	9,647	17,131
Short term provisions		28,171	27,401
Provisions for employee benefits	*17*	*21,767*	*18,801*
Other short-term provisions	*16*	*6,404*	*8,600*
Other current liabilities	18	10,330	16,525
Current Liabilities		**2,061,911**	**1,748,815**
Long term borrowings	19	1,039,109	941,268
Derivative financial instruments	20	1,137	-
Trade payables		-	23,257
Due to related parties	*9*	-	*23,257*
Other payables		833	-
Other payables to third parties		*833*	-
Deferred income		-	206
Long term provisions		54,527	55,809
Provisions for employee benefits	*17*	*36,444*	*37,726*
Other long-term provisions		*18,083*	*18,083*
Deferred tax liabilities	28	32,327	26,336
Other non-current liabilities	18	-	7,544
Non-current Liabilities		**1,127,933**	**1,054,420**
TOTAL LIABILITIES		**3,189,844**	**2,803,235**

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

AKKÖK HOLDİNG A.Ş.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2016 AND 2015

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

	Notes	2016	2015
Equity attributable to equity holders of the parent			
Paid-in share capital	21	968,432	863,378
Adjustments to share capital	21	(10,406)	(10,406)
Total paid-in capital		**958,026**	**852,972**
Other comprehensive income/expense to be reclassified to profit or loss			
Change in value of available-for-sale financial assets		*3,353*	*3,294*
Hedging reserve		*(9,486)*	*(10,173)*
Currency translation differences		*63,871*	*50,084*
Other comprehensive income/expense not to be reclassified to profit or loss			
Remeasurement of post employment benefit obligations		*(6,402)*	*(7,615)*
Restricted reserves		7,516	6,549
Accumulated (loss) / profit		(66,976)	26,211
Net loss for the year		(13,712)	(71,352)
Total equity attributable to owners of the parent		**936,190**	**849,970**
Non-controlling interests		**1,134,410**	**1,149,146**
TOTAL EQUITY		**2,070,600**	**1,999,116**
TOTAL EQUITY AND LIABILITIES		**5,260,444**	**4,802,351**

AKKÖK HOLDİNG A.Ş.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

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

	Notes	2016	2015
Revenue	22	2,617,488	2,689,444
Cost of sales (-)	22	(1,975,138)	(2,090,400)
Gross profit		**642,350**	**599,044**
General administrative expenses (-)	23	(151,656)	(129,043)
Marketing expenses (-)	23	(75,469)	(73,643)
Research and development expenses (-)		(14,084)	(11,249)
Other operating income	24	268,962	194,313
Other operating expenses (-)	24	(179,311)	(147,282)
Operating profit		**490,792**	**432,140**
Income from investing activities	25	79,617	114,878
Expenses from investing activities	25	-	(166)
Share of profit of investments accounted for using the equity method	8	(131,335)	(168,428)
Operating profit before financial income and expense		**439,074**	**378,424**
Financial expenses (-)	27	(300,258)	(228,721)
Profit before tax		**138,816**	**149,703**
- Taxes on income	28	(63,594)	(67,451)
- Deferred tax (expense)/income	28	(3,472)	1,720
Net profit for the year		**71,750**	**83,972**
Total income for the period attritube to:			
Non-controlling interest		85,462	155,324
Equity holders of the parent		(13,712)	(71,352)
Net profit for the year		**71,750**	**83,972**

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

AKKÖK HOLDİNG A.Ş.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

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

	2016	2015
Net profit for the year	**71,750**	**83,972**
Other comprehensive income / (expense):		
Items to be reclassified to statement of income		
- Currency translation differences	34,859	58,680
- Change in fair value of derivatives	1,159	(3,618)
- Change in fair value of financial assets	(367)	(3,551)
Items not to be reclassified to statement of income		
- Remeasurement gain arising from defined benefit plans	3,239	1,251
Total comprehensive income for the period	**110,640**	**136,734**
Total comprehensive income attributable to:		
Non-controlling interest	108,606	191,559
Equity holders of the parent	2,034	(54,825)
Total comprehensive income	**110,640**	**136,734**

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

AKKÖK HOLDİNG A.Ş.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

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

	Attributable to owners of the parent											
	Paid-in capital	**Adjustment to share capital**	**Change in value of available for sale financial assets (*)**	**Currency translation differences**	**Hedging reserve (*)**	**Remeasurement gain/loss arising from defined benefit plans (**)**	**Restricted reserves**	**Retained earnings**	**Profit/(loss) for the year**	**Total**	**Non controlling interests**	**Total equity**
Balance at 1 January 2015	**388,098**	**157,537**	**6,845**	**26,930**	**(6,755)**	**(7,957)**	**6,449**	**449,504**	**2,665**	**1,023,316**	**1,008,663**	**2,031,979**
Capital remandment	(375,000)	3,430	-	-	-	-	8,676	287,894	-	(75,000)	-	(75,000)
Transfer	850,280	(171,373)	-	-	-	-	(8,576)	(667,666)	(2,665)	-	-	-
Dividends paid	-	-	-	-	-	-	-	(43,565)	-	(43,565)	(104,991)	(148,556)
Total comprehensive income for the period	-	-	(3,551)	23,154	(3,418)	342	-	-	(71,352)	(54,825)	191,559	136,734
Capital increase in subsidiaries (***)	-	-	-	-	-	-	-	-	-	-	55,704	55,704
Impact of changes in the ownership rate of subsidiaries	-	-	-	-	-	-	-	44	-	44	(1,789)	(1,745)
Balance at 31 December 2015	**863,378**	**(10,406)**	**3,294**	**50,084**	**(10,173)**	**(7,615)**	**6,549**	**26,211**	**(71,352)**	**849,970**	**1,149,146**	**1,999,116**
Balance at 1 January 2016	**863,378**	**(10,406)**	**3,294**	**50,084**	**(10,173)**	**(7,615)**	**6,549**	**26,211**	**(71,352)**	**849,970**	**1,149,146**	**1,999,116**
Capital increase (Note 21)	105,054	-	-	-	-	-	-	-	-	105,054	-	105,054
Transfer	-	-	-	-	-	-	967	(72,319)	71,352	-	-	-
Dividends paid	-	-	-	-	-	-	-	(19,897)	-	(19,897)	(127,378)	(147,275)
Total comprehensive income for the period	-	-	59	13,787	687	1,213	-	-	(13,712)	2,034	108,606	110,640
Capital increase in subsidiaries (***)	-	-	-	-	-	-	-	-	-	-	3,065	3,065
Impact of changes in the ownership rate of subsidiaries	-	-	-	-	-	-	-	(971)	-	(971)	971	-
Balance at 31 December 2016	**968,432**	**(10,406)**	**3,353**	**63,871**	**(9,486)**	**(6,402)**	**7,516**	**(66,976)**	**(13,712)**	**936,190**	**1,134,410**	**2,070,600**

(*) Items to be reclassified to profit and loss
(**) Items not to be reclassified to profit and loss
(***) Amounts arising from capital increase, in Group's subsdiaries, namely Ariş, İstasyon, and Zeytinliada.

AKKÖK HOLDİNG A.Ş.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

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

	Notes	2016	2015
Net profit for the year		**71,750**	**83,972**
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation and amortization	13,14,15	129,047	118,229
Provision expenses		10,789	12,410
Interest income and expenses	27	31,741	61,097
Unrealized exchange (gain) / loss		317,437	362,124
Fair value (gain)/loss on financial assets and liabilities		38,097	(10,586)
Tax expense	28	67,066	65,731
Gain on sale of property, plant and equipment and intangibles	25	(78,960)	(104,700)
Loss from investments accounted for using equity method	8	131,335	168,428
Impairment of investment properties	13	-	166
Cash flows before changes in assets and liabilities		**718,302**	**756,871**
Changes in working capital			
Inventories		(73,972)	81,928
Trade receivables		(224,716)	(121,686)
Due from related parties		(10,977)	(25,283)
Other receivables		(567)	(3,005)
Trade payables		237,345	(92,693)
Due to related parties		(42,266)	32,493
Other payables		1,061	762
Other changes in working capital		(68,413)	15,263
Income taxes paid	28	(71,078)	(62,320)
A. CASH FLOWS FROM OPERATING ACTIVITIES		**464,719**	**582,330**
Cash outflows from purchases of additional shares in subsidiaries		-	(1,745)
Cash outflows from purchases of financial assets		(15,480)	28,271
Cash inflows from sales of plant, property of equipment and intangibles		4,460	111,019
Cash outflows from purchase of plant, property of equipment and intangibles	14,15	(188,932)	(297,405)
Cash inflows from sales of invesment properties		110,043	3,015
Cash outflows purchases of investment properties		(29,260)	(21,829)
Investment in inventories (residences)		(52,836)	(76,895)
Cash outflows from purchases of additional shares in associates and capital increases	8	(17,625)	(174,418)
Payments for acquisition of subsidiary, net of cash acquired	5	-	(210,623)
Dividends received	8,25	14,674	30,427
B. CASH USED IN INVESTING ACTIVITIES		**(174,956)**	**(610,183)**
Repayments from the issues of shares and other equity instruments		-	(75,000)
Participation of non-controlling interest in subsidiaries' capital increase		3,065	55,704
Cash inflow from new borrowings obtained		2,105,508	1,613,346
Cash outflows from redemption of borrowings		(2,256,318)	(1,283,259)
Dividends paid to non-controlling interests		(127,378)	(104,991)
Dividends paid		(19,897)	(43,565)
Capital increase		105,054	-
Interest received		32,873	33,933
Interest paid		(64,614)	(95,030)
C. CASH FLOWS FROM FINANCING ACTIVITIES		**(221,707)**	**101,138**
NET INCREASE IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES (A+B+C)		**68,056**	**73,285**
D. CHANGE IN RESTRICTED DEPOSITS AND ACCRUED INTERESTS FROM TIME DEPOSITS		**5,754**	**3,361**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**637,266**	**560,620**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (A+B+C+D+E)		**711,076**	**637,266**

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

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

NOTE 1 - GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

Akkök Holding A.Ş. ("Akkök") was established in 1979.

Akkök and its subsidiaries, joint ventures and associates (together "the Group") mainly operate in the chemicals, energy, real estate, coating and textile sectors and engage in manufacturing of all kinds of raw materials, auxiliary materials and intermediate substances, artificial, synthetic and natural fibres, carbon fibres, filament and polymers, and any equipment, machinery or spare parts used in the production, processing or storage of these, importing and exporting, establishment of domestic, foreign and international branches, marketing and trading, establishment and start-up and rental of energy generation plant, electricity generation and sale of generated electricity or capacity to customers and purchase and sale of or investing in real estate properties. Akkök has also shareholdings in restaurant management, marketing, air transport, port management, information technology, insurance agency and tourism companies.

The Group's ultimate parents are A.R.D. Holding A.Ş., N.D.Ç. Holding A.Ş. and Atlantik Holding A.Ş., which are being controlled by Dinçkök family members (Note 21).

On 22 April 2014, at the general assembly for 2013 general assembly, the Company has changed its title to Akkök Holding Anonim Şirketi from Akkök Sanayi Yatırım ve Geliştirme Anonim Şirketi with the amendment of No:3 Company's articles of association and title change has been registered on 13 May 2014 followed by the declaration on 20 May 2014.

Akkök Holding A.Ş. is registered in Turkey and the address of the registered office is as follows:

Miralay Şefik Bey Sokak
No: 15 Akhan
Gümüşsuyu 34437 İstanbul

Subsidiaries

The subsidiaries of Akkök, the countries they are incorporated in, and the nature of their businesses are as follows:

Subsidiaries	Country of incorporation	Nature of business
Akiş Gayrimenkul Yatırım Ortaklığı A.Ş. ("Akiş")	Turkey	Real estate investment
Karlıtepe Gayrimenkul Geliştirme ve Yatırım A.Ş. ("Karlıtepe")	Turkey	Real estate investment
Ak-Kim Kimya Sanayi ve Ticaret A.Ş. ("Ak-kim")	Turkey	Chemicals
Gizem Seramik Frit ve Glazür Sanayii ve Ticaret Anonim Şirketi ("Gizem Frit")	Turkey	Chemicals
Akmeltem Poliüretan Sanayi ve Ticaret A.Ş. ("Akmeltem")	Turkey	Chemicals
Aksa Akrilik Kimya Sanayii A.Ş. ("Aksa")	Turkey	Chemicals
Ak-Tem Uluslararası Mümessillik ve Ticaret A.Ş. ("Ak-tem")	Turkey	Chemicals
Aksa Egypt Acrylic Fiber Industry SAE ("Aksa Egypt")	Egypt	Textile
İstasyon Tekstil ve Sanayi Ticaret A.Ş. ("Istasyon")	Turkey	Textile
Ak Havacılık ve Ulaştırma Hizmetleri A.Ş. ("Ak Havacılık")	Turkey	Aviation
Akmerkez Lokantacılık Gıda Sanayi ve Ticaret A.Ş. ("Akmerkez Lokanta")	Turkey	Restaurant management
Ak-Pa Tekstil İhracat Pazarlama A.Ş. ("Akpa")	Turkey	International trade
Akport Tekirdağ Liman İşletmeleri A.Ş. ("Akport")	Turkey	Port management
Aktek Bilgi İletişim Teknolojisi San. ve Tic. A.Ş. ("Aktek")	Turkey	Information technologies
Ariş Sanayi ve Ticaret A.Ş. ("Ariş")	Turkey	Trade
Dinkal Sigorta Acenteliği A.Ş. ("Dinkal")	Turkey	Insurance agency
Fitco BV ("Fitco")	Holland	Investment
Zeytinliada Turizm ve Ticaret A.Ş. ("Zeytinliada")	Turkey	Tourism
Ak Yön Yönetim ve Bakım İşlemleri A.Ş. ("Akyön")	Turkey	Mall management
Aksu Real Estate E.A.D. ("Aksu Real Estate")	Bulgaria	Real estate investment

NOTE 1 - GROUP'S ORGANIZATION AND NATURE OF OPERATIONS (Continued)

Joint ventures

The joint ventures of Akkök, the countries they are incorporated in, and the nature of their businesses and joint venture partners are as follows:

Joint Ventures	**Country of incorporation**	**Nature of business**	**Joint venture partner**
Akcez Enerji Yatırımlar Sanayi ve Ticaret A.Ş. ("Akcez")	Turkey	Energy	CEZ a.s.
Sakarya Elektrik Dağıtım A.Ş. ("Sedaş")	*Turkey*	*Energy*	*CEZ a.s.*
Sakarya Elektrik Perakende Satış A.Ş. ("Sepaş")	*Turkey*	*Energy*	*CEZ a.s.*
Akenerji Elektrik Üretim A.Ş. ("Akenerji")	Turkey	Energy	CEZ a.s.
Ak-El Yalova Elektrik A.Ş. ("Ak-El")	*Turkey*	*Energy*	*CEZ a.s.*
Akenerji Doğalgaz İthalat İhracat ve Toptan Ticaret A.Ş.	*Turkey*	*Energy*	*CEZ a.s.*
Akenerji Elektrik Enerjisi İthalat-İhracat ve Toptan Ticaret A.Ş.	*Turkey*	*Energy*	*CEZ a.s.*
Egemer Elektrik Üretim A.Ş. ("Egemer")	*Turkey*	*Energy*	*CEZ a.s.*
Ak-el Kemah Elektrik Üretim A.Ş. ("Kemah")	*Turkey*	*Energy*	*CEZ a.s.*
DowAksa Advanced Composites Holding B.V. ("DowAksa")	Holland	Chemistry	Dow Europe Holdings B.V.
DowAksa İleri Kompozit Malzemeler San. Ltd. Şti.	*Turkey*	*Chemistry*	*Dow Europe Holdings B.V.*
DowAksa Switzerland GmbH	*Switzerland*	*Chemistry*	*Dow Europe Holdings B.V.*
DowAksa USA LLC	*USA*	*Chemistry*	*Dow Europe Holdings B.V.*
DowAksa Tianjin Trading Company	*China*	*Chemistry*	*Dow Europe Holdings B.V*
DowAksa Deutschland GmbH	*Germany*	*Chemistry*	*Dow Europe Holdings B.V.*
Akferal Su Kimyasalları Sanayi ve Ticaret A.Ş. ("Akferal")	Turkey	Chemistry	Feralco Group
Akiş- Mudanya Adi Ortaklığı	Turkey	Real Estate	Mudanya Gayrimenkul Geliştirme ve Yatırım A.Ş.

Associates

The associates of Akkök, the countries they are incorporated in, and the nature of their businesses are as follows:

Associates	**Country of incorporation**	**Nature of business**
Akmerkez Gayrimenkul Yatırım Ortaklığı A.Ş. ("Akmerkez")	Turkey	Real Estate Development
Saf Gayrimenkul Yatırım Ortaklığı A.Ş. ("Saf GYO")	Turkey	Real Estate Development

Financial investments

The financial investments of Akkök, the countries they are incorporated in, and the nature of their businesses are as follows:

Financial investments (*)	**Country of incorporation**	**Nature of business**
Akhan Bakım Yönetim Servis Hizmet Ticaret A.Ş. ("Akhan")	Turkey	Service
Üçgen Bakım ve Yönetim Hizmetleri A.Ş. ("Üçgen")	Turkey	Service

(*) Subsidiaries that are not material to the consolidated financial statements are accounted for as financial investments at cost, less impairment, if any.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

The accompanying consolidated financial statements are prepared in accordance with the International Accounting Standards ("IAS") issued by International Accounting Standards Board ("IASB"). IAS contains International Accounting Standards, International Financial Reporting Standards ("IFRS") and its addendum and interpretations ("IFRIC").

The Company maintains its accounting records and prepares its statutory financial statements in accordance with Public Oversight Accounting and Auditing Authority of Turkey's decision dated 30 December 2014 and General Communiqués on Accounting Systems Practices ("ASGC"), in Turkish Liras, in accordance with the requirements of Turkish Commercial Code (the "TCC"). These consolidated financial statements are based on the statutory records, which are maintained under historical cost conversion, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with IFRS.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise 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 consolidated financial statements are disclosed in Note 4.

2.2 Principles of consolidation

The significant accounting policies used during the preparation of these consolidated financial statements are summarised below:

a) The consolidated financial statements include the accounts of the parent company, Akkök, its subsidiaries, joint ventures and associates on the basis set out in sections (b) to (f) below. The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the consolidated financial statements, and are prepared in accordance with IFRS as explained in Note 2.1. The results of operations of subsidiaries, joint ventures and associates are included or excluded in these consolidated financial statements subsequent to the date of acquisition or date of sale respectively.

b) Subsidiaries are companies in which Akkök has the power to control their financial and operating policies. Akkök's control over the investee, only and only when all of the following indicators are available; (a) has power over the investee, (b) the exposure to variable returns from its involvement with the investee or is entitled to these returns, and (c) has the ability to use its power over the investee to affect the amount of return to be earned.

c) Such control is established through the joint exercise of; (i) the voting rights of Akkök and its subsidiaries, (ii) the voting rights of certain members of Dinçkök family and the related shareholders who declared to exercise their voting rights inline with Akkök's voting preference, and (iii) the voting rights of entities that are controlled by the family members mentioned above and the related shareholders, which declared to exercise their voting rights inline with Akkök's voting preference. Effective interest rate represents the effective shareholding of the Group through the shares held directly by Akkök and indirectly by its subsidiaries in the consolidated financial statements, interests owned by the Dinçkök family members are presented as non-controlling interests.

   The balance sheets and statements of income of the subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by the Akkök and its subsidiaries is eliminated against the related equity. Intercompany transactions and balances between Akkök and its subsidiaries are eliminated on consolidation. The cost of, and the dividends arising from, shares held by Akkök in its subsidiaries are eliminated from equity and income for the period, respectively.

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

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

2.2 Principles of consolidation (Continued)

The table below sets out the proportion of voting power held by Akkök and its subsidiaries and effective ownership interests at 31 December 2016 and 2015:

	Proportion of voting power held by Akkök and its subsdiaries (%) (*)		Proportion of voting power held by certain Dinçkök family members and related shareholders (%) (**)		Total voting power held		Proportion of effective interest (%) (***)	
Subsidiaries	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Ak Havacılık ve Ulaştırma Hizmetleri A.Ş.	100.00	100.00	-	-	100.00	100.00	100.00	100.00
Ak-Kim Kimya Sanayi ve Ticaret A.Ş.	42.00	42.00	36.63	36.63	78.63	78.63	42.00	42.00
Gizem Seramik Frit ve Glazür Sanayii ve Ticaret A.Ş.	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*42.00*	*42.00*
Ak-Tem Uluslararası Mümessillik ve Ticaret A.Ş.	*99.80*	*99.80*	*0.05*	*0.05*	*99.85*	*99.85*	*41.92*	*41.92*
Akmeltem Poliüretan Sanayi ve Ticaret A.Ş.	50.00	50.00	1.67	1.67	51.67	51.67	50.00	50.00
Akmerkez Lokantacılık Gıda Sanayi ve Ticaret A.Ş.	43.75	43.75	-	-	43.75	43.75	43.75	43.75
Ak-Pa Tekstil İhracat Pazarlama A.Ş.	86.69	86.69	7.50	7.50	94.19	94.19	86.69	86.69
Akport Tekirdağ Liman İşletmeleri A.Ş.	96.30	96.30	1.85	1.85	98.15	98.15	96.30	96.30
Aksa Akrilik Kimya Sanayii A.Ş.	39.59	39.59	19.06	19.06	58.65	58.65	39.59	39.59
Fitco BV	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*39.59*	*39.59*
Aksa Egypt Acrylic Fiber Industries SAE	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*39.59*	*39.59*
Ariş Sanayi ve Ticaret A.Ş.	43.34	43.34	28.33	28.33	71.67	71.67	43.34	43.34
Dinkal Sigorta Acenteliği A.Ş.	96.66	94.66	2.23	2.23	98.89	96.89	96.66	94.66
Zeytinliada Turizm ve Ticaret A.Ş.	89.61	89.61	4.64	4.64	94.25	94.25	89.61	89.61
İstasyon Tekstil ve Sanayi Ticaret A.Ş.	43.37	43.37	28.31	28.31	71.68	71.68	43.37	43.37
Akiş Gayrimenkul Yatırım Ortaklığı A.Ş.	31.53	31.53	39.54	39.54	71.07	71.07	31.53	31.53
Ak Yön Yönetim ve Bakım Hizmetleri A.Ş.	*99.99*	*99.99*	*0.01*	*0.01*	*100.00*	*100.00*	*31.53*	*31.53*
Aksu Real Estate E.A.D.	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*31.53*	*31.53*
Karlıtepe Gayrimenkul Geliştirme ve Yatırım A.Ş.	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*31.53*	*31.53*
Aktek Bilgi İletişim Teknolojisi San. ve Tic. A.Ş.	20.00	20.00	40.00	40.00	60.00	60.00	20.00	20.00

(*) Represents total direct ownership interest held by Akkök and its subsidiaries.
(**) Represents total direct ownership interest held by certain Dinçkök family members and related shareholders who declared to exercise their voting power inline with the voting preference of Akkök.
(***) Represents total direct and indirect ownership interest held by Akkök.

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

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

2.2 Principles of consolidation (Continued)

c) A joint arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control over an economic activity. A joint venture is an arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. Akkök exercises such joint control through direct and indirect ownership interest held by itself and/or through voting power Dinçkök family members and the related shareholders who declared to exercise their voting power inline with the voting preferences Akkök. The Group's interest in joint ventures is accounted for by way of equity method. Under the equity method, investments in the joint ventures are carried in the statement of financial position at cost plus post acquisition changes in the Company's share of net assets of the joint venture and the comprehensive income reflects the share of the results of operations of the joint ventures. Where there has been a change recognised directly in the equity of the joint ventures, the Company recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. The table below sets out the joint-ventures, the proportion of voting power held by Akkök and its subsidiaries and effective ownership interests at 31 December 2016 and 2015:

	Proportion of voting power held by Akkök's subsidiaries (%) (*)		Proportion of voting power held by certain Dinçkök family members and related shareholders (%) (**)		Total voting power held		Proportion of effective interest (%)	
Joint ventures	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Akenerji Elektrik Üretim A.Ş.	20.43	20.43	16.93	16.93	37.36	37.36	20.43	20.43
Ak-El Yalova Elektrik A.Ş.	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*20.43*	*20.43*
Ak Enerji Elektrik Enerjisi İthalat-İhracat ve Toptan Ticaret A.Ş.	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*20.43*	*20.43*
Egemer Elektrik Üretim A.Ş.	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*20.43*	*20.43*
Ak-el Kemah Elektrik Üretim A.Ş.	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*20.43*	*20.43*
Akenerji Doğalgaz İthalat İhracat ve Toptan Ticaret A.Ş.	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*20.43*	*20.43*
Akcez Enerji Yatırımları Sanayi ve Ticaret A.Ş.	50.00	50.00	-	-	50.00	50.00	50.00	50.00
Sakarya Elektrik Dağıtım A.Ş.	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*50.00*	*50.00*
Sakarya Elektrik Perakende Satış A.Ş.	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*50.00*	*50.00*
Dowaksa Advanced Kompozit Holding B.V.	50.00	50.00	-	-	50.00	50.00	19.79	19.79
DowAksa İleri Kompozit Malzemeler Sanayi Ltd. Şti.	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*19.79*	*19.79*
DowAksa Switzerland GmbH	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*19.79*	*19.79*
DowAksa USA LLC	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*19.79*	*19.79*
DowAksa Tianjin Trading Company	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*19.79*	*19.79*
DowAksa Deutschland GmbH	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*19.79*	*19.79*
Akferal Su Kimyasalları Sanayi ve Ticaret A.Ş.	50.00	50.00	-	-	50.00	50.00	21.00	21.00
Akiş - Mudanya Adi Ortaklığı	50.00	50.00	-	-	50.00	50.00	15.77	15.77

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

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

2.2 Principles of consolidation (Continued)

d) Investments in associated undertakings are accounted for using the equity method of accounting (Note 8). These are undertakings, over which the Group generally has between 20% and 50% of the voting rights; through the voting rights of Akkök and its subsidiaries and/or through the voting rights of certain members of Dinçkök family and related shareholders in those companies who declared to exercise their voting rights inline with Akkök's voting preference or through the Group's exercise of significant influence with, no controlling power. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking or significant influence of the Group ceases. The carrying amount of the investment at the date when significant influence ceases is regarded as cost thereafter. The table below sets out the associates accounted for using the equity method of accounting, the proportion of voting power held by Akkök and its subsidiaries and effective ownership interests at 31 December 2016 and 2015:

	Proportion of voting power held by Akkök's subsidiaries (%) (*)		Proportion of voting power held by certain Dinçkök family members and related shareholders (%) (**)		Total voting power held		Proportion of effective interest (%)	
Subsidiaries	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Akmerkez GayrimenkulYatırım Ortaklığı A.Ş.	13.12	13.12	5.57	5.57	18.69	18.69	13.12	13.12
Saf Gayrimenkul Yatırım Ortaklığı A.Ş.	19.71	19.71	27.29	27.29	47.00	47.00	6.22	6.22

e) Other investments in which the Group and its subsidiaries have an interest below 20%, or Group and its subsidiaries have an interest over 20% but the Group does not exercise a significant influence, or which are immaterial, are classified as available-for-sale investments. Available-for-sale investments that do not have a quoted market price in active markets and whose fair value cannot be measured reliably are carried at cost less any provision for diminution in value (Note 7).

	Proportion of Voting power held by Akkök's subsidiaries (%) (*)		Proportion of voting power held by certain Dinçkök family members and related shareholders (%) (**)		Proportion of effective interest (%)	
Financial Investments	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Akhan Bakım Yönetim Servis Hizmet Ticaret A.Ş.	99.00	99.00	0.15	0.15	99.00	99.00
Üçgen Bakım ve Yönetim Hizmetleri A.Ş.	39.37	39.37	-	-	39.37	39.37

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

2.2 Principles of consolidation (Continued)

f) The portion of the profit or loss and net assets of subsidiaries attributable to equity interests that are not owned, directly or indirectly through the subsidiaries, by the parents, is presented as non-controlling interest.

2.3 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.4 Amendments in International Financial Reporting Standards ("IFRS")

Standards, amendments and interpretations effective for annual periods ending on or after 31 December 2016

- IFRS 14, "Regulatory Deferral Accounts", effective from annual periods beginning on or after 1 January 2016, permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account for 'regulatory deferral account balances' in accordance with its previous GAAP. However, in order to provide comparability with other companies that have previously applied IFRS and will not account for the related amount, it is desirable that the effect of the tariff regulation be presented separately from other items.

- The 2014 annual improvements are effective for annual reporting periods beginning on or after 1 January 2016. Improvements made changes in 4 standards:

    - IFRS 5, "Non-current assets held for sale and discontinued operations", change in method of sale
    - IFRS 7, "Financial instruments: disclosures", amendments to service contracts made under IFRS1.
    - Amendment to IAS 19, "Benefits provided to employees", changes related to discount rates
    - Amendment to IAS 34, "Interim financial reporting", regarding the disclosure of information.

- Amendment to IFRS 11, "Joint arrangements" on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. The amendment has not been effective earlier by the Group.

- Amendments to IAS 16, "Property, plant and equipment", and IAS 41, "Agriculture", regarding bearer plants, effective from annual periods beginning on or after 1 January 2016. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. It has been decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

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

2.4 Amendments in International Financial Reporting Standards (“IFRS”) (Continued)

- Amendment to IAS 16 and IAS 38: “Property, plant and equipment” and “Intangible assets”; Effective on 1 January 2016 or the annual reporting periods beginning after that date. The amendment clarifies that the use of a revenue-based depreciation and amortization method is not appropriate as the proceeds from an activity involving the use of an asset generally reflect factors outside the consumption of the economic benefits of the asset.

- Amendments to IAS 27, “Separate financial statements” on the equity method, effective from annual periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

- Amendments to IFRS 10, “Consolidated financial statements” and IAS 28, “Investments in associates and joint ventures”, effective from annual periods beginning on or after 1 January 2016. These changes clarify the application of consolidation exemption for investment businesses and their subsidiaries.

- Amendment to IAS 1, “Presentation of financial statements”; Effective on 1 January 2016 or the annual reporting periods beginning after that date. These amendments aim to improve the presentation and disclosure of financial reports.

Standards and amendments that are effective as of 31 December 2016, but not yet effective:

- IAS 7, “Changes in cash flow tables”; Effective on 1 January 2017 or the annual reporting periods beginning after that date. These amendments provide additional disclosures that enable financial statement readers to evaluate changes in liabilities arising from financing activities. The amendments clarify how the financial statement disclosures can be developed as part of the IASB's "disclosure initiative" project.

- IAS 12, “Changes in income taxes”; Effective on 1 January 2017 or the annual reporting periods beginning after that date. If the change is measured at the fair value of an asset and the fair value of the asset is less than the tax base, offsetting the deferred tax asset is made. In addition, some other aspects of accounting for deferred tax assets are also clarified.

- IFRS 2, “Changes in share-based payments”; Effective for annual reporting periods beginning on or after 1 January 2018. The amendment clarifies the measurement basis of share-based payments and how to account for changes in rewarding from cash-based to equity-based. This amendment also requires that, in case an employee of an employer is obliged to pay an amount related to the share-based payment and to pay this amount in tax, this reward should be considered as if it is completely equity-based, with an exception to the principles of IFRS 2.

- IFRS 9, “Financial instruments”; Effective for annual reporting periods beginning on or after 1 January 2018. This standard takes place of IAS 39. It also includes the requirements for the classification and measurement of financial assets and liabilities and the expected credit risk model that will be used to replace the realized impairment loss model that is currently being used.

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

2.4 Amendments in International Financial Reporting Standards ("IFRS") (Continued)

- IFRS 15, "Revenue from contracts with customers", effective from annual periods beginning on or after 1 January 2018. IFRS 15, "Revenue from contracts with customers" is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

- Amendments to IFRS 15, "Revenue from contracts with customers"; these amendments include guidance on implementation guidance that sets performance obligations, accounting for intellectual property licenses, and disclosures about whether the entity is a noble or an intermediary (gross revenue presentation vs. net revenue presentation). New and modified explanatory examples have been added for each of these areas in the implementation guidance. The IASB also included additional practical measures related to the transition to the new revenue standard.

- IFRS 16, "Leasing transactions"; Effective for annual reporting periods beginning on or after 1 January 2019. This new standard replaces the existing guidance in IAS 17 and makes extensive changes in accounting for qualified leaseholders. According to the current IAS 17 rules, leaseholders are required to distinguish between lease (on-balance sheet) and operating lease (off-balance sheet) for a lease when they are parties to a lease. However, according to IFRS 16, leaseholders will now have to write down their future leasing obligations for almost all leasing contracts and, in turn, the right to use an asset. The IASB has provided an exception for short-term lease transactions and low value assets, but this exemption applies only to leaseholders. The accounting for leaser remains almost the same. However, since the IASB changes the definition of leases, leaseholders will also be affected by this new standard (as the guidance on the consolidation or decomposition of contractual content changes). At the very least, the new accounting model is expected to lead to negotiations between leasers and leaseholders. According to IFRS 16, if the contract includes the right to use an asset and the right to control that asset for a specified period of time, the contract is a lease or includes a lease.

- IFRS 4, "Changes in Insurance Contracts"; Effective for annual reporting periods beginning on or after 1 January 2018. The amendment to IFRS 4 provides two different approaches for insurance companies, namely the 'overlay approach' and the 'deferral approach'. According to this:

  - It will provide all companies that file insurance contracts the option to account for the fluctuation that may arise when IFRS 9 is applied, in the other comprehensive income statement rather than accounting for profit or loss before the new insurance contract standard is issued, and

  - Companies whose activities are predominantly linked to insurance will be optionally subject to temporary exemption from application of IFRS 9 until 2021. Entities that postpone IFRS 9 application will continue to apply the existing IAS 39 "Financial Instruments" standard.

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

2.4 Amendments in International Financial Reporting Standards ("IFRS") (Continued)

- Amendments to IAS 40, "Investment property"; Effective for annual reporting periods beginning on or after 1 January 2018. These amendments to the classification of investment property are offsetting the classification of investment property or immovable properties when there is a change in the purpose of use. If the use of an immovable is changed, it must be assessed whether it conforms to the definition of 'investment property'. This change should be supported by evidence.

- Annual improvements from 2014 to 2016; Effective for annual reporting periods beginning on or after 1 January 2018. These changes affect 3 standards:

  - IFRS 1, "First application of the Turkish financial reporting standards" is temporarily abolished as of 1 January 2018, at the period of first apllication of IFRS 7, IAS 19 and IFRS 10,
  - IFRS 12, "Disclosures about interests in other entities", clarifies the scope of the standard. It will be applied retroactively from the annual reporting periods beginning on or after 1 January 2017.
  - IAS 28, "Investments in associates and joint ventures", effective as of 1 January 2018, an adjustment to the fair value of an associate or joint venture.

- IFRS Interpretation 22, "Foreign currency transactions and advances payments", is effective for annual reporting periods beginning on or after 1 January 2018. This interpretation deals with transactions made in foreign currency or the making or pricing of payments made as part of such transactions in foreign currency. This interpretation guides the cases where a single payment is made/received and multiple payments are made/received. This guideline aims to reduce the variability in the purposeful application.

The changes will be effective from the date of entry into force, if they have effects on the financial statements of the Group.

2.5 Comparatives and adjustment to previous periods' financial statements

The consolidated financial statements of the Group include comparative financial information to enable the determination of the financial position and performance. In order to comply with the presentation of consolidated financial statements the current period when deemed necessary, comparative information is reclassified, and material differences are presented.

The Company has made necessary adjustments and classifications in the financial statements of the previous periods in accordance with the changes in presentation of current period. In the past, in this frame:

- Foreign exchange loss amounting to TRY154,547, which was accounted under other expenses, has been reclassified to other operating income for the period between 1 January 2015 - 31 December 2015.

- Foreign exchange loss amounting to TRY15,640 which was accounted under other expenses, has been reclassified to financial expenses for the period between 1 January 2015 - 31 December 2015.

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

2.6 Going concern

The consolidated financial statements including the accounts of the parent company, its subsidiaries, joint ventures and associates have been prepared assuming that the Group will continue as a going concern on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Changes in accounting policies, accounting estimates and errors

Significant changes in accounting policies or significant errors are corrected, retrospectively; by restating the prior period consolidated financial statements. The effect of changes in accounting estimates affecting the current period is recognised in the current period; the effect of changes in accounting estimates affecting current and future periods is recognised in the current and future periods.

3.2 Related parties

Parties are considered related to the Group if;

a) directly, or indirectly through one or more intermediaries, the party:

   i) controls, is controlled by, or is under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries);
   ii) has an interest in the Group that gives it significant influence over the Group or has joint control over the Group;

b) the party is an associate;

c) the party is a joint venture in which the Group is a venture;

d) the party is member of the key management personnel of the Group or its parent;

e) the party is a close member of the family of any individual referred to in (a) or (d);

f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to In (d) or (e); or

g) the party has a post-employment benefit plan for the benefit of employees of the Group, or of an entity that is a related party of the Group.

Related party transactions are transfer of resources, services or obligations between related parties, regardless of whether a price is charged. A number of transactions are entered into with related parties in the ordinary course of business (Note 9).

3.3 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Derivative financial instruments

Financial assets within the scope of IAS 39, "Financial instruments: Recognition and measurements" are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

As of 31 December 2016 and 2015 the Group does not have any financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for-sale or that are not classified in any of the three categories (a) loans and receivables, (b) held-to-maturity investments and (c) assets at fair value through profit or loss. A gain or loss on an available for- sale financial asset after initial recognition shall be recognised directly in equity, through the statement of changes in equity, except for impairment losses, dividend and interest gains, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity shall be recognised in profit or loss. If a fair value loss on an available-for-sale asset has been recognised directly in equity, and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised directly in equity should be recycled into profit or loss even though the financial asset has not been sold.

Available-for-sale financial assets are subsequently measured at fair value. Available-for-sale financial assets that are quoted in active markets are measured based on current bid prices. If the market for a financial asset is not active the fair value is determined by using valuation techniques such as discounted cash flow analysis and option pricing model (Note 7).

Subsidiaries excluded from the scope of consolidation

For investments as subsidiaries that are excluded from the scope of consolidation on the grounds of materiality where there is no quoted market price and where a reasonable estimate of fair value cannot be determined since other methods are inappropriate and unworkable, they are carried at cost less any impairment (Note 7).

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Trade receivables and payables

Trade receivables are recognised at original invoice amount and carried at amortised cost less an allowance for any uncollectible amounts. An estimate for doubtful debt is made when collection of the full amount is no longer probable. A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The allowance is an estimated amount which is difference between existing receivable and collectible amount. Collectible amount is the discounted value of trade receivables, all cash flows including collections from guarantees by using original effective interest rate. Bad debts are written off when identified (Note 10).

Trade payables consist of the amounts invoiced or not invoiced related with the realised material or service purchases, and are carried at amortised cost (Note 10).

3.6 Inventories

Inventories are valued at the lower of cost or net realisable value less costs to sell. Cost of inventories comprises the purchase cost and the cost of bringing inventories into their present location and condition. Cost is determined by the monthly moving weighted average method. The cost of borrowings is not included in the costs of inventories. Net realisable value less costs to sell is the estimated sales price in the ordinary course of business, less the estimated costs necessary to make the sale (Note 11).

Land planned for used in current or near future development projects are classified as inventories. As of balance sheet date, inventories which are not expected to be sold in one year are classified under non-current assets.

3.7 Investment property

Land and buildings that are held in the production or supply of goods or services or for administrative purposes or for long-term rental yields or for capital appreciation or both rather than for the sale in the ordinary course of business are classified as "investment property". Investment properties are carried at cost less accumulated depreciation (Note 13).

Investment properties are reviewed for possible impairment losses and where the carrying amount of the investment property is greater than the estimated recoverable amount, it is written down to its recoverable amount. Recoverable amount of the investment property is the higher of future net cash flows from the utilisation of this investment property or fair value less cost to sell.

Investment properties in accordance with the principle of the straight-line method, useful lives are amortised. Land is not depreciated because it is an indefinite life for the estimated useful life for buildings is between 5 and 50 years.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. When assets are sold or retired, their costs and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is provided for property, plant and equipment on a straight-line basis (Note 14). Useful life and the depreciation method are constantly reviewed, and accordingly, parallels are sought between the depreciation method and the period and the useful life to be derived from the related asset. The depreciation periods for property, plant and equipment, which approximate the economic useful lives of such assets, are as follows:

	Useful life (Year)
Land improvements	2-50
Buildings	5-50
Machinery and equipment	3-40
Motor vehicles	4-8
Furniture and fixtures	2-50
Leasehold improvements	4-46

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the event of circumstances indicating that an impairment has occurred in the tangible assets, an inspection is performed for the purpose of determining a possible impairment, and if the registered value of the tangible asset is higher than its recoverable value, the registered value is reduced to its recoverable value by reserving a provision. The recoverable value is considered either the net cash flow to be caused by the current use of the respective tangible assets or the nest sales price, whichever is higher.

Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with their restated carrying amounts and are included in the related income and expense accounts, as appropriate (Note 25).

Repairs and maintenance are charged to consolidated statement of comprehensive income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Intangible assets

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. They are initially recognised at acquisition cost and amortised on a straight-line basis over their estimated useful lives. The depreciation period for the intangibles capitalised in relation with the new models will be started after the production of these models is started. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable (Note 15).

Payments made for rights of usage of assets within Yalova Composite and Chemical Specialized Organized Industrial Zone ("Yalkim OSB") are classified under intangible assets. The assets comprise buildings and machinery used for waste water treatment and land investments.

Intangible assets recognized as a part of business combination

In business combinations, the acquirer may recognize identifiable assets, intangible assets and/or contingent liabilities which are not included in the acquiree’s financial statements and which can be separated from goodwill, at their fair values in the consolidated financial statements. The customer relationships of the acquiree is considered as identifiable intangible asset and recognized at fair value at the acquisition date.

Intangible assets useful lives vary between 3 and 15 years.

Research and development expenses

Expenditures for research and development are expensed in the period incurred. Except with the following criteria for project expenditures are recorded as expense in the period incurred as well. The costs related to the development projects are capitalised when the criteria below are met and amortised on a straight-line basis over the useful lives of related projects according to standard IAS 38 Intangible assets (Note 15):

- The product or process is clearly defined and costs are separately identified and measured reliably,
- The technical feasibility of the product is demonstrated,
- The product or process will be sold or used in-house,
- A potential market exists for the product or its usefulness in case of internal use is demonstrated
- Adequate technical, financial and other resources required for completion of the project are available.

The Group manages research and development projects with project declaration documentation. On the beginning and ending of projects, top management of Group confirms projects declaration forms, reviews projects and controls research and development expenses and capitalization.

3.10 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues are stated net of discounts, value added and sales taxes. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Net sales are invoiced amounts of delivered goods excluding sales returns.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Revenue recognition (Continued)

When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised on an accrual basis as financial income.

Dividend income is recognised when the Group has the right to receive the dividend payment. Rent income is recognised in the financial statements when the Groups right to receive the monthly rent income is established.

Commission income is recognised when the intermediary goods have been billed by the seller.

The Group has accrued volume rebates in line with the fiber customers' purchase targets to be paid at the end of the year. The Group classifies such volume rebates as "sales discounts" account under revenues.

Income generated from the sales of the real estate (residential units and shops classified as inventories) is accounted as soon as the below conditions are met:

a) The Group has transferred all significant risks and rewards associated with the property to the buyer. (Transfer of title generally coincides with the final acceptance by the customers of the residential units or shops sold and that is when the risk and rewards of ownership is considered to pass to the customer),
b) The Group does not have any control on the sold properties and no continued administrative participation associated with the property,
c) Reliable measurement of revenue,
d) Probability that the economic benefits from the transaction will flow to the Group and
e) Reliable measurement of costs,

Rent income from investment properties is recognized on the accrual basis. Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognized when the amount of revenue can be measured reliably and when it is probable that future economic benefits associated with the transaction will flow to the Group. The seasonal rent discounts are offsetted from rent revenue as incurred.

Interest income is recognized using the effective interest method, which takes into account the future cash inflows from an asset over its expected life.

3.11 Borrowings

All bank borrowings are initially recognised at cost, being the fair value of the consideration received net of issue cost associated with the borrowing. After initial recognition, bank borrowings are subsequently measured at amortised cost using the effective yield method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement (Note 19).

3.12 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, one that takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Provisions for employee termination benefits

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men).

IAS 19, "Employee Benefits" requires actuarial assumptions (net discount rate, turnover rate to estimate the probability of retirement etc.) to estimate the entity's obligation for employment termination benefits. The effects of differences between the actuarial assumptions and actual outcome together with the effects of changes in actuarial assumptions compose the actuarial gains/losses (Note 17).

The Group has an employee benefit plan called "Seniority Incentive Bonus" ("Bonus") which is paid to employees with a certain level of seniority. The Group accounts for this Bonus according to IAS 19, "Employee Benefits". Seniority incentive bonus provision which is disclosed within the employee termination benefit represents the present value of the estimated total reserve of the probable future obligations (Note 17).

3.14 Current and deferred income tax

Tax expense or income is the aggregate of current income tax and deferred taxes which are based on the gains and losses for the period.

The corporation tax rate is 20% after 1 January 2006 in Turkey. Corporation tax rate is applicable on the total income of the companies after adjusting for certain disallowable expenses, income tax exemptions (participation exemption, investment incentive exemption, etc.) and income tax deductions (for example research and development expenses deduction). No further tax is payable unless the profit is distributed.

Except for the dividends paid to non-resident corporations which have a representative office in Turkey or resident corporations, dividends are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Akmerkez, one of the affiliates of the Group and Akiş, one of the subsidiaries of the Group are not subject to Corporate Tax according to article 94, paragraph 6-a of Income Tax Law and the stoppage rate is decided as "0%" according to decision numbered 93/5148 by Council of Ministers.

Deferred income tax is provided for in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements.

Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax liabilities are recognised for all taxable temporary differences, whereas deferred tax assets resulting from deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Current and deferred income tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. The carrying amount of deferred income tax assets is reviewed by the Group at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized (Note 28).

Deferred income tax assets and deferred income tax liabilities related to income taxes levied by the same taxation authority are offset accordingly, at individual entity level.

3.15 Events after the balance sheet date

The Group adjusts the amounts recognised in its financial statements to reflect the adjusting events after the balance sheet date. If non-adjusting events after the balance sheet date have material influence on the economic decisions of users of the financial statements, they are disclosed in the notes to the consolidated financial statements (Note 30).

3.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate (Note 16).

3.17 Contingent assets and liabilities

Contingent liabilities are not recognised in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements, but disclosed when an inflow of economic benefits is probable.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in financial tables and are treated as contingent assets or liabilities.

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognised in the financial statements since this may result in the recognition of income that may never be realised. A contingent asset is disclosed where an inflow of economic benefit is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs (Not 16).

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Business combinations

Business combinations are accounted in accordance with IFRS 3, "Business Combinations". Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. If the purchase amount is less than the fair value of provisions, contingent assets and liabilities, the subjected difference is identified with income statement.

Changes in Ownership Interests

The Group applies a policy of treating transactions with non-controlling interests that do not result in loss of control, as transactions with owners of the parent. In a purchase transaction with non-controlling interests, the difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. In a sale transaction with non-controlling interests, the difference between fair value of any proceeds received and the relevant share of non-controlling interests are also recorded in equity. Consequently, gains or losses on disposals to non-controlling interests are not accounted for in the consolidated statement of comprehensive income.

3.19 Foreign currency transactions

Functional currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity. The consolidated financial statements are presented in Turkish Lira, which is the functional currency of Akkök.

Foreign currency transactions and balances

Income and expenses arising in foreign currencies have been translated into TRY at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into TRY at the exchange rates prevailing at the balance sheet dates. Exchange gains or losses arising from the settlement and translation of foreign currency items have been included in the consolidated statement of income.

3.20 Derivative financial instruments

The Group's derivative financial instruments are composed of interest rate swap and forward foreign exchange purchase and sale transactions.

Since interest rate swap transactions ensure effective protection against risks for the Group and meet the conditions necessary for IAS 39, "Financial instruments: Recognition and Measurement" requirements in terms of hedge accounting, they are accounted for using hedge accounting in the consolidated financial statements.

While certain forward foreign exchange purchase and sale transactions provide effective protection for the Group against foreign exchange risks, they are still recognised as held-for-trading financial instruments in the consolidated financial statements since they don't meet the conditions necessary for IAS 39, "Financial instruments: Recognition and Measurement" requirements for hedge accounting.

Changes in the fair value of derivatives, designated as cash flow hedges and qualified as effective, are recognized in equity under "hedging reserve", whereas changes in the fair value of derivatives designated as held for trading, are recognized in the comprehensive statement of income.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Reporting of cash flows

Cash flows during the period are classified and reported by operating, investing and financing activities in the cash flow statements.

Cash flows from operating activities represent the cash flows of the Group generated from operations. Cash flows related to investing activities represent the cash flows that are used in or provided from the investing activities of the Group (capital expenditures and financial investments). Cash flows arising from financing activities represent the cash proceeds from the financing activities of the Group and the repayments of these funds.

Cash and cash equivalents comprise cash on hand and bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities equal or less than three months (Note 6).

3.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants relating to costs are recognised in the income statement by deducting from research and development expenses. Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

3.23 Paid in share capital

The shareholders are classified as share capital. The share capital through a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings (Note 21).

3.24 Leases

a) The Group as the lessor

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

b) The Group as the lessee

Finance leases

Assets held under a finance lease are presented in balance sheet as a receivable at an amount equal to the present value of lease payments. Interest income is determined over the term of the lease using the net investment period, which reflects a constant periodic rate of return and the deferred financial income on the transaction date is recognised as unearned finance income.

Operating leases

Assets leased out under operating leases are included in property, plant and equipment in the consolidated balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income is recognised in the consolidated income statement on a straight-line basis over the lease term.

NOTE 4 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements according to IFRS, necessitates the use of estimates and assumptions that affect asset and liability amounts reported as of the balance sheet date, explanations of contingent liabilities and assets; and income and expense amounts reported for the accounting period. Although these estimates and assumptions are based on all management information related to the events and transactions, actual results may differ from them. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities for the next reporting period are outlined below:

a) Akport investments

As explained in detail in Note 16, the Agreement to Transfer the Right to Operate the Tekirdağ Port signed between Akport, TDI and the Privatisation Authority was terminated due to impossibility as indicated in Code of Obligations. Group management anticipates receiving compensation for the investments in Tekirdağ Port and that the compensation will not be less than their book value as recorded in the Group's consolidated financial statements dated 31 December 2016.

b) Fair values of investment property

Investment properties are stated at cost less accumulated depreciation and impairment, if any, shown by the impairment loss. Fair values of investment property disclosed in Note 13 have been estimated by management through use of independent property valuation experts. Investment property fair values are taken into consideration performed by alternative procedures such as prices formed in active market by considering the related assets' idiosyncrasy, conditions and situation; or prices calculated discounted cash flow procedure in the absence from an active market.

c) Deferred income tax assets

Deferred income tax liabilities are recognised for all taxable temporary differences, where deferred income tax assets resulting from deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised (Note 28).

d) Useful lives of property, plant and equipment and intangible assets

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. They are initially recognised at acquisition cost and amortised on a straight-line basis over their estimated useful lives. Useful lives of property, plant and equipment, rely on best estimates of management, these estimates are reviewed balance sheet dates and if necessary adjustments are made necessary (Note 14 and 15).

e) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when reliable estimate can be made of the amount of the obligation (Note 16).

f) Income taxes

Subsidiaries, joint ventures and associates of the Group are subject to income tax and various tax legislations. The group performs the accounting of liabilities related to the taxes expected based on the assumption of whether additional tax will be paid or not. If the tax amount reached as a result of these is significantly different from the amount first entered to the book, these differences may affect the provision of income tax and deferred taxes related to that period (Note 28).

NOTE 4 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

g) Provision for employment termination benefits

Provision for employee termination benefits at present value is determined on an actuarial basis using certain assumptions. These assumptions, including the discount rate, are used in determining the current year charge (income) arising from the change in the provision. Changes to these assumptions impact the carrying amount of the provisions.

At the end of each year, the Group determines the discount rate to be used in the calculating the present value of the estimated future cash flows. In estimating the discount rate, the Group considers the yields on long-term high quality corporate and sovereign bonds and inflation estimates of Central Bank of Turkey (Note 17).

h) Impairment of intangible asset

As discussed in Note 2 accounting policies, the carrying values of assets are reviewed for impairment on a yearly basis or more frequently if the events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The Group performs impairment test for intangible assets which are acquired in a business combination by comparing the intangible asset carrying amount to the discounted cash flow projections of the assets which are calculated on the basis of Group's five year business plans. The Group has performed an impairment test on intangible assets at 31 December 2016 and has not identified any impairment as a result of this test.

i) Impairment of goodwill

According to the determined accounting policies, the Group performs impairment test for goodwill annually or when circumstances indicate that the carrying value may be impaired. Impairment test for goodwill is generated by comparing its carrying amount with the recoverable amount. The recoverable amount is determined by discounted cash flow projections of Groups five year business plan.

As a result of the impairment test performed based on the assumptions explained above, the Group did not identify any impairment as of 31 December 2016.

Discount rate 1% higher (lower) which is used in discounted cash flow calculations causes decrease at fair value amounting to TRY19,869 (increase amounting to TRY25,050) and no impairment has been identified in sensitivity analysis performed with these rates as of 31 December 2016.

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

NOTE 5 - BUSINESS COMBINATIONS

Gizem Frit and Karlıtepe Acquisitions

On 5 January 2015, the Group acquired 100% shares of Gizem Frit. Gizem Frit is a producer of performance coatings and pigments. The products are being used for the decorative and protective purpose in coating of the materials such as metal sheet, stainless steel, aluminium, cast iron, ceramic tile, sanitary ware, porcelain, medical porcelain and glass. Additionally, these materials are being colorized by inorganic pigments which are also manufactured by Gizem Frit. On 22 May 2015, the Group acquired 100% shares of Karlıtepe. Net assets acquired as a result of these acquisitions are summarized as follows:

	Karlıtepe	Gizem Frit	Total
Cash payment portion of purchase	100	212,458	212,558
Cash and cash equivalents in subsidiary acquired	(111)	(1,824)	(1,935)
Cash outflow on acquisition	**(11)**	**210,634**	**210,623**

The fair values of assets and liabilities arising from the acquisition are as follows:

	Karlıtepe	Gizem Frit	Total
Cash and cash equivalents	111	1,824	1,935
Trade receivables	-	53,227	53,227
Inventories	1,757	44,134	45,891
Property, plant and equipment	-	80,107	80,107
Intangible assets	3	107,276	107,279
Other assets	-	3,476	3,476
Borrowings	-	(69,146)	(69,146)
Trade payables	-	(31,999)	(31,999)
Other payables	-	(554)	(554)
Provision for employment termination benefits	-	(1,866)	(1,866)
Other liabilities	(2,654)	(2,686)	(5,340)
Deferred income tax liabilities	176	(12,607)	(12,431)
Total identifiable net assets / (liabilities)	**(607)**	**171,186**	**170,579**

Net assets acquired as a result of acquisitions and the details of the calculation of goodwill are as follows:

	Karlıtepe	Gizem Frit	Total
Purchase consideration settled in cash	100	212,458	212,558
Contingent consideration (*)	-	9,436	9,436
Net liabilities/(assets) acquired	607	(171,186)	(170,579)
Goodwill	**707**	**50,708**	**51,415**

(*) Contingent consideration has been remeaseured as of balance sheet date of these consolidated financial statements.

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

NOTE 5 - BUSINESS COMBINATIONS (Continued)

In the event that certain pre-determined earnings before interest, taxes, depreciation and amortisation ("EBITDA") is achieved by the Gizem Frit for the years ended 2015 and 2016, additional consideration of liabilities may be payable. The estimate is based on discount rate of 14% for the year ended 2016 and on assumption that the probability of the actual EBITDA is lower than 80% of pre-determined EBITDA. Fair value of the remaining contingent consideration is calculated amounting to TRY4,223 as of 31 December 2016.

The movement of contingent consideration is below:

Contingent consideration at the date of acquisition	9,436
Change in fair value	(774)
Payments	(4,423)
Contingent consideration at balance sheet date	**4,239**

NOTE 6 - CASH AND CASH EQUIVALENTS

The analysis of cash and cash equivalents at 31 December 2016 and 2015 is presented below:

	2016	**2015**
Cash on hand	298	235
Cash at banks		
Demand deposits	32,548	73,430
Time deposits	677,775	565,558
Other	2,471	5,813
Total	**713,092**	**645,036**

The reconciliation between cash and cash equivalents in the consolidated statement of financial position and the consolidated statements of cash flows as at 31 December 2016 and 2015 is as follows:

	2016	**2015**
Cash and cash equivalents	713,092	645,036
Less: restricted deposits	(1,174)	(7,602)
Less: interest accruals	(842)	(168)
Cash and cash equivalents	**711,076**	**637,266**

Interest rate of time deposits with maturities less than 3 months at 31 December 2016 and 2015 are as follows:

	2016		**2015**	
	Time Deposit	**Interest Rate %**	**Time Deposit**	**Interest Rate %**
TRY	199,725	8.73-12.00	117,842	7.00-13.50
USD	446,344	2.07-3.90	397,047	2.00-2.95
Euro	31,540	0.98-1.65	50,552	1.40-1.95
Other	166	2.50	117	2.50
Total	**677,775**		**565,558**	

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

NOTE 7 - FINANCIAL INVESTMENTS

	2016	**2015**
Bank deposits with maturities over three months (*)	43,800	-
Current financial investments:	**43,800**	**-**
Available-for-sale financial investments	8,915	8,648
Financial investments not included in the scope of consolidation (**)	226	226
Banks deposits with maturities over one year (*)	-	29,182
Non-current financial investments:	**9,141**	**38,056**
Total	**52,941**	**38,056**

(*) Bank deposits are blocked by banks for borrowings used by subsidiaries. Interest rates of such are between 2.55% to 2.60%.

(**) Financial investments that are excluded from the scope of consolidation are excluded on the grounds of immateriality. As these shares do not have quoted market price in an active market, they are carried at cost, adjusted for inflation accounting that was applicable until 31 December 2004.

Available-for-sale financial investments:	**%**	**2016**	**%**	**2015**
Yapı ve Kredi Bankası A.Ş.	<1	8,136	<1	7,897
Akçansa Çimento Sanayi A.Ş.	<1	779	<1	751
Total		**8,915**		**8,648**

Movements of available-for-sale financial investments for the years ended 31 December 2016 and 2015 are as follows:

	2016	**2015**
1 January	8,648	12,762
Changes in fair value	267	(3,737)
Disposed financial assets available-for-sale	-	(377)
31 December	**8,915**	**8,648**

Financial investments not included in the scope of consolidation:	**2016**	**2015**
Akhan Bakım Yönetim Servis Hizmet Ticaret A.Ş.	119	119
Üçgen Bakım ve Yönetim Hizmetleri A.Ş.	107	107
Total	**226**	**226**

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

NOTE 8 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2016	**2015**
DowAksa	214,252	243,337
Akcez	158,928	209,588
Saf GYO	149,422	164,644
Akmerkez	29,628	29,497
Akferal	4,743	5,107
Akenerji (*)	-	-
Total	**556,973**	**652,173**

(*) The Group has not recognised the Group's share in loss of Akenerji amounting to TRY114,244 in the financials statements as of 31 December 2016. The Group assumes that unrecognised period losses will not constitute further liabilities.

Movements of investments in associate during the years ended 31 December 2016 and 2015 is as follows:

	2016	**2015**
1 January	652,173	610,088
Share of loss from associates	(131,335)	(168,428)
Dividend received	(14,017)	(29,506)
Other comprehensive income from associates	32,527	54,005
Capital increase	17,625	-
Increase in ownership rate (*)	-	183,543
Share premium adjustment	-	2,471
31 December	**556,973**	**652,173**

(*) Increase in ownership rate is related to acquisition of Saf GYO shares (Note 2.2).

Increase in Saf GYO ownership rate

Akiş GYO A.Ş. ("Akiş"), has purchased shares corresponding to 13.15% of the share capital of SAF Gayrimenkul Yatırım Ortaklığı A.Ş. ("SAF") in exchange for a consideration of USD62,865,533 on 31 July 2015.

As a result of the acquisition, the indirect shareholding percentage of Akkök Holding A.Ş. in SAF was increased to 6.22% from 2.07%. The Group recognised a gain of TRY9,125 for reameasurement of shares previously owned (Note 25).

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

NOTE 8 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

As of 31 December 2016 and 2015, summarised financial information for the Group's investments accounted for using the method are presented below:

2016	**Assets**	**Liabilities**	**Revenue**	**Net (loss)/profit for the period**
Akenerji (*)	3,263,084	3,572,614	1,420,842	(482,824)
Akcez	2,042,204	1,837,677	2,430,861	(101,664)
DowAksa	1,012,818	584,314	72,392	(158,303)
Saf GYO	838,202	733,619	200,591	(54,108)
Akmerkez	233,113	7,385	114,923	77,822
Akferal	19,248	9,861	19,042	(2,808)

(*) Total assets and liabilities in the consolidated financial statements where the Company's tangible assets are accounted for at fair value are TRY5,044,551 and TRY3,994,373, respectively.

2015	**Assets**	**Liabilities**	**Revenue**	**Net (loss)/profit for the period**
Akenerji	3,598,644	3,440,364	1,802,889	(334,535)
Akcez	1,783,849	1,478,001	1,937,559	(135,033)
DowAksa	946,529	459,855	74,258	(118,188)
Saf GYO	905,471	723,661	193,790	(40,666)
Akmerkez	234,424	9,618	105,088	73,325
Akferal	20,254	9,521	8,972	(2,632)

As of 31 December 2016 and 2015, market capitalization of the Group's investments accounted for using the equity method are presented below:

2016	**Total market capitalization as of 31 December 2016**	**Group's share**
Akenerji	619,790	126,623
Akmerkez GYO	767,638	100,791
Saf GYO	753,612	148,537
Total	**2,141,040**	**375,951**

2015	**Total market capitalization as of 31 December 2015**	**Group's share**
Akenerji	692,706	141,520
Akmerkez GYO	618,582	81,220
Saf GYO	700,416	138,052
Total	**2,011,704**	**360,792**

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

NOTE 9 - RELATED PARTY DISCLOSURES

a) Trade receivables from related parties

The analysis of trade receivables due from related parties as at 31 December 2016 and 2015 is as follows:

	2016	2015
Akenerji	13,253	9,291
DowAksa	8,467	6,551
Akferal	3,172	3,858
Akcez	1,420	10,935
Other	2,194	2,103
Total	**28,506**	**32,738**

b) Other receivables from related parties

The analysis of other receivables due from related parties as at 31 December 2016 and 2015 is as follows:

	2016	2015
DowAksa	769	11,089
Akcez	192	-
Akferal	83	1,486
Total	**1,044**	**12,575**

c) Non-current other receivables from related parties

	2016	2015
DowAksa (*)	105,374	79,456
Akiş Mudanya Adi Ortaklığı	4,160	3,338
Total	**109,534**	**82,794**

(*) In accordance with the Utilities Agreement signed between Aksa and DowAksa Holdings dated 29 June 2012, Aksa transferred the "505 Solvent Recovery Unit" at a consideration for its cost (including finance costs) plus a 5% margin, which is to be repaid in equal installments for the next 10 years; to DowAksa Holdings, who has an option to assure legal title to the asset for a nominal consideration at the end of the lease period. In 2016, the short-term receivables were classified as long-term due to the structuring on the principal payment plan with respect to the reconciliation with Dowaksa.

d) Short-term other payables due to related parties

	2016	2015
DowAksa	14,171	24,136
Akgirişim	9,179	5,660
Yalkim OSB	1,757	10,666
Other	1,841	5,501
Total	**26,948**	**45,957**

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

NOTE 9 - RELATED PARTY DISCLOSURES (Continued)

e) Long-term other payables due to related parties

	2016	2015
Yalkim OSB (*)	-	23,257
Total	**-**	**23,257**

(*) The balance, comprising of the cost for the Group's right of use of joint treatment plant within Yalkim Organized Industrial Zone as of 31 December 2015, is paid as of 31 December 2016.

f) Sales to related parties

	2016	2015
DowAksa	29,680	35,949
Akferal	10,180	8,693
Akenerji	10,105	9,013
Akcez	9,491	22,910
Yalkim OSB	-	6,000
Other	7,269	3,750
Total	**66,725**	**86,315**

g) Service and product purchases from related parties

	2016	2015
Akgirişim (**)	40,605	41,951
Yalkim OSB (***)	17,237	71,816
Akhan	5,268	4,295
Akenerji	4,492	10,893
Other	5,008	3,116
Total	**72,610**	**132,071**

(**) The contracting charge of Aksa and Akkim for the contructions in progess.
(***) The usage rights cost of joint treatment plant within Yalkim Organized Industrial Zone.

Purchases from related parties consist of energy, chemical products, services, consultancy and rent expenses.

h) Key management compensation

The Group has determined the key management personnel as the members of the board of directors and executive committee members.

	2016	2015
Key management compensation	9,375	12,061
Other benefits	129	112
Total	**9,504**	**12,173**

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

NOTE 9 - RELATED PARTY DISCLOSURES (Continued)

i) Commitments given to related parties

The long term loan amounting to USD325,000,000 granted to Akcez and its subsidiaries, Sedaş and Sepaş as borrowers, by the International Finance Corporation ("IFC"), European Bank for Reconstruction and Development ("EBRD") and Unicredit Bank AG ("UCB") was refinanced on the basis of the negotiations with the same Bank Group as of 20 May 2016. As of the date of the refinancing of the loan, the balance is USD220,675,000 and Akcez's shareholders Akkök Holding A.Ş. And Cez A.Ş. have become guarantors of the loans (each responsible individually and with a maximum balance equal to half of the loan). Loan repayments are made by Akcez and the balance of the loan is USD216,661,804 as of 31 December 2016.

Akcez's shareholders Akkök Holding A.Ş. and Cez A.Ş. have become guarantors solely (each responsible individually and with a maximum amount equal to half of the loan) with respect to long term loans amounting to USD18,660,003 and TRY53,526,218 obtained by Akcez's subsidiary, Sedaş as borrower, from the International Finance Corporation ("IFC"), European Bank for Reconstruction and Development ("EBRD") and Unicredit Bank AG ("UCB") as part of the refinancing agreement dated 20 May 2016. Loan repayments are made by Sedaş. As of 31 December 2016, the remaining balance of the loan is USD18,660,003 and TRY53,526,218.

NOTE 10 - TRADE RECEIVABLES AND PAYABLES

a) Trade receivables from third parties

	2016	2015
Trade receivables	974,177	734,417
Less: Provision for doubtful receivables	(64,626)	(60,113)
Less: Rediscount of trade receivables	(12,172)	(10,896)
Subtotal	**897,379**	**663,408**
Trade receivables from related parties (Note 9)	28,506	32,738
Total	**925,885**	**696,146**

Maturity of trade receivables of the Group is generally less than three months (2015: less than three months). The past experience of the Group in collecting receivables has been taken into consideration when determining the provision amount for doubtful receivables. Therefore, the Group believes that, there is no additional collection risk for trade receivables other than the provision provided.

Movements of provision for doubtful trade receivables for the years ended 31 December 2016 and 2015 are as follows:

	2016	2015
1 January	60,113	58,216
Collections and reversal of provisions	(1,932)	(1,483)
Charge for the year	6,445	1,309
Increase due to Gizem Frit acquisition	-	2,071
31 December	**64,626**	**60,113**

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

NOTE 10 - TRADE RECEIVABLES AND PAYABLES (Continued)

As at 31 December 2016, trade receivables amounting to TRY96,093 (2015: TRY63,826) were past due but not impaired. The Group does not foresee any collection risk for receivables overdue up to one month due to sector dynamics and circumstances. The Group restructures a portion of trade receivables overdue more than one month by applying interest charge.

Aging of past due but not impaired trade receivables at 31 December 2016 and 2015 is as follows:

	2016	2015
Up to 3 months	88,877	59,521
More than 3 months	7,216	4,305
Total	**96,093**	**63,826**

b) Long-term trade receivables

	2016	2015
Notes receivables (*)	63,325	67,105
Less: Unearned financial income	(5,019)	(7,301)
Total	**58,306**	**59,804**

(*) TRY61,170 (2015:TRY66,840) portion of the long-term notes receivables consist of notes received for the sales of Cerkezkoy buildings and lands to Altınyıldız Tekstil Konfeksiyon A.Ş. with 5 year maturities.

c) Trade payables from third parties

	2016	2015
Trade payables	615,594	377,530
Less: Unearned financial expense	(3,791)	(2,239)
Subtotal	**611,803**	**375,291**
Trade payables to related parties (Note 9)	26,948	45,957
Total	**638,751**	**421,248**

NOTE 11 - INVENTORIES

	2016	2015
Raw materials	146,442	133,077
Finished goods	105,380	63,874
Complete and incomplete residences	97,203	399
Other inventories and spare parts	43,019	35,745
Semi-finished goods	23,171	27,146
Trade goods	4,353	6,959
Less: Provision for impairment in inventories	(1,915)	(2,768)
Total	**417,653**	**264,432**

At 31 December 2016, carrying value of the Group's non-current inventories comprising incomplete residences is TRY291,205 (2015: TRY317,618).

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

NOTE 11 – INVENTORIES (Continued)

Provision for impairment in inventories is mainly related to finished goods as of 31 December 2016 and 2015:

	2016	2015
1 January	2,768	1,304
Charge for the year	-	1,464
Cancelled provision	(853)	-
31 December	**1,915**	**2,768**

NOTE 12 - PREPAID EXPENSES AND DEFERRED INCOME

	2016	2015
Current prepayments:		
Advances given for inventories	15,714	10,952
Prepaid expenses	12,092	11,799
Total	**27,806**	**22,751**
Non-current prepayments:		
Advances given	50,844	13,950
Prepaid expenses	4,520	4,183
Total	**55,364**	**18,133**
Deferred income:		
Advances received	61,460	18,647
Deferred income	3,388	3,093
Total	**64,848**	**21,740**

NOTE 13 - INVESTMENT PROPERTY

	1 January 2016	Additions	Disposals (*)	Transfer	Impairment	31 December 2016
Cost	551,191	29,260	(43,556)	-	-	536,895
Accumulated depreciation	43,323	7,811	-	-	-	51,134
Net book value	**507,868**					**485,761**

	1 January 2015	Additions	Disposals	Transfer	Impairment	31 December 2015
Cost	536,108	21,829	(9,837)	3,091	-	551,191
Accumulated depreciation	40,603	7,721	(6,822)	1,655	166	43,323
Net book value	**495,505**					**507,868**

(*) Consist of sales of lands located in Üsküdar Kısıklı, and Çerkezköy by Akiş in 2016.

Fair value of the Group's investment properties, as of 31 December 2016 were estimated by an independent valuation company as TRY1,218,932 (2015: TRY1,117,755). Total fair value determined is classified as Level 2. Level 2 fair value classified investments properties' fair values are based on sales price for square meter in a similar location in an active market. Level 3 fair value classified investments' fair values are based on discounted cash flows using current market estimations.

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

NOT 14 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2016	Additions	Disposals (*)	Transfers (*)	Currency translation differences	31 December 2016
Cost						
Land and land improvements	259,763	3,164	(29)	14,374	(809)	276,463
Buildings	225,252	1,009	-	37,273	(1,683)	261,851
Machinery and equipment	1,387,007	7,835	(1,209)	67,096	(3,580)	1,457,149
Motor vehicles	82,423	438	(91)	-	(203)	82,567
Furniture and fixtures	85,418	4,859	(365)	4,528	(145)	94,295
Leasehold improvements	16,029	205	-	-	-	16,234
Construction in progress (**)	97,422	169,494	-	(127,942)	-	138,974
Total	**2,153,314**	**187,004**	**(1,694)**	**(4,671)**	**(6,420)**	**2,327,533**
Accumulated Depreciation						
Land and land improvements	74,713	6,410	(7)	-	-	81,116
Buildings	59,037	6,292	-	-	(869)	64,460
Machinery and equipments	860,741	74,523	(1,186)	-	(3,059)	931,019
Motor vehicles	15,367	5,756	(40)	-	(203)	20,880
Furniture and fixtures	55,175	7,910	(205)	-	(130)	62,750
Leasehold improvements	12,255	599	-	-	-	12,854
Total	**1,077,288**	**101,490**	**(1,438)**	**-**	**(4,261)**	**1,173,079**
Net book value	**1,076,026**					**1,154,454**

(*) Amount of TRY4,671 of transfers are due to classification of intangible assets.
(**) Construction in progress is mainly comprised of modernization of production facilitites and construction of reverse osmosis facility of Aksa, and investmets with respect to ultra filtration and Yalova persulfates facilities of Akkim.

The total amount of mortgage on the lands of the Group as of 31 December 2016 is TRY733,860 (2015: TRY656,102).

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

NOT 14 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2015	Additions	Disposals	Transfers (*)	Currency translation differences	Increase due to acquisitions (***)	31 December 2015
Cost							
Land and land improvements	243,193	5,175	(3,821)	3,580	217	11,419	259,763
Buildings	183,110	1,183	(806)	22,668	447	18,650	225,252
Machinery and equipment	1,188,177	13,792	(5,023)	112,954	867	76,240	1,387,007
Motor vehicles	82,412	1,399	(2,204)	-	54	762	82,423
Furniture and fixtures	72,839	5,096	(1,172)	6,990	36	1,629	85,418
Leasehold improvements	15,030	999	-	-	-	-	16,029
Construction in progress (**)	99,221	155,134	(18)	(156,915)	-	-	97,422
Total	**1,883,982**	**182,778**	**(13,044)**	**(10,723)**	**1,621**	**108,700**	**2,153,314**
Accumulated Depreciation							
Land and land improvements	68,292	6,479	(319)	-	-	261	74,713
Buildings	53,748	5,552	(806)	(1,710)	210	2,043	59,037
Machinery and equipment	770,868	68,476	(4,333)	-	822	24,908	860,741
Motor vehicles	9,731	5,919	(631)	-	54	294	15,367
Furniture and fixtures	47,741	7,273	(932)	-	34	1,059	55,175
Leasehold improvements	11,552	674	-	-	-	29	12,255
Total	**961,932**	**94,373**	**(7,021)**	**(1,710)**	**1,120**	**28,594**	**1,077,288**
Net book value	**922,050**						**1,076,026**

(*) Amount of TRY3,091 of transfers is the classification of assets to invesment properties and amount of TRY7,577 is to intangible assets.
(**) Contruction in progress is mainly comprised of modernization of production facilitites and construction of reverse osmosis facility of Aksa and modernization of production facilities of Akkim.
(***) Note 5.

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

NOTE 15 - INTANGIBLE ASSETS

	1 January 2016	Additions	Disposals	Transfers	Currency translation differences	31 December 2016
Cost:						
Rights	130,606	1,544	(6,144)	-	(771)	125,235
Development costs	21,276	90	-	4,671	-	26,037
Other	6,049	294	-	-	-	6,343
Customer list	107,276	-	-	-	-	107,276
Total	**265,207**	**1,928**	**(6,144)**	**4,671**	**(771)**	**264,891**
Accumulated amortisation:						
Rights	11,305	4,197	(2,142)	-	(430)	12,930
Development costs	8,724	3,658	-	-	-	12,382
Other	3,887	1,163	-	-	-	5,050
Customer list	10,728	10,728	-	-	-	21,456
Total	**34,644**	**19,746**	**(2,142)**	**-**	**(430)**	**51,818**
Net book value	**230,563**					**213,073**

	1 January 2015	Additions (*)	Disposals	Transfers	Currency translation differences	Increase due to acquisitions (**)	31 December 2015
Cost:							
Rights	14,955	114,311	(318)	1,450	208	-	130,606
Development costs	17,219	20	-	4,037	-	-	21,276
Other	5,269	296	(1,732)	2,090	-	126	6,049
Customer list	-	-	-	-	-	107,276	107,276
Total	**37,443**	**114,627**	**(2,050)**	**7,577**	**208**	**107,402**	**265,207**
Accumulated amortisation:							
Rights	9,019	2,214	(42)	-	114	-	11,305
Development costs	5,517	3,207	-	-	-	-	8,724
Other	4,546	950	(1,712)	-	-	103	3,887
Customer list	-	10,728	-	-	-	-	10,728
Total	**19,082**	**17,099**	**(1,754)**	**-**	**114**	**103**	**34,644**
Net book value	**18,361**					**230,563**	

(*) Additions are mainly consisted of the usage cost of joint treatment plant and lands within Yalkim OSB.
(**) Note 5.

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

NOTE 16 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Provisions:

	2016	**2015**
Provisions for debts and expenses	3,718	2,253
Provision for lawsuits	2,686	2,308
Provision for tax penalty	-	4,039
Total	**6,404**	**8,600**

Other non-current provisions mostly consist of provisions for operating right payments of Akport.

Contingent assets and liabilities:

a) *Guarantees received*

Mortgages, guarantee notes and cheques, letters of guarantee and other commitments received for short-term trade receivables are as follows:

	2016	**2015**
Eximbank limits	456,777	391,518
Insurances on receivables	430,371	318,993
Confirmed/nonconfirmed letters of guarantees	247,025	293,140
Received notes, guarantee and cheques	106,014	69,901
Received mortgages	92,860	50,483
Received letters of guarantee	75,845	54,675
Limits from direct debit systems	15,956	19,563
Total	**1,424,848**	**1,198,273**

b) Guarantees given

Letters of guarantee, mortgages and letters of credit given by the Group are presented below:

	2016	**2015**
Mortgages given	733,860	656,102
Letters of credit given	368,440	194,572
Letters of guarantee given	199,216	246,145
Total	**1,301,516**	**1,096,819**

NOTE 16 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Akport, a subsidiary of the Group, took over the right to operate the Tekirdağ Port for 30 years on 17 June 1997 as a result of the Agreement to Transfer the Right to Operate the Tekirdağ Port ("Agreement") signed with Türkiye Denizcilik İşletmeleri A.Ş. ("TDİ") and the Republic of Turkey's Prime Ministry Privatisation Authority ("Privatisation Authority").

Based on its conclusion in its business plans that the Tekirdağ Port would be operationally effective only if it were transformed into a container port, Akport built a container terminal area of 101,820 square metres by filling in the sea along the coast within the coordinates specified in the Tekirdağ Port Instruction as of the date the operation right was acquired. The container terminal area is recognised with a net book value of TRY35,895 in the Group's consolidated financial statements as of 31 December 2016.

Following construction of the container port, the Ministry of Finance's General Directorate of National Estate claimed title to the area on which the container platform was located and charged various eviction penalties to Akport. Subsequently, Akport's permission to operate the Tekirdağ Port expired on 1 November 2010. The Undersecretariat for Maritime Affairs did not extend the permission, and Akport was charged an administrative fine of TRY4,434 on the grounds that the port was used without permission until the date 31 December 2016. The fine payments are recorded as expense in 2012.

As efforts to obtain the required permission remained fruitless, the situation created legal and penal liabilities for Akport and its officials and events occurring outside of Akport's discretion reached an uncontrollable level. It became impossible to manage the port administratively and legally, which in turn made it impossible to uphold the Agreement between TDİ, the Privatisation Authority and Akport.

In the face of these developments, Akport advised the Privatisation Authority on 6 February 2012 that the operational activities were halted and the facility should be taken back over. The response letter sent to Akport by the Privatisation Authority on 6 March 2012 stated that the Privatisation Authority and TDİ were authorised to take actions in line with the decision of the Privatisation Authority relating to the request of Akport, and the Tekirdağ Port began to be operated by TDİ during the course of March 2012. In order to ensure that public services at the port were not interrupted following this transfer, certain services requested by TDİ continued to be offered by Akport until October 2012.

Because the Agreement was terminated due to the impossibility of fulfilling the requirements as specified in the Code of Obligations, the area built for the purpose of transforming the port into a container port should be returned to Akport. Therefore, the valuation study performed in the presence of the Tekirdağ 2nd Civil Court of Peace which indicates the value of container terminal area as TRY78,025 and railway and land improvements as TRY10,050. However, as the area constructed by means of filling the sea cannot be returned by means of an ordinary demounting process, Akport claims that Akport should be compensated for the cost of construction of the container port aggregated to TRY88,075 and a claim for compensation against Türkiye Denizcilik İşletmeleri was opened. As at 31 December 2014 the case was still in the process. By the judgement of 15 September 2015 (including accrued interest as of December 2015) it is decided for TDİ to make payment in amount of TRY80,803 to Akport. The annulment action was proceeded by TDİ against the decision, and the Court made decision of nonjurisdiction on 3 March 2016. TDİ appealed against the decision of nonjurisdiction and the final decision hasn't been made yet.

NOTE 16 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

In the meantime, with its letter dated 19 September 2012 with No. 6199, the Privatisation Authority of the Turkish Prime Minister's Office requested that USD74,673,983 should be paid within one month as the unpaid rent that should be paid by Akport until the end of the Agreement term due to expiry of the Agreement". Following the notification of Akport that it would not be possible to fulfil this request, the Privatisation Authority with its letter dated 9 November 2012, opened a lawsuit for the collection of the said amount in the presence of arbitrators.

Arbitration committee has unanimously taken the following decisions on 28 February 2014.

1. Relationship between the parties were ended as of 1 November 2010 due to impossibility of perfectt fulfillment of the requirements
2. Akport should pay a total of USD3,881,262 for operating rights and compensation costs as of the date of decision.
3. The parties have the right to terminate the counterclaim.

Accordingly, Akport made payment in amount of USD3,934,296, including accrued interest to maturity date, to ÖİB at 22 April 2014, and no additional provisions were made in the financial statements for the year ended 31 December 2016.

The case filed by the Privatization Administration for cancellation of the decision was rejected by the Court on 21 January 2016, and the office of the Privatization Administration appealed against the decision. The decision has not yet been finalized.

d) *Lawsuits from shareholders*:

Following Akkök Holding A.Ş.'s ("Akkök") extraordinary general assembly meeting dated 31 October 2013 and ordinary general assembly meeting related to the year ended 2013 dated 22 April 2014 (delayed to and completed on 23 May 2014), certain shareholders filed numerous lawsuits against the Group.

The lawsuit filed for the annulment of Akkök's extraordinary general assembly meeting dated 31 October 2013, was accepted by the Court of First Instance on 21 October 2015 and as the parties did not appeal to the higher court, the decision became final on 21 November 2015.

Regarding the case for the annulment of the extraordinary general meetings dated 23 December 2015 and 14 January 2016 and the order of the board of directors' decision of Akkök dated 24 February 2016 and numbered 4, calling for shareholders to pay 50% of the capital commitments, the plaintiffs rejected the preliminary injunction. Accordingly, no provision has been made for this demand in the financial statements for the year ended 31 December 2016.

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

NOTE 17 - EMPLOYEE BENEFITS

	2016	2015
Short term:		
Provision for bonuses	18,038	15,568
Unused vacation provision	3,729	3,233
Subtotal	**21,767**	**18,801**
Long term:		
Provision for employment termination benefits	34,201	34,823
Provision for seniority incentive plan	2,243	2,903
Total	**36,444**	**37,726**

The conditions of provision for employment termination benefits are explained below.

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and who reaches the retirement age (58 for women and 60 for men), whose employment is terminated without due cause, is called up for military service or passed away. Since the legislation was changed on 23 May 2002 there are certain transitional provisions relating to length of service prior to retirement.

The liability is not funded as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees.

IAS 19 "Employee Benefits" require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly the following actuarial assumptions have been used in the calculation of the total liability:

	2016	2015
Discount rate (%)	3.52	3.58
Probability of retirement (%)	84.95 - 100.00	84.95 - 100.00

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised once every six months, the maximum amount of TRY4,426 effective from 1 January 2017 (1 January 2016: TRY4,093) has been taken into consideration in calculating the reserve for employment termination benefit of the Group.

Movements in the provisions for employment termination benefits and seniority incentive bonus for the years ended 31 December 2016 and 2015 are as follows:

	2016	2015
1 January	37,726	35,903
Compensation paid	(6,692)	(3,649)
Service cost	6,898	3,617
Interest cost	2,573	2,006
Gizemfrit acquisition effect (Note 5)	-	1,866
Actuarial gain	(4,061)	(2,017)
31 December	**36,444**	**37,726**

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

NOTE 18 - OTHER ASSETS AND LIABILITIES

	2016	2015
Other current assets:		
VAT receivable	111,481	96,469
Income accruals	1,297	737
Other	836	582
Total	**113,614**	**97,788**
Other non-current assets:		
VAT receivable	3,071	2,324
Other	1,639	957
Total	**4,710**	**3,281**
Other current liabilities:		
Taxes and funds payable	5,386	6,689
Liability in relation to contingent consideration for Gizem Frit (Note 5)	4,239	4,156
Expense accruals	705	2,407
Organized Industrial Zone liabilities	-	3,273
Total	**10,330**	**16,525**
Other non-current liabilities:		
Liability in relation to contingent consideration for Gizem Frit (Note 5)	-	7,544
Total	**-**	**7,544**

NOTE 19 - BORROWINGS

	2016	2015
Short-term bank borrowings	944,129	981,686
Short-term factoring and leasing liabilities	36,202	21,850
Subtotal	**980,331**	**1,003,536**
Current portion of long-term bank borrowings	317,783	232,312
Total short-term financial liabilities	**1,298,114**	**1,235,848**
Long-term bank borrowings	1,039,019	936,390
Long-term factoring and leasing liabilities	90	4,878
Total long-term financial liabilities	**1,039,109**	**941,268**

As of 31 December 2016, the Group has short term Eximbank borrowings in USD currency, amounting to TRY523,087 (2015: TRY689,402), and short term Eximbank borrowings in EUR currency amounting to TRY200,335 (2015: TRY108,038).

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

NOTE 19 - BORROWINGS (Continued)

The weighted average effective annual interest rates (%) for the financial assets and liabilities of the Group are as follows:

	2016		2015	
	Weighted average interest rate %	TRY	Weighted average interest rate %	TRY
Short term bank borrowings:				
USD Loans	1.80	585,947	1.55	742,355
Euro Loans	1.24	261,019	1.83	208,844
TRY Loans	16.05	97,163	11.29	30,487
Total		**944,129**		**981,686**
Short term factoring payables:				
USD factoring payables		30,042		21,850
TRY factoring payables		6,160		-
Total		**36,202**		**21,850**
Current portion of long-term bank borrowings:				
USD Loans	4.85	219,030	4.29	157,394
Euro Loans	3.38	96,977	3.24	74,918
TRY Loans	13.15	1,776	-	-
Total		**317,783**		**232,312**
Long-term bank borrowings:				
USD Loans	5.62	670,583	5.60	620,873
Euro Loans	3.55	312,602	3.58	315,517
TRY Loans	10.17	55,834	-	-
Total		**1,039,019**		**936,390**
Long-term factoring payables:				
TRY factoring payables		90		4,878
Total		**90**		**4,878**

The book value and fair value of the borrowings as of 31 December 2016 and 2015 is as follows:

	2016		2015	
	Fair Value	Book Value	Fair Value	Book Value
USD borrowings	1,513,449	1,477,500	1,551,594	1,533,823
EUR borrowings	742,503	705,085	611,982	599,277
TRY borrowings	161,643	154,638	44,016	44,016
Total	**2,417,595**	**2,337,223**	**2,207,592**	**2,177,116**

The fair values of the borrowings are based on discounted cash flows using a current borrowing rate. They are classified as level 2 fair values in the fair value hierarchy.

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

NOTE 19 - BORROWINGS (Continued)

The repayment schedule of long term financial borrowings is as follows:

	2016	2015
Within 1 - 2 year	303,940	191,139
Within 2 - 3 year	219,495	233,502
Within 3 - 4 year	139,584	142,840
Over 4 years	376,090	373,787
Total	**1,039,109**	**941,268**

At 31 December 2016, bank borrowings with floating interest rates amounted to TRY247,125 (2015: TRY262,559). The floating interest rate bank borrowings denominated in USD, which represents a significant portion of total bank borrowings of the Group, have interest rates fluctuating between Libor+3.10% and Libor+3.50% (London Interbank Offered Rate) (2015: Libor+3.10% and Libor+3.25%).

NOTE 20 - DERIVATIVE FINANCIAL INSTRUMENTS

	2016		2015	
	Asset	**Liabilities**	**Asset**	**Liabilities**
Hedging instruments	2,554	-	413	1,454
Held for trading	136	2,790	7,311	817
Total	**2,690**	**2,790**	**7,724**	**2,271**

Derivatives as hedging instruments:

	2016		2015	
	Contract amount	**Fair value Liability**	**Contract amount**	**Fair value Liability**
Interest rate swap	56,429	(2,554)	44,767	(1,041)

Derivative financial instruments are initially recognised in the consolidated balance sheet at cost and subsequently are re-measured at their fair value. The derivative instruments of the Group mainly consist of foreign exchange forward contracts and interest rate swap instruments.

On the date a derivative contract is entered into, the Group designates certain derivatives as either a hedge of the fair value of a recognised asset or liability ("fair value hedge"), or a hedge of a forecasted transaction or a firm commitment ("cash flow hedge"). These derivative 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 that are designated as being and qualify as cash flow hedges and are highly effective, are recognised in equity as "hedging reserve".

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

NOTE 20 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, or when a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement. The realisation of promised or probable future transactions are recorded in the income statement, if not realised, accumulated gains or losses are recognised as income or loss in the consolidated financial statements.

At 31 December 2016, the fixed interest rates vary from 0.90% to 16.05% (2015: 1.62% to 5.60%), and the main floating rates are EURIBOR and LIBOR. Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of 31 December 2015 will be continuously released to the income statement within finance cost until the repayment of the bank borrowings.

NOTE 21 - CAPITAL, RESERVES AND OTHER EQUITY ITEMS

At 31 December 2016 and 2015, the Group's share capital and shareholding structure exceeding 1% were as follows:

	% Share	2016	% Share	2015
A.R.D. Holding A.Ş.	33	334,483	33	287,793
Atlantik Holding A.Ş.	33	334,483	33	287,793
N.D.Ç. Holding A.Ş.	33	334,482	33	287,791
Other	1	2	1	1
Total	**100**	**1,003,450**	**100**	**863,378**
Paid-in capital		(35,018)		-
		968,432		**863,378**
Adjustment to share capital		(10,406)		(10,406)
Total Equity		**958,026**		**852,972**

The Group's authorised share capital consists of 100,345,000,000 shares each with TRY0.01 value (2015: 86,337,823,914). There are no privileges given to shares of different groups and shareholders. As of balance sheet date, the paid-in capital is TRY968,432.

The capital, which was increased from TRY13,098 to TRY863,378 with the decision taken at the extraordinary general meeting dated 23 December 2015, through the addition of the Company's whole internal resources to the capital (only from internal resources) pursuant to Article 462 of the Turkish Commercial Code (TCC) was incresed to TRY1,003,450 taken at the extraordinary general assembly meeting held on 23 December 2015, Increased to TRY1,003,450 with the decision of capital increase taken at the extraordinary general meeting held on 14 January 2016. All of the guaranteed amount of TRY105,054 was paid in cash. Capital increase was registered on 22 February 2016.

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

NOTE 21 - CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

Retained Earnings and Legal Reserves

Legal reserves consist of first and second legal reserves, calculated in accordance with the Turkish Commercial Code. The first legal reserve is calculated as 5% of the financial statutory profits per annum until the total reserve reaches 20% of the historical paid-in share capital. In accordance with Turkish Commercial Code, restricted reserves not exceeding 50% of share capital can be offset against accumulated losses, but cannot be distributed.

As of 31 December 2016 and 2015 retained earnings of Akkök in accordance with statutory financial statements are as follows:

	2016	2015
Legal reserves	7,516	6,549
Retained loss	-	(1,684)
Net profit for the period	75,827	21,035
Total	**83,343**	**25,900**

Informations on subsidiaries with significant non-controlling interest

Summarized of financial informations about the Groups' subsidiaries with significant share of non-controlling interest are stated below:

2016	Ownership of non-controlling interest (%)	Assets	Liabilities	Revenue	Net profit/(loss) for the year
Akiş	68.47	1,166,896	812,066	78,563	(2,152)
Akkim	58.00	953,147	720,008	641,102	13,282
Aksa	60.41	2,632,970	1,383,268	1,954,385	125,747
Total		**4,753,013**	**2,915,342**	**2,674,050**	**136,877**

2015	Ownership of non-controlling interest (%)	Assets	Liabilities	Revenue	Net profit/(loss) for the year
Akiş	68.47	1,121,526	736,623	89,826	72,385
Akkim	58.00	806,220	579,170	564,028	(693)
Aksa	60.41	2,254,075	1,005,479	2,030,006	199,466
Total		**4,181,821**	**2,321,272**	**2,683,860**	**271,158**

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

NOTE 22 - REVENUE AND COST OF SALES

a) Revenue

	2016	2015
Revenue	1,768,148	1,901,293
Exports	973,579	987,055
Less: Sales returns (-)	(12,143)	(16,269)
Less: Sales discounts (-)	(112,096)	(182,635)
Revenues, net	**2,617,488**	**2,689,444**

b) Cost of sales

	2016	2015
Raw materials	1,603,134	1,700,967
Personnel expenses	133,011	112,505
Depreciation and amortisation	118,053	107,512
Shopping mall costs	25,900	23,922
Other	95,040	145,494
Total	**1,975,138**	**2,090,400**

NOTE 23 - GENERAL AND ADMINISTRATIVE EXPENSES

a) General administrative expenses

	2016	2015
Personnel expenses	63,713	54,926
Consultancy expenses	24,723	25,939
Other tax expenses	11,475	7,814
Donations and charities	9,045	4,212
Communication expenses	6,880	6,597
Depreciation and amortization	5,996	5,353
Rent expenses	3,470	2,550
Office expenses	2,851	2,623
Travelling expenses	1,491	1,949
Other	22,012	17,080
Total	**151,656**	**129,043**

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

NOTE 23 - GENERAL AND ADMINISTRATIVE EXPENSES (Continued)

a) Marketing expenses

	2016	2015
Export expenses	21,337	29,044
Commission expenses	18,440	6,530
Personnel expenses	17,845	15,714
Transportation expenses	4,146	8,156
Travel expenses	2,626	2,281
Rent expenses	1,623	1,165
Advertisement expenses	965	1,565
Insurance expenses	849	1,115
Other	7,638	8,073
Total	**75,469**	**73,643**

NOTE 24 - OTHER OPERATING INCOME AND EXPENSE

a) Other operating income

	2016	2015
Foreign exchange gain on trade receivables and payables	223,301	155,052
Interest income from sales on credit	28,251	24,786
Provisions closed	2,736	3,495
Other	14,674	10,980
Total	**268,962**	**194,313**

b) Other operating expenses

	2016	2015
Foreign exchange gain on trade receivables and payables	153,540	110,149
Interest expense from purchases on credit	18,605	22,109
Provision expenses	2,167	3,347
Tax penalty	350	6,695
Other	4,649	4,982
Total	**179,311**	**147,282**

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

NOTE 25 - INCOME AND EXPENSE FROM INVESTING ACTIVITIES

a) Income from investing activities

	2016	2015
Gain on sales of fixed assets (*)	78,960	104,700
Dividend income from subsidiaries	657	921
Gain on acquisition of additional stake in SAF GYO (Note 8)	-	9,125
Gain on sale of financial assets	-	132
Total	**79,617**	**114,878**

(*) The amount of TRY77,978 of the gain on sales of fixed assets, consists of sale of land, building and fixed asset of Çerkezkoy, Üsküdar and Bozüyük.

b) Expenses from investing activities

	2016	2015
Impairment of investment property	-	(166)
Total	**-**	**(166)**

NOTE 26 - EXPENSE BY NATURE

Expenses classified by nature for the period of 31 December 2016 and 2015 are as follows:

	2016	2015
Raw materials	1,689,209	1,802,122
Personnel expenses	216,835	185,147
Depreciation and amortisation expenses	128,399	118,229
Shopping mall costs	25,900	23,922
Cost of residences sold	206	5,590
Other	157,019	169,325
Total	**2,217,568**	**2,304,335**

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

NOTE 27 - FINANCIAL INCOME AND EXPENSES

a) Financial income

	2016	2015
Foreign exchange gain	410,575	293,844
Interest income	32,873	33,741
Gain from derivative financial instruments	-	45,342
Total	**443,448**	**372,927**

b) Financial expenses

	2016	2015
Foreign exchange loss	(668,872)	(492,765)
Interest expenses	(64,614)	(99,420)
Loss from derivative financial instruments	(10,220)	(9,463)
Total	**(743,706)**	**(601,648)**
Net financial expense	**(300,258)**	**(228,721)**

NOTE 28 - TAXES ON INCOME

	2016	2015
Corporate and income taxes payable	63,594	67,451
Less: prepaid corporate income tax	(53,947)	(50,320)
Taxes on income, net	**9,647**	**17,131**

The details of taxation on income in the statements of comprehensive income for the years ended 31 December 2016 and 2015 are as below:

	2016	2015
Current income tax expense	(63,594)	(67,451)
Deferred tax expense, net	(3,472)	1,720
Total tax expense, net	**(67,066)**	**(65,731)**

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

NOTE 28 - TAXES ON INCOME (Continued)

Deferred tax assets and liabilities

The composition of cumulative temporary differences and the related deferred income tax assets and liabilities in respect of items for which deferred tax has been provided at 31 December 2016 and 2015 using the enacted tax rates is as follows:

	Temporary taxable differences		Deferred tax assets / (liabilities)	
	2016	2015	2016	2015
Investment incentives	51,730	49,795	10,346	9,959
Employee benefits	39,230	35,905	7,846	7,181
Deferred tax assets from carryforward losses	610	4,075	122	815
Provision for doubtful receivables	540	7,385	108	1,477
Derivative financial insturments	235	-	47	-
Impairment of inventories	-	10,040	-	2,008
Other	5,810	3,185	1,162	637
Deferred income tax assets			**19,631**	**22,077**
Property, plant and equipment and intangible assets	(193,705)	(179,235)	(38,741)	(35,847)
Derivative financial insturments	-	(5,600)	-	(1,120)
Trade payables	(2,905)	(2,190)	(581)	(438)
Impairment of inventories	(1,155)	-	(231)	-
Other	-	(260)	-	(52)
Deferred income tax liabilities			**(39,553)**	**(37,457)**
Deferred income tax liabilities, net			**(19,922)**	**(15,380)**

Since each subsidiary and joint venture are separate taxpayers, net deferred income tax assets or liabilities for each of these taxpayers have been calculated; however these have not been offset in the consolidated balance sheets.

	2016	2015
Deferred income tax assets	12,405	10,956
Deferred income tax liabilities	(32,327)	(26,336)
Deferred income tax liabilities, net	**(19,922)**	**(15,380)**

Movements of deferred tax liability as at 31 December 2016 and 2015 as below:

	2016	2015
1 January	15,380	4,446
Deferred tax income / (expense) for the year, net	3,472	(1,720)
Amounts recognised under equity	1,070	223
Change due to acquisition (Note 5)	-	12,431
Balances at 31 December	**19,922**	**15,380**

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

NOTE 28 - TAXES ON INCOME (Continued)

The reconciliation of tax expenses stated on the consolidated statement of comprehensive income for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Profit before tax on consolidated financial statements	138,816	149,703
Expected tax expense of the Group (20%)	**(27,763)**	**(29,941)**
Effect of tax losses for which no deferred tax asset recognized	(20,308)	(1,247)
Effect of consolidation adjustments	(31,220)	(34,481)
Non-deductible expenses	(2,407)	(5,589)
Other income exempt from tax	15,741	7,437
Other	(1,109)	(1,910)
Actual tax expense of the Group	**(67,066)**	**(65,731)**

As of balance sheet date, the Group did not recognize deferred income tax assets on carry forward tax losses' of certain subsidiaries, for which amounts and expiration dates are as follows:

Dates of expiry	2016	2015
2017	19,261	19,261
2018	20,327	20,327
2019	16,704	16,704
2010	9,005	9,005
2021	4,815	-
Total	**70,112**	**65,297**

NOTE 29 - NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

Financial risk factors

The Groups principal financial instruments are cash and cash equivalents, trade receivables and financial liabilities. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk and credit risk. The Group management reviews and agrees policies for managing each of the risks as summarised below.

29.1 Foreign currency risk

Foreign currency risk is identified by the changes in cash flows and revenues due to changes in foreign currency rates. Akkök Group is exposed to foreign currency risk with the foreign currency transactions of sales, purchases and financial liabilities. In these transactions, USD and Euro are the main currencies. In selected subsidiaries, Akkök Holding A.Ş., implement written policies for managing these risks. Written policies are determined considering, a) risk appetite b) strategies and plan to reduce risk to an acceptable level c) risk monitoring methods (reporting, etc.). These policies are revised when necessary and reviewed at least once a year.

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

NOTE 29 - NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Net foreign currency positions of selected subsidiaries are analysed periodically by Akkök Holding A.Ş.. In order to manage the foreign currency risk, natural hedging is achieved, as practically possible, through balance sheet management. In addition, the Group enters into derivative contracts to manage shorter - term foreign currency risk, where necessary. For longer term management of the risk, the Group considers market conditions and enters into derivative contracts.

As of 31 December 2016, the foreign currency position of the Group is prepared using the following foreign exchange rates USD/TRY 3.5192, EUR/TRY 3.7099 (2015: USD/TRY 2.9076, EUR/TRY 3.1776).

Foreign currency position table denominated in Turkish Lira as of 31 December 2016 and 2015 is as follows:

	2016	2015
Assets	1,505,571	1,206,980
Liabilities (-)	(2,780,344)	(2,498,326)
Net balance sheet position	**(1,274,773)**	**(1,291,346)**

	2016			
	USD	**EUR**	**Other currencies**	**Total**
Assets:				
Cash and cash equivalents	456,243	34,510	6,305	497,058
Financial investments	35,317	-	-	35,317
Trade receivables	768,681	97,709	641	867,031
Other assets	106,075	90	-	106,165
Total assets	**1,366,316**	**132,309**	**6,946**	**1,505,571**
Liabilities:				
Short-term borrowings	811,137	357,996	-	1,169,133
Long-term borrowings	670,673	312,602	-	983,275
Trade payables	489,443	56,979	576	546,998
Other liabilities	73,364	7,575	-	80,939
Total liabilities	**2,044,617**	**735,152**	**576**	**2,780,345**
Net foreign currency position	**(678,301)**	**(602,843)**	**6,370**	**(1,274,773)**

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

NOTE 29 - NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

	2015			
	USD	**EUR**	**Other currencies**	**Total**
Assets:				
Cash and cash equivalents	435,203	54,420	34,371	523,994
Financial investments	29,076	-	-	29,076
Trade receivables	425,127	134,395	93	559,615
Other assets	91,999	2,296	-	94,295
Total assets	**981,405**	**191,111**	**34,464**	**1,206,980**
Liabilities:				
Short-term borrowings	907,965	283,762	-	1,191,727
Long-term borrowings	625,751	315,517	-	941,268
Trade payables	281,138	71,049	179	352,366
Other liabilities	12,825	140	-	12,965
Total liabilities	**1,827,679**	**670,468**	**179**	**2,498,326**
Net foreign currency position	**(846,274)**	**(479,357)**	**34,285**	**(1,291,346)**

The table below shows the sensitivity of the net foreign currency position of the Group to the changes in the consolidated financial statements as of 31 December 2016 and 2015.

2016	**Foreign currency appreciation**	**Foreign currency devaluation**
Change of USD against TRY by 10%		
USD net assets / liabilities	(67,830)	67,830
USD net effect - income/ (expense)	**(67,830)**	**67,830**
Change of EUR against TRY by 10%		
EUR net assets / liabilities	(60,284)	60,284
Euro net effect - income/ (expense)	**(60,284)**	**60,284**

2015	**Foreign currency appreciation**	**Foreign currency devaluation**
Change of USD against TRY by 10%		
USD net assets / liabilities	(84,627)	84,627
USD net effect - income/ (expense)	**(84,627)**	**84,627**
Change of EUR against TRY by 10%		
EUR net assets / liabilities	(47,936)	47,936
Euro net effect - income/ (expense)	**(47,936)**	**47,936**

NOTE 29 - NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

29.2 Interest rate risk

Interest rate risk arises from changes in interest rates of interest bearing liabilities and assets. As the medium and long term borrowings are only available with floating rates in the market Akkök Group is exposed to interest rate risk from time to time. Akkök Holding A.Ş., implemented written policies for managing these risks. Written policies are determined considering, a) risk appetite b) strategies and plans to reduce risk to an acceptable level c) risk monitoring methods (reporting, etc.). These policies are revised when necessary and reviewed at once a year. The Group watches markets closely, analyses sensitivity to interest rate changes and the weighted average maturity of liabilities to identify possible changes in costs. As a result of analysis; if necessary, interest rate swaps are used to fix some portion of the floating rate debt liabilities during the term of the loan.

Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rate expose the Group to fair value interest rate risk. As of 31 December 2016 and 2015, the Group's borrowings at floating rates are mainly denominated in USD and Euro.

At 31 December 2016, if interest rates on USD denominated borrowings had been higher/lower by 100 base point with all other variables held constant, profit before income taxes would have been TRY2,472 (2015: TRY2,627) lower/higher, mainly as a result of high interest expense on floating rate borrowings.

29.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of the counterparties. It is the Group policy that all customers who wish to trade on credit terms are subject to credit screening procedures and the Group also obtains collaterals from customers when appropriate. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Trade receivables are evaluated by the management based on their past experiences and current ec onomic condition, and are presented in financial statements net of provision for doubtful receivables

The Fitch rating scores of the banks in which the company has short term time and demand deposits, are within the range of F3-B.

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

NOTE 29 - NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Credit risk of financial instruments at 31 December 2016 and 2015 are as follows:

	Trade and other receivables		
2016	**Related party**	**Other**	**Bank deposits**
Maximum credit risk exposure			
as of the reporting date (A+B+C+D+E)	**139,084**	**960,530**	**756,594**
Secured portion	-	409,872	-
A. Net book value of financial assets that are neither past due nor impaired	139,084	860,832	756,594
- Secured portion	-	348,331	-
B. Net book value of financial assets that are past due but not impaired	-	96,093	-
- Secured portion	-	57,936	-
C. Net book value of financial assets that are past due and impaired	-	3,605	-
- Overdue (gross book value)	-	68,231	-
- Impairment (-)	-	(64,626)	-
- Secured portion	-	3,605	-
- Not overdue (gross book value)	-	-	-
- Impairment (-)	-	-	-
- Secured portion	-	-	-
D. Off-balance sheet items with credit risk	-	-	-

	Trade and other receivables		
2015	**Related party**	**Other**	**Bank deposits**
Maximum credit risk exposure			
as of the reporting date (A+B+C+D+E)	**128,107**	**727,490**	**673,983**
Secured portion	-	250,898	-
A. Net book value of financial assets that are neither past due nor impaired	128,107	656,349	673,983
- Secured portion	-	220,432	-
B. Net book value of financial assets that are past due but not impaired	-	63,826	-
- Secured portion	-	26,058	-
C. Net book value of financial assets that are past due and impaired	-	7,315	-
- Overdue (gross book value)	-	67,428	-
- Impairment (-)	-	(60,113)	-
- Secured portion	-	7,315	-
- Not overdue (gross book value)	-	-	-
- Impairment (-)	-	-	-
- Secured portion	-	-	-
D. Off-balance sheet items with credit risk	-	-	-

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

NOTE 29 - NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

29.4 Liquidity risk

Liquidity risk comprises the risks arising from the inability to fund the increase in the assets, the inability to cover the liabilities due and the operations performed. The liquidity is minimised by balancing the cash inflows and outflows and also securing funds from reliable financial institutions.

The breakdown of financial assets and liabilities according to their maturities is disclosed considering the due date periods. Financial assets and liabilities that have no certain due dates are classified in over one year column.

2016:

Contractual maturities	Carrying value	Contractual cash flows (=I+II+III+ IV)	Up to 3 months (I)	3 to 12 months (II)	1 to 5 years (III)	More than 5 years (IV)
Non-derivate financial liabilities						
Borrowings	2,337,223	2,552,991	579,099	806,715	901,056	266,121
Trade payables	611,803	614,722	366,345	248,377	-	-
Due to related parties	26,948	26,948	19,236	7,712	-	-
Total	**2,975,974**	**3,194,661**	**964,680**	**1,062,804**	**901,056**	**266,121**

Expected (or contractual) maturities	Carrying value	Contractual cash flows (=I+II+III+ IV)	Up to 3 months	3 to 12 months (II)	1 to 5 years (III)	More than 5 years (IV)
Derivative financial assets, (net)						
Derivative cash outflows	2,790	2,790	1,653	-	1,137	-

2015:

Contractual maturities	Carrying value	Contractual cash flows (=I+II+III+ IV)	Up to 3 months (I)	3 to 12 months (II)	1 to 5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Borrowings	2,177,116	2,329,238	492,150	761,673	686,020	389,395
Trade payables	375,291	376,871	268,362	108,509	-	-
Due to related parties	69,214	69,214	9,934	36,023	15,706	7,551
Total	**2,621,621**	**2,775,323**	**770,446**	**906,205**	**701,726**	**396,946**

Expected (or contractual) maturities	Carrying value	Contractual cash flows (=I+II+III+ IV)	Up to 3 months	3 to 12 months (II)	1 to 5 years (III)	More than 5 years (IV)
Derivative financial assets, (net)						
Derivative cash outflows	2,271	2,271	463	1,808	-	-

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

NOTE 29 - NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

29.5 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and maintain an optimal structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group controls its capital using the net debt/total capital ratio. This ratio is calculated by dividing net debt by the total capital amount. Net debt is calculated as total liability amount (comprises of financial liabilities, trade payables and payables to related parties as presented in the balance sheet) less cash and cash equivalents Total capital is calculated as equity plus the net debt amount as presented in the balance sheet.

The ratio of net debt/equity at 31 December 2016 and 2015 is as follows:

	2016	2015
Total liabilities	2,975,974	2,598,364
Less: cash and cash equivalents (Note 6)	(713,092)	(645,036)
Less: short term financial investments	(43,800)	-
Net debt	**2,219,082**	**1,953,328**
Total shareholders' equity	2,070,600	1,999,116
Total equity	**4,289,682**	**3,952,444**
Debt/equity ratio (%)	**52**	**49**

29.6 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 estimated fair values of financial instruments 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 the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

The following methods and assumptions are used to estimate the fair value of the financial instruments:

Monetary assets

Monetary assets and liabilities denominated in foreign currencies have been translated at the exchange rates prevailing at the balance sheet dates. These balances are anticipated to approximate their book value.

The carrying values of significant portion of cash and cash equivalents are assumed to approximate to their fair value due to their short-term nature.

The carrying values of trade receivables are assumed to approximate to their fair value with their provisions for doubtful receivables.

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

NOTE 29 NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Monetary liabilities

Bank loans and other liabilities are anticipated to approximate their book value due to their short-term nature.

The long-term loans are assumed to approximate to their carrying value due to their variable interest rates. The determined fair value of long-term loans to explain on notes, is discounted amount of cash flows according to agreements with current market interest rate (Note19).

Fair Value Estimation:

Effective from 1 January 2011, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
Level 3: Inputs for the asset or liability that is not based on observable market data.

2016	**Level 1**	**Level 2**	**Level 3**
Available-for-sale financial assets	8,915	-	226
Derivative financial assets	-	2,690	-
Total assets	**8,915**	**2,690**	**226**

2015	**Level 1**	**Level 2**	**Level 3**
Available-for-sale financial assets	8,648	-	226
Derivative financial assets	-	7,724	-
Total assets	**8,648**	**7,724**	**226**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise 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 fair value an instrument are observable, the instrument is included in level 2.

NOTE 30 - EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to the decisions taken at the Extraordinary General Assembly Meetings of SAF GYO on 27 December 2016 and Akiş on 28 December 2016, It has been decided that SAF GYO and Akiş GYO will merge within Akiş GYO through the acquisition of SAF GYO by Akiş GYO as a whole together with all its assets and liabilities. The acquisition was registered on 18 January 2017 and SAF GYO A.Ş. dissolved without liquidation.

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