AKKÖK HOLDİNG ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017 TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

(ORIGINALLY ISSUED IN TURKISH)

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(Convenience translation of a report and consolidated financial statements originally issued in Turkish)

Independent auditor's report

To the Shareholders of Akkök Holding Anonim Şirketi

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Akkök Holding Anonim Şirketi (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

We have expressed an unqualified opinion in our auditor's report dated March 30, 2018 on the financial statements of the Group for the period of 1/1/2017-31/12/2017, which are prepared in accordance with General Communique on Accounting System Application ("GCASA") and Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA") announcement.

We have expressed an unqualified opinion in our auditor's report dated March 30, 2018 on the annual report of Akkök Holding Anonim Şirketi for the period of 1/1/2017-31/12/2017, which are prepared in accordance with Articles 514 and 516 of the Turkish Commercial Code 6102 ("TCC").

Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on March 30, 2018.

The consolidated financial statements of the Group prepared in accordance with the International Financial Reporting Standards ("IFRS") as of December 31, 2016, were audited by another audit firm whose independent auditor's report thereon dated July 14, 2017 expressed an unqualified opinion.

(Convenience translation of a report and consolidated financial statements originally issued in Turkish)

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is 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 skepticism 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.

- 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.

(Convenience translation of a report and consolidated financial statements originally issued in Turkish)

- 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.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Ferzan Ülgen, SMMM
Partner

May 18, 2018
İstanbul, Türkiye

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

AKKÖK HOLDİNG ANONİM ŞİRKETİ

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AKKÖK HOLDİNG ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2017 AND 2016

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

	Notes	Audited December, 31 2017	Audited December, 31 2016
ASSETS			
Cash and cash equivalents	6	884,729	713,092
Financial investments	7	35,053	43,800
Derivative financial instruments	21	5,302	809
Trade receivables	10	1,155,624	925,885
Due from related parties	*9*	*35,456*	*28,506*
Due from other parties		*1,120,168*	*897,379*
Other receivables		27,376	5,859
Due from related parties	*9*	*21,615*	*1,044*
Due from other parties		*5,761*	*4,815*
Inventories	11	943,950	417,653
Current income tax assets		1,626	7,674
Prepaid expenses	12	30,488	27,806
Other current assets	19	150,659	113,614
Subtotal		**3,234,807**	**2,256,192**
Assets held for sale		1,431	**-**
Current Assets		**3,236,238**	**2,256,192**
Trade receivables	10	56,440	58,306
Due from other parties		*56,440*	*58,306*
Other receivables		112,025	109,564
Due from related parties	*9*	*110,034*	*109,534*
Due from other parties		*1,991*	*30*
Financial investments	7	13,344	9,141
Investments accounted using the equity method	8	409,584	556,973
Investment properties	13	2,668,702	485,761
Property, plant and equipment	14	1,532,052	1,154,454
Intangible assets		281,650	264,488
Goodwill	*16*	*56,993*	*51,415*
Other intangible assets	*15*	*224,657*	*213,073*
Inventories	11	68,338	291,205
Prepaid expenses	12	30,047	55,364
Deferred tax assets	29	8,163	12,405
Derivative financial instruments	21	**-**	1,881
Other non-current assets	19	4,064	4,710
Non-current Assets		**5,184,409**	**3,004,252**
TOTAL ASSETS		**8,420,647**	**5,260,444**

The consolidated financial statements for period 1 January - 31 December 2017 were approved by the Board Directors on May 18, 2018.

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

AKKÖK HOLDİNG ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2017 AND 2016

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

	Notes	**Audited** December 31, 2017	**Audited** December 31, 2016
LIABILITIES			
Short term borrowings	20	1,121,910	980,331
Short term portion of long term borrowings	20	413,911	317,783
Derivative financial instruments	21	1,928	1,653
Trade payables	10	960,879	638,751
Due to related parties	*9*	*46,653*	*26,948*
Due to other parties		*914,226*	*611,803*
Liabilities for employee benefits		13,191	4,188
Other payables		5,040	6,209
Due to other parties		*5,040*	*6,209*
Deferred income	12	35,620	64,848
Current income tax liabilities	29	8,658	9,647
Short term provisions		40,768	28,171
Provisions for employee benefits	*18*	*25,870*	*21,767*
Other short-term provisions	*17*	*14,898*	*6,404*
Other current liabilities	19	6,620	10,330
Current Liabilities		**2,608,525**	**2,061,911**
Long term borrowings	20	2,121,602	1,039,109
Derivative financial instruments	21	-	1,137
Trade payables		582	-
Due to related parties		*582*	-
Other payables		-	833
Due to other parties		-	*833*
Deferred income	12	9,413	-
Long term provisions		45,316	54,527
Provisions for employee benefits	*18*	*45,316*	*36,444*
Other long-term provisions	*17*	-	*18,083*
Deferred tax liabilities	29	32,826	32,327
Other non-current liabilities	19	517	-
Non-current Liabilities		**2,210,256**	**1,127,933**
TOTAL LIABILITIES		**4,818,781**	**3,189,844**

AKKÖK HOLDİNG ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2017 AND 2016

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

	Notes	Audited December 31, 2017	Audited December 31, 2016
Equity attributable to equity holders of the parent			
Paid-in share capital	22	989,443	968,432
Adjustments to share capital	22	(10,406)	(10,406)
Total paid-in capital		**979,037**	**958,026**
Merger offsetting account		154,442	-
Repurchased shares		(33,618)	-
Other comprehensive income/expense to be reclassified to profit or loss			
Change in fair value of available-for-sale financial assets		*5,837*	*3,353*
Hedging reserve		*(9,116)*	*(9,486)*
Currency translation differences		*73,285*	*63,871*
Other comprehensive income/expense not to be reclassified to profit or loss			
Actuarial gain/loss arising from defined benefit plans		*(8,629)*	*(6,402)*
Restricted reserves		11,308	7,516
Retained earnings/(loss)		(177,356)	(66,976)
Net profit/(loss) for the year		269,028	(13,712)
Total equity attributable to owners of the parent		**1,264,218**	**936,190**
Non-controlling interests		**2,337,648**	**1,134,410**
TOTAL EQUITY		**3,601,866**	**2,070,600**
TOTAL EQUITY AND LIABILITIES		**8,420,647**	**5,260,444**

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

AKKÖK HOLDİNG ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

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

	Notes	Audited January 1- December 31, 2017	Audited January 1- December 31, 2016
Revenue	23	3,850,172	2,617,488
Cost of sales (-)	23	(2,895,016)	(1,978,003)
Gross profit		**955,156**	**639,485**
General administrative expenses (-)	24	(149,223)	(148,791)
Marketing expenses (-)	24	(94,127)	(75,469)
Research and development expenses (-)		(23,816)	(14,084)
Other operating income	25	514,388	268,962
Other operating expenses (-)	25	(400,712)	(179,311)
Operating profit		**801,666**	**490,792**
Income from investing activities	26	134,681	79,617
Other income from associates, joint ventures, subsidiaries	5	372,740	-
Share of loss on investments accounted using the equity method	8	(49,792)	(131,335)
Operating profit before financial income and expense		**1,259,295**	**439,074**
Financial income	28	511,327	443,448
Financial expenses (-)	28	(843,758)	(743,706)
Profit before tax		**926,864**	**138,816**
- Current income tax expense	29	(73,186)	(63,594)
- Deferred tax (expense)/income, net	29	(873)	(3,472)
Net profit for the year		**852,805**	**71,750**
Total income for the period attrituble to:			
Non-controlling interest		583,777	85,462
Equity holders of the parent		269,028	(13,712)
Net profit for the year		**852,805**	**71,750**

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

AKKÖK HOLDİNG ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

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

	Audited	**Audited**
	January 1- December 31, 2017	**January 1- December 31, 2016**
Net profit for the year	**852,805**	**71,750**
Other comprehensive income / (expense):		
Items to be reclassified to statement of income		
- *Currency translation differences*	*23,693*	*34,859*
- *Change in fair value of derivatives*	*881*	*1,159*
- *Change in fair value of financial assets*	*2,149*	*(367)*
Items not to be reclassified to statement of income		
- *Actuarial gain/loss arising from defined benefit plans*	*(5,995)*	*3,239*
Total comprehensive income for the period	**873,533**	**110,640**
Total comprehensive income attributable to:		
Non-controlling interest	594,799	108,606
Equity holders of the parent	278,734	2,034
Total comprehensive income	**873,533**	**110,640**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

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

			Items to be reclassified to profit or loss			Items not be reclassified to profit or loss								
	Paid-in capital	Adjustments to share capital	Change in fair value of available for sale financial assets	Currency translation differences	Hedging reserve	Actuarial gain/loss arising from defined benefit plans	Restricted reserves	Merger offsetting account	Repurchased shares	Retained earnings	Net profit/(loss) for the year	Total equity attributable to owners of the parent	Non controlling interests	Total equity
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	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**
Balance at 1 January 2017	**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**
Capital increase (Note 22)	21,011	-	-	-	-	-	-	-	-	-	-	21,011	-	21,011
Transfer	-	-	-	-	-	-	3,792	-	-	(17,504)	13,712	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	(52,714)	-	(52,714)	(273,168)	(325,882)
Total comprehensive income for the period	-	-	2,149	9,414	370	(2,227)	-	-	-	-	269,028	278,734	594,799	873,533
Impact of merger/division/liquidation (Note 5) (**)	-	-	335	-	-	-	-	154,442	(23,797)	8,759	-	139,739	652,051	791,790
Sales of subsidiaries (*)	-	-	-	-	-	-	-	-	-	-	-	-	(4,026)	(4,026)
Increase (decrease) due to repurchase of shares (**)	-	-	-	-	-	-	-	-	(9,821)	-	-	(9,821)	(45,522)	(55,343)
Capital increase in subsidiaries (**)	-	-	-	-	-	-	-	-	-	-	-	-	230,183	230,183
Impact of changes in the ownership rate of subsidiaries (**)	-	-	-	-	-	-	-	-	-	(48.921)	-	(48,921)	48,921	-
Balance at 31 December 2017	**989,443**	**(10,406)**	**5,837**	**73,285**	**(9,116)**	**(8,629)**	**11,308**	**154,442**	**(33,618)**	**(177,356)**	**269,028**	**1,264,218**	**2,337,648**	**3,601,866**

(*) Akkök has sold its shares of Ariş Sanayi ve Ticaret A.Ş with a percentage of 43,34% to MR Boya Kimya Sanayi ve Ticaret Ltd. Şti on May 24, 2017 for a consideration of TL 21,059,341 and its shares of İstasyon Tekstil ve Sanayi Ticaret A.Ş. with a percentage of 43,37% to Gökhan Kaştan on August 4, 2017 for a consideration of TL 4,297,887.

(**) Transactions regarding to the merger of Saf GYO in the body of Akiş GYO on January 18, 2017 (Note 5).

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

AKKÖK HOLDİNG ANONİM ŞİRKETİ

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

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

	Notes	Audited December 31, 2017	Audited December 31, 2016
Net profit for the year		**852,805**	**71,750**
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation and amortization	13,14,15	190,110	129,047
Provision expenses		32,124	10,789
Interest income and expenses	28	123,931	31,741
Unrealized exchange (gain) / loss		229,943	317,437
Fair value (gain)/loss on financial assets and liabilities		(4.855)	38,097
Dividend income	26	(730)	(657)
Tax expense	29	74,059	67,066
Gain on sale of property, plant and equipment and intangibles and investment properties	26	(111,673)	(78,960)
Losses on investments accounted using the equity method	8	49,792	131,335
Gain on sale of subsidiaries	26	(22,278)	-
Adjustments to the gain on the negotiated purchase	5	(225,969)	-
Adjustments to gain on fair value changes, net	5	(146,771)	-
Cash flows before changes in assets and liabilities		**1,040,488**	**717,645**
Changes in working capital			
Inventories		(258,331)	(73,972)
Investment in inventories (residences)		(37,406)	(52,836)
Trade receivables		(151,268)	(224,716)
Due from related parties		(28,021)	(10,977)
Other receivables		8,708	(567)
Trade payables		279,994	237,345
Due to related parties		19,705	(42,266)
Other payables		(7,724)	1,061
Other changes in working capital		(14,630)	(61,064)
Employee termination benefits paid	18	(5,830)	(6,692)
Income taxes paid	29	(74,175)	(71,078)
A. CASH FLOWS FROM OPERATING ACTIVITIES		**771,510**	**411,883**
Cash outflows from purchases of financial assets		-	(15,480)
Cash inflows from sales of plant, property of equipment and intangibles		10,717	4,460
Cash outflows from purchase of plant, property of equipment and intangibles	14,15	(457,274)	(188,932)
Cash inflows from sales of invesment properties		153,823	110,043
Cash outflows purchases of investment properties	13	(14,648)	(29,260)
Cash outflows from capital increases in associates	8	(35,382)	(17,625)
Payments for acquisition of subsidiary, net of cash acquired	5	(52,599)	-
Proceeds on sale of subsidiary	2	25,357	-
Other cash inflows	5	28,288	-
Dividends received	8,26	10,023	14,674
B. CASH USED IN INVESTING ACTIVITIES		**(331,695)**	**(122,120)**
Participation of non-controlling interest in subsidiaries' capital increase		91	3,065
Cash inflow from new borrowings obtained	20	2,916,903	2,105,508
Cash outflows from redemption of borrowings	20	(2,756,370)	(2,256,318)
Dividends paid to non-controlling interests		(273,168)	(127,378)
Dividends paid		(52,714)	(19,897)
Capital increase	22	21,011	105,054
Interest received		42,619	32,873
Interest paid	20	(166,550)	(64,614)
C. CASH FLOWS FROM FINANCING ACTIVITIES		**(268,178)**	**(221,707)**
NET INCREASE IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES (A+B+C)		**171,637**	**68,056**
D. CHANGE IN RESTRICTED DEPOSITS AND ACCRUED INTERESTS FROM TIME DEPOSITS		**(8,592)**	**5,754**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**6**	**711,076**	**637,266**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (A+B+C+D+E)	**6**	**874,121**	**711,076**

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

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

NOTE 1 - GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

Akkök Holding Anonim Şirketi ("Akkök") was established in 1979. Akkök and its subsidiaries, joint ventures and associates (together will be referred as "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 Anonim Şirketi, N.D.Ç. Holding Anonim Şirketi. and Atlantik Holding Anonim Şirketi, which are being controlled by Dinçkök family members (Note 22).

On 22 April 2014, at the general assembly for 2013, the Company has changed its title to Akkök Holding Anonim Şirketi from Akkök Sanayi Yatırım ve Geliştirme Anonim Şirketi with the amendment of 3rd Article of Company's articles of association and following the decision, change of the title has been registered on trade registry 13 May 2014 followed by the declaration on 20 May 2014.

Akkök Holding Anonim Şirketi 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 Anonim Şirketi ("Akiş")	Turkey	Real estate investment
Karlıtepe Gayrimenkul Geliştirme ve Yatırım Anonim Şirketi ("Karlıtepe")	Turkey	Real estate investment
Akyaşam Yönetim Hizmetleri A.Ş.	Turkey	Real estate investment
Akasya Çocuk Dünyası A.Ş.	Turkey	Real estate investment
Aksu Real Estate E.A.D. ("Aksu Real Estate")	Bulgaria	Real estate investment
Ak-Kim Kimya Sanayi ve Ticaret Anonim Şirketi ("Ak-Kim")	Turkey	Chemicals
Gizem Seramik Frit ve Glazür Sanayii ve Ticaret Anonim Şirketi ("Gizem Frit")	Turkey	Chemicals
Megacolor Productos Ceramicos S.L.U. ("Megacolor")	Spain	Chemicals
Megacolor Productos Ceramicos Mexico SRL CV	Mexico	Chemicals
Megacolor Foshan S.L.	China	Chemicals
Dinox Handels GmbH ("Dinox")	Germany	Chemicals
Akmeltem Poliüretan Sanayi ve Ticaret Anonim Şirketi ("Akmeltem")	Turkey	Chemicals
Aksa Akrilik Kimya Sanayii Anonim Şirketi ("Aksa")	Turkey	Chemicals
Aksa Egypt Acrylic Fiber Industry SAE ("Aksa Egypt")	Egypt	Textile
Ak Havacılık ve Ulaştırma Hizmetleri Anonim Şirketi ("Ak Havacılık")	Turkey	Aviation
Akmerkez Lokantacılık Gıda Sanayi ve Ticaret Anonim Şirketi ("Akmerkez Lokanta")	Turkey	Restaurant management
Ak-Pa Tekstil İhracat Pazarlama Anonim Şirketi ("Akpa")	Turkey	International trade
Akport Tekirdağ Liman İşletmeleri Anonim Şirketi ("Akport")	Turkey	Port management
Aktek Bilgi İletişim Teknolojisi San. ve Tic. Anonim Şirketi ("Aktek")	Turkey	Information technologies
Dinkal Sigorta Acenteliği Anonim Şirketi ("Dinkal")	Turkey	Insurance agency
Fitco BV ("Fitco")	Holland	Investment
Zeytinliada Turizm ve Ticaret Anonim Şirketi ("Zeytinliada")	Turkey	Tourism

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 Anonim Şirketi ("Akcez")	Turkey	Energy	CEZ a.s.
Sakarya Elektrik Dağıtım Anonim Şirketi ("Sedaş")	*Turkey*	*Energy*	*CEZ a.s.*
Sakarya Elektrik Perakende Satış Anonim Şirket ("Sepaş")	*Turkey*	*Energy*	*CEZ a.s.*
Akenerji Elektrik Üretim Anonim Şirketi ("Akenerji")	Turkey	Energy	CEZ a.s.
Ak-El Yalova Elektrik Anonim Şirketi ("Ak-El")	*Turkey*	*Energy*	*CEZ a.s.*
Akenerji Doğalgaz İthalat İhracat ve Toptan Ticaret Anonim Şirketi	*Turkey*	*Energy*	*CEZ a.s.*
Akenerji Elektrik Enerjisi İthalat-İhracat ve Toptan Ticaret Anonim Şirketi	*Turkey*	*Energy*	*CEZ a.s.*
Egemer Elektrik Üretim Anonim Şirketi ("Egemer")	*Turkey*	*Energy*	*CEZ a.s.*
Ak-el Kemah Elektrik Üretim Anonim Şirketi ("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. Şirketi	*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.*
Akiş- Mudanya Adi Ortaklığı	Turkey	Real Estate	Mudanya Gayrimenkul Geliştirme ve Yatırım Anonim Şirketi

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 Anonim Şirketi ("Akmerkez")	Turkey	Real Estate Development

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

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 Anonim Şirketi ("Akhan")	Turkey	Service
Üçgen Bakım ve Yönetim Hizmetleri Anonim Şirketi ("Üçgen")	Turkey	Service

Subsidiaries that are not material to the consolidated financial statements and financial investments that do not have quoted fair values or for which fair values cannot be reliably measured through alternative methods, are measured at cost less any impairment.

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").

Akkök, its subsidiaries, joint ventures and associates maintains its accounting records and prepares its statutory financial statements in accordance with Public Oversight Accounting and Auditing Authority of Turkey's decision 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.

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

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 (e) 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.

   Such control is established through the joint exercise of; (a) the voting rights of Akkök and its subsidiaries, (b) 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 (c) 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 statements of balance sheets and statements of comphrensive income of the subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by 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.

   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.

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

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

The table below sets out the proportion of voting power held by Akkök and its subsidiaries and effective ownership interests at 31 December 2017 and 2016:

	Proportion of voting power held by Akkök and its subsidiaries (%) (1)		Proportion of voting power held by certain Dinçkök family members and related shareholders (%) (2)		Total voting power held		Proportion of effective interest (%)(3)	
Subsidiaries	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Ak Havacılık ve Ulaştırma Hizmetleri Anonim Şirketi	100.00	100.00	-	-	100.00	100.00	100.00	100.00
Ak-Kim Kimya Sanayi ve Ticaret Anonim Şirketi	42.00	42.00	36.63	36.63	78.63	78.63	42.00	42.00
Gizem Seramik Frit ve Glazür Sanayii ve Ticaret Anonim Şirketi	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*42.00*	*42.00*
Megacolor Productos Ceramicos S.L.U. (10)	100.00	-	-	-	100.00	-	42.00	-
Megacolor Productos Ceramicos Mexico SRL CV	*100.00*	-	*100.00*	-	*100.00*	-	*42.00*	-
Megacolor Foshan S.L.	*100.00*	-	*100.00*	-	*100.00*	-	*42.00*	-
Dinox Handels GmbH (9)	*100.00*	-	-	-	*100.00*	-	*42.00*	-
Ak-Tem Uluslararası Mümessillik ve Ticaret Anonim Şirketi(5)	-	*99.80*	-	*0.05*	-	*99.85*	-	*41.92*
Akmeltem Poliüretan Sanayi ve Ticaret Anonim Şirketi	50.00	50.00	1.67	1.67	51.67	51.67	50.00	50.00
Akmerkez Lokantacılık Gıda Sanayi ve Ticaret Anonim Şirketi	43.75	43.75	-	-	43.75	43.75	43.75	43.75
Ak-Pa Tekstil İhracat Pazarlama Anonim Şirketi	86.69	86.69	7.50	7.50	94.19	94.19	86.69	86.69
Akport Tekirdağ Liman İşletmeleri Anonim Şirketi	96.30	96.30	1.85	1.85	98.15	98.15	96.30	96.30
Aksa Akrilik Kimya Sanayii Anonim Şirketi	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 Anonim Şirketi (4)	-	43.34	-	28.33	-	71.67	-	43.34
Dinkal Sigorta Acenteliği Anonim Şirketi	96.66	96.66	2.23	2.23	98.89	98.89	96.66	96.66
Zeytinliada Turizm ve Ticaret Anonim Şirketi	89.61	89.61	4.64	4.64	94.25	94.25	89.61	89.61
İstasyon Tekstil ve Sanayi Ticaret Anonim Şirketi (7)	-	43.37	-	28.31	-	71.68	-	43.37
Akiş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi(6)	14.66	31.53	43.91	39.54	58.57	71.07	17.75	31.53
Ak Yön Yönetim ve Bakım Hizmetleri Anonim Şirketi(8)	-	*99.99*	-	*0.01*	-	*100.00*	-	*31.53*
Aksu Real Estate E.A.D.	*100.00*	*100.00*	-	-	*100.00*	*100.00*	17.75	*31.53*
Akyaşam Yönetim Hizmetleri A.Ş.	*100.00*	-	-	-	*100.00*	-	17.75	-
Akasya Çocuk Dünyası A.Ş.	*100.00*	-	-	-	*100.00*	-	17.75	-
Karlıtepe Gayrimenkul Geliştirme ve Yatırım Anonim Şirketi	*100.00*	*100.00*	-	-	*100.00*	*100.00*	17.75	*31.53*
Aktek Bilgi İletişim Teknolojisi San. ve Tic. Anonim Şirketi	20.00	20.00	40.00	40.00	60.00	60.00	20.00	20.00

(1) Represents total direct ownership interest held by Akkök and its subsidiaries.
(2) Represents total direct ownership interest held by certain Dinçkök family members and related shareholders who declared to exercise their voting power in-line with the voting preference of Akkök.
(3) Represents total direct and indirect ownership interest held by Akkök.
(4) The Group, transferred its 800 shares which are 100% of the capital of Ariş Sanayi ve Ticaret Anonim Şirketi to Mr Boya Kimya Sanayi ve Ticaret Ltd. Şti. at a price of TL 21,059,341 on May 24, 2017. As a result of this transaction, gain on sale subsidiary of a amounting to TL 18,214,064 has been accounted under income from investment activities (Note 26).
(5) The company has been liquiadet on March 10, 2017.
(6) Following the merger of Akiş GYO and Saf GYO, the voting rights of Akkök increased to 14,66% and the effective shareholding ratio increased to 17,75% due to the shares redeemed by Akiş GYO (Note 5).
(7) The Group transferred its subsidiary İstasyon Tekstil ve Sanayi Ticaret Anonim Şirketi to Gökhan Kaştan at a price of TL 4,297,887 on August 4, 2017. As a result of this transaction, gain on sale of a subsidiary amounting to TL 4,063,927 has been accounted under income from investment activities (Note 26).
(8) Ak Yön and Akyaşam, İn accordance with the provisions of Articles 155/1-b, 156, other relevant articles of the Turkish Commercial Code and the provisions of Articles 18, 19 and 20 of the Corporate Tax Law and other relevant legislative provisions, Akyaşam's acquisition of Ak Yön together with its assets and liabilities and the facilitation of merger under the Akyaşam legal entity by Akyön's liquidation without liquidation has been completed on 3 October 2017 with the Istanbul Trade Registry.
(9) Ak-Kim, a subsidiary of the Group, acquired a 100% share of Dinox Handels GmbH ("Dinox") on February 15, 2017 for a consideration of EUR 3,750,000(Not 5).
(10) Gizem Frit, a subsidiary of the Group, acquired a 100% shares of Megacolor on November 22, 2017 for a consideration of EUR 7,002,128(Not 5).

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (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 using the equity method (Note 8). 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 2017 and 2016:

	Proportion of voting power held by Akkök and its subsidiaries (%) (1)		**Proportion of voting power held by certain Dinçkök family members and related shareholders (%) (2)**		**Total voting power held**		**Proportion of effective interest (%) (3)**	
Joint ventures	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Akenerji Elektrik Üretim Anonim Şirketi	20.43	20.43	16.93	16.93	37.36	37.36	20.43	20.43
Ak-El Yalova Elektrik Anonim Şirketi	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*20.43*	*20.43*
Ak Enerji Elektrik Enerjisi İthalat-İhracat ve Toptan Ticaret Anonim Şirketi	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*20.43*	*20.43*
Egemer Elektrik Üretim Anonim Şirketi	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*20.43*	*20.43*
Ak-el Kemah Elektrik Üretim Anonim Şirketi	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*20.43*	*20.43*
Akenerji Doğalgaz İthalat İhracat ve Toptan Ticaret Anonim Şirketi	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*20.43*	*20.43*
Akcez Enerji Yatırımları Sanayi ve Ticaret Anonim Şirketi	50.00	50.00	-	-	50.00	50.00	50.00	50.00
Sakarya Elektrik Dağıtım Anonim Şirketi	*100.00*	*100.00*	-	-	*100.00*	*100.00*	*50.00*	*50.00*
Sakarya Elektrik Perakende Satış Anonim Şirketi	*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 Anonim Şirketi(4)	-	50.00	-	-	-	50.00	-	21.00
Akiş - Mudanya Adi Ortaklığı	50.00	50.00	-	-	50.00	50.00	8.87	15.77

(1) Represents total direct ownership interest held by Akkök and its subsidiaries.
(2) Represents total direct ownership interest held by certain Dinçkök family members and related shareholders who declared to exercise their voting power in-line with the voting preference of Akkök.
(3) Represents total direct and indirect ownership interest held by Akkök.
(4) On November 3, 2017 the remaining 50% shares of Akferal was acquired by Akkim from the FERALCO AB by for a consideration of TL 9,000,000. Following the acquisition, the Company became the only shareholder of Akferal and in the decision of Board of Directors of the Company dated December 15, 2017, it has been resolved to merge with Akferal within the body of Company in accordance the related articles of Turkish Commercial Code and Corporate Tax Law. Following the aforementioned decision, legal procedures on merger has been completed and registration to the trade registry has been completed on December 29, 2017 (Note 5).

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

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

d) Investments in associated undertakings are accounted for using the equity method (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 2017 and 2016:

	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	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Akmerkez GayrimenkulYatırım Ortaklığı Anonim Şirketi (****)	13.12	13.12	5.57	5.57	18.69	18.69	13.12	13.12
Saf Gayrimenkul Yatırım Ortaklığı Anonim Şirketi (*****)	-	19.71	-	27.29	-	47.00	-	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	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Akhan Bakım Yönetim Servis Hizmet Ticaret Anonim Şirketi (“Akhan”)	99.00	99.00	0.15	0.15	99.00	99.00
Üçgen Bakım ve Yönetim Hizmetleri Anonim Şirketi (“Üçgen”)	39.37	39.37	-	-	39.37	39.37

(*) 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 in-line with the voting preference of Akkök.
(***) Represents total direct and indirect ownership interest held by Akkök.
(****) Akkök has the significant influence over Akmerkez GYO, an associate of the Group, through representation on the board of directors and participation in policy-making processes, including participation in decisions about dividends or other distributions.
(*****) In accordance with the decisions of Board of Directors of Saf GYO and Akiş GYO dated September 8, 2016, within the scope of the relevant legislation, Saf GYO has merged in the body of Akiş GYO on January 18, 2017, where all assets and liabilities of Saf GYO stated in the statement of financial position as at June 30, 2016 has been taken over by Akiş GYO (Note 5).

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

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 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2017 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of January 1, 2017. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at January 1, 2017 are as follows

- IAS 7 Statement of Cash Flows (Amendments)
- IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)
- Annual Improvements to IFRSs - 2014-2016 Cycle

The amendments will not have an impact on the financial position or performance of the Group.

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

- IFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments) (**)
- IFRS 15 Revenue from Contracts with Customers (*)
- IFRS 9 Financial Instruments – Classification and measurement (*)
- IFRS 16 Leases (**)
- IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments) (**)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (**)
- IAS 40 Investment Property: Transfers of Investment Property (Amendments) (**)
- IFRS 4 Insurance Contracts (Amendments) (**)
- Amendments to IAS 28 Investments in Associates and Joint Ventures (Amendments) (**)
- Annual Improvements to IFRSs - 2014-2016 Cycle (**)
- IFRIC 23 Uncertainty over Income Tax Treatments (**)
- IFRS 17 - The new Standard for insurance contracts (**)
- Prepayment Features with Negative Compensation (Amendments to IFRS 9) (**)
- Annual Improvements – 2015–2017 Cycle (**)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) (**)

(*) The Group management believes that the new standard will not have a material impact on the Group's financial position or performance.

(**) The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

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

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:

- Cost of sales to TL 2,864,799 which was accounted under general administrative expenses, has been reclassified to cost of sales for the period between 1 January - 31 December 2016.

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 statements of financial position 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 Financial assets

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 2017 and 2016 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 recognized in 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)

Held to maturity financial assets

Non-derivative financial assets with fixed maturities, where management has both the intent and the ability to hold to the maturity excluding the financial assets classified as loans and advances to customers are classified as "held to- maturity financial assets". Held-to-maturity financial assets are carried at amortised cost using the effective yield method.

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 properties

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 are amortised in accordance with the principle of the straight-line method with their useful lives. Land is not depreciated because it has an indefinite useful life. 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	4-5

The Group assesses at each balance sheet date whether there is objective evidence that a property, plant and equipment or a group of property, plant and equipment is impaired. In the event of circumstances indicating that an impairment has occurred in the property, plant and equipment, 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 property, plant and equipment or the next 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 26).

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 will be retained.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Intangible assets

Intangible assets acquired separately from a business are capitalised at acquisition cost. Intangible assets created within the business are not capitalised and the related expenditures are 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 developments will be started after the production of these developments are 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).

Fees paid for usage rights of assets in Yalova Kompozit ve Kimya İhtisas Islah Organize Sanayi Bölgesi ("Yalkim OSB") have been classified under intangible assets and fees paid for usage of land with indefinite useful life is not amortized.

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 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)

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.

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

The Group has accrued volume rebates in line with the 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 20).

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 Provision 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 18).

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 18).

Unused vacation rights

Liabilities arising from unused vacations of the employees are accrued in the period when the unused vacations are qualified.

3.14 Current and deferred 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. However, in accordance with the addition of temporary 10th article to the Corporate Tax Law, 22% corporate tax rate will be applied to the profits of the entities related to their to 2018, 2019 and 2020 tax periods (for the entities with special accounting period, tax periods commenced in the related year) rather than 20%. 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, an associate of the Group and Akiş, a subsidiary 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 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 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 tax asset is realised or the deferred 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)

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 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 tax asset to be utilized (Note 29).

Since the applicable tax rate has been changed to 22% for the 3 years beginning from 1 January 2018, 22% tax rate is used in the deferred tax calculation of 31 December 2017 for the temporary differences expected to be realized/closed within 3 years (for the years 2018, 2019 and 2020). However, since the corporate tax rate after 2020 is 20%, 20% tax rate is used for the temporary differences expected to be realized/closed after 2020.

Deferred tax assets and deferred 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 31).

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 17).

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 17).

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 TL at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into TL 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 comprehensive 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 Statement 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 include investments in which cash and bank deposits are highly liquid, short-term and readily convertible into cash with a maturity of 3 months or less (Note 6).

3.22 Government grants

Grants from the government are recognised at their fair value when 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 statement of comprehensive income 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 recognized in the statement of comprehensive income 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 22).

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 statement of comprehensive income 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 statement of financial position 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 17, 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 2017.

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 properties disclosed in Note 13 have been estimated by management through use of independent property valuation experts. Fair values of investment properties 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 tax liabilities are recognised for all taxable temporary differences, where 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 difference can be utilised (Note 29).

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 17).

NOTE 4 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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 29).

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 18).

h) 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 (Note 16).

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

NOTE 5 - BUSINESS COMBINATIONS

Merger of Akiş GYO and Saf GYO

In accordance with the decisions of Board of Directors of Akiş GYO dated September 8, 2016, within the scope of the relevant legislation, Saf GYO has merged in the body of Akiş GYO, where all assets and liabilities of Saf GYO stated in the statement of financial position as at June 30, 2016 has been taken over by Akiş GYO.

The merger transacition has been evaluated in accordance with IFRS 3 requirements and in accordance with the standard, the acquisition method accounting is applied and merged balance sheet is prepared. At the date of merger; assets and liabilities included in the statement of financial position of Saf GYO are included in the statement of financial position of Akiş GYO and the necessary adjustments in accordance with IFRS 3 acquisition method accounting are made.

Akiş GYO and Saf GYO have been merged on January 18, 2017. Until January 18, 2017, the Group has accounted Saf GYO as investments accounted using the equity method. Until to the date of merger, Saf GYO is accounted using the equity method and the carrying amount of Saf GYO has been accounted as TL 107,377,204.

The movement of carrying value of Saf GYO until January 18, 2017 and December 31, 2016 is as below:

	January 1 - January 18, 2017	January 1 - December 31, 2016
Opening balance	149,423	164,644
Share of net loss for the period	(9,121)	(10,665)
Share of other comprehensive income	-	(614)
Repurchased shares	(32,925)	-
Dividend received	-	(3,942)
Closing balance	**107,377**	**149,423**
Investments accounted using the equity method as of January 18, 2017 (b)		**107,377**
The fair value of the Company as of January 18, 2017 (19,71% effective rate) (a)		250,903
The effect of remeasurement of previously acquired shares of the Company (a-b)		**143,526**

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

NOTE 5 – BUSINESS COMBINATIONS (continued)

As of January 18, 2017, an independent valuation company has determined Saf GYO's net asset value based on the merger and the fair value of the Saf GYO weighted by having (net asset value method, market value method and methods for analyzing discounted cash flows). The fair value of the net assets of Saf GYO on January 18, 2017 is as follows:

	Book value	Difference of revaluation	Adjusted net assets
Current assets	**115,192**	**6,691**	**121,883**
Cash and cash equivalents	28,288	-	28,288
Trade receivables	37,615	-	37,615
Other receivables	10,591	-	10,591
Inventories	5,334	6,691	12,025
Prepaid expenses	5,501	-	5,501
Current income tax assets	112	-	112
Other current assets	27,751	-	27,751
Other non-current assets	**2,328,322**	**9,727**	**2,338,049**
Financial investments	1,893	-	1,893
Trade receivables	4,014	-	4,014
Other receivables	1,479	-	1,479
Investment properties	2,266,300	-	2,266,300
Property, plant and equipment	18,854	9,727	28,581
Intangible assets	6,114	-	6,114
Deferred tax assets	55	-	55
Other non-current assets	29,613	-	29,613
Total assets	**2,443,514**	**16,418**	**2,459,932**
Short term liabilities	211,001	-	211,001
Short term borrowings	182,884	-	182,884
Other short term liabilities	28,117	-	28,117
Long term liabilities	**750,144**	**-**	**750,144**
Long term borrowings	736,371	-	736,371
Deferred income	12,882	-	12,882
Other long term liabilities	891	-	891
Total liabilities	**961,145**	**-**	**961,145**
Net asset value based on merger	**1,482,369**	**16,418**	**1,498,787**

The reconciliation of the gain on merger transaction is as follows:

Net asset value based on merger	1,498,787
Fair value of the Company	1,272,818
Gain on merger transaction	**225,969**

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

NOTE 5 – BUSINESS COMBINATIONS (continued)

The details of "Other Income from Associates, Joint Ventures and Subsidiaries" included in the consolidated statement of profit or loss for the period ended December 31, 2017 are as follows:

	January 1-December 31, 2017
Gain on merger transactions	225,969
The effect of remeasurement of previously acquired shares to the fair value	143,526
Other Income from Associates, Joint Ventures and Subsidiaries	**369,495**

Acquisition of Dinox by Ak-Kim

Ak-Kim, a subsidiary of the Group, acquired a 100% share of Dinox Handels GmbH ("Dinox") on February 15, 2017 for a consideration of EUR 3,750,000. Dinox mainly sells chemical products produced by Ak-Kim in Europe. The aim of the acquisition of Ak-Kim's subsidiary, Dinox, is to provide more effective sales organization in Europe and increase market share of chemical products manufactured by Ak-kim, a subsidiary of the Group. The acquisition transaction is accounted in the consolidated financial statements of Ak-Kim by the acquisition method in accordance with IFRS 3 Business Combinations Standard. As a result of related accounting, goodwill has been accounted amounting to TL 3,310,794 in the consolidated financial statements of Ak-Kim (Note 16).

	January 1 – February 15, 2017
Cash paid portion of acquisition price (Note 16)	13,992
Cash and cash equivalents of the purchased subsidiary	(1,215)
Cash outflows related to acquisitions	**12,777**

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

NOTE 5 - BUSINESS COMBINATIONS (Continued)

The fair value of the identifiable assets and liabilities of Dinox as of February 15, 2017 is as follows:

	Book value	Difference of revaluation	Adjusted net assets
Current assets	**14,014**	**-**	**14,014**
Cash and cash equivalents	1,215	-	1,215
Trade receivables	8,828	-	8,828
Other receivables	156	-	156
Inventories	3,688	-	3,688
Current income tax assets	127	-	127
Other non-current assets	**1,977**	**13,404**	**15,381**
Financial investments	41	-	41
Property, plant and equipment	564	-	564
Intangible assets	1,372	13,404	14,776
Total assets	**15,991**	**13,404**	**29,395**
Short term liabilities	**14,224**	**-**	**14,224**
Short term borrowings	274	-	274
Trade payables	11,940	-	11,940
Other payables	1,066	-	1,066
Current income tax liabilities	349	-	349
Other short term provisions	595	-	595
Long term liabilities	**-**	**4,021**	**4,021**
Deferred tax liabilities	-	4,021	4,021
Total indefinitable assets/liabilities (Note 16)	**1,767**	**9,383**	**11,150**

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

NOTE 5 - BUSINESS COMBINATIONS (Continued)

Acquisition of Megacolor by Gizem Frit

Gizem Frit, a subsidiary of the Group, acquired a 100% shares of Megacolor on November 22, 2017 for a consideration of EUR 7,002,128. Megacolor manufactures pigments for the ceramics industry. The aim of the acquisition of Megacolor of Gizem Frit, a subsidiary of the Group, is to increase inkjet ink and pigment production for the ceramics sector, to provide more effective sales organization on the world and increase market share. The acquisition transaction is provisionally accounted in the consolidated financial statements of Gizem Frit by the acquisition method in accordance with IFRS 3 "Business Combinations". As a result of related accounting, goodwill has been accounted amounting to TL 1,478,864 in the consolidated financial statements of Gizem Frit (Note 16).

	January 1 – November 22, 2017
Cash paid portion of acquisition price (Note 16)	32,470
Cash and cash equivalents of the purchased subsidiary	(1,343)
Cash outflows related to acquisitions	**31,127**

The fair value of the identifiable assets and liabilities of Megacolor as of November 22, 2017 is as follows:

	November 22, 2017
Current assets	**34,748**
Cash and cash equivalents	1,343
Financial investments	116
Trade receivables	14,493
Other receivables	689
Inventories	18,107
Other non-current assets	**16,502**
Property, plant and equipment	12,796
Intangible assets	54
Other non-current assets	3,652
Total assets	**51,250**
Short term liabilities	**17,790**
Short term borrowings	9,046
Trade payables	8,447
Other short term liabilities	297
Long term liabilities	**2,515**
Deferred tax liabilities	167
Other long term liabilities	2,348
Total indefinitable assets/liabilities (Note 16)	**30,945**

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

NOTE 5 - BUSINESS COMBINATIONS (Continued)

Merger of Ak-Kim and Akferal

On November 3, 2017 the remaining 50% shares of Akferal was acquired by Akkim from the FERALCO AB by for a consideration of TL 9,000,000. Following the acquisition, the Company became the only shareholder of Akferal and in the decision of Board of Directors of the Company dated December 15, 2017, it has been resolved to merge with Akferal within the body of Company in accordance the related articles of Turkish Commercial Code and Corporate Tax Law. Following the aforementioned decision, legal procedures on merger has been completed and registration to the trade registry has been completed on December 29, 2017. The aim of Ak-Kim's acquisition and merger of Akferal, is to increase profitability by creating more effective management and operational processes on Akferal, which is managed by Ak-kim, a subsidiary of the Group, through joint participation.

The movement of carrying value of Akferal until November 3, 2017 and December 31, 2016 are as below:

	January 1 - November 3, 2017	**January 1 - December 31, 2016**
Opening balance	4,742	5,356
Capital increase	-	790
Share of net loss for the period	(589)	(1.404)
Closing balance	**4,153**	**4,742**

Investments accounted using the equity method as of November 3, 2017 (b)	**4,153**
The fair value of the Company as of November 3, 2017 (50% effective rate) (*) (a)	7,398
The effect of remeasurement of previously acquired shares of the Company (Note 8) (a-b)	**3,245**

(*) In the determination of this amount, the control obtained with 50% of the shares of Akferal acquired by Feralco B.V. of the Group was evaluated as 20% of the fair value.

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

NOTE 5 - BUSINESS COMBINATIONS (Continued)

The fair value of the identifiable assets and liabilities of Akferal as of November 3, 2017 is as follows:

	Book value	Difference of revaluation	Adjusted net assets
Current assets	**7,631**	**-**	**7,631**
Cash and cash equivalents	305	-	305
Trade receivables	4,812	-	4,812
Other receivables	55	-	55
Inventories	735	-	735
Current income tax assets	2	-	2
Other current assets	1,722	-	1,722
Other non-current assets	**11,586**	**8,224**	**19,810**
Property, plant and equipment	11,414	8,224	19,638
Intangible assets	11	-	11
Other non-current assets	161	-	161
Total assets	**19,217**	**8,224**	**27,441**
Short term liabilities	**10,891**	**-**	**10,891**
Trade payables	7,350	-	7,350
Other payables	3,381	-	3,381
Deferred income	8	-	8
Liabilities for employee benefits	54	-	54
Short term provisions	97	-	97
Other short term provisions	*65*	-	*65*
Provisions for employee benefits	*32*	-	*32*
Other short term liabilities	1	-	1
Long term liabilities	**118**	**822**	**940**
Long term provisions	9	-	9
Provisions for employee benefits	*9*	-	*9*
Deferred tax liabilities	109	822	931
Total liabilities	**11,009**	**822**	**11,831**
Net asset value based on merger	**8,208**	**7,402**	**15,610**
Transfer amount			9,000
Net asset value based on acquire and fair value (a)			7,398
Total (Note 16)			**16,398**
Net assets (b) (Note 16)			**15,610**
Goodwill (a-b) (Note 16)			**788**

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

NOTE 6 - CASH AND CASH EQUIVALENTS

The analysis of cash and cash equivalents at 31 December 2017 and 2016 is presented below:

	December 31, 2017	December 31, 2016
Cash on hand	648	298
Cash at banks	881,410	710,323
Demand deposits	34,599	32,548
Time deposits	846,811	677,775
Other	2,671	2,471
Total	**884,729**	**713,092**

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 2017 and 2016 is as follows:

	2017	2016
Cash and cash equivalents	884,729	713,092
Less: restricted deposits	(9,675)	(1,174)
Less: interest accruals	(933)	(842)
Cash and cash equivalents	**874,121**	**711,076**

Interest rate of time deposits with maturities less than 3 months at 31 December 2017 and 2016 are as follows:

	December 31, 2017		December 31, 2016	
	Time Deposit	Interest Rate %	Time Deposit	Interest Rate %
USD	514,217	2.00-4.60	446,344	2.07-3.90
EUR	241,441	1.70-2.60	31,540	0.98-1.65
TL	90,803	9.00-15.00	199,725	8.73-12.00
Other	350	0.02	166	2.50
Total	**846,811**		**677,775**	

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

NOTE 7 - FINANCIAL INVESTMENTS

	December 31, 2017	December 31, 2016
Bank deposits with maturities over three months (*)	27,380	43,800
Stock and bond with maturities over three months	7,673	-
Current financial investments	**35,053**	**43,800**
Available-for-sale financial investments	13,118	8,915
Financial investments not included in the scope of consolidation (**)	226	226
Non-current financial investments	**13,344**	**9,141**
Total	**48,397**	**52,941**

(*) Bank deposits are blocked by banks for borrowings obtained by subsidiaries of the Group. Interest rates of such, bank deposits are between 3.14% to 13.50%.

(**) 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:	**%**	**2017**	**%**	**2016**
Yapı ve Kredi Bankası Anonim Şirketi	<1	10,531	<1	8,136
Akçansa Çimento Sanayi Anonim Şirketi	<1	646	<1	779
Ottoman Gayrimenkul Yatırımları İnş. ve Tic. Anonim Şirketi	<1	1,893	<1	-
Other	<1	48	<1	-
Total		**13,118**		**8,915**

Movements of available-for-sale financial investments for the years ended 31 December 2017 and 2016 are as follows:

	2017	2016
1 January	8,915	8,648
Changes in fair value	2,262	267
31 Aralık	**11,177**	**8,915**
Other financial investments		
Ottoman Gayrimenkul Yatırımları İnş. ve Tic. A.Ş	1,893	-
Other	48	-
	13,118	**8,915**

Financial investments not included in the scope of consolidation:	**December 31, 2017**	**December 31, 2016**
Akhan Bakım Yönetim Servis Hizmet Ticaret Anonim Şirketi	119	119
Üçgen Bakım ve Yönetim Hizmetleri Anonim Şirketi	107	107
Total	**226**	**226**

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

NOTE 8 - INVESTMENTS ACCOUNTED USING THE EQUITY METHOD

	December 31, 2017	December 31, 2016
DowAksa	222,014	214,252
Akcez	156,989	158,928
Saf GYO (**)	-	149,423
Akmerkez	30,581	29,628
Akferal (***)	-	4,742
Akenerji (*)	-	-
Total	**409,584**	**556,973**

(*) The Group has not recognised the Group's share in loss of Akenerji amounting to TL 89,734,983 in the financials statements as of 31 December 2017. The Group is in the opinion that that unrecognised period losses will not constitute further liabilities.

(**) In accordance with the decisions of Board of Directors of Akiş GYO dated September 8, 2016, within the scope of the relevant legislation, Saf GYO has merged in the body of Akiş GYO, where all assets and liabilities of Saf GYO stated in the statement of financial position as at June 30, 2016 has been taken over by Akiş GYO (Note 5).

(***)On November 3, 2017 the remaining 50% shares of Akferal was acquired by Akkim from the FERALCO AB by for a consideration of TL 9,000,000. Following the acquisition, the Company became the only shareholder of Akferal and in the decision of Board of Directors of the Company dated December 15, 2017, it has been resolved to merge with Akferal within the body of Company in accordance the related articles of Turkish Commercial Code and Corporate Tax Law. Following the aforementioned decision, legal procedures on merger has been completed and registration to the trade registry has been completed on December 29, 2017 (Note 5).

Movements of investments accounted using the equity method during the years ended 31 December 2017 and 2016 is as follows:

	2017	2016
1 January	556,973	652,173
Share of loss from associates	(49,792)	(131,335)
Dividend received	(9,293)	(14,017)
Other comprehensive income from associates	20,769	32,527
Capital increase	35,382	17,625
Merger effect of Akferal (Note 5)	(4,153)	-
Repurchased shares	(32,925)	-
Merger effect of Saf GYO (Note 5)	(107,377)	-
31 December	**409,584**	**556,973**

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

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

As of 31 December 2017 and 2016, summarised financial information for the Group's investments accounted for using the method are presented below:

December 31, 2017	Assets	Liabilities	Revenue	Net (loss)/profit for the period
Akenerji (*)	2,607,970	3,343,552	1,855,098	(439,231)
Akcez	2,249,906	2,047,386	2,804,289	(3,792)
DowAksa	1,136,847	692,819	122,117	(96,788)
Saf GYO	-	-	10,998	(46,278)
Akmerkez	240,542	7,549	116,580	77,807
Akferal	19,217	11,009	14.359	(1,178)

December 31, 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 Akenerji's property, plant and equipment are accounted for at fair value are TL 5,797,575,950 and TL 3,994,021,361 respectively (December 31, 2016 – TL 5,044,551,542 and TL 3,944,372,868).

As of 31 December 2017 and 2016, market capitalization of the Group's investments accounted for using the equity method are presented below:

December 31, 2017	Total market capitalization as of 31 December 2017	Group's share
Akenerji	663,539	135,561
Akmerkez GYO	762,421	100,030
Total	**1,425,960**	**235,591**

December 31, 2016	Total market capitalization as of 31 December 2017	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**

(Amounts in the tables expressed in thousands of Turkish Lira ("TL") 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 2017 and 2016 is as follows:

	December 31, 2017	December 31, 2016
DowAksa (*)	26,553	8,467
Akenerji (*)	3,882	13,253
Akcez (*)	3,245	1,420
Akferal (*)	-	3,172
Other	1,776	2,194
Total	**35,456**	**28,506**

b) Other receivables from related parties

The analysis of other receivables due from related parties as at 31 December 2017 and 2016 is as follows:

	December 31, 2017	December 31, 2016
Ottoman Gayrimenkul Yatırımları İnş. ve Tic. A.Ş (**)	10,552	-
DowAksa (*) (***)	10,342	769
Akcez (*)	122	192
Akferal (*)	-	83
Other	599	-
Total	**21,615**	**1,044**

c) Non-current other receivables from related parties

	December 31, 2017	December 31, 2016
DowAksa (*) (***)	102,777	105,374
Akiş Mudanya Adi Ortaklığı (*)	7,257	4,160
Total	**110,034**	**109,534**

(*) Joint ventures

(**) Financial investments not included in the scope of consolidation

(***) 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.

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

NOTE 9 - RELATED PARTY DISCLOSURES (Continued)

d) Short-term trade payables due to related parties

	December 31, 2017	December 31, 2016
DowAksa (*)	38,148	14,171
Akgirişim (*****)	1,401	9,179
Yalkim OSB (*****)	5,502	1,757
Other	1,602	1,841
Total	**46,653**	**26,948**

e) Sales to related parties

	December 31, 2017	December 31, 2016
DowAksa (*)	43,202	29,680
Akcez (*)	21,479	9,491
Akenerji (*)	15,655	10,105
Akgirişim (*****)	5,871	-
Akferal (*)	287	10,180
Diğer	7,085	7,269
Total	**93,579**	**66,725**

f) Service and product purchases from related parties

	December 31, 2017	December 31, 2016
Akgirişim (**) (*****)	32,605	40,605
Yalkim OSB (***) (*****)	27,735	17,237
Akcez (*)	9,048	-
Akhan (****)	4,198	5,268
Akenerji (*)	315	4,492
Other	3,652	5,008
Total	**77,553**	**72,610**

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

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

NOTE 9 - RELATED PARTY DISCLOSURES (Continued)

g) Interest income from related parties

	December 31, 2017	December 31, 2016
Akiş Mudanya Adi Ortaklığı (*)	1,064	-
Total	**1,064**	**-**

(*) Joint ventures
(**) The contracting charge of Aksa and Ak-Kim for the contructions in progess.
(***) The usage rights cost of joint treatment plant within Yalkim Organized Industrial Zone.
(****) Financial investments not included in the scope of consolidation
(*****) Other related parties

h) Key management compensation

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

	December 31, 2017	December 31, 2016
Key management compensation	21,161	9,375
Other benefits	209	129
Total	**21,370**	**9,504**

i) Commitments given to related parties

The long term loan amounting to USD 325,000,000 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 USD 220,675,000 and Akcez's shareholders Akkök Holding Anonim Şirketi And Cez Anonim Şirketi 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 USD 200,488,975 as of 31 December 2017.

Akcez's shareholders Akkök Holding Anonim Şirketi and Cez Anonim Şirketi 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 USD 37,562,256 and TL 107,747,331 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 2017, the remaining balance of the loan is USD 37,562,256 and TL 107,747,331.

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

NOTE 10 - TRADE RECEIVABLES AND PAYABLES

a) Trade receivables from third parties

	December 31, 2017	December 31, 2016
Trade receivables	1,200,390	974,177
Less: Provision for doubtful receivables	(69,343)	(64,626)
Less: Unearned financial income	(10,879)	(12,172)
Subtotal	**1,120,168**	**897,379**
Trade receivables from related parties (Note 9)	35,456	28,506
Total	**1,155,624**	**925,885**

Maturity of trade receivables of the Group is generally less than three months (2016: 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 is necessary other than the provision provided.

Movements of provision for doubtful trade receivables for the years ended 31 December 2017 and 2016 are as follows:

	2017	2016
1 January	**64,626**	**60,113**
Collections and write off	(16,075)	(1,932)
Charge for the year	16,183	6,445
Merger effect	3,127	-
Increase due to Akferal acquisition	1,482	-
31 December	**69,343**	**64,626**

As at 31 December 2017, trade receivables amounting to TL 168,039,371 (2016: TL 96,093,000) were past due but not impaired. The Group does not foresee any collection risk for receivables overdue up to one month due to industry dynamics and circumstances. The Group applies a portion of trade receivables overdue more than one month by interest charge. Aging of past due but not impaired trade receivables at 31 December 2017 and 2016 is as follows:

	December 31, 2017	December 31, 2016
Up to 3 months	112,410	88,877
More than 3 months	55,629	7,216
Total	**168,039**	**96,093**

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

NOTE 10 - TRADE RECEIVABLES AND PAYABLES (Continued)

b) Long-term trade receivables

	December 31, 2017	December 31, 2016
Notes receivables (*)	59,735	63,325
Less: Unearned financial income	(3,295)	(5,019)
Total	**56,440**	**58,306**

(*) Major portion of the long-term notes receivables consist of notes received for sales of the lands.

c) Trade payables from third parties

	December 31, 2017	December 31, 2016
Trade payables	918,608	615,594
Less: Unearned financial expense	(4,382)	(3,791)
Subtotal	**914,226**	**611,803**
Trade payables to related parties (Note 9)	46,653	26,948
Total	**960,879**	**638,751**

NOTE 11 - INVENTORIES

	December 31, 2017	December 31, 2016
Raw materials	350,270	146,442
Finished goods	153,610	105,380
Complete and incomplete residences	382,558	97,203
Other inventories and spare parts	39,300	43,019
Semi-finished goods	39,560	23,171
Trade goods	7,429	4,353
Less: Provision for impairment in inventories (*)	(28.777)	(1,915)
Total	**943,950**	**417,653**

(*) The inventory value of TL 25,082,503 the cost of Çiftehavuzlar land as of December 31, 2017 amounting to TL 62,151,503 is the amount of impairment resulting from the redemption of land to the purchase price of TL 37,069,000.

At 31 December 2017, carrying value of the Group's non-current inventories comprising incomplete residences is TL 68,337,854 (2016: TL 291,205,450).

	2017	2016
1 January	1,915	2,768
Charge for the year	26,862	-
Reversals for the year	-	(853)
31 December	**28,777**	**1,915**

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

NOTE 12 - PREPAID EXPENSES AND DEFERRED INCOME

	December 31, 2017	Decemer 31, 2016
Current prepaid expenses:		
Advances given for inventories	17,633	15,714
Prepaid expenses	12,855	12,092
Total	**30,488**	**27,806**
Non-current prepaid expenses:		
Advances given	28,217	50,844
Prepaid expenses	1,830	4,520
Total	**30,047**	**55,364**
Deferred income:		
Advances received	30,807	61,460
Deferred income	4,813	3,388
Total	**35,620**	**64,848**
Long term deferred income:		
Deferred income for the year (*)	9,413	-
Total	**9,413**	**-**

(*)This amount consists of the councils which are taken as promotional contribution shares from the related tenants of Akasya Shopping Center. Contributions are recorded on the basis of the relevant rental period.

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

NOTE 13 - INVESTMENT PROPERTIES

	1 January 2017	Additions	Disposals	Acquisitions by business combinations(*)	Disposal within scope of consolidation(**)	31 December 2017
Cost	536,895	14,648	(50,766)	2,266,300	(4,824)	2,762,253
Accumulated depreciation	(51,134)	(43,477)	1,060	-	-	(93,551)
Net book value	**485,761**	**(28,829)**	**(49,706)**	**2,266,300**	**(4,824)**	**2,668,702**

	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**	**21,449**	**(43,556)**	**-**	**-**	**485,761**

(*) Acquisitions by business combinations consist of additions resulted by Saf GYO's merger with Akiş GYO on January 18, 2017 (Note 5).

(**) The Group has sold its subsidiary, Ariş Sanayi ve Ticaret Anonim Şirketi to MR Boya on May 24, 2017.

Fair value of the Group's investment properties, as of 31 December 2017 were estimated by an independent valuation company as TL 3,591,809,577 (2016: TL 1,218,932,000). 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.

There are amounting to TL 1,718,230,000 mortgage on investment properties of the Group as of 31 December 2017 (2016: TL 733,860,000).

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

NOT 14 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2017	Additions	Disposals	Transfers (*)	Currency translation differences	Increase due to acquisitions (***)	Disposal within scope of consolidation (****)	31 December 2017
Cost								
Land and land improvements	276,463	920	(56)	1,702	98	12,057	(210)	290,974
Buildings	261,851	4,770	(123)	44,085	23	26,915	-	337,521
Machinery and equipment	1,457,149	15,486	(21.328)	402,641	165	18,888	-	1,873,001
Motor vehicles	82,567	780	(429)	-	109	1,085	-	84,112
Furniture and fixtures	94,295	7,318	(1.004)	7.104	32	18,704	-	126,449
Leasehold improvements	16,234	628	(999)	-	-	2,446	-	18,309
Construction in progress (**)	138,974	418,203	(1.225)	(457.990)	-	-	(908)	97,054
Total	**2.327.533**	**448,105**	**(25,164)**	**(2,458)**	**427**	**80,095**	**(1,118)**	**2,827,420**
Accumulated Depreciation								
Land and land improvements	81,116	7,113	-	-	-	9	-	88,238
Buildings	64,460	10,720	(38)	-	115	520	-	75,777
Machinery and equipments	931,019	94,917	(19,803)	-	247	7,169	-	1,013,549
Motor vehicles	20,880	719	(408)	-	73	560	-	21,824
Furniture and fixtures	62,750	11,250	(788)	-	72	9,853	-	83,137
Leasehold improvements	12,854	550	(966)	-	-	405	-	12,843
Total	**1,173,079**	**125,269**	**(22,003)**	**-**	**507**	**18,516**	**-**	**1,295,368**
Net book value	**1,154,454**							**1,532,052**

(*) Amount of TL 1,026,740 of transfers are transferred to intangible assets and amount of TL 1,430,735 of transfers are due to classification of asset held for sale of a land owned by Ak-Kim, a subsidiary of the Group.
(**) 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 Ak-Kim.
(***) As of December 31, 2017, the increases related to the business combination resulted from Akiş GYO and Saf GYO merger on January 18, 2017, merger of Ak-Kim by Akferal on November 3, 2017, acquisiton of Dinox by Ak-Kim on February 15, 2017 and acquisiton of Megacolor by Gizem Frit on November 23, 2017 (Note 5).
(****) The Group has sold its subsidiary, Ariş Sanayi ve Ticaret Anonim Şirketi to MR Boya on May 24, 2017 and İstasyon Tekstil ve Sanayi Ticaret Anonim Şirketi on August 4, 2017 to Gökhan Kaştan.

Depreciation expense of the current period is TL 175,221,643 for the cost of goods sold, TL 3,455,826 for research and development expenses, TL 7,342,577 for general administrative expenses, TL 2,267,667 for marketing, sales and distribution expenses and TL 301,000 are include in project development costs not yet completed and TL 1,521,001 are included in inventories.

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

NOT 14 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	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 TL 4,671,000 of transfers are transferred 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 Ak-Kim.

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

NOTE 15 - INTANGIBLE ASSETS

	1 January 2017	Additions	Disposals	Transfers	Currency translation differences	Increase due to acquisitions (*)	31 December 2017
Cost:							
Rights	125,235	3,454	(9)	459	1,286	9,710	140,135
Development costs	26,037	2,819	-	458	-	-	29,314
Other	6,343	2,896	-	110	-	3,277	12,626
Customer list	107,276	-	-	-	1,515	13,843	122,634
Total	**264,891**	**9,169**	**(9)**	**1,027**	**2,801**	**26,830**	**304,709**
Accumulated amortisation:							
Rights	12,930	6,389	(9)	-	234	1,682	21,226
Development costs	12,382	3,073	-	-	-	-	15,455
Other	5,050	1,174	-	-	-	2,095	8,319
Customer list	21,456	10,728	-	-	770	2,098	35,052
Total	**51,818**	**21,364**	**(9)**	**-**	**1,004**	**5,875**	**80,052**
Net book value	**213,073**						**224,657**

(*) As of December 31, 2017, the increases related to the business combination resulted from Akiş GYO and Saf GYO merger on January 18, 2017, merger of Ak-Kim by Akferal on November 3, 2017, acquisiton of Dinox by Ak-Kim on February 15, 2017 and acquisiton of Megacolor by Gizem Frit on November 23, 2017 (Note 5).

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

NOTE 15 - INTANGIBLE ASSETS (Continued)

	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**

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

NOTE 16 - GOODWILL

The details of goodwill as of 31 December 2017 and 2016 is as follows:

December 31, 2017	Karlıtepe	Gizem Frit	Dinox	Akferal	Megacolor	Total
Purchase consideration settled in cash	100	212,458	13,992	16,398	32,470	275,418
Contingent consideration (*)	-	9,436	-	-	-	9,436
Net liabilities/(assets) acquired	607	(171,186)	(11,150)	(15,610)	(30,945)	(228,284)
Currency translation differences	-	-	469	-	(46)	423
Goodwill	**707**	**50,708**	**3,311**	**788**	**1,479**	**56,993**

December 31, 2016	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 in the tables expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

NOTE 16 – GOODWILL (Continued)

Impairment test for goodwill:

On January 5, 2015, the Ak-Kim, a subsidiary of the Group, acquired 100% shares of Gizem Frit. On May 22, 2015, the Akiş, a subsidiary of the Group, acquired 100% shares of Karlıtepe. Ak-Kim, a subsidiary of the Group, acquired a 100% share of Dinox on February 15, 2017 for a consideration of EUR 3,750,000. On November 3, 2017 the remaining 50% shares of Akferal was acquired by Akkim from the FERALCO AB by for a consideration of TL 9,000,000. Gizem Frit, a subsidiary of the Group, acquired a 100% shares of Megacolor on November 22, 2017 for a consideration of EUR 7,002,128. The difference between the total purchase price, fair value of acquired net assets and resulting goodwill in the consolidated financial statements.

The Group tests whether goodwill has suffered any impairment on an annual basis. The Group, considers the carrying value of its investment in Gizem Frit, Karlıtepe, Dinox, Akferal and Megacolor for possible impairment in every reporting period. The impairment analysis cannot be performed by considering market data since related financial asset has not active market and the Company management has to make significant estimations.

Gizem Frit;

The impairment test is based on a 5-year TL based projection between January 1, 2018 and December 31, 2022. Five-year discount rate used in future cash flow estimations has been determined as 10% in the calculation model of the fair value. No impairment has been determined as a result of the analyses carried out by the Group.

Dinox;

Since there is no material change in assumptions used in calculation of goodwill between the acquisition date of February 15, 2017 and December 31, 2017, no impairment provision for goodwill is foreseen.

Akferal;

Since there is no material change in assumptions used in calculation of goodwill between the acquisition date of November 3, 2017 and December 31, 2017, no impairment provision for goodwill is foreseen.

Megacolor;

Since there is no material change in assumptions used in calculation of goodwill between the acquisition date of November 22, 2017 and December 31, 2017, no impairment provision for goodwill is foreseen.

NOTE 17 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short term provisions:

	December 31, 2017	December 31, 2016
Provisions for debts and expenses	8,188	3,718
Provision for lawsuits	6,710	2,686
Total	**14,898**	**6,404**

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

NOTE 17 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Long term provisions:

	December 31, 2017	December 31, 2016
Provision for lawsuits (Not 25) (*)	-	18.083
Total	**-**	**18.083**

(*) Provision for the Akport tax penalty has been reversed since the related litigation concluded in favor of the Group.

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:

	December 31, 2017	December 31, 2016
Insurances on receivables	546,610	462,306
Eximbank limits on receivables	285,408	456,777
Confirmed/nonconfirmed letters of guarantees	254,298	247,025
Received mortgages	200,901	75,845
Received notes, guarantee and cheques	198,850	106,014
Received letters of guarantee	152,061	84,291
Limits from direct debit systems	18,699	19,006
Total	**1,656,828**	**1,451,265**

b) Guarantees given

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

	December 31, 2017	December 31, 2016
Mortgages given (Note 13)	1,718,230	733,860
Letters of credit given	537,923	368,440
Letters of guarantee given	662,320	281,397
Total	**2,918,473**	**1,383,697**

NOTE 17 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

c) Dispute related to port investments of Akport:

Akport, a subsidiary of the Group, took over the right to operate the Tekirdağ Port for 30 years on June 17, 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 TL 32,152,693 in the Group’s consolidated financial statements as of December 31, 2017.

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 November 1, 2010. The Undersecretariat for Maritime Affairs did not extend the permission, the reason for the unauthorized use of the port between November 1, 2010 and December 31, 2011 due to the continuation of the activities of Akport Anonim Şirketi in order to prevent the country and the region from being affected by economic difficulties that would not have been caused by this situation. and Akport was charged an administrative fine of TL 4,434,000 on the grounds that the port was used without permission until the date December 31, 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 on November 1, 2010.

In the face of these developments, Akport advised the Privatisation Authority on February 6, 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 April 16, 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 TL 78,025,056 and railway and land improvements as 10,049,974 TL. 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 TL 88,075,029 and a claim for compensation against Türkiye Denizcilik İşletmeleri was opened. By the judgement of September 15, 2015 (including accrued interest as of December 2017) it is decided to make payment to Akport with the amount of approximately TL 96,045,000 by TDİ. The annulment action is proceeded by TDİ against the decision and the Court gave a decision of non-jurisdiction on March 3, 2016, which has not become final.

NOTE 17 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

In the meantime, with its letter dated September 19, 2012 with No. 6199, the Privatisation Authority of the Turkish Prime Minister's Office requested that USD 74,673,983 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 November 9, 2012 with No. 7524 opened a lawsuit for the collection of the said amount in the presence of arbitrators.

Arbitration Committee announced its unanimous ruling on February 28, 2014.

- Relationship between the parties ended due to objective impossibility of performance as of November 1, 2010,
- Akport, as of the date of the ruling, should pay a total of USD 3,881,262 as the port's operating rights and balancing price,
- Parties have right to appeal against this ruling by an action for annulment.

Accordingly, Akport paid the Privatisation Authority an amount of USD 3,934,296 (including the accrued interest until the date of payment) on April 22, 2014 and no provisions in the financial statements were recognized related to this claim as of December 31, 2017.

On April 1, 2014, the Court of First Instance rejected the case for the cancellation of the decision by the Privatization Administration and the request for correction of the decision by the plaintiff was rejected by the plaintiff, in addition the request for correction of the decision was rejected by the court ruled on July 17, 2017 and the legal process has been finalized on this respect.

d) ***Lawsuits from shareholders*:**

Following Akkök extraordinary general assembly meeting dated October 31, 2013 and ordinary general assembly meeting related to the year ended 2013 dated April 22, 2014 (delayed to and completed on May 23, 2014) certain shareholders began to file numerous lawsuits against the Group.

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

Concerning the lawsuits filed for the annulment of Akkök's extraordinary general assembly meetings dated December 23, 2015 and January 14, 2016 and for annulment of Akkök's Board of Directors decision no 4 dated February 24, 2016 regarding the exercise of the shareholder's rights to pay 50% of their share capital commitment, the Court, as an interim decision, rejected the claimants' application for a temporary injunction. Accordingly, in the consolidated financial statements no provisions were recognized related to this claim as of December 31, 2017.

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

NOTE 18 - EMPLOYEE BENEFITS

	December 31, 2017	December 31, 2016
Short term:		
Provision for bonuses	20,528	18,038
Unused vacation provision	5,342	3,729
Subtotal	**25,870**	**21,767**
Long term:		
Provision for employment termination benefits	43,356	34,201
Provision for seniority incentive plan	1,960	2,243
Total	**45,316**	**36,444**

Movements in the short term provisions for employment termination benefits for the years ended 31 December 2017 and 2016 are as follows:

Provision for bonuses	December 31, 2017	December 31, 2016
1 January	18,038	15,568
Charge for the year	2,490	2,470
31 December	**20,528**	**18,038**

Unused vacation provision	December 31, 2017	December 31, 2016
1 January	3,729	3,233
Charge for the year	1,613	496
31 December	**5,342**	**3,729**

Under Turkish labor law, the Company is officially required to pay the severance pay to each employee whose employment contract has expired. Also, the Company is required to pay the severance payment to employees who has the right to leave the Company by receiving severance pays according to the 2422 numbered, 6 March 1981 dated and 4447 numbered, 25 August 1999 dated Law no.506 on Social Insurance Law's 60th clause which is still effective.

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:

	December 31, 2017	December 31, 2016
Discount rate (%)	4.67	3.52
Probability of retirement (%)	83.19 - 98.40	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 TL 5,001.76 effective from January 1, 2018 (January 1, 2017: TL 4,426.16) has been taken into consideration in calculating the reserve for employment termination benefit of the Group.

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

NOTE 18 - EMPLOYEE BENEFITS (Continued)

Movements in the provisions for employment termination benefits and seniority incentive bonus for the years ended 31 December 2017 and 2016 are as follows:

	2017	2016
1 January	36,444	37,726
Compensation paid	(5,830)	(6,692)
Service cost	5,001	6,898
Interest cost	2,990	2,573
Akferal acquisition effect (Note 5)	9	-
Actuarial gain/(loss)	6,702	(4,061)
31 December	**45,316**	**36,444**

NOTE 19 - OTHER ASSETS AND LIABILITIES

	December 31, 2017	December 31, 2016
Other current assets:		
VAT receivable	147,851	111,481
Income accruals	385	1,297
Other	2,423	836
Total	**150,659**	**113,614**
Other non-current assets:		
VAT receivable	2,112	3,071
Other	1,952	1,639
Total	**4,064**	**4,710**
Other current liabilities:		
Taxes and funds payable	4,983	5,386
Restructured tax and other liabilities	1.427	-
Expense accruals	210	705
Liability in relation to contingent consideration for Gizem Frit (*)	-	4,239
Total	**6,620**	**10,330**
Other non-current liabilities:		
Restructured tax and other liabilities	517	-
Total	**517**	**-**

(*) 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 based on discount rate 14% for the period ended 2016 and assumed the probability the actual EBITDA is lower than 80% of pre-determined EBITDA. As of December 31, 2016, the fair value of the remaining portion of the contingent consideration is calculated as TL 4,239,450 and as of December 31, 2017, the remaining amount of TL 4,239,450 was paid.

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

NOTE 20 - BORROWINGS

	December 31, 2017	December 31, 2016
Short-term bank borrowings	1,086,736	944,129
Short-term factoring and leasing liabilities	35,174	36,202
Subtotal	**1,121,910**	**980,331**
Short term portion of long-term bank borrowings	413,911	317,783
Total short-term financial liabilities	**1,535,821**	**1,298,114**
Long-term bank borrowings	2,080,879	1,039,019
Long-term factoring and leasing liabilities	40,723	90
Total long-term financial liabilities	**2,121,602**	**1,039,109**

The details of borrowings of the Group are as follows:

	December 31, 2017		December 31, 2016	
	Weighted average interest rate %	TL	Weighted average interest rate %	TL
Short term bank borrowings:				
USD Loans	2.65	788,096	1.80	585,947
EUR Loans	0.95	188,166	1.24	261,019
TL Loans	15.85	110,474	16.05	97,163
Total		**1,086,736**		**944,129**
Short term factoring payables:				
TL factoring payables		501		30,042
USD factoring payables		34,673		6,160
Total		**35,174**		**36,202**
Short term portion of long-term bank borrowings:				
USD Loans	4.90	252,959	4.85	219,030
EUR Loans	3.50	100,525	3.38	96,977
TL Loans	15.15	60,427	13.15	1,776
Total		**413,911**		**317,783**
Long-term bank borrowings:				
USD Loans	5.16	1,010,787	5.62	670,583
EUR Loans	3.20	605,720	3.55	312,602
TL Loans	15.15	464,372	10.17	55,834
Total		**2,080,879**		**1,039,019**
Long-term factoring payables:				
TL factoring payables		-		90
USD factoring payables		40,723		-
Total		**40,723**		**90**

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

NOTE 20 - BORROWINGS (Continued)

Total borrowings as of January 1, 2017	**2,337,223**
Cash inflow from new borrowings obtained	2,916,903
Cash outflows from redemption of borrowings	(2,756,370)
Acquisition by business combination (Note 5)	928,575
Interest paid	(166,550)
Change in interest accrual	79,122
Change in exchange rate differences	318,520
Total borrowings as of December 31, 2017	**3,657,423**

The book value and fair value of the borrowings as of 31 December 2017 and 2016 is as follows:

	December 31, 2017		**December 31, 2016**	
	Fair Value	**Book Value**	**Fair Value**	**Book Value**
USD borrowings	2,154,420	2,127,251	1,513,449	1,477,500
EUR borrowings	915,717	894,410	742,503	705,085
TL borrowings	685,801	635,762	161,643	154,638
Total	**3,755,938**	**3,657,423**	**2,417,595**	**2,337,223**

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.

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

	December 31, 2017	**December 31, 2016**
Within 1 - 2 year	1,084,624	303,940
Within 2 - 3 year	314,480	219,495
Within 3 - 4 year	543,895	139,584
Over 4 years	137,880	376,090
Total	**2,080,879**	**1,039,109**

At 31 December 2017, bank borrowings with floating interest rates amounts to TL 1,002,638,000 (2016: TL 247,125,000). 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 London Interbank Offered Rate (Libor) +3.10% and +3.50% (2016: Libor+3.10% and +3.50%).

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

NOTE 21 - DERIVATIVE FINANCIAL INSTRUMENTS

	December 31, 2017		December 31, 2016	
	Asset	**Liabilities**	**Asset**	**Liabilities**
Hedging instruments	4,675	-	2,554	-
Held for trading	627	1,928	136	2,790
Total	**5,302**	**1,928**	**2,690**	**2,790**

Derivatives as hedging instruments:

	December 31, 2017		December 31, 2016	
	Contract amount	**Fair value Asset**	**Contract amount**	**Fair value Asset**
Interest rate swap	236,721	4,675	56,429	2,554

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".

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 December 31, 2017, the fixed interest rates vary from 1.13% to 3.64% for USD (2016: USD -0.90% to TL-16.05%), 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 December 31, 2016 will be continuously released to the income statement within finance cost until the repayment of the bank borrowings.

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

NOTE 22 - CAPITAL, RESERVES AND OTHER EQUITY ITEMS

Capital

At 31 December 2017 and 2016, the Group's share capital and shareholding structure exceeding 1% were as follows:

	% Share	December 31, 2017	% Share	December 31, 2016
A.R.D. Holding Anonim Şirketi	33	334,483	33	334,483
Atlantik Holding Anonim Şirketi	33	334,483	33	334,483
N.D.Ç. Holding Anonim Şirketi	33	334,482	33	334,482
Other	1	2	1	2
Total	**100**	**1,003,450**	**100**	**1,003,450**
Unpaid capital		(14,007)		(35,018)
		989,443		**968,432**
Adjustment to share capital		(10,406)		(10,406)
Total Equity		**979,037**		**958,026**

The Group's authorised share capital consists of 100,345,000,000 shares each with TL 0.01 value (2016: 100,345,000,000). There are no privileges given to shares of different groups and shareholders. As of balance sheet date, the paid-in capital is TL 989,442,824.

The share capital, which was increased from TL 13,098,000 to TL 863,378,000 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 TL 1,003,450,000 taken at the extraordinary general assembly meeting held on 23 December 2016, Increased to TL 1,003,450,000 with the decision of capital increase taken at the extraordinary general meeting held on 14 January 2016. All of the guaranteed amount of TL 105,054,000 was paid in cash. Capital increase was registered on 22 February 2016.

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.

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

NOTE 22 - CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

As of 31 December 2017 and 2016 retained earnings of Akkök its stand alone with statutory financial statements are as follows:

	December 31, 2017	December 31, 2016
Legal reserves	11,308	7,516
Net profit for the period	157,593	75,827
Retained loss	-	-
Total	**168,901**	**83,343**

Informations on subsidiaries with significant non-controlling interest

Group subsidiaries with significant non-controlling interest are Akiş, Akkim and Aksa. Summary of the financial information of these subsidiaries are stated below:

December 31, 2017	Ownership of non-controlling interest (%)	Assets	Liabilities	Revenue	Net profit/(loss) for the year
Akiş	82.25	3,382,523	1,772,882	319,650	436,669
Ak-Kim	58.00	1,241,523	979,739	847,695	77,396
Aksa	60.41	3,354,301	1,978,183	2,767,384	294,971
Total		**7,978,347**	**4,730,804**	**3,934,729**	**809,036**

December 31, 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)
Ak-Kim	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**

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

NOTE 23 - REVENUE AND COST OF SALES

a) Revenue

	January 1 - December 31, 2017	January 1 - December 31, 2016
Local sales	2,726,728	1,768,148
Export sales	1,275,364	973,579
Less: Sales returns (-)	(19,543)	(12,143)
Less: Sales discounts (-)	(132,377)	(112,096)
Revenues, net	**3,850,172**	**2,617,488**

b) Cost of sales

	January 1 - December 31, 2017	January 1 - December 31, 2016
Raw materials	2,361,362	1,603,134
Personnel expenses	171,384	134,740
Depreciation and amortization expenses	175,222	118,053
Shopping mall costs	62,160	25,900
Other	124,888	96,176
Total	**2,895,016**	**1,978,003**

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

NOTE 24 - GENERAL AND ADMINISTRATIVE EXPENSES

a) General administrative expenses

	January 1 - December 31, 2017	January 1 - December 31, 2016
Personnel expenses	67,765	61,984
Consultancy expenses	25,239	24,723
Other tax expenses	10,878	11,475
Depreciation and amortization expenses	7,343	5,996
Donations and charities	7,156	9,045
Communication expenses	6,636	6,880
Rent expenses	3,233	3,470
Office expenses	2,966	2,851
Travelling expenses	3,712	1,491
Other	14,295	20,876
Total	**149,223**	**148,791**

b) Marketing expenses

	January 1 – December 31, 2017	January 1 - December 31, 2016
Export expenses	25,728	21,337
Commission expenses	19,591	18,440
Personnel expenses	18,666	17,845
Transportation expenses	11,422	4,146
Travel expenses	3,113	2,626
Rent expenses	1,432	1,623
Advertisement expenses	2,503	965
Depreciation and amortization expenses	2,268	-
Insurance expenses	1,325	849
Other	8,079	7,638
Total	**94,127**	**75,469**

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

NOTE 25 - OTHER OPERATING INCOME AND EXPENSE

a) Other operating income

	January 1 - December 31, 2017	January 1 December 31, 2016
Foreign exchange gain on commercial activities	427,532	223,301
Interest income on credit sales	31,566	28,251
Reversal of provision for litigation (Note 17)	18,083	2,736
Provisions no longer required	2,455	-
Other	34,752	14,674
Total	**514,388**	**268,962**

b) Other operating expenses

	January 1 - December 31, 2017	January 1 - December 31, 2016
Foreign exchange loss on commercial activities	324,078	153,540
Impairment expense (*)	25,083	-
Interest expense on credit pruchases	18,679	18,605
Provision expenses	5,234	2,167
Tax penalty	9,026	350
Other	18,612	4,649
Total	**400,712**	**179,311**

(*) The cost of Çiftehavuzlar land as of December 31, 2017 amounting to TL 62,151,503 is the amount of impairment resulting from the redemption of land to the purchase price of TL 37,069,000.This amount is the amount foreseen within the scope of ongoing legal and administrative processes.

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

NOTE 26 - INCOME AND EXPENSE FROM INVESTING ACTIVITIES

a) Income from investing activities

	December 31, 2017	December 31, 2016
Gain on sales of fixed assets and investment properties	111,673	78,960
Gain on sale of shares of subsidiaries (*)	22,278	-
Dividend income	730	657
Total	**134,681**	**79,617**

(*) The Group, transferred its 800 shares which are 100% of the capital of Ariş Sanayi ve Ticaret Anonim Şirketi to Mr Boya Kimya Sanayi ve Ticaret Ltd. Şti. At a price of TL 21,059,341 on May 24, 2017 and the Group transferred İstasyon Tekstil ve Sanayi Ticaret Anonim Şirketi at a price of TL 4,297,887 on August 4, 2017 to Gökhan Kaştan. As a result of these transactions, gain on saleof shares of subsidiaries amounting to TL 22,278,324 has been accounted under income from investment activities.

NOTE 27 - EXPENSES BY NATURE

Expenses classified by nature for the period of 31 December 2017 and 2016 are as follows:

	January 1 – December 31, 2017	January 1 – December 31, 2016
Raw materials	2,357,338	1,689,209
Personnel expenses	268,382	216,835
Depreciation and amortisation expenses	188,288	128,399
Shopping mall costs	62,160	25,900
Other	286,014	157,224
Total	**3,162,182**	**2,217,567**

Personnel expenses	January 1 – December 31, 2017	January 1 – December 31, 2016
Cost of sales	171,384	134,740
General administrative expenses	67,765	61,984
Marketing expenses	18,666	17,845
Research and development expenses	10,568	3,087
Toplam	**268,383**	**217,656**

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

NOTE 28 - FINANCIAL INCOME AND EXPENSES

a) Financial income

	January 1 – December 31, 2017	January 1 – December 31, 2016
Foreign exchange gain	466,243	410,575
Interest income	42,619	32,873
Gain on derivative financial instruments	2,465	-
Total	**511,327**	**443,448**

b) Financial expenses

	January 1 – December 31, 2017	January 1 – December 31, 2016
Foreign exchange loss	(677,208)	(668,872)
Interest expenses	(166,550)	(64,614)
Loss on derivative financial instruments	-	(10,220)
Total	**(843,758)**	**(743,706)**
Net financial expense	**(332,431)**	**(300,258)**

NOTE 29 - TAXES ON INCOME

	December 31, 2017	December 31, 2016
Corporate and income taxes payable	73,186	63,594
Less: prepaid corporate income tax	(64,528)	(53,947)
Current income tax liabilities	**8,658**	**9,647**

The details of taxation on income in the statements of comprehensive income for the years ended 31 December 2017 and 2016 are as below:

	December 31, 2017	December 31, 2016
Current income tax expense	(73,186)	(63,594)
Deferred tax expense, net	(873)	(3,472)
Total tax expense, net	**(74,059)**	**(67,066)**

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

NOTE 29 - 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 2017 and 2016 using the enacted tax rates is as follows:

	Temporary taxable differences		Deferred tax assets / (liabilities)	
	2017	**2016**	**2017**	**2016**
Investment incentives	83,584	51,730	17,338	10,346
Employee benefits	49,269	39,230	10,272	7,846
Deferred tax assets from carryforward tax losses	-	610	-	122
Trade receivables	17,495	-	3,499	
Provision for doubtful receivables	1,444	540	318	108
Derivative financial insturments	38	235	8	47
Impairment of inventories	1,232	-	253	-
Other	4,298	5,810	940	1,162
Deferred tax assets			**32,628**	**19,631**
Property, plant and equipment and intangible assets	(211,213)	(193,705)	(52,238)	(38,741)
Derivative financial insturments	(2,923)	-	(643)	-
Trade payables	(3,954)	(2,905)	(859)	(581)
Impairment of inventories	(14,560)	(1,155)	(3,050)	(231)
Other	(2,503)	-	(501)	-
Deferred tax liabilities			**(57,291)**	**(39,553)**
Deferred tax liabilities, net			**(24,663)**	**(19,922)**

Since each subsidiary 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.

	December 31, 2017	December 31, 2016
Deferred tax assets	8,163	12,405
Deferred tax liabilities	(32,826)	(32,327)
Deferred tax assets/(liabilities), net	**(24,663)**	**(19,922)**

Movements of deferred tax assets/(liabilities) as at 31 December 2017 and 2016 as below:

	December 31, 2017	December 31, 2016
1 January	**19,922**	**15,380**
Deferred tax income / (expense) recognized in profit or loss for the year, net	873	3,472
Amounts recognised in other comprehensive income	(1,196)	1,070
Merger effect (Note 5)	5,064	-
Balances at 31 December	**24,663**	**19,922**

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

NOTE 29 - TAXES ON INCOME (Continued)

The reconciliation of tax expenses stated on the consolidated statement of comprehensive income for the years ended 31 December 2017 and 2016 is as follows:

	2017	**2016**
Profit before tax on consolidated financial statements	926,864	138,816
Expected tax expense of the Group (20%)	**(185,373)**	**(27,763)**
Effect of tax losses for which no deferred tax assets recognized	(851)	(20,308)
Effect of consolidation adjustments	(117)	(31,220)
Non-deductible expenses	(6,329)	(2,407)
Other income exempt from tax	85,342	15,741
Investment incentives	27,432	-
Effect of tax losses by tax redumption	6,446	-
Other	(609)	(1,109)
Total tax expense, net	**(74,059)**	**(67,066)**

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	**December 31, 2017**	**December 31, 2016**
2018	19,095	19,095
2019	14,817	14,817
2010	5,562	31,896
2021	4,815	4,815
2022	4,258	-
Total	**48,547**	**70,623**

NOTE 30 - 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 payables, other receivables, other payables etc., which arise directly from its operations. The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk, interest rate risk and credit risk. The Group management reviews and agrees policies for managing each of the risks as summarised below.

30.1 Foreign currency risk

Foreign currency risk is identified by the changes in cash flows and revenues due to changes in foreign currency rates. The Group is exposed to foreign currency risk with the foreign currency transactions of sales, purchases and financial liabilities. In these transactions, USD and EUR are the main currencies. In selected subsidiaries, Akkök, implemented 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 in the tables expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

NOTE 30 - NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Net foreign currency positions of selected subsidiaries are periodically analysed by Akkök. 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 December 31, 2017, the foreign currency position of the Group is prepared using the following foreign exchange rates USD/TL 3.7719, EUR/TL 4.5155 (2016: USD/TL 3.5192, EUR/TL 3.7099).

Foreign currency position table denominated in Turkish Lira as of 31 December 2017 and 2016 is as follows:

	December 31, 2017	December 31, 2016
Assets	1,875,584	1,505,571
Liabilities (-)	(3,779,671)	(2,780,344)
Net balance sheet position	**(1,904,087)**	**(1,274,773)**

				December 31, 2017
	USD	**EUR**	**Other currencies**	**Total**
Assets:				
Cash and cash equivalents	525,891	250,645	4,721	781,258
Financial investments	25,113	-	-	25,113
Trade receivables	840,125	210,872	374	1,051,371
Other assets	8,965	8,877	-	17,842
Total assets	**1,400,094**	**470,394**	**5,095**	**1,875,584**
Liabilities:				
Short-term borrowings	1,041,556	288,691	-	1,330,247
Long-term borrowings	1,051,510	605,720	-	1,657,230
Trade payables	730,958	58,419	2,378	791,755
Other liabilities	360	79	-	439
Total liabilities	**2,824,384**	**952,909**	**2,378**	**3,779,671**
Net foreign currency position	**(1,424,290)**	**(482,514)**	**2,717**	**(1,904,087)**

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

NOTE 30 - NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

				December 31, 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	7,574	-	80,938
Total liabilities	**2,044,617**	**735,151**	**576**	**2,780,344**
Net foreign currency position	**(678,301)**	**(602,842)**	**6,370**	**(1,274,773)**

The table below shows the sensitivity of the net foreign currency position of the Group to the changes in foreign exchange rates as of December 31, 2017 and 2016.

December 31, 2017	**Foreign currency appreciation**	**Foreign currency devaluation**
Change of USD against TL by 10%		
USD net assets / liabilities	(142,429)	(142,429)
USD net effect - income/ (expense)	**(142,429)**	**(142,429)**
Change of EUR against TL by 10%		
EUR net assets / liabilities	(48,252)	48,252
EUR net effect - income/ (expense)	**(48,252)**	**48,252**

December 31, 2016	**Foreign currency appreciation**	**Foreign currency devaluation**
Change of USD against TL by 10%		
USD net assets / liabilities	(67,830)	67,830
USD net effect - income/ (expense)	**(67,830)**	**67,830**
Change of EUR against TL by 10%		
EUR net assets / liabilities	(60,284)	60,284
EUR net effect - income/ (expense)	**(60,284)**	**60,284**

NOTE 30 - NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

30.2 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 the Group is exposed to interest rate risk from time to time. Akkök Holding Anonim Şirketi, 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 2017 and 2016, the Group’s borrowings at floating rates are mainly denominated in USD and EUR.

At December 31, 2017, 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 TL 4,852 (2016: TL 2,472) lower/higher, mainly as a result of high interest expense on floating rate borrowings.

30.3 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 economic 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 in the tables expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

NOTE 30 - NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Credit risk of financial instruments at 31 December 2017 and 2016 are as follows:

December 31, 2017	**Trade and other receivables**				
	Related party	**Other**	**Bank deposits**	**Stock and bond**	**Derivative financial assets**
Maximum credit risk exposure as of the reporting date (A+B+C+D+E)	**167,105**	**1,184,360**	**908,790**	**7,673**	**5,302**
Secured portion	-	456,468	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	167,105	1,015,623	908,790	7,673	5,302
- Secured portion	-	401,197	-	-	-
B. Net book value of financial assets that are past due but not impaired	-	168,039	-	-	-
- Secured portion	-	54,573	-	-	-
C. Net book value of financial assets that are past due and impaired	-	698	-	-	-
- Overdue (gross book value)	-	70,041	-	-	-
- Impairment (-)	-	(69,343)	-	-	-
- Secured portion	-	698	-	-	-
- Not overdue (gross book value)	-	-	-	-	-
- Impairment (-)	-	-	-	-	-
- Secured portion	-	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-

December 31, 2016	**Trade and other receivables**				
	Related party	**Other**	**Bank deposits**	**Stock and bond**	**Derivative financial assets**
Maximum credit risk exposure as of the reporting date (A+B+C+D+E)	**139,084**	**960,530**	**754,123**	**-**	**2,690**
Secured portion	-	409,872	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	139,084	860,832	754,123	-	2,690
- 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	-	-	-	-	-

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

NOTE 30 - NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

30.4 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.

December 31, 2017:

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	3,657,423	3,943,418	320,177	1,218,474	2,324,395	80,372
Trade payables to third parties	914,808	919,190	743,594	175,014	582	-
Due to related parties	46,653	46,653	44,386	2,267	-	-
Total	**4,618,884**	**4,909,261**	**1,108,157**	**1,395,755**	**2,324,977**	**80,372**

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	1,928	1,928	1,928	-	-	-

December 31, 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 to third parties	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	-

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

NOTE 30 - NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

30.5 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 borrowings, 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 2017 and 2016 is as follows:

	December 31, 2017	December 31, 2016
Total liabilities	4,618,884	2,975,974
Less: cash and cash equivalents (Note 6)	(884,729)	(713,092)
Less: short term financial investments	(35,053)	(43,800)
Net debt	**3,699,102**	**2,219,082**
Total shareholders' equity	3,601,866	2,070,600
Total equity	**7,300,968**	**4,289,682**
Debt/equity ratio (%)	**51**	**52**

30.6 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 in the tables expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

NOTE 30 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 explained on notes, is the discounted amount of cash flows according to agreements with current market interest rate (Note 20).

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.

December 31, 2017	**Level 1**	**Level 2**	**Level 3**
Available-for-sale financial assets	11,177	-	2,167
Derivative financial assets	-	5,302	-
Total assets	**11,177**	**5,302**	**2,167**

December 31, 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**

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.

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

NOTE 31 - EVENTS AFTER THE BALANCE SHEET DATE

Sales of Akiş Shares

Sale of Class B shares with a nominal value of TL 74,800,803 corresponding to 17.39% of the capital of Akiş, which were bought back due to the use of "dissent/separation rights" in Akiş's merger with Saf GYO, were completed with a 3.22 – 3.30 TL / unit price range within the scope of Procedures of the BIST Wholesale Market, on April 10, 2018 with the brokerage of Ünlü Menkul Değerler A.Ş. The total sale was realized at an amount of TL 243,679,050.

The European Bank for Reconstruction and Development ("EBRD") has submitted a bid to purchase a portion of the shares and a final allocation of 31,650,000 of Akiş's Class B shares, which corresponds to 7.36% of Akiş's shareholding, has been confirmed to EBRD. In addition to this, as agreed with EBRD, the environmental and social development areas of Akiş's existing properties and ongoing projects have been identified. The improvements and the reporting to be made in these areas will be carried out on schedule and in a consistent manner.

After the sales transaction, the shareholder structure was as of April 10, 2018 as follows:

	Share amount	Share rate (%)
Ali Raif Dinçkök	104,023	24.19
Akkök Holding A.Ş.	63,066	14.66
Nilüfer Dinçkök Çiftçi	39,606	9.21
Emniyet Ticaret ve Sanayi A.Ş.	38,685	8.99
European Bank For Reconstruction And Development	31,650	7.36
Raif Ali Dinçkök	28,196	6.56
Other and publicly held	124,866	29.03
Total	**430,092**	**100**

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