

Ayen Enerji A.Ş. and Its Subsidiaries

**Convenience translation into English of consolidated
financial statements as of December 31, 2018 together with
independent auditor's report**

(Originally issued in Turkish)

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ayen Enerji A.Ş.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Ayen Enerji A.Ş. (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of 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, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Turkish Financial Reporting Standards (TFRS).

Basis for Opinion

We conducted our audit in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and Independent Auditing Standards (InAS) which are part of the Turkish Auditing Standards as issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey (POA). 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 Code of Ethics for Independent Auditors (Code of Ethics) as issued by the POA, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	Audit procedures applied for the key audit matter
<p><i>Recognition of deferred tax assets calculated over carry forward tax losses</i></p> <p>According to Turkish tax legislation, tax losses shown in the tax return can be deducted from the period corporate income for not more than 5 years. As indicated Note 25, the Group has TL 8.886.690 deferred tax asset which is calculated over carry forward tax losses as of December 31, 2018. Accumulated losses is TL 235.374.948 and partially or fully recoverable amount of deferred tax asset which is calculated over TL 44.114.363 and recognized has been estimated by Group management according to assumptions in the current conditions. Business plans for the future, the loss amounts incurred in previous years and the expiration dates of unused losses are taken in the consideration during the assessment. There is an uncertainty about the estimation of taxable profit in the future supporting to which extent the deferred tax will be recognized. For this reason, matter is considered as key audit matter.</p>	<p>During our audit, we have inquired management evaluation about recoverability of tax assets by examining business plans in the future and expire date of carry forward tax losses.</p> <p>During evaluation phase, profit projections, current year profit or losses, expiry date of carry forward losses and other tax assets have been taken into consideration.</p> <p>We have inquired that whether deferred tax calculated over carry forward losses within the scope of prospective budgets could be used before the expiration date.</p> <p>In order to investigate deferred tax effect of unused tax losses, tax experts from another entity that is a part of the same audit network have been incorporated and the measurement of the related deferred tax assets has been submitted for consideration and investigation of tax experts. Besides, convenience to TFRS of disclosures in financial statements have been evaluated.</p>
<p><i>Goodwill impairment test</i></p> <p>As of December 31, 2018, the Group has recognized goodwill amounting to TL 17.461.935 consisting of previous acquisitions. According to TFRS, the Group has made an impairment test for every cash generating unit whether the goodwill amount has been impaired. For the purpose of goodwill impairment test, the last valuation has been made as of December 31, 2018. Within the scope of mentioned valuation, income approach (discounted cash flow analysis) has been used. Since the fair value resulting from the tests performed for various cash generating units of the Group is above goodwill amount and other net assets of the companies are above net book value, there is no evidence regarding goodwill impairment.</p> <p>Assumptions, sensitivities and results for the tests performed are stated in Note 11 of the financial statements. Since these tests depend on management's estimations and market conditions in the future, it is considered as key audit matter.</p>	<p>For the test of impairment of cash generating units and evaluation of model which calculates discounted cash flow in the future we have incorporated valuation experts from another entity that is a part of the same audit network in order to investigate assumptions and methods used for the test. In addition to this, we have investigated expected growth rates and expected discounted cash flows in the future.</p> <p>Besides, convenience to TFRS of disclosures in financial statements have been evaluated.</p>

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 TFRS, 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

In an independent audit, our responsibilities as the auditors are:

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 standards on auditing as issued by the Capital Markets Board of Turkey and InAS 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 standards on auditing as issued by the Capital Markets Board of Turkey and InAS, 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.
- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

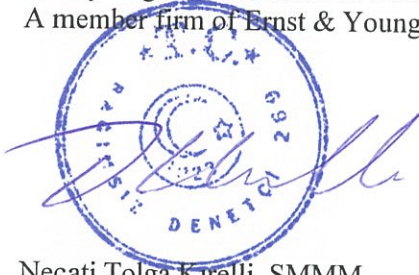
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

B) Report on Other Legal and Regulatory Requirements

- 1) 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 11, 2019.
- 2) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2018 and financial statements are not in compliance with laws and provisions of the Company's articles of association in relation to financial reporting.
- 3) In accordance with paragraph 4 of Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

The name of the engagement partner who supervised and concluded this audit is Necati Tolga Kirelli.

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



Necati Tolga Kirelli, SMMM
Partner

March 11, 2019
Ankara, Turkey

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AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018**

(Amounts are expressed in Turkish Lira (TL))

	Notes	Current Period December 31, 2018	Prior Period December 31, 2017
ASSETS			
Current Assets			
Cash and Cash Equivalents	32	121.209.720	254.490.339
Trade Receivables	5	73.533.759	50.106.976
<i>Due from Related Parties</i>	4	9.513.188	6.787.821
<i>Other Parties</i>		64.020.571	43.319.155
Other Receivables	6	4.746.572	6.619.287
<i>Due from Related Parties</i>	4	13.552	4.220.668
<i>Other Parties</i>		4.733.020	2.398.619
Service Concession Arrangements	12	17.240.073	18.248.512
Prepaid Expenses	7	3.930.068	3.913.977
Other Current Assets	8	130.265.646	140.383.828
TOTAL CURRENT ASSETS		350.925.838	473.762.919
Non-Current Assets			
Financial Assets		412.408	412.408
Other Receivables	6	59.888.813	41.588.102
<i>Due from Related Parties</i>	4	59.019.501	39.221.416
<i>Other Parties</i>		869.312	2.366.686
Service Concession Arrangements	12	149.266.526	119.123.043
Property, Plant and Equipment	9	2.040.200.205	1.612.393.334
Intangible Assets		26.551.494	33.636.086
<i>Goodwill</i>	11	17.461.935	22.143.133
<i>Other Intangible Assets</i>	10	9.089.559	11.492.953
Prepaid Expenses	7	390.532	108.342
Deferred Tax Assets	25	40.400.915	32.130.875
TOTAL NON-CURRENT ASSETS		2.317.110.893	1.839.392.190
TOTAL ASSETS		2.668.036.731	2.313.155.109

The accompanying notes presented between pages 9 and 86 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

	Notes	Current Period December 31, 2018	Prior Period December 31, 2017
LIABILITIES			
Current Liabilities			
Short-Term Financial Liabilities	14	207.720.061	207.192.458
Short-Term Portion of Financial Liabilities	14	188.985.658	111.946.072
Other Financial Liabilities	14	18.064	797.938
Trade Payables	5	59.538.995	73.542.825
<i>Due to Related Parties</i>	4	23.241.931	33.324.274
<i>Other Parties</i>		36.297.064	40.218.551
Employee Benefit Obligations	17	619.731	315.651
Other Payables	6	138.650.763	251.165.411
<i>Due to Related Parties</i>	4	136.259.892	248.064.677
<i>Other Parties</i>		2.390.871	3.100.734
Deferred Income	7	10.109.211	7.543.815
Current Income Tax Liabilities	25	6.865.181	255.143
Short-Term Provisions	17	938.073	881.810
<i>Short-Term Provisions for Employee Benefits</i>	17	938.073	881.810
Other Current Liabilities		30.075	162.336
TOTAL CURRENT LIABILITIES		613.475.812	653.803.459
Non-Current Liabilities			
Long-Term Financial Liabilities	14	1.442.857.822	1.140.495.605
Other Financial Liabilities	14	-	50.000.000
Long-Term Provisions	17	3.084.486	2.672.254
<i>Long-Term Provisions for Employee Benefits</i>	17	3.084.486	2.672.254
Deferred Income	7	22.182.141	29.376.348
Other Payables		445.410	445.410
<i>Due to Related Parties</i>	4	445.410	445.410
Deferred Tax Liabilities	25	29.406.145	9.822.249
TOTAL NON-CURRENT LIABILITIES		1.497.976.004	1.232.811.866
TOTAL LIABILITIES		2.111.451.816	1.886.615.325
SHAREHOLDERS' EQUITY			
Parent's Equity			
Paid-in Share Capital	18	479.652.307	368.719.959
Other Accumulated Comprehensive		171.042.300	171.042.300
Income / Expenses that not to be Reclassified to Profit or Loss	19	39.284.579	39.573.294
<i>Accumulated Losses on Remeasurement of Defined Benefit Plans</i>	19	(1.147.048)	(858.333)
<i>Property, Plant and Equipment Revaluation Fund</i>	19	40.431.627	40.431.627
Other Accumulated Comprehensive			
Income to be Reclassified to Profit or Loss		279.044.334	113.243.708
<i>Currency Translation Differences</i>		279.044.334	113.243.708
Restricted Profit Reserves	18	71.893.619	71.893.619
<i>Legal Reserves</i>	18	71.893.619	71.893.619
Retained Earnings/ Accumulated Loss		(31.942.586)	(62.118.845)
Net Profit or Loss for the Year		(49.669.939)	35.085.883
Non-Controlling Interests		76.932.608	57.819.825
TOTAL EQUITY		556.584.915	426.539.784
TOTAL LIABILITIES AND EQUITY		2.668.036.731	2.313.155.109

The accompanying notes presented between pages 9 and 86 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE PERIOD BETWEEN JANUARY 1 - DECEMBER 31, 2018**

(Amounts are expressed in Turkish Lira (TL))

	Notes	Current Period January 1- December 31, 2018	Prior Period January 1- December 31, 2017
PROFIT OR LOSS			
Revenue	20	778.191.877	476.400.786
Cost of Sales (-)	20, 21	(607.987.680)	(386.305.219)
GROSS PROFIT		170.204.197	90.095.567
General Administrative Expenses (-)	21	(19.372.429)	(11.548.010)
Other Income from Operating Activities	22	22.053.682	13.700.063
Other Expenses from Operating Activities (-)	22	(22.533.438)	(20.606.933)
OPERATING PROFIT / LOSS		150.352.012	71.640.687
Income / Expenses (-) from Investment Activities, Net	23	51.443.714	90.943.922
OPERATING INCOME BEFORE FINANCIAL EXPENSE		201.795.726	162.584.609
Financial Income/ Expenses (-), Net	24	(223.980.889)	(131.631.554)
PROFIT/LOSS BEFORE TAXATION ON INCOME		(22.185.163)	30.953.055
Tax Expense / Income from Continued Operations	25	(27.391.964)	5.464.511
Current Tax Expense	25	(15.953.860)	(255.143)
Deferred Tax Expense / Income	25	(11.438.104)	5.719.654
PROFIT / LOSS FOR THE PERIOD FROM CONTINUED OPERATIONS		(49.577.127)	36.417.566
DICONTINUED OPERATIONS		-	(682.165)
Discontinued Operations Profit / Loss After Tax	27	-	(682.165)
PROFIT / LOSS FOR THE PERIOD		(49.577.127)	35.735.401
Attribution of Profit/(Loss) For The Period:		(49.577.127)	35.735.401
Non-Controlling Interests		92.812	649.518
Equity Holders of the Parent		(49.669.939)	35.085.883
		(49.577.127)	35.735.401
Earnings / losses per 1.000 shares	26	(2,90)	2,05

The accompanying notes presented between pages 9 and 86 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE PERIOD BETWEEN JANUARY 1 – DECEMBER 31, 2018**

(Amounts are expressed in Turkish Lira (TL))

<u>Notes</u>	<u>Current Period January 1- December 31, 2018</u>	<u>Prior Period January 1- December 31, 2017</u>
PROFIT/LOSS FOR THE YEAR	(49.577.127)	35.735.401
Other Accumulated Comprehensive Income or Expenses to be Reclassified to Profit/Loss		
<i>Currency Translation Differences</i>	187.050.541	78.459.306
	<i>187.050.541</i>	<i>78.459.306</i>
Other Accumulated Comprehensive Income or Expenses not to be Reclassified to Profit or Loss		
<i>Accumulated Gain / Loss on Remeasurement of Defined Benefit Plans</i>	(288.715)	40.201.262
<i>17, 19</i>	<i>(348.535)</i>	<i>(165.881)</i>
<i>Deferred Tax (Expense)/ Income</i>	59.820	(64.484)
<i>19, 25</i>		
<i>Property, Plant and Equipment Revaluation Fund</i>	-	43.633.216
<i>19</i>	-	<i>(3.201.589)</i>
<i>Deferred Tax Expense</i>	-	
<i>19, 25</i>		
OTHER COMPREHENSIVE INCOME	186.761.826	118.660.568
TOTAL COMPREHENSIVE INCOME	137.184.699	154.395.969
Total Comprehensive Income for the Year Attributable to		
Non- Controlling Interests	21.342.727	9.696.000
Equity Holders of Parent	115.841.972	144.699.969
	137.184.699	154.395.969

The accompanying notes presented between pages 9 and 86 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018**

(Amounts are expressed in Turkish Lira (TL))

	Paid-in share capital	Other Accumulated Comprehensive Income or Expense Reclassified to Profit or Loss	Actuarial Gain/(Loss) Arising From Employee Benefits	Property, Plant and Equipment Revaluation Fund	Other Accumulated Comprehensive Income or Expense Reclassified to Profit or Loss	Currency Translation Differences	Restricted Profit Reserves	Retained Earnings or Accumulated Losses	Net Profit / Loss For The Year	Parent's Equity	Non- Controlling Interest	Total Equity
Balances as of December 31, 2017	171.042.300	(858.333)	(858.333)	40.431.627	113.243.708	113.243.708	71.893.619	(62.118.845)	35.085.883	368.719.959	57.819.825	426.539.784
Impact of accounting policy change (Note 2.2)	-	-	-	-	-	-	-	(228.426)	-	(228.426)	-	(228.426)
Balance as of January 1, 2018	171.042.300	(858.333)	(858.333)	40.431.627	113.243.708	113.243.708	71.893.619	(62.347.271)	35.085.883	368.491.533	57.819.825	426.311.358
In-group goodwill correction (Note 11) Transfers	-	-	-	-	-	-	-	(4.681.198)	-	(4.681.198)	-	(4.681.198)
Total Comprehensive Income / (Expense)	-	(288.715)	(288.715)	-	165.800.626	165.800.626	-	35.085.883	(35.085.883)	-	-	137.184.699
Dividends	-	-	-	-	-	-	-	-	(49.669.939)	115.841.972	21.342.727	(2.229.944)
Balances as of December 31, 2018	171.042.300	(1.147.048)	(1.147.048)	40.431.627	279.044.334	279.044.334	71.893.619	(31.942.586)	(49.669.939)	479.652.307	76.932.608	556.584.915

The accompanying notes presented between pages 9 and 86 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018**

(Amounts are expressed in Turkish Lira (TL))

	Paid-in share capital	Other Accumulated Comprehensive Income or Expense Reclassified to Profit or Loss	Actuarial Gain/(Loss) Arising From Employee Benefits	Property, Plant and Equipment Revaluation Fund	Other Accumulated Comprehensive Income or Expense Reclassified to Profit or Loss	Currency Translation Differences	Restricted Profit Reserves	Retained Earnings or Accumulated Losses	Net Profit / Loss For The Year	Parent's Equity	Non-Controlling Interest	Total Equity
Balance as of January 1, 2017	171.042.300	(664.496)	-	-	43.830.884	67.942.354	(29.882.861)	(28.284.719)	223.983.462	59.858.116	283.841.578	
Transfers	-	-	-	-	-	-	-	-	-	-	-	-
Total Comprehensive Income / (Expense)	-	-	40.431.627	-	28.284.719	3.951.265	(32.235.984)	28.284.719	-	538.293	538.293	
Dividends	-	(230.365)	-	69.412.824	-	-	-	35.085.883	144.699.969	9.696.000	154.395.969	
Capital increase of non-controlling shares	-	-	-	-	-	-	-	-	-	(1.739.391)	(1.739.391)	
Subsidiary establishment effect	-	-	-	-	-	-	-	-	-	861.999	861.999	
Subsidiary disposal effect	-	36.528	-	-	-	-	-	-	36.528	9.434	9.434	
	-	-	-	-	-	-	-	-	-	(11.404.626)	(11.404.626)	
Balances as of December 31, 2017	171.042.300	(858.333)	40.431.627	113.243.708	71.893.619	(62.118.845)	35.085.883	368.719.959	57.819.825	426.539.784		
Balances as of December 31, 2018	171.042.300	(858.333)	40.431.627	113.243.708	71.893.619	(62.118.845)	35.085.883	368.719.959	57.819.825	426.539.784		

The accompanying notes presented between pages 9 and 86 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018**

(Amounts are expressed in Turkish Lira (TL))

	Notes	Current Period January 1- December 31, 2018	Prior Period January 1- December 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		114.307.328	139.684.382
Profit/ loss for the year		(49.577.127)	35.735.401
Period income from continuing operations		(49.577.127)	36.417.566
Discontinued operations period loss		-	(682.165)
Adjustments to reconcile profit/loss for the period		276.694.155	103.788.841
- Adjustments related to depreciation and amortization expenses	9, 10	64.635.203	30.739.912
- Adjustments related to gains (losses) on sales of fixed asset		5.744.484	(49.427)
<i>Adjustments related to gains (losses) on sales of fixed asset</i>		5.744.484	(49.427)
- Adjustments related to provisions		639.617	722.409
<i>Provisions and adjustments related to employee benefits</i>		639.617	722.409
- Adjustments for impairment loss/(reversal of impairment loss)		(259.594)	813.707
<i>Adjustments for impairment of receivables</i>		(259.594)	813.707
- Adjustments to interest (income)/ expenses		134.285.972	53.494.085
<i>Adjustments to interest income</i>	24	(3.562.926)	(6.471.316)
<i>Adjustments to interest expenses</i>		137.848.898	59.965.401
- Unrealised foreign exchange gain/ (loss)		54.491.852	96.619.496
- Adjustments to tax income/ (expense)	25	27.391.964	(5.464.511)
- Other adjustments to non-cash transactions		(3.041.136)	8.810.792
- Adjustments for profit / loss reconciliation	23	(7.194.207)	-
- Gain on disposal of subsidiary	28	-	(81.897.622)
Changes in working capital		(102.946.221)	6.628.515
- Adjustments related to (increase)/ decrease in trade receivables		(5.942.692)	(19.313.773)
<i>(Increase)/ decrease in trade receivables from related parties</i>		7.888.607	(1.806.764)
<i>(Increase)/ decrease in trade receivables from third parties</i>		(13.831.299)	(17.507.009)
- Adjustments related to (increase)/ decrease in other receivables from operating activities		50.687.956	(2.552.705)
<i>(Increase)/ decrease in other receivables from related parties</i>		(15.590.969)	7.405.782
<i>(Increase)/ decrease in other receivables from third parties</i>		66.278.925	(9.958.487)
- Adjustment related to (increase)/ decrease in service concession arrangements		20.858.947	9.896.341
- Increase/ (decrease) in deferred income		2.565.396	309.121
- (Increase)/ decrease in prepaid expenses		(298.281)	7.860.741
- Adjustment related to increase/ (decrease) in trade payables		(21.925.684)	7.494.746
<i>Increase/ (decrease) in trade payables to related parties</i>		(10.082.343)	(1.111.674)
<i>Increase/ (decrease) in trade payables to third parties</i>		(11.843.341)	8.606.420
- Increase/ (decrease) in payables of employee benefits		304.080	(613.800)
- Adjustments related to increase/decrease in other payables		(149.195.943)	3.547.844
<i>Increase/ (decrease) in other payables to related parties</i>		(148.353.819)	5.600.360
<i>Increase/ (decrease) in other payables to third parties</i>		(842.124)	(2.052.516)
Cash Flow from Operations		124.170.807	146.152.757
Payments for employee benefits	17	(519.657)	(1.512.624)
Income taxes paid		(9.343.822)	(4.955.751)

The accompanying notes presented between pages 9 and 86 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018**

(Amounts are expressed in Turkish Lira (TL))

	Notes	Current Period January 1- December 31, 2018	Prior Period January 1- December 2017
CASH FLOWS FROM INVESTING ACTIVITIES		(21.067.710)	(5.270.097)
Cash outflow from sale of property, plant and equipment and intangible assets		(16.767.644)	(71.823.518)
<i>Cash outflow from purchases of property, plant and equipment</i>	9	(30.163.649)	(72.119.161)
<i>Cash outflow from purchases of intangible assets</i>	10	(150.850)	(41.219)
<i>Proceeds from sale of property, plant and equipment and intangible assets</i>		13.546.855	336.862
Cash inflow from disposal of subsidiary	28	-	72.425.703
Advances given for acquisition of property, plant and equipment		(4.300.066)	(5.872.282)
<i>Other advances given for acquisition of property, plant and equipment</i>		(4.300.066)	(5.872.282)
CASH FLOWS FROM FINANCING ACTIVITIES		(229.561.373)	(25.624.865)
Cash inflows due to borrowings		282.117.648	331.382.244
<i>Cash inflows from bank loans</i>	14	282.117.648	331.382.244
Cash outflows due to borrowings		(364.221.946)	(271.543.687)
<i>Cash outflows from repayments of bank loans</i>	14	(364.221.946)	(271.543.687)
Dividends paid		(2.229.944)	(1.739.391)
Cash outflows from issued debt instruments		(29.490.000)	-
Interest paid		(119.300.057)	(88.497.775)
Other cash inflows/(outflows)		-	(679.534)
Interest received	24	3.562.926	5.453.278
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS BEFORE FOREIGN CURRENCY TRANSLATIONS		(136.321.755)	108.789.420
Foreign currency translation effects on cash and cash equivalents		3.041.136	(950.891)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(133.280.619)	107.838.529
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		254.490.339	146.651.810
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		121.209.720	254.490.339

The accompanying notes presented between pages 9 and 86 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

1. ORGANIZATION AND OPERATIONS OF THE GROUP

Ayen Enerji A.Ş. (the “Company” or “Ayen Enerji”) engages in the electricity production and trading activities. The Company was established in 1990. The Company is a member of Aydıner Group. Main shareholder of the Company is Aydıner İnşaat A.Ş. (“Aydıner İnşaat”).

The Company is registered in Turkey and the registered address is as follows:

Hülya Sok. No: 37, Gaziosmanpaşa, Ankara

The Company is registered to Capital Markets Board (“CMB”) and its shares are publicly traded in Borsa Istanbul. 15,01% of the shares of the Company is publicly held as of December 31, 2018 (December 31, 2017: 15,01%) (Note 18).

As of December 31, 2018, the number of personnel of the Group is 296 (December 31, 2017: 255).

The subsidiaries of the Company (the “Subsidiaries”), the nature of their business and their address of registered head offices are as follows:

Subsidiaries	Place of incorporation and the nature of the business	Direct Share	Indirect Share	Registered address
Ayen Ostim Enerji Üretim A.Ş. (“Ayen Ostim”)	Electricity production and trading	76%	76%	Hülya Sokak No: 37 Gaziosmanpaşa Ankara
Kayseri Elektrik Üretim Sanayi ve Ticaret A.Ş. (“Kayseri Elektrik”)	Electricity production, distribution and trading	96%	96%	Yemliha Kasabası Kayseri
Ayen Elektrik Ticaret A.Ş. (“Ayen Elektrik”)	Electricity trading	100%	100%	Hülya Sokak No: 37 Gaziosmanpaşa Ankara
Ayen-AS Energji SHA (“Ayen-AS”)	Electricity production and trading	82%	89%	Papa Gijon Pali i II-te, ABA Business Center, Tirane/Albania
Ayel Elektrik Üretim Sanayii ve Ticaret A.Ş. (“Ayel Elektrik”)	Electricity production, distribution and trading	82%	82%	Hülya Sokak No: 37 Gaziosmanpaşa Ankara
Araklı Doğalgaz Enerji Sanayi ve Ticaret A.Ş. (“Araklı Enerji”)	Electricity production and trading	76%	76%	Hülya Sokak No: 37 Gaziosmanpaşa Ankara
Ayen Energy Trading SHA (“Ayen Trading”)	Electricity trading	0%	100%	Papa Gijon Pali i II-te, ABA Business Center, Tirane/Albania
Ayen Energy Trading D.O.O. Beograd-StariGrad (“Ayen Srbistan”)	Electricity trading	0%	100%	Kosaņicev Venac Sokak No: 20, 11000 Belgrad, Serbia
Ayen Energija Trgovanje z Električno Energijo D.O.O. (“Ayen Slovenya”)	Electricity trading	0%	100%	Ayen Energija d.o.o. Zemljemerska ulica 12 1000 Ljubljana Slovenia

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

1. ORGANIZATION AND OPERATIONS OF THE GROUP (cont'd)

Subsidiary	Place of incorporation and the nature of the business	Direct Share	Indirect Share	Registered address
Elektrik Piyasaları İşletim A.Ş. ("EPIAŞ")	Electricity market operations	1%	1%	Harbiye Mahallesi Asker Ocağı Caddesi Süzer Plaza Kat 4 No :15 Şişli -İstanbul
Ayen – ALB SHA	Electricity production	92%	92%	Tirane Tirane, TIRANE Njesia Bashkiake Nr.2, Rruga Papa Gjon Pali II-te, ABA Business Center, Kati:6, Nr.601 (Albania)

The production license for the Wind Power Plant ("WPP") located in Akbük with an annual production capacity of 31,5 MW obtained by Ayen Enerji on 18 January 2007 for 49 years. The first part of the plant with a capacity of 16,8 MW and the second part of the plant with a capacity of 14,7 MW started to operate on 19 March 2009 and 3 April 2009 respectively.

Büyükdüz HEPP, of Ayen Enerji is located in Gümüşhane, Kürtün with an installed capacity of 68,9 MW has production licence for 49 years. The power plant started to operate on 1 June 2012.

Mordoğan WPP, of Ayen Enerji, is located in İzmir, Karaburun with an installed capacity of 30,75 MW and has a production licence for 49 years. The power plant started to operate on 27 September 2013.

Korkmaz WPP, of Ayen Enerji, is located in İzmir, Seferihisar with an installed capacity of 24 MW and has a production licence for 49 years. The first part of the plant with an installed capacity of 10 MW and the second part of the plant with an installed capacity of 14 MW started to operate respectively August and September 2014.

Akbük II WPP, of Ayen Enerji, is located in Aydın, Didim, and Muğla, Milas, in regard to wind energy, with an installed capacity of 20 MW and has a production capacity of 68.153,000 kWh/year, is approved by EMRA and the power plant started to operate on 12 February 2016.

Yamula Dam, of Kayseri Elektrik, was constructed under BOT model. The Dam located on Kızılırmak River. The installed capacity is 100 MW and the annual production capacity of the dam is 422 million kWh. The construction of the Dam started in 1998 and began to operate in August 2005. The operational period for Yamula Dam is 20 years and will end in 2025.

The main operation of Ayen Ostim which is located at Ostim Organize Sanayi Bölgesi and began to operate in July 2004, is to supply electricity to end users in the market according to "Act of Electricity Market" (within "Electricity Market Balancing and Settlement Regulation"). The installed capacity of the natural gas power plant is 41 MW. 24% of shares in Ayen Ostim's capital belongs to Aydın İnşaat which is the main shareholder of the Company. The Group has decided to discontinue the production of Ayen Ostim as of November 1, 2017 since it has been affected by adverse developments occurred in energy market. Machinery and equipments and rights of Ayen Ostim with net book value of TL 19.283.937 have been sold amounting to TL 13.531.104 in 2018. TL 5.752.833 loss has been recognized from related sale in current year (Note 9, 10, 23).

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

1. ORGANIZATION AND OPERATIONS OF THE GROUP (cont'd)

The main operation of Ayen Elektrik is the sale, import and export of the electricity and/or the electricity capacity on wholesale and directly to the end users in accordance with the "Regulation for the Electricity Market License", "Wholesale License" and the other related regulations.

Ayen AS Enerjji SHA; the construction of PESHQESHIT 3 Hydroelectricity Energy Production Facility with annual electricity energy production capacity of 118.400.000 kWh, installation power of 34 MW has been completed and started commercial activities on May 4, 2015. PESHQESHIT 3 is one of the HEPP projects locate in Albania and constructed within the scope of "Albanian Fan Basin HEPP Projects" with annual electricity energy production capacity of 347.246.000 kWh, installation power of 109,73 MW. The test of the facilities of Fangut HEPP established in Albania has been completed with the annual electricity energy production capacity of 228.846.000 kWh and installation power of 75,71 MW and the plant has started to operation as of December 1, 2017. At the same time, tail water plant which is fed by tail water of Fangut Dam with installation power of 1MW has been started to operation in December, 2017.

The nature of operations of Ayel Elektrik is the sale, import and export of the electricity and/or the electricity capacity on wholesale and directly to the end users in accordance with the "Regulation for the Electricity Market License", "Wholesale License" and the other related regulations.

Ayen Enerji has acquired 76% shares of Araklı Enerji Doğalgaz Üretim Sanayi ve Ticaret A.Ş. on 9 May 2012. Production license of the HEPP which will be constructed in Trabzon, Araklı with an installed capacity of 72 MW has been approved by EMRA. As of 19 January 2015, with the approval of EMRA, installed capacity of the power plant has been increased to 98,36 MW for Çankaya DAM and HEPP projects. In accordance with Electricity Market Law no. 6446 and relevant legislations, pre deal for license obtained from Energy Market Regulatory Board.

Ayen Elektrik participated in 100% share of Ayen Enerjji Trading SHA which established with ALL 100.000.000 (EURO 750.400) nominal capital on 24 September 2013. The Company has established in Tirane- Albania in accordance with Albania laws at 30 September 2013.

Ayen Elektrik Ticaret A.Ş participated in 100% share of Ayen Enerjji Trading D.O.O. (Serbia) with EURO 110.000 nominal capital and Ayen Enerjji Trgovanje z Električno Energijo, D.O.O. (Slovenia) with EURO 267.500 nominal capital in respectively 13 June 2014 and 19 June 2014. The main operations of these companies are to sale, import and export of the electricity and/or the electricity capacity as wholesale and sale directly to end users particularly to European Countries in accordance with the European Union regulations.

Ayen ALB is the concession company of HEPP-Kalivac and has been established on November 22, 2017 with ALL 3.500.000 nominal capital and will be constructed according to BOT Model issued by Republic of Albania Ministry of Energy and Industry with the annual electricity energy production capacity of 366.6 kWh, installation power of 111 MW and 35 years duration. The Group's tender has been chosen as best tender for the BOT Model for HEPP – Kalivac invitation issued by Republic of Albania Ministry of Energy and Industry and the concession agreement has been signed.

Approval of consolidated financial statements:

Board of Directors has approved the consolidated financial statements for the period between January 1 – December 31, 2018 and delegated publishing it on 11 March 2019. No authority other than Board of Directors and General Assembly has the right to revise the consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation

The Company and its Turkish subsidiaries maintain their books of accounts and prepares its statutory financial statements in accordance with accounting principles in the Turkish Commercial Code and tax legislation.

Ayen-AS and Ayen Trading maintain their books of account in Albanian LEK (“ALL”) in accordance with accounting principles in Albania. Ayen Slovenia and Ayen Serbia maintain their books of accounts in EURO in accordance with accounting principles in Slovenia and Serbia respectively.

The accompanying consolidated financial statements are prepared in accordance with the requirements of Capital Markets Board (“CMB”) Communiqué Serial II, No: 14.1 “Basis of Financial Reporting in Capital Markets”, which were published in the Official Gazette No:28676 on 13 June 2013. The accompanying consolidated financial statements are prepared based on the Turkish Financial Reporting Standards and Interpretations (“IFRS”) that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority (“POA”) under Article 5 of the Communiqué.

In addition, the consolidated financial statements and disclosures are presented in accordance with the publication by CMB dated 7 June 2013.

The accompanying consolidated financial statements have been prepared in terms of Turkish Lira on the historical cost basis except for the fair value measurement of certain financial assets and liabilities.

Functional Currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira, which is the functional, and presentation currency of the Company and the reporting currency for the consolidated financial statements.

Subsidiaries of the Group are measured using the currency that has significant impact on the entity or on the operations of entity, which reflects the economic substance of the underlying events and circumstances relevant to the entity. In this context, Ayen-AS, Ayen Trading and Ayen ALB is measured using ALL, Ayen Serbia is measured using RSD, Ayen Slovenia is measured using EURO. According to TAS 21, balance sheet items (except capital accounts) in terms of ALL have been included into consolidation by being translated to TL with buying rate applicable as of balance sheet date (ALL 1= TL 0,04884). Additionally, balance sheet items (except capital accounts) of Ayen Slovenia and Ayen Serbia have been included into consolidation by being translated to TL with buying rate applicable as of balance sheet date (EURO 1 = TL 6,0280, RSD 1 = TL 0,05115). Profit or loss statement and other comprehensive income items have been included into consolidation by being translated to TL with annual average buying rate.

Capital and capital reserves are carried forward with their historical nominal costs and any related exchange component of that gain or loss and the translation gain/ (loss) realized during the translation of balance sheet and profit or loss statement is also recognized in capital translation gain-loss accounts under equity.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

Preparation of Consolidated Financial Statements in Hyperinflationary Periods

With the decision taken on 17 March 2005, the CMB has announced that, effective from 1 January 2005, the application of inflation accounting is no longer required for companies operating in Turkey and preparing their financial statements in accordance with TAS. Accordingly, the Company did not apply TAS 29 "Financial Reporting in Hyperinflationary Economies" ("TAS 29") in its financial statements for the accounting periods starting 1 January 2005.

Comparative information, restatement and reclassification of prior period financial statements

The financial statements of the Group include comparative consolidated financial information to enable the determination of the financial position and performance. Comparative figures are reclassified, where necessary, to conform to the changes in the presentation in the current period consolidated financial statements.

In the consolidated financial statements for the year ended December 31, 2017, the following classifications have been made in order to comply with the presentation of the current period.

<u>Profit / (Loss) accounts</u>	<u>(Previously reported) December 31, 2017</u>	<u>(Revised) December 31, 2017</u>	<u>Change</u>
Other operating income (*)	25.300.933	13.700.063	(11.600.870)
Other operating expenses (*)	(25.049.825)	(20.606.933)	4.442.892
Financial income/expense, (net) (*)	(138.789.532)	(131.631.554)	7.157.978
			<u>-</u>

(*) Foreign exchange gain amounting to TL 11.600.870 shown in other operating income and foreign exchange losses amounting to TL 4.442.892 shown in other operating expenses have been netted and reclassified to financial income/expense, net as foreign exchange gain amounting to TL 7.157.978.

Basis of Consolidation

As of December 31, 2018 and 2017, details of the Company's subsidiaries are as follows:

<u>Subsidiaries</u>	<u>Group's proportion of ownership and voting power held (%)</u>		<u>Place of incorporation and operation</u>	<u>Principle activity</u>
	<u>2018</u>	<u>2017</u>		
Ayen Ostim	76	76	Ankara- Ankara	Electricity production and trade
Kayseri Elektrik	96	96	Kayseri- Kayseri	Electricity production, distribution and trade
Ayen Elektrik	100	100	Ankara- Ankara	Electricity trade
Ayen-AS	89	89	Tirane-Albania	Electricity production and trade
Ayel Elektrik	82	82	Ankara- Ankara	Electricity production, distribution and trade
Araklı Enerji	76	76	Ankara- Trabzon	Electricity production, distribution and trade
Ayen Trading	100	100	Tirane-Albania	Electricity trade
Ayen Serbia	100	100	Belgrad-Serbia	Electricity trade
Ayen Slovenia	100	100	Ljubljana, Slovenia	Electricity trade
Ayen ALB	92	92	Tirane-Albania	Electricity production and trade

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

The accompanying consolidated financial statements include the financial statements of the Company and entities controlled or jointly controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

2.2 Changes in the Accounting Policies

The Group adopted TFRS 15 Revenue from Contracts with Customers and TFRS 9 Financial Instruments for the period starting from 1 January 2018, the accounting policies of these standards are set out below. Except for these newly adopted standards, the accounting policies adopted in preparation of the consolidated financial statements are consistent with those adopted of the previous financial year.

TFRS 9 Financial Instruments:

Classification and measurement

Group classified its financial assets in three categories as financial assets carried at amortized cost, financial assets carried at fair value through profit or loss, financial assets carried at fair value through other comprehensive income. Classification is performed in accordance with the business model determined based on the purpose of benefits from financial assets and expected cash flows. The appropriate classification of financial assets is determined at the time of the purchase. TFRS 9 removes loans and receivables and available – for – sale financial asset categories included in the current TAS39 standard.

“Financial assets measured at amortized cost”, are non-derivative assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Group’s financial assets measured at amortized cost include bond and bill comprise “cash and cash equivalents”, “trade receivables”, “other receivables” and “financial investments”. Financial assets carried at amortized cost are measured at their fair value at initial recognition and by effective interest rate method at subsequent measurements. Gains and losses on valuation of non-derivative financial assets measured at amortized cost are accounted for under the consolidated statement of income.

“Financial assets measured at fair value through other comprehensive income”, are non-derivative assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Gains or losses on a financial asset measured at fair value through other comprehensive income is recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses until the financial asset is derecognized or reclassified. Gains or losses arising from the valuation of such assets are recognized in the consolidated income statement.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

The Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss, to present subsequent changes in fair value in other comprehensive income. In such cases, dividends from those investments are accounted for under consolidated statement of income.

“Financial assets measured at fair value through profit or loss”, are assets that are not measured at amortized cost or at fair value through other comprehensive income. Gains and losses on valuation of these financial assets are accounted for under the consolidated statement of income.

Changes regarding the classification of financial assets and liabilities in terms of TFRS 9 are summarized below. Related changes in classification do not result in changes in measurement of the financial assets and liabilities.

	Original classification under TAS 39	New classification under TFRS 9
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortised cost
Financial assets (*)	Available for sale financial assets	Fair value through other comprehensive income
Derivative instruments	Fair value through statement of profit or loss	Fair value through statement of profit or loss
Trade receivables	Loans and receivables	Amortised cost
Other receivables	Loans and receivables	Amortised cost
Financial liabilities		
Borrowings	Amortised cost	Amortised cost
Trade payables	Amortised cost	Amortised cost
Derivative instruments	Fair value through statement of profit or loss	Fair value through statement of profit or loss
Trade payables	Amortised cost	Amortised cost

(*) Financial assets carried at cost due to the lack of fair value information in accordance with TAS 39 are carried at their fair values in accordance with TFRS 9.

Impairment

The Group has made amendments to the TFRS 9 methodology for allocating impairment of financial assets in accordance with the newly anticipated credit loss model. For the first time in December 31, 2018, the Group has reflected its effects on the financial statements and has re-measured the impact of the opening as a result of detailed analysis. The effect of the change on the Group's retained earnings for the year ended January 1, 2018 is as follows:

	January 1, 2018
Retained earnings – January 1, 2018	(62.118.845)
Increase in allowance for doubtful trade receivables (Note 5)	(250.752)
Impairment of other receivables (Note 6)	(42.102)
Deferred tax effect (Note 25)	64.428
Total impacts of prior year amendments in accordance with TFRS 9	(228.426)
Retained earnings - January, 1 2018 (Including TFRS 9 impacts)	(62.347.271)

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

The Group allocates impairment provision for the following financial assets according to the expected credit loss model:

- Trade receivables
- Other receivables
- Financial investments

The Group uses the simplified approach in TFRS 9 to calculate the expected credit losses of such financial assets. This method requires the recognition of expected lifetime losses for all trade receivables.

TFRS 15 Revenue from Contracts with Customers Standard:

Group recognizes revenue when the goods or services is transferred to the customer and when performance obligation is fulfilled. Goods is counted to be transferred when the control belongs to the customer.

Group recognizes revenue based on the following main principles:

- Identification of customer contracts
- Identification of performance obligations
- Determination of transaction price in the contract
- Allocation of price to performance obligations
- Recognition of revenue when the performance obligations are fulfilled

Group recognizes revenue from its customers only when all of the following criteria are met:

- The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
- Group can identify each party's rights regarding the goods or services to be transferred,
- Group can identify the payment terms for the goods or services to be transferred;
- The contract has commercial substance,
- It is probable that Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

At the contract inception date, the Group evaluates the goods and services committed to be provided to the customer based on the contract and identifies each commitment as a separate performance obligation. In addition to that, the Group determines whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

When another party is involved in providing goods or services to a customer, the group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself or to arrange for the other party to provide those goods or services. The group is a principal if it controls a promised good or service before the group transfers the good or service to a customer. When a group that is a principal satisfies a performance obligation, it recognizes as revenue the gross amount of consideration which it expects to be entitled to in exchange for those goods or services. The group is an agent if its performance obligation is to arrange for the provision of goods or services by another party and in such a position, the Group does not recognize the revenue of the consideration at gross amount.

The Group determines the transaction price in accordance with contract terms and customs of trade. Transaction price is the amount of consideration which is expected to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The Group, allocates the transaction price to each performance obligation (or distinct goods or services), by reference to the consideration is considered to be deserved in return of the goods and services transferred to the customer. In this allocation, the Group allocates the transaction price determined in the contract to the standalone independent sales prices of these goods and services, where the Group identifies the prices of goods and services committed to be provided in the contract at the date of the inception of the contract and allocates the transaction price on these independent relative prices proportionally.

If the aggregate independent sales prices of the goods and services undertaken in the contract exceeds the transaction price in the contract, the customer has received discount on the purchase of goods or services. The Group allocates the discount to the all performance obligations retained in the contract proportionally except for the circumstances where there are observable inputs indicating that, the discount is provided for some but not all of the performance obligations.

The performance obligations of the Group consists of wholesale electricity sales and in return of this sale, a wholesale electricity sales revenue is recognized. The electricity sold is transferred to the customer by the electricity transmission lines owned by the government agencies. The customer consumes the economic benefit of the performance obligation of the Company at the same time it is transferred, accordingly, the Group transfers the control of the goods and services to the customer and fulfills its performance obligation simultaneously and the revenue is recognized at the time the performance obligation is fulfilled.

Considering the operations of the Group, TFRS 15, does not have significant impact on the financial position and financial performance of the Group.

2.3 Changes in Accounting Estimates and Errors

If changes in accounting estimates relate only for one period, changes are applied in the current period but if changes in estimates relate more than one period, changes are applied both in the current and following periods prospectively. Significant accounting estimates and errors used in the preparation of the consolidated financial statements are explained in Note 2.7.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.4 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2018 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of January 1, 2018. 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, 2018 are as follows:

TFRS 15 Revenue from Contracts with Customers

In September 2016, POA issued TFRS 15 Revenue from Contracts with Customers. The new standard issued includes the clarifying amendments to IFRS 15 made by IASB in April 2016. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). TFRS 15 is effective for annual periods beginning on or after 1 January 2018. The amendment did not have a significant impact on the financial position or performance of the Group.

TFRS 9 Financial Instruments

In January 2017, POA issued the final version of TFRS 9 Financial Instruments. The final version of TFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. TFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, TFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. TFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Group applied TFRS 9 retrospectively, with the initial application date of 1 January 2018 and disclosed the impact of the standard on financial position or performance of the Group in Note 2.2.

TFRS 4 Insurance Contracts (Amendments)

In December 2017, POA issued amendments to TFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

TFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation issued by POA on 19 December 2017 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. The interpretation did not have a significant impact on the financial position or performance of the Group.

TFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

In December 2017, POA issued amendments to TFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:

- a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- b. share-based payment transactions with a net settlement feature for withholding tax obligations; and
- c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

TAS 40 Investment Property: Transfers of Investment Property (Amendments)

In December 2017, POA issued amendments to TAS 40 'Investment Property '. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

Annual Improvements to TFRSs - 2014-2016 Cycle

In December 2017, POA issued Annual Improvements to TFRS Standards 2014–2016 Cycle, amending the following standards:

- TAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying TFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are applied for annual periods beginning on or after 1 January 2018.

The amendments did not have a significant 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.

TFRS 16 Leases

In April 2018, POA has published a new standard, TFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. TFRS 16 supersedes TAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted.

Lessees have recognition exemptions to applying this standard in case of short-term leases (i.e., leases with a lease term of 12 months or less) and leases of 'low-value' assets (e.g., personal computers, office equipment, etc.). At the commencement date of a lease, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date (i.e., the lease liability), at the same date recognises an asset representing the right to use the underlying asset (i.e., the right-of-use asset) and depreciates it during the lease term. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. Lessees are required to recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Under these circumstances, the lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

Transition to TFRS 16:

The Group plans to adopt TFRS 16 using the modified retrospective approach. The Group will elect to apply the standard to contracts that were previously identified as leases applying TAS 17. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying TAS 17.

Amendments to TAS 28 “Investments in Associates and Joint Ventures” (Amendments)

In December 2017, POA issued amendments to TAS 28 Investments in Associates and Joint Ventures. The amendments clarify that a company applies TFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

TFRS 9 Financial Instruments excludes interests in associates and joint ventures accounted for in accordance with TAS 28 Investments in Associates and Joint Ventures. In this amendment, POA clarified that the exclusion in TFRS 9 applies only to interests a company accounts for using the equity method. A company applies TFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

The amendments are effective for annual periods beginning on or after 1 January 2019, with early application permitted.

Overall, the Group expects no significant impact on its balance sheet and equity

TFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

In December 2017, POA postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The Group will wait until the final amendment to assess the impacts of the changes.

TFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in “TAS 12 Income Taxes” when there is uncertainty over income tax treatments.

When there is uncertainty over income tax treatments, the interpretation addresses:

- (a) whether an entity considers uncertain tax treatments separately;
- (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- (d) how an entity considers changes in facts and circumstances.

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2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact. On initial application, an entity shall apply the interpretation either retrospectively applying IAS 8, or retrospectively with the cumulative effect of initially applying the Interpretation recognised at the date of initial application. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

Annual Improvements – 2015–2017 Cycle

In January 2019, POA issued Annual Improvements to TFRS Standards 2015–2017 Cycle, amending the following standards:

- TFRS 3 Business Combinations and TFRS 11 Joint Arrangements — The amendments to TFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to TFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- TAS 12 Income Taxes — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- TAS 23 Borrowing Costs — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings

The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted.

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

Plan Amendment, Curtailment or Settlement” (Amendments to TAS 19)

In January 2019, the POA published Amendments to TAS 19 “Plan Amendment, Curtailment or Settlement” The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2019, early application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

Prepayment Features with Negative Compensation (Amendments to TFRS 9)

The POA issued minor amendments to TFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortised cost.

Applying TFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortised cost some prepayable financial assets with so-called negative compensation. The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted.

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

iii) The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by Public Oversight Authority (POA)

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued by the POA, thus they do not constitute part of TFRS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Certain changes in the estimates of future cash flows and the risk adjustment are also recognised over the period that services are provided. Entities will have an option to present the effect of changes in discount rates either in profit and loss or in OCI. The standard includes specific guidance on measurement and presentation for insurance contracts with participation features. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

Definition of a Business (Amendments to IFRS 3)

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

- clarify the minimum requirements for a business;
- remove the assessment of whether market participants are capable of replacing any missing elements;
- add guidance to help entities assess whether an acquired process is substantive;
- narrow the definitions of a business and of outputs; and
- introduce an optional fair value concentration test.

The amendments to IFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted.

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

Definition of Material (Amendments to IAS 1 and IAS 8)

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted.

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

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(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies

Related Parties

A related party is a person or entity that is related to the entity that is preparing its financial statements.

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Application of TFRIC 12 - Service Concession Arrangements

TFRIC 12 interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements. The service concession arrangement of Yamula (Kayseri Elektrik) dam of the Group are accounted in accordance with TFRIC 12.

Under the terms of contractual arrangements within the scope of TFRIC 12, the Group acts as a service provider. The operator constructs or upgrades infrastructure used to provide a public service and operates and maintains that infrastructure for a specified period of time.

The Group recognises a financial asset to the extent that it has an unconditional contractual right to receive cash from or at the direction of the grantor for the construction services related to hydroelectric power plants in the context of BOT model. The amount due from or at the direction of the grantor is accounted for as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income and the interest calculated using the effective interest method is recognised in the profit or loss statement.

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(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

The receivables that are due but not collected as of the balance sheet date are classified as due receivables from the grantor and carried at their net realisable value (Note 12).

There are no liabilities for maintenance and repair of the facility or any restoration costs at the time of transfer of Yamula to Electricity Generation Incorporated Company ("EGIC") when the licence periods end.

Property, Plant and Equipment

Property, plant and equipments except lands are carried at cost less accumulated depreciation and accumulated impairment losses. Lands are recognized in accordance with revaluation model. The change of accounting policy has been applied with the financial statements as of December 31, 2017.

Properties in the course of construction for production, rental or administrative purposes, are carried at cost, less any recognized impairment loss. Cost includes professional fees. Borrowing costs directly attributable to the acquisition which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The depreciation periods for aforementioned assets are as follows:

	Years
Buildings	10-45
Land improvements	10
Plant, machinery and equipment	5-40
Motor vehicles	5
Furniture and fixtures	2-25

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount, as there are no expected future economic benefits. The recoverable amount of the property, plant and equipment is the higher of future net cash flows from the utilization of this property, plant and equipment or fair value less cost to sell. Net sales price of an asset is its fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset less the costs of disposal. Value in use is the present value of the future cash flows expected to be derived from an asset plus the residual value of the related assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

Repair and maintenance expenses are charged to the consolidated statement of profit or loss during the financial period in which they are incurred. The cost of major subsequent expenditures 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 flow to the Group.

As of December 31, 2017, in order to recognize all land at their fair values, Lal Gayrimenkul Değerleme AŞ. which is CMB licensed company and has no relation with the Group, has performed a valuation. The firm is an independent valuation company accredited by CMB and has sufficient qualifications to value counterpart areas. The valuation in accordance with International Valuation Standard is determined by taking market strike prices as reference and collocation of cost method of counterpart real estates. The differences between the fair values based on this valuation and the carrying value of these assets in the financial statements have been recognized under property, plant and equipment revaluation fund in the statement of comprehensive income for the related year.

Intangible Assets

Intangible assets comprise wholesale license, energy production licenses, other rights and other intangible assets that are likely to generate future economic benefits to the Group. Licences and other identified assets are booked in consolidated financial statements with their net value after deducting accumulated depreciations and permanent impairments, if any, from their acquisition costs. Other intangible assets that are likely to generate economic benefits are recognized with their fair values on agreement date. These contractual intangible assets have certain useful lives and recognized with deducting accumulated depreciations from acquisition costs. Intangible assets are amortized on a straight line basis over their estimated useful lives for a period not exceeding 5 - 45 years (Note 10).

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

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2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Leasings

The Group - as the lessee

Finance leases

Leases of property, plant and equipment where the Group substantially assumes all the risks and rewards of ownership are classified as finance leases. Finance leases are included in the property, plant and equipment at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate. The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset. An impairment loss is recognised when a decrease in the carrying amount of the leased property is identified. Interest expenses and foreign exchange losses related to the finance lease liabilities are accounted in the consolidated statement of income. Lease payments are deducted from finance lease liabilities.

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 consolidated income statement on a straight-line basis over the period of the lease.

Assets leased out under operating leases, excluding land and investment properties, 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 recognized in the consolidated statement of income on a straight-line basis over the lease term.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. In 2018, there is no borrowing cost capitalization for loans received for investments within this context. (2017: 34.783.690 TL) (Not 13).

All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

Business Combinations and Goodwill

Any excess of the cost of acquisition over the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill in the consolidated financial statements. In each acquisition, the non-controlling shares of the acquired company are accounted for on the basis of the share of the net assets of the acquired company.

For the impairment test, the goodwill is distributed to the cash-generating units. Distribution is made to the cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arises. Each unit or group of units for which goodwill is distributed is the smallest asset group of the entity for which goodwill is monitored for internal business purposes. Goodwill operating segments are followed up on a basis. Goodwill impairment is made once a year, or more often when the event or condition changes indicate a possibility of impairment. The carrying value of goodwill is reviewed annually at the same time for impairment and the impairment provision, if any, is immediately recognized in the consolidated statements of income.

Legal mergers arising between companies controlled by the Group are not considered within the scope of TFRS 3. Consequently, no goodwill is recognized in these transactions. Similarly, the effects of all transactions between the legally merged enterprises, whether occurring before or after the legal merger, are corrected in the preparation of the consolidated financial statements.

The Group re-measures at the date of purchase to bring the share of equity previously held in the acquiree to fair value and the resulting gain / loss is recognized in profit or loss in a business combination achieved in stages. The amount attributable to the acquirer that is accounted for in other comprehensive income before the date of acquisition is transferred to profit or loss on the assumption that such shares are derecognised.

Financial Assets

Classification

The Group classifies its financial assets in three categories of financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss. The classification of financial assets is determined considering the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets are not reclassified after initial recognition, except where the business model that the Group uses in the management of financial assets has changed; In case of a change in business model, the financial assets are reclassified on the first day of the following reporting period.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

Recognition and Measurement

“Financial assets measured at amortized cost”, are non-derivative assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Group’s financial assets measured at amortized cost comprise “cash and cash equivalents”, “trade receivables”, “other receivables” and “financial investments”. Financial assets carried at amortized cost are measured at their fair value at initial recognition and by effective interest rate method at subsequent measurements. Gains and losses on valuation of non-derivative financial assets measured at amortized cost are accounted for under the consolidated statement of income, “Financial assets measured at fair value through other comprehensive income”, are non-derivative assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Gains or losses on a financial asset measured at fair value through other comprehensive income is recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses until the financial asset is derecognized or reclassified. When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified to retained earnings. Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss, to present subsequent changes in fair value in other comprehensive income. In such cases, dividends from those investments are accounted for under consolidated statement of income.

“Financial assets measured at fair value through profit or loss”, are assets that are not measured at amortized cost or at fair value through other comprehensive income. Gains and losses on valuation of these financial assets are accounted for under the consolidated statement of income.

Derecognition

The Group derecognized a financial asset when the contractual rights to the cash flows from the asset expired, or it transferred the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset were transferred. Any interest in such transferred financial assets that was created or retained by the Group was recognized as a separate asset or liability.

Impairment

Impairment of the financial and contractual assets measured by using “Expected credit loss model” (ECL). The impairment model applies for amortized financial and contractual assets.

Provision for loss measured as below;

- 12 month ECL: results from default events that are possible within 12 months after reporting date.
- Lifetime ECL : results from all possible default events over the expected life of financial instrument

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since 12 month ECL measurement if it has not.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial Liabilities

Financial liabilities related to non-controlling share put options are reflected in the financial statements in conformity with their discounted value of their own redemption plan. Transaction costs directly attributable to the cost of the related financial liability are also added to the fair value transaction costs which are directly related to the financial liability are added to the fair value.

Financial liabilities are classified as equity instruments and other financial liabilities.

Other Financial Liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis.

The effective interest method calculates the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Foreign Currency Transactions

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into TL using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

On the disposal of a foreign operation, all of the exchange differences accumulated in other comprehensive income under equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Earnings Per Share

Earnings per share disclosed in the accompanying consolidated statement of profit or loss is determined by dividing net income by the weighted average number of shares in existence during the year concerned.

In Turkey, companies can raise their share capital by distributing "bonus shares" to shareholders from retained earnings. In computing earnings per share, such "bonus share" distributions are assessed as issued shares. Accordingly, the retrospective effect for those share distributions is taken into consideration in determining the weighted-average number of shares outstanding used in this computation.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

Events After the Reporting Period

Events after the reporting period are those events that occur between the balance sheet date and the date when the financial statements are authorized for issue, even if they occur after an announcement related with the profit for the year or public disclosure of other selected financial information.

The Group adjusts the amounts recognized in its financial statements if adjusting events occur after the balance sheet date.

Provisions, Contingent Assets and Liabilities

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Segment Reporting

The main activity area of the Group is the production and sale of electrical energy, the nature of the products in the field of activity, the production processes, the classes of the product customers and the economic characteristics of the methods used in the sale of the products. The Group management makes decisions on the resources to be allocated and performance evaluation based on geographical regions (Note 3). Since the primary operation of the Group is to produce and sell electricity and these operations have similar economic features, production process, customer classes and distribution methods, the Group considers geographic positions when making decisions on the resources management and in the assessment of performance measurement of the operations. (Note 3).

Income Tax

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and it items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

Employee Benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per TAS 19 (Revised) "Employee Benefits" ("TAS 19").

The retirement benefit obligation recognized in the consolidated balance sheet represents the present value of the defined benefit obligation. The actuarial gains and losses are recognized in other comprehensive income.

Statement of Cash Flows

In statement of cash flow, cash flows are classified according to operating, investing and financing activities.

Cash flows from operating activities reflect cash flows generated from electricity sales of the Group.

Cash flows from investing activities express cash used in investment activities (direct investments and financial investments) and cash flows generated from investment activities of the Group.

Cash flows relating to financing activities express sources of financial activities and payment schedules of the Group.

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Share Capital and Dividends

Common shares are classified as equity. Dividends on common shares are recognised in equity in the period in which they are approved and declared.

2.6 Going Concern

The Group has prepared its consolidated financial statements under the assumption that it will continue its operations in the foreseeable future. The Group has made investments by using financial liabilities and equity. The Group's gross profit is TL 170.204.197 (2017: TL 90.095.567) and net (loss)/profit attributable to owners is (TL 49.669.939) (2017: TL 35.085.883). As of December 31, 2018, accumulated losses of the Group is TL 31.942.586 (December 31, 2017: TL 62.118.845)

The Group has been planning to reduce debts by cash inflow provided by completion of continuing projects and profitability. The Group management has not projected any risk for going concern and prepared its consolidated financial statements under the assumption that it will continue its operations in the foreseeable future.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Group's accounting policies as outlined in Note 2.5, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements:

Deferred Taxes

Deferred tax assets are only recognized when sufficient taxable profit is likely to arise in the future. In case of a probable tax advantage, deferred tax asset is calculated over previous year losses.

As of December 31, 2018, the Group recognized deferred income tax asset to the extent that it is probable that future taxable profit will be available. However, the Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all that deferred tax asset to be utilized (Note 25).

Provisions

As described in the accounting policy in Note 2.5 provisions are accounted when, the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

As of December 31, 2018, the Group is subject to various legal proceedings. The Group evaluates the possible outcomes of the lawsuits based on the Group's legal advisors view and accounts the required provisions against the possible gains and losses (Note 15).

Impairment of goodwill

The Group tests annually whether goodwill has been impaired, in accordance with the accounting policies stated in Note 2.5. The recoverable amount of cash-generating unit has been determined based on value-in-use calculations. This value-in-use calculation includes the discounted cash flow projections. (Note 11).

Impairment of property, plant and equipment

The carrying amount of the Group's property, plant and equipment and intangible assets are reviewed at each balance sheet date to determine whether there are any indicators of impairment as described in Note 2.5. If any such indications exist, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

3. SEGMENT REPORTING

Board of Directors reviews results and operations on a geographic segment basis in order to monitor performance and to allocate resources. Geographic segments of the Group are defined in the following regions : Turkey and abroad. The companies located in abroad operate in Albania, Serbia and Slovenia.

1 January - 31 December 2018	Turkey	Abroad	Total	Consolidation Adjustments	Consolidated
Net sales	452.372.273	718.847.350	1.171.219.623	(393.027.746)	778.191.877
Cost of good sold	(328.975.812)	(671.496.917)	(1.000.472.729)	392.485.049	(607.987.680)
Gross profit	123.396.461	47.350.433	170.746.894	(542.697)	170.204.197
Operating expenses	(11.265.013)	(11.620.531)	(22.885.544)	3.513.115	(19.372.429)
Other operating income	92.859.026	2.062.071	94.921.097	(72.867.416)	22.053.682
Other operating expenses	(90.063.595)	(2.184.832)	(92.248.427)	69.714.989	(22.533.438)
Operating profit	114.926.879	35.607.141	150.534.020	(182.009)	150.352.012
Purchases of tangible and intangible fixed asset	4.157.543	26.156.956	30.314.499	-	30.314.499
Depreciation and amortization on fixed assets	(21.265.917)	(43.369.286)	(64.635.203)	-	(64.635.203)
1 January - 31 December 2017	Turkey	Abroad	Total	Consolidation Adjustments	Consolidated
Net sales	462.773.678	219.369.196	682.142.874	(205.742.088)	476.400.786
Cost of good sold	(352.949.696)	(209.865.121)	(562.814.817)	176.509.598	(386.305.219)
Gross profit	109.823.982	9.504.075	119.328.057	(29.232.490)	90.095.567
Operating expenses	(9.169.834)	(4.050.331)	(13.220.165)	1.672.155	(11.548.010)
Other operating income	88.071.521	1.114.951	89.186.472	(75.486.409)	13.700.063
Other operating expenses	(17.002.146)	(1.389.766)	(18.391.912)	(2.215.021)	(20.606.933)
Operating profit	171.723.523	5.178.929	176.902.452	(105.261.765)	71.640.687
Purchases of tangible and intangible fixed asset	38.662.686	104.867.883	143.530.569	-	143.530.569
Depreciation and amortization on fixed assets	(31.187.369)	(9.125.539)	(40.312.908)	-	(40.312.908)

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts are expressed in Turkish Lira (TL))

4. RELATED PARTY TRANSACTIONS

Related party transactions	December 31, 2018							
	Receivables				Payables			
	Short-term		Long-term		Short-term		Long-term	
	Trade	Non-trade	Trade	Non-trade	Trade	Non-trade	Trade	Non-trade
Aydiner İnşaat A.Ş. (*)	14.056	-	-	-	22.438.196	135.244.465	-	-
Aksu Temiz Enerji A.Ş.	629.179	-	-	-	-	-	-	-
Samsun Makine Sanayi A.Ş.	1.339.045	-	-	-	-	-	-	-
Agron Turizm ve Tic. A.Ş.	732.474	-	-	-	-	-	-	-
AS Enerji ŞhPk (**)	1.848.137	-	-	55.358.285	-	-	-	-
Kayseri Elektrik Perakende Satış A.Ş.	-	-	-	-	803.735	-	-	-
Kayseri Elektrik Other Shareholders	2.202	-	-	-	-	1.015.427	-	-
Ayen Enerji Other Shareholders (**)	-	-	-	3.661.216	-	-	-	-
Araklı Other Shareholders	-	-	-	-	-	-	-	445.410
Fusha ŞhPk	-	-	13.552	-	-	-	-	-
Zetay Tarım Hayv. İmalat San. ve Tic. A.Ş.	10.171	-	-	-	-	-	-	-
Enerji Piyasaları İşletme A.Ş.	4.937.924	-	-	-	-	-	-	-
	<u>9.513.188</u>	<u>13.552</u>	<u>-</u>	<u>59.019.501</u>	<u>23.241.931</u>	<u>136.259.892</u>	<u>-</u>	<u>445.410</u>

(*) Short-term trade payables consist of the progress bills issued by Aydiner İnşaat for constructions in progress of the Group. The short-term non-trade payables consist of loan given to Group by Aydiner İnşaat A.Ş.. As of December 31, 2018, interest rate applied for aforementioned loan is 25,03% for TL denominated borrowings.

(**) Non trade receivables consist of due from other shareholders of Ayen AS related to capital commitments. As of December 31, 2018 interest rate applied for aforementioned loan is 5,65% for EURO denominated borrowings.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. RELATED PARTY TRANSACTIONS (cont'd)

Related party transactions	December 31, 2017							
	Receivables				Payables			
	Short-term		Long-term		Short-term		Long-term	
	Trade	Non-trade	Trade	Non-trade	Trade	Non-trade	Trade	Non-trade
Aydiner İnşaat A.Ş. (*)	27.132	-	-	-	29.209.049	248.049.929	-	-
Aksu Temiz Enerji A.Ş.	235.976	1.451.463	-	-	3.486.104	-	-	-
Layne Bowler Pompa Sanayi A.Ş.	27.581	-	-	-	-	-	-	-
Samsun Makine Sanayi A.Ş.	3.096	-	-	-	-	-	-	-
Metay İnşaat Sanayi ve Ticaret A.Ş.	-	-	-	-	629.121	-	-	-
Agron Turizm ve Tic. A.Ş.	378.760	-	-	-	-	-	-	-
AS Enerji SHPk (**)	-	-	-	39.221.416	-	-	-	-
Kayseri Elektrik Other Shareholders	-	-	-	-	-	14.748	-	-
Ayen Elektrik Other Shareholders	5.046	-	-	-	-	-	-	-
Ayen Enerji Other Shareholders	-	2.742.572	-	-	-	-	-	-
Araklı Other Shareholders	-	-	-	-	-	-	-	445.410
Enerji Piyasaları İşletme A.Ş.	6.105.603	-	-	-	-	-	-	-
Other	4.627	26.633	-	-	-	-	-	-
	<u>6.787.821</u>	<u>4.220.668</u>	<u>-</u>	<u>39.221.416</u>	<u>33.324.274</u>	<u>248.064.677</u>	<u>-</u>	<u>445.410</u>

(*) Short-term trade payables consist of the progress bills issued by Aydiner İnşaat for constructions in progress of the Group. The short-term non-trade payables consist of loan given to Group by Aydiner İnşaat A.Ş.. As of December 31, 2017, interest rate applied for aforementioned loan is 15,49% for TL-denominated borrowings; 4,49% for EURO denominated borrowings; 5,51% for USD denominated borrowings.

(**) Non - trade receivables consist of due from other shareholders of Ayen AS related to capital commitments. As of December 31, 2017 interest rate applied for aforementioned loan is 5,35% for EURO denominated borrowings.

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(Amounts are expressed in Turkish Lira (TL))

4. RELATED PARTY TRANSACTIONS (cont'd)

Related party transactions	January 1 – December 31, 2018							
	Exchange Income	Foreign Income	Purchases of Energy	Energy Sales	Interest Income	Purchases of Fixed Assets	Purchases of Services	Interest Expenses
Aydiner İnşaat A.Ş. (*)	-	-	-	2.054.764	52.944	27.726.773	63.987	6.422.873
Kayseri Elektrik Perakende Satış A.Ş.	-	-	-	-	-	-	20.404	-
Aksu Temiz Enerji A.Ş.	-	-	3.853.286	-	-	-	-	-
Samsun Makine Sanayi A.Ş.	-	-	-	9.806.682	-	-	-	-
Aybet Beton A.Ş.	-	-	-	447.406	95	-	-	-
Layne Bowler Pompa Sanayi A.Ş.	-	-	-	136.648	-	-	-	-
Enerji Piyasaları İşletme A.Ş.	-	-	-	123.559.723	-	-	-	-
AS Enerji Şirk	13.137.502	-	-	-	2.999.366	-	-	-
Ayen Enerji Other Shareholders	918.645	-	-	-	-	-	-	-
Other	-	-	-	48.914	-	-	-	-
	<u>14.056.147</u>		<u>3.853.286</u>	<u>136.054.137</u>	<u>3.052.405</u>	<u>27.726.773</u>	<u>84.391</u>	<u>6.422.873</u>

(*) Purchases of fixed assets consists of progress payment invoices issued by Aydiner İnşaat to Group regarding to constructions in progress.

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(Amounts are expressed in Turkish Lira (TL))

4. RELATED PARTY TRANSACTIONS (cont'd)

Related party transactions	January 1 -- December 31, 2017									
	Foreign Exchange Income	Foreign Exchange Expenses	Energy Sales	Interest Income	Purchases of Fixed Assets	Purchases of Services	Purchases of Energy	Interest Expenses		
Aydiner İnşaat A.Ş. (*)	-	6.964.988	1.378.477	1.677	39.782.942	68.511	-	13.186.487		
Kayseri Elektrik Perakende Satış A.Ş.	-	-	-	-	-	22.533	-	-		
Kayseri ve Civarı Elektrik A.Ş.	-	-	-	-	-	89.700	-	6.477.576		
Aksu Temiz Enerji A.Ş.	-	-	-	-	-	-	30.095.026	-		
Samsun Makine Sanayi A.Ş.	-	-	5.571.278	-	-	-	-	-		
Aybet Beton A.Ş.	-	-	742.680	-	-	-	-	-		
Metay İnşaat Sanayii ve Ticaret A.Ş.	-	-	-	-	1.942.277	6.560	-	-		
Aksu Other Shareholders	-	-	-	2.992.819	-	-	-	-		
Agron Turizm ve Ticaret A.Ş.	-	-	-	-	-	-	-	-		
Layne Bowler Pompa Sanayi A.Ş.	-	-	215.383	174	-	-	-	-		
Enerji Piyasaları İşletme A.Ş.	-	-	16.135.620	-	-	-	-	-		
AS Enerji ŞİPİ	6.622.947	-	-	-	-	-	-	-		
Ayen Enerji Other Shareholders	535.031	-	-	-	-	-	-	-		
Other	-	-	250.418	-	-	-	-	-		
	<u>7.157.978</u>	<u>6.964.988</u>	<u>24.293.856</u>	<u>2.994.670</u>	<u>41.725.219</u>	<u>187.304</u>	<u>30.095.026</u>	<u>19.664.063</u>		

(*) Purchases of fixed assets consists of progress payment invoices issued by Aydiner İnşaat to Group regarding to constructions in progress.

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4. RELATED PARTY TRANSACTIONS (cont'd)

Key management personnel consists of members of Board of Directors and Executive Board members. The compensation of key management personnel includes salaries, bonus, health insurance and transportation.

Compensation of key management personnel during the period as follow:

	January 1 - December 31, 2018	January 1 - December 31, 2017
Salary and other short-term benefits	2.674.544	2.992.487
Other long-term benefits	333.738	235.513
	<u>3.008.282</u>	<u>3.228.000</u>

There is no payment for executive members who leave the job by the reason of retirement within the Group (December 31, 2017: None).

5. TRADE RECEIVABLES AND PAYABLES

a) Trade Receivables

As at the balance sheet date, trade receivables of the Group are summarized below:

	December 31, 2018	December 31, 2017
<u>Short-term trade receivables</u>		
Trade receivables (*)	58.740.400	40.494.263
Income accruals	7.322.525	4.146.772
Trade receivables from related parties (Note 4)	9.513.188	6.787.821
Notes receivable	-	580.942
Provisions for doubtful receivables (-)	(2.042.354)	(1.902.822)
	<u>73.533.759</u>	<u>50.106.976</u>

(*) As of December 31, 2018, trade receivables consist of receivables from Elektrik Üretim A.Ş. ("EÜAŞ") amounting to TL 22.876.641 (2017: TL 12.174.991). Remaining amount consists of trade receivables of Ayen Elektrik and Ayen Slovenia from its customers.

The maturities of trade receivables are one month as of December 31, 2018 and 2017.

Explanations on nature and level of risks of trade receivables are disclosed in Note 29.

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5. TRADE RECEIVABLES AND PAYABLES (cont'd)

The movement in the allowance for doubtful receivables is as follows:

Doubtful receivables	2018	2017
Beginning of the period - 1 January	(1.902.822)	(1.089.116)
Impact of accounting policy change (Note 2.2)	(250.752)	-
Period expense	(61.195)	(813.706)
Terminated provisions	308.395	-
Currency translation difference	(135.980)	-
End of the period - 31 December	<u>(2.042.354)</u>	<u>(1.902.822)</u>

b) Trade Payables

As of balance sheet date, the details of the Group's trade payables are as follows:

Short-term trade payables	December 31, 2018	December 31, 2017
Trade payables	35.206.637	38.814.669
Trade payables to related parties (Note 4)	23.241.931	33.324.274
Expense accruals	1.090.427	1.403.882
	<u>59.538.995</u>	<u>73.542.825</u>

The average maturities of trade payables are one month as of December 31, 2018 and 2017.

6. OTHER RECEIVABLES AND PAYABLES

Other Short-Term Receivables	December 31, 2018	December 31, 2017
Deposits and guarantees given	2.986.613	1.378.777
Receivables from transmission lines (*)	1.720.145	672.397
Other receivables	45.942	347.445
Receivables from related parties (Note 4)	13.552	4.220.668
Impairment provision	(19.680)	-
	<u>4.746.572</u>	<u>6.619.287</u>

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6. OTHER RECEIVABLES AND PAYABLES (cont'd)

<u>Other Long-Term Receivables</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Receivables from related parties (Note 4)	59.019.501	39.221.416
Receivables from transmission lines (*)	528.724	2.077.461
Deposits and guarantees given	273.564	212.173
Other receivables	77.052	77.052
Impairment provision	(10.028)	-
	<u>59.888.813</u>	<u>41.588.102</u>

(*) The balance consists of the costs regarding Korkmaz and Mordoğan transmission lines constructed for TEİAŞ which are structured with a payment plan.

The movement in the allowance for impairment provision of other receivables is as follows:

	<u>2018</u>	<u>2017</u>
<u>Beginning of the period - 1 January</u>	-	-
Impact of accounting policy change (Note 2.2)	(42.102)	-
Period expense	(12.298)	-
Terminated provisions	24.692	-
<u>End of the period - 31 December</u>	<u>(29.708)</u>	<u>-</u>

<u>Other Short-Term Payables</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Payables to related parties (Note 4)	136.259.892	248.064.677
Taxes and funds payable	2.252.731	3.013.755
Other payables	138.140	86.979
	<u>138.650.763</u>	<u>251.165.411</u>

7. PREPAID EXPENSES AND DEFERRED INCOME

<u>Short-Term Prepaid Expenses</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Prepaid expense for the following months	3.332.297	3.688.120
Job advances	42.828	81.092
Other	554.943	144.765
	<u>3.930.068</u>	<u>3.913.977</u>

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7. PREPAID EXPENSES AND DEFERRED INCOME (cont'd)

	December 31, 2018	December 31, 2017
<u>Long-Term Prepaid Expenses</u>		
Advances given	390.532	89.132
Other	-	19.210
	<u>390.532</u>	<u>108.342</u>
	December 31, 2018	December 31, 2017
<u>Short-Term Deferred Income</u>		
Deferred income (*)	7.194.207	7.194.208
Advances received (**)	2.915.004	349.607
	<u>10.109.211</u>	<u>7.543.815</u>
	December 31, 2018	December 31, 2017
<u>Long-Term Deferred Income</u>		
Deferred income (*)	<u>22.182.141</u>	<u>29.376.348</u>
	<u>22.182.141</u>	<u>29.376.348</u>

(*) The Company has made a sale and lease back agreement for the lands which are recognized under property, plant and equipment with a financial leasing company on December 25, 2017. The Company has evaluated this agreement in accordance with TAS 17 and received amount which is the fair value of land from financial leasing company has been recognized as financial leasing on financial statements. The Company has recognized gain on sales of property, plant and equipment amounting TL 36.570.556 under deferred income according to TAS 17 and will recognize this gain by recording in statement of profit or loss according to maturity of mentioned financial leasing payables (6 years).

(**) It is received for estimated sales made for the day – ahead market.

8. OTHER CURRENT ASSETS

	December 31, 2018	December 31, 2017
<u>Other current assets</u>		
VAT deductible (*)	108.083.008	131.865.658
VAT carried forward	21.851.754	8.442.149
Other	<u>330.884</u>	<u>76.021</u>
	<u>130.265.646</u>	<u>140.383.828</u>

(*) Balance comprised of the VAT deductible amount of the Ayen AS.

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9. PROPERTY, PLANT AND EQUIPMENT

<u>Cost</u>	<u>Land</u>	<u>Land improvements</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Vehicles</u>	<u>Furniture and fixtures</u>	<u>Construction in progress</u>	<u>Total</u>
Opening balance as at January 1, 2018	89.723.500	17.595.161	7.340.040	1.654.348.344	3.731.310	2.800.725	5.103.104	1.780.642.184
Additions	-	-	-	23.986.905	270.231	1.361.055	4.545.458	30.163.649
Disposals (*)	-	-	(8.224)	(51.145.972)	-	-	-	(51.154.196)
Currency translation differences	-	-	-	491.575.184	1.204.641	481.289	-	493.261.114
Closing balance as of December 31, 2018	89.723.500	17.595.161	7.331.816	2.118.764.461	5.206.182	4.643.069	9.648.562	2.252.912.751
<u>Accumulated Depreciation</u>								
Opening balance as at January 1, 2018	-	(7.049.773)	(2.210.891)	(153.790.426)	(3.050.048)	(2.147.712)	-	(168.248.850)
Charge for the period	-	(1.759.516)	(276.608)	(60.338.653)	(999.619)	(523.346)	-	(63.897.742)
Disposals (*)	-	-	822	34.029.808	-	-	-	34.030.630
Currency translation differences	-	-	-	(13.557.433)	(692.764)	(346.387)	-	(14.596.584)
Closing balance as of December 31, 2018	-	(8.809.289)	(2.486.677)	(193.656.704)	(4.742.431)	(3.017.445)	-	(212.712.546)
Net book value as of December 31, 2017	89.723.500	8.785.872	4.845.139	1.925.107.757	463.751	1.625.624	9.648.562	2.040.200.205

(*) Since Ayen Ostim's production has been discontinued, machinery and equipments with net book value of TL 17.116.164 have been sold (Note 1).

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9. PROPERTY, PLANT AND EQUIPMENT (cont'd)

<u>Cost</u>	<u>Land</u>	<u>Land improvements</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Vehicles</u>	<u>Furniture and fixtures</u>	<u>Construction in progress (**)</u>	<u>Total</u>
Opening balance as at January 1, 2017	9.641.050	153.375.682	181.740.203	631.931.669	3.419.972	2.665.101	597.559.713	1.580.333.390
Additions	36.570.556(*)	-	-	-	93.594	289.177	106.536.023	143.489.350
Disposals	-	-	-	-	(328.623)	-	-	(328.623)
Currency translation differences	-	-	-	204.542.783	546.367	(42.616)	-	205.046.534
Revaluation of property, plant and equipment	43.633.216	-	-	-	-	-	-	43.633.216
Transfers from constructions in progress	378.028	(128.010.924)	(161.715.844)	987.763.934	-	-	-	-
Disposal of subsidiary	(499.350)	(7.769.597)	(12.684.319)	(169.890.042)	-	(110.937)	(698.415.194)	(191.531.683)
Closing balance as of December 31, 2017	89.723.500	17.595.161	7.340.040	1.654.348.344	3.731.310	2.800.725	5.103.104	1.780.642.184
<u>Accumulated Depreciation</u>								
Opening balance as at January 1, 2017	-	(14.713.573)	(17.616.715)	(144.447.421)	(1.653.837)	(1.679.365)	-	(180.110.911)
Charge for the period	-	(2.536.476)	(3.621.039)	(32.343.404)	(698.702)	(366.343)	-	(39.565.964)
Disposals	-	-	-	-	70.827	-	-	70.827
Currency translation differences	-	-	-	(2.729.872)	(768.336)	(186.553)	-	(3.684.761)
Transfers	-	5.668.011	17.375.999	(23.044.010)	-	-	-	-
Disposal of subsidiary	-	4.532.265	1.650.864	48.774.281	-	84.549	-	55.041.959
Closing balance as of December 31, 2017	-	(7.049.773)	(2.210.891)	(153.790.426)	(3.050.048)	(2.147.712)	-	(168.248.850)
Net book value as of December 31, 2017	89.723.500	10.545.388	5.129.149	1.500.557.918	681.262	653.013	5.103.104	1.612.393.334

(*) The Group has made a sale and lease back agreement for a land which is recognized under property, plant and equipment with a financial leasing company on December 25, 2017. Related increase is the difference between carrying amount of land and fair value subjected to financial leasing.

(**) As of December 31, 2017, TL 34.783.690 of borrowing cost regarding to the loans used for investments of Ayen AS have been capitalized over property, plant, and equipment. Additions during the period consist of expenses related to Ayen As and Araklı constructions.

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9. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Depreciation expense of TL 63.258.765 (December 31, 2017: TL 29.693.038) has been charged in cost of sales and TL 638.977 (December 31, 2017: TL 299.930) has been charged in general administrative expenses.

There are mortgages over the tangible assets of the Group for the borrowings obtained amounting to 26.304.500 (USD 5.000.000) (Note 15) (December 31, 2017: None). There are commercial enterprise pledges amounting to TL 140.000.000 over Akbük WPP and amounting to TL 150.000.000 over Mordoğan WPP and Korkmaz WPP. Aforementioned pledges were given on 25 June 2009 and on 30 May 2012 as a guarantee for the investment loan obtained for Akbük WPP and Mordoğan WPP and Korkmaz WPP respectively (Note 15).

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10. INTANGIBLE ASSETS

<u>Cost</u>	Wholesale Licence	Electricity Production Licence	Rights	Intangible Assets	Other	Total
Opening balance as of January 1, 2018	350.929	9.240.361	5.698.269	2.213.543		17.503.102
Additions	-	-	-	150.850		150.850
Currency translation differences	-	-	323.674	107.962		431.636
Disposals (*)	-	-	(3.724.951)	(1.899.663)		(5.624.614)
Closing balance as of December 31, 2018	350.929	9.240.361	2.296.992	572.692		12.460.974
<u>Accumulated Amortization</u>						
Opening balance as of January 1, 2018	(335.399)	(507.444)	(4.066.153)	(1.101.153)		(6.010.149)
Charge for the period	(4.387)	(182.010)	(225.382)	(325.682)		(737.461)
Currency translation differences	-	-	(10.738)	(69.908)		(80.646)
Disposals (*)	-	-	2.285.382	1.171.459		3.456.841
Closing balance as of December 31, 2018	(339.786)	(689.454)	(2.016.891)	(325.284)		(3.371.415)
Net book value as of December 31, 2018	11.143	8.550.907	280.101	247.408		9.089.559

(*) Since Ayen Ostim's production has been discontinued, intangible assets with net book value of TL 2.167.733 have been sold (Note 1).

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10. INTANGIBLE ASSETS (cont'd)

<u>Cost</u>	Wholesale Licence	Electricity Production Licence	Rights	Intangible Assets	Other	Total
Opening balance as of January 1, 2017	350.929	15.374.520	1.991.828	5.881.918		23.599.195
Additions	-	12.832	6.500	21.887		41.219
Currency translation differences	-	-	-	70.978		70.978
Transfers	-	-	3.699.941	(3.699.941)		-
Disposals	-	-	-	(57.299)		(57.299)
Disposal of subsidiary	-	(6.146.991)	-	(4.000)		(6.150.991)
Closing balance as of December 31, 2017	350.929	9.240.361	5.698.269	2.213.543		17.503.102
<u>Accumulated Amortization</u>						
Opening balance as of January 1, 2017	(331.033)	(898.468)	(1.724.433)	(2.831.535)		(5.785.469)
Charge for the period	(4.366)	(110.771)	(245.087)	(386.720)		(746.944)
Currency translation differences	-	-	-	(9.247)		(9.247)
Transfers	-	-	(2.096.633)	2.096.633		-
Disposals	-	-	-	27.660		27.660
Disposal of subsidiary	-	501.795	-	2.056		503.851
Closing balance as of December 31, 2017	(335.399)	(507.444)	(4.066.153)	(1.101.153)		(6.010.149)
Net book value as of December 31, 2017	15.530	8.732.917	1.632.116	1.112.390		11.492.953

Amortization expense of TL 730.086 (December 31, 2017: TL 739.475) has been charged in cost of sales and TL 7.375 (December 31, 2017: TL 7.469) has been charged in general administrative expenses.

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11. GOODWILL

	December 31, 2018	December 31, 2017
Demir Enerji (Kayseri Elektrik) Share Acquisition	17.461.935	17.461.935
Ayen AS Share Acquisition (*)	-	4.681.198
	<u>17.461.935</u>	<u>22.143.133</u>

(*) As of December 31, 2018, intra-group goodwill amounting to TL 4.681.198, which had been occurred in previous years as a result of share acquisition between the Group companies, Ayel Elektrik and Ayen AS which are included in consolidation and are under common control, has been removed from records by accounting through retained earnings/ accumulated losses in current year.

The difference between Ayen Enerji's interest in the net fair value of the acquired identifiable assets due to the acquisition of Demir Enerji in 2002, who was the shareholder of Kayseri Elektrik and the acquisition price has been considered as goodwill. This value-in-use calculation includes the discounted cash flow projections. This calculation includes discounted values of the fund flow of Yamula Dam of Kayseri Elektrik determined in USD, approved by the Ministry of Energy and Natural Resources ("MENR") and will be expired in 2025. In the determination of the recoverable amount, the USD calculated amount was converted to TL. Therefore, the value-in-use is affected from the changes in foreign exchange rates. The discount rate used in the value-in-use calculations is 13,44% (2017: 13,44%).

The discount rate used reflects specific risks relating to Kayseri Elektrik. As of December 31, 2018, the Group compared the recoverable amount calculated based on the aforementioned assumptions to the total of due from service concession arrangements balance of Kayseri Elektrik amounting to TL 166.506.599 and the goodwill amounting to TL 17.461.935 and no impairment was identified

The sensitivity analysis below shows the value-in-use which would have been calculated if the discount rate used was changed while keeping all other variables constant:

	Value in use (TL)
Base discount rate by +1	180.438.943
Base discount rate 0	186.557.121
Base discount rate by -1	192.949.750

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12. SERVICE CONCESSION ARRANGEMENTS

<u>Due from Service Concession Arrangements</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Short-term due from service concession arrangements	16.881.686	10.581.933
Invoiced and undue from service concession arrangements (*)	358.387	7.666.579
Total short-term receivables of service concession arrangements	<u>17.240.073</u>	<u>18.248.512</u>
Long-term due from service concession arrangements	149.266.526	119.123.043
Total due from service concession arrangements	<u>166.506.599</u>	<u>137.371.555</u>
Gross due from service concession arrangements	268.430.047	221.689.719
Unearned financial income (-)	(102.281.837)	(91.984.743)
Due from service concession arrangements (*)	358.389	7.666.579
Due from service concession arrangements-net	<u>166.506.599</u>	<u>137.371.555</u>

(*) Consists of the receivables invoiced to EÜAŞ but not collected yet.

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12. SERVICE CONCESSION ARRANGEMENTS (cont'd)

As of December 31, 2018 and 2017, the payment schedules for gross and net due from service concession arrangements are as follows:

	Gross due from service concession arrangements (USD)		Gross due from service concession arrangements (TL)	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	Up to 1 year	7.750.420	7.750.420	40.774.185
1 to 2 years	7.750.420	7.750.420	40.774.185	29.233.809
2 to 3 years	7.750.420	7.750.420	40.774.185	29.233.809
3 to 4 years	7.750.420	7.750.420	40.774.185	29.233.809
More than 4 years	20.021.918	27.772.338	105.333.307	104.754.483
	<u>51.023.598</u>	<u>58.774.018</u>	<u>268.430.047</u>	<u>221.689.719</u>

	Net due from service concession arrangements (USD)		Net due from service concession arrangements (TL)	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	Up to 1 year	3.208.897	2.805.465	16.881.686
1 to 2 years	3.658.396	3.208.897	19.246.456	12.103.639
2 to 3 years	4.196.430	3.658.396	22.076.999	13.799.104
3 to 4 years	4.799.886	4.196.430	25.251.720	15.828.514
More than 4 years	15.718.099	20.517.985	82.691.349	77.391.786
	<u>31.581.708</u>	<u>34.387.173</u>	<u>166.148.210</u>	<u>129.704.976</u>

Due from service concession arrangements consist of receivables over the terms of the agreements. In accordance with the Energy Sales Agreement, the ownership of Yamula HHEPs and the electricity equipments will be transferred to the MENR at the end of the operation terms.

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13. BORROWING COSTS

The Group has not capitalized borrowing costs according to TAS 23 regarding the loans used for the qualifying asset investments in 2018. (December 31, 2017: TL 34.783.690) (Note 9).

14. FINANCIAL LIABILITIES

The detail of borrowings of the Group as of December 31, 2018 and December 31, 2017 is as follows:

<u>Borrowings</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Short-term financial liabilities	207.720.061	207.192.458
Short-term portion of long-term financial liabilities	188.985.658	111.946.072
Long-term financial liabilities	1.442.857.822	1.140.495.605
	<u>1.839.563.541</u>	<u>1.459.634.135</u>

Bank Borrowings

<u>Original Currency</u>	<u>Weighted average effective interest rate (%)</u>	<u>December 31, 2018</u>	
		<u>Short-term</u>	<u>Long-term</u>
TL	22,54%	91.511.139	21.176.472
USD	8,07%	143.023.127	50.504.640
EURO	5,07%	155.666.134	1.342.980.962
		<u>390.200.400</u>	<u>1.414.662.074</u>

<u>Original Currency</u>	<u>Weighted average effective interest rate (%)</u>	<u>December 31, 2017</u>	
		<u>Short-term</u>	<u>Long-term</u>
TL	16,46%	69.816.229	29.647.242
USD	5,99%	115.953.570	-
EURO	3,13%	127.927.765	1.076.147.294
		<u>313.697.564</u>	<u>1.105.794.536</u>

The accrued interest expense on short-term borrowings is TL 28.406.641 (December 31, 2017: TL 20.460.766 TL).

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14. FINANCIAL LIABILITIES (cont'd)

The redemption schedule of the borrowings as of December 31, 2018 and 2017 is as follows:

	December 31, 2018	December 31, 2017
To be paid within 1 year	390.200.400	313.697.564
To be paid between 1-2 years	215.253.152	99.691.904
To be paid between 2-3 years	153.260.753	106.826.394
To be paid between 3-4 years	145.579.724	111.070.964
To be paid between 4-5 years	138.093.119	101.457.729
5 and more than 5 years	762.475.326	686.747.545
	<u>1.804.862.474</u>	<u>1.419.492.100</u>

For the long-term borrowings of the Group, there is TL 210.724.229 (USD 40.054.787) of conveyance on receivables (Note 15). Deferred finance expenses have been recognized in long term borrowings which have been paid for the long-term borrowings of the Group. As of December 31, 2018, deferred financing expense is TL 25.611.243 (December 31, 2017: TL 26.172.785). According to the investment loan agreements related with the investment loans used, at the end of each financial year, the Group is obliged to meet some financial ratios, to be calculated over the consolidated financial statements of the Group prepared in accordance with financial reporting standards accepted by the Turkey Financial Reporting Standards ("TFRS") of Turkey. The related bank has notified in writing that it has waived the obligations stated in the related article of aforementioned loan for the period of January 1 – December 31, 2018.

Financial Leasing Payables

Financial Leasing Payables	December 31, 2018	December 31, 2017
Short term	6.505.319	5.440.967
- Gross financial leasing payables	12.232.126	12.232.126
- Interest (-)	(5.726.807)	(6.791.159)
Long term	28.195.748	34.701.068
- Gross financial leasing payables	36.696.378	48.928.505
- Interest (-)	(8.500.630)	(14.227.437)
	<u>34.701.067</u>	<u>40.142.035</u>

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14. FINANCIAL LIABILITIES (cont'd)

Short and long term financial leasing payables consist of payables related to a land sold to a financial leasing company in accordance with sale and leaseback agreement signed on December 25, 2017

Currency	Weighted average effective interest rate	December 31, 2018	
		Short-term	Long-term
TL	18%	6.505.319	28.195.748
		<u>6.505.319</u>	<u>28.195.748</u>
Currency	Weighted average effective interest rate	December 31, 2017	
		Short-term	Long-term
TL	18%	5.440.967	34.701.068
		<u>5.440.967</u>	<u>34.701.068</u>

The repayment schedule of finance lease obligations is as follows:

	December 31, 2018	December 31, 2017
To be paid within 1 year	6.505.319	5.440.967
To be paid between 1-2 years	7.777.878	6.505.319
To be paid between 2-3 years	9.299.372	8.490.954
To be paid between 3-4 years	11.118.498	8.586.296
To be paid between 4-5 years	-	11.118.499
	<u>34.701.067</u>	<u>40.142.035</u>

As of December 31, 2018 and 2017, the movement for financial liabilities is as follows:

Financial liabilities	2018	2017
Beginning of the period -1 January	1.459.634.135	1.304.366.390
Borrowings received	282.117.648	331.382.244
Borrowings paid	(364.221.946)	(271.543.687)
Change in foreign exchange differences	104.485.844	105.616.375
Currency translation differences	341.395.115	146.066.989
Change in deferred finance expenses	561.541	1.643.918
Change in interest accruals	15.591.204	6.466.106
Subsidiary disposal effect	-	(164.364.200)
End of the period - 31 December	<u>1.839.563.541</u>	<u>1.459.634.135</u>

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14. FINANCIAL LIABILITIES (cont'd)

Other Financial Liabilities

Other Short-Term Financial Liabilities	December 31, 2018	December 31, 2017
Bonds issued	-	779.874
Other	18.064	18.064
	18.064	797.938
Other Long-Term Financial Liabilities	December 31, 2018	December 31, 2017
Bonds issued (*)	-	50.000.000
	-	50.000.000

(*) Bonds with 24 months maturity; with quarterly coupon payment and with variable interests and capital payment at the end of the maturity as nominal amount of TL 50.000.000 is issued by the Group as of December 1, 2016. As of December 31, 2018, the related bond is matured and payment is made.

As of December 31, 2018 and 2017, the movement for issued bonds is as follows:

	2018		2017	
	Capital	Interest	Capital	Interest
Bonds issued				
Beginning of the period – 1 January	50.000.000	779.874	50.000.000	649.312
Additions	-	9.423.464	-	7.975.817
Payments	(50.000.000)	(10.203.338)	-	(7.845.255)
End of the period – 31 December	-	-	50.000.000	779.874

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15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Provisions

As of December 31, 2018, there are cases where the Group is litigant and defendant. Most of the cases are related with the bad debt and employee cases. The Group has not provided any provision as of December 31, 2018, as the lawyers have not foreseen a significant cash outflow for the ongoing lawsuits as of the date of preparation of the consolidated financial statements. (December 31, 2017: None).

b) Contingent Assets and Liabilities

Contingent assets	December 31, 2018	December 31, 2017
Letters of guarantee received (*)	17.207.528	18.806.902
Guarantee received behalf of Ayen Enerji (**)	483.462.775	428.620.279
	<u>500.670.303</u>	<u>447.427.181</u>

(*) Received by Ayen Elektrik as guarantee against risks that might occur in collecting related with electricity sales.

(**) Consists of Aydiner İnşaat A.Ş.'s guarantee obtained regarding cash and non-cash General Loan Agreements signed by the Group with banks.

The commitments and contingent liabilities of the Group that are not expected to result in material loss or liability is summarized as follows:

Contingent Liabilities	December 31, 2018	December 31, 2017
Letters of conveyance given (*)	210.724.229	175.151.948

(*) Regarding the "Royalty agreement of the establishment and operation of Yamula Dam and HEPP and sale of the produced electricity to EÜAŞ" and the "Energy sales agreement for Yamula Dam and HEPP" signed with MENR on 7 July 2003 Kayseri Elektrik gave its receivable of USD 40.054.787 (December 31, 2017: USD 46.436.000) as a conveyance for the loan. However, these conveyances will be effective if payment schedules of the loans have not been met.

Contingent Liabilities	December 31, 2018	December 31, 2018
Commercial enterprise pledge (*)	290.000.000	290.000.000

(*) The Group has given commercial enterprise pledge amounting to TL 140.000.000 as a guarantee for the loan used for construction of Akbük WPP, on 25 June 2009 and TL 150.000.000 as a guarantee for the loan used for Mordoğan WPP and Korkmaz WPP on 30 May 2012.

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15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)**b) Contingent Assets and Liabilities (cont'd)**

<u>Contingent Liabilities</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Mortgages given (**)	26.304.500	-

(**) Consists of the mortgages given for the long-term borrowings of the Group, there exists TL 26.304.500 (USD 5.000.000) of mortgages over property, plant and equipment of Ayen Enerji.

<u>Contingent Liabilities</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Letters of guarantee given (***)	106.915.005	107.206.434

(***) Letters of guarantee given consist of TL 71.487.481 in terms of EURO and TL 35.427.524 in terms of Turkish Lira. Letters of guarantee given comprises that TL 63.349.681 (EUR 10.509.237) has been given to the Albania Ministry of Economy for Ayen AS, TL 6.654.218 (EUR 450.000, TL 3.941.618) has been given to TEİAŞ, TL 2.773.600 has been given to EPDK, TL 3.702.992 has been given to Enerjisa, other letters mainly consist of guarantees given in relation to reciprocal agreements which are signed between electricity trade companies and the Group and guarantees given in relation to System Use Agreement.

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16. COMMITMENTS

c) Guarantees- Pledges -Mortgages

Guarantees, pledge and mortgage ("GPM") position of the Group as of December 31, 2018 and 2017 is as follows:

	December 31, 2018				December 31, 2017			
	TL Equivalent	TL	USD	EURO	TL Equivalent	TL	USD	EURO
GPM given on behalf of the legal entity	421.909.862	324.117.881	5.000.000	11.859.237	339.131.426	331.161.568	-	1.765.000
Guarantee Letter	105.605.362	34.117.881	-	11.859.237	49.131.426	41.161.568	-	1.765.000
Pledge	290.000.000	290.000.000	-	-	290.000.000	290.000.000	-	-
Mortgage	26.304.500	-	5.000.000	-	-	-	-	-
Guarantee	-	-	-	-	-	-	-	-
GPM given on behalf of the subsidiaries that are included in full consolidation	-	-	-	-	-	-	-	-
Conveyance	212.033.872	1.309.643	40.054.787	-	233.226.957	10.620.549	46.436.000	10.509.237
Guarantee Letter	210.724.229	-	40.054.787	-	175.151.948	-	46.436.000	-
Pledge	1.309.643	1.309.643	-	-	58.075.009	10.620.549	-	10.509.237
Guarantee	-	-	-	-	-	-	-	-
GPM given for execution of ordinary commercial activities to collect third parties debt	-	-	-	-	-	-	-	-
Other guarantees given	-	-	-	-	-	-	-	-
i. GPM given on behalf of main shareholder guarantee	-	-	-	-	-	-	-	-
ii. GPM given on behalf of group companies not covered by B and C.	-	-	-	-	-	-	-	-
iii. GPM given on behalf of group companies	-	-	-	-	-	-	-	-
Not covered by C	-	-	-	-	-	-	-	-
Total	633.943.734	325.427.524	45.054.787	11.859.237	572.358.383	341.782.117	46.436.000	12.274.237

(*) As of December 31, 2018, rate of Group's GPM to equity is 0% (2017: 0%).

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17. EMPLOYEE BENEFITS

Payables related to employee benefits

	December 31, 2018	December 31, 2017
Due to personnel	316.847	30.008
Social security premiums payable	302.884	285.643
	<u>619.731</u>	<u>315.651</u>

Short-term provisions for employee benefits:

	December 31, 2018	December 31, 2017
Provision for unused vacation	938.073	881.810
	<u>938.073</u>	<u>881.810</u>

The movement for provisions is as follows:

	2018	2017
As of January 1	881.810	926.961
Period Charge	56.263	994
Subsidiary sales effect	-	(46.145)
As of December 31	<u>938.073</u>	<u>881.810</u>

Long-term provisions for employee benefits

Provisions for Severance Indemnity:

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

The amount payable consists of one month's salary limited to a maximum of TL 5.434,42 (December 31, 2017: TL 4.732,48 TL) for each period of service at December 31, 2018.

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17. EMPLOYEE BENEFITS (cont'd)

Long-term provisions for employee benefits (cont'd)

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. TAS 19 *Employee Benefits* stipulates the development of company's liabilities by using actuarial valuation methods under defined benefit plans. In this direction, actuarial assumptions used in calculation of total liabilities are described as follows:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at December 31, 2018, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated with the assumption of an annual inflation rate of 9,5% and a discount rate of 15%, resulting in a real discount rate of approximately 5,02 % (December 31, 2017: discount rate of approximately 4,72%). Estimated amount of retirement pay not paid due to voluntary leaves and retained in the Company is also taken into consideration. Ceiling for retirement pay is revised semi-annually. Ceiling amount of TL 6.017,60 (January 1, 2018: TL 5.001,76) which is in effect since January 1, 2019 is used in the calculation of Group's provision for retirement pay liability.

The principal assumptions used in the calculation of retirement pay liability are discount rate and anticipated turnover rate

- If the discount rate had been 1% lower/(higher) while all other variables were held constant, provision for employee termination benefits would increase/(decrease) by TL 306.294
- If the anticipated turnover rate had been 1% higher/(lower) provision for employee termination benefits would decrease/(increase) by TL 83.469

	2018	2017
January 1	2.672.254	3.624.071
Service cost	291.334	360.164
Interest cost	292.020	361.251
Actuarial gain / loss	348.535	165.881
Termination benefits paid	(519.657)	(1.512.624)
Disposal of subsidiary effect	-	(326.489)
December 31	<u>3.084.486</u>	<u>2.672.254</u>

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18. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

The Company is not subject to registered capital system. The approved and issued capital of the Company consists of 17.104.230.000 shares (December 31, 2017: 17.104.230.000) with TL 0,01 nominal price each. The amount of 9.729.720.000 are nominative group (A) shares, 2.567.565.000 shares are publicly traded group (B) shares and bearer 4.806.945.000 shares to the bearer are non-public registered shares. The mentioned capital is fully paid.

The composition of the Company's paid-in share capital as of December 31, 2018 and December 31, 2017 is as follows:

Shareholders	%	December 31, 2018	%	December 31, 2017
Aydiner İnşaat A.Ş.	84,98	145.347.710	84,98	145.347.710
Public quotation	15,01	25.675.650	15,01	25.675.650
Other	<1	18.940	<1	18.940
Subscribed capital		171.042.300		171.042.300

The operations of the Company are managed by the Board of Directors with at least 7 (seven) members that consist 5 (five) A type shareholders determined in the General Assembly in accordance with the Turkish Commercial Code. Each (A) type shareholders have 15 voting rights in Ordinary and Extraordinary General Assemblies.

Restricted profit reserves and retained earnings

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions. As of December 31, 2018, the amount of restricted profit reserves is TL 71.893.619 (December 31, 2017: TL 71.893.619).

Resources Available for Profit Distribution

As of December 31, 2018, there is net profit amounting TL 33.188.072 in the statutory records of the Company (December 31, 2017: TL 63.958.695).

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**19. ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS ATTRIBUTABLE TO EQUITY
HOLDERS OF PARENT**

Currency Translation Differences	January 1 - December 31, 2018	January 1 - December 31, 2017
Balance at the beginning of period	113.243.708	43.830.884
Currency translation differences	165.800.626	69.412.824
Balance at the end of period	<u>279.044.334</u>	<u>113.243.708</u>
Remeasurement of defined benefit plans income/(losses)	January 1 - December 31, 2018	January 1 - December 31, 2017
Balance at the beginning of period	(858.333)	(664.496)
Remeasurement income/(losses) from defined benefit plans	(288.715)	(230.365)
Subsidiary sales effect	-	36.528
Balance at the end of period	<u>(1.147.048)</u>	<u>(858.333)</u>
Property, plant and equipment revaluation fund	2018	2017
Balance at the beginning of period	40.431.627	-
Property, plant and equipment revaluation increase	-	40.431.627
Balance at the end of period	<u>40.431.627</u>	<u>40.431.627</u>

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20. REVENUE AND COST OF SALES

	January 1- December 31, 2018	January 1- December 31, 2017
Electricity sales	754.307.099	457.093.646
Interest income from service concession arrangements	23.884.778	19.307.140
Revenue	778.191.877	476.400.786
Cost of sales	(607.987.680)	(386.305.219)
Gross Profit	170.204.197	90.095.567

During the year, TL 13.550.759 (2017: TL 8.938.962) of invoices issued to EÜAŞ related to the Service Concession Arrangements, which is stated in Note 2.5, have been deducted from Service Concession Receivables.

21. EXPENSES BY NATURE

	January 1 - December 31, 2018	January 1 - December 31, 2017
Cost of electricity (**)	461.268.676	291.196.741
Depreciation and amortization expenses	64.635.203	30.739.912
System usage and capacity fee (***)	38.180.693	26.104.859
Plant technical assistance and maintenance	24.574.844	10.753.208
Personnel expenses (*)	23.089.314	19.433.180
Consultancy fees	2.904.768	2.535.119
Insurance expenses	3.688.816	1.462.105
Office expenses	1.268.502	1.265.015
Taxes and duties	1.085.102	735.528
Hydraulic contribution	1.005.579	621.728
Transportation expenses	813.753	737.768
Dues deduction	281.900	230.327
Cost of natural gas	-	8.254.455
Other	4.562.959	3.783.284
	627.360.109	397.853.229

(*) Personnel expenses of TL 12.848.244 (December 31, 2017: TL 13.307.458) has been charged in cost of sales; TL 10.241.070 (December 31, 2017: TL 6.125.722) has been charged in general administrative expenses.

(**) Consists of the cost of electricity that Ayen Enerji, Ayen Elektrik and trading companies which locate abroad purchased from suppliers other than EPIAŞ and Group Companies.

(***) TEİAŞ and Elektrik Dağıtım Anonim Şirketi ("EDAŞ") charges system usage fees to the Group and the Group reflects the same amount to EÜAŞ and to other customers. The amounts that could be reflected to the customers and EÜAŞ are netted off in the accompanying consolidated financial statements, however, the amounts that could not be reflected and paid by the Group are accounted for as cost of sales.

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22. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

The details of other income from operating activities for the years ended December 31, 2018 and 2017 are as follows:

	January 1 - December 31, 2018	January 1 - December 31, 2017
Foreign exchange gain arising from operating activities	10.845.315	11.335.079
Compensation income from contract termination	3.225.567	-
Discount income of trade payables	1.679.040	1.018.037
Akbük WPP wing damage fee (*)	1.558.856	-
Transmission line income	1.426.819	-
Terminated provisions (Note 5)	333.087	-
Other	2.984.998	1.346.947
	<u>22.053.682</u>	<u>13.700.063</u>

(*) Income received from insurance arising from the loss settlement amount due to the damage occurred at the wing of Akbük WPP wind turbine.

The details of other expenses from operating activities for the years ended December 31, 2018 and 2017 are as follows:

	January 1 - December 31, 2018	January 1 - December 31, 2017
Foreign exchange losses arising from operating activities	(9.815.318)	(16.436.506)
Discount expenses of receivables	(4.855.010)	-
Feasibility expenses	(2.807.700)	-
Compensation expenses from contract termination	(3.125.157)	-
Kızılcahamam forest expense (*)	(97.569)	(131.612)
Provision for doubtful receivables	(73.493)	(813.706)
Other	(1.759.191)	(3.225.109)
	<u>(22.533.438)</u>	<u>(20.606.933)</u>

(*) Comprises the forestation and improvement expenses of the 1.505 decares of Kızılcahamam forest. This forest has been allocated to the Group for forestation works by the Kızılcahamam Forest Business Directorate until 2046.

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23. INCOME / (EXPENSES) FROM INVESTING ACTIVITIES , NET

The details of other income from investing activities for the years ended December 31, 2018 and 2017 are as follows:

	January 1 - December 31, 2018	January 1 - December 31, 2017
Foreign exchange gains from concession agreements	49.993.991	8.996.873
Revenue from sale and lease back operation	7.194.207	-
Gain on sales of fixed asset	8.349	49.427
Loss on sales of fixed asset (Note 1)	(5.752.833)	-
Gain on disposal of subsidiary (Note 28)	-	81.897.622
	<u>51.443.714</u>	<u>90.943.922</u>

24. FINANCIAL INCOME / (EXPENSES) , NET

	January 1 - December 31, 2018	January 1 - December 31, 2017
Bank loan interests	(123.036.195)	(51.989.584)
Net foreign exchange (loss)/ income	(88.620.713)	(71.353.259)
Bond interests	(9.423.464)	(7.975.817)
Deferred finance expenses	(2.213.269)	(2.211.748)
Interest income	3.562.926	5.453.278
Other finance expenses	(4.250.174)	(3.554.424)
	<u>(223.980.889)</u>	<u>(131.631.554)</u>

25. INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

	December 31, 2018	December 31, 2017
<i>Current tax liability:</i>		
Current tax liability provision	(15.953.860)	(255.143)
Less: prepaid taxes and funds	9.088.679	-
	<u>(6.865.181)</u>	<u>(255.143)</u>

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(Amounts are expressed in Turkish Lira (TL))

25. INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (cont'd)

<u>Tax expense in profit or loss statement:</u>	January 1 - December 31,	January 1 - December 31,
<u>Income tax expense consists of the following:</u>	2018	2017
Current tax expense	(15.953.860)	(255.143)
Deferred tax expense/ income	(11.438.104)	5.719.654
Total tax expense/ income	<u>(27.391.964)</u>	<u>5.464.511</u>
<u>Tax recognized directly in equity</u>	January 1 - December 31,	January 1 - December 31,
<u>Deferred Tax</u>	2018	2017
Recorded directly to equity		
Actuarial gain or loss	59.820	(64.484)
Revaluation fund of tangible fixed assets	-	(3.201.589)
Total deferred tax recognized directly in equity	<u>59.820</u>	<u>(3.266.073)</u>

Tax effect related to the components of other comprehensive income is as follows:

	January 1 – December 31, 2018		
	Amount before tax	Tax expense / income	Amount after tax
Actuarial gains and losses on defined benefit plans	(348.535)	59.820	(288.715)
	<u>(348.535)</u>	<u>59.820</u>	<u>(288.715)</u>
	January 1 – December 31, 2017		
	Amount before tax	Tax expense / income	Amount after tax
Actuarial gains and losses on defined benefit plans	(165.881)	(64.484)	(230.365)
	<u>(165.881)</u>	<u>(64.484)</u>	<u>(230.365)</u>

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(Amounts are expressed in Turkish Lira (TL))

25. INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (cont'd)

Corporate Tax

The Company and its subsidiaries in Turkey is subject to Turkish corporate taxes. Ayen AS and Ayen Trading, recorded in Albania, is subject to tax legislation in Albania. Ayen Slovenia and Ayen Serbia, recorded in Slovenia and Serbia, are subject to tax legislations in Slovenia and Serbia respectively. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses and deducting exempt income, non-taxable income and other incentives (previous years losses, if any, and investment incentives utilized, if preferred).

The effective tax rate in 2018 is 22% (2017: 20%).

In accordance with the regulation numbered 7061, published in Official Gazette on November 27, 2017, tax rate of 20% that stated in the first paragraph of Article 32 of the Law on Corporations Tax No 5520 has been added temporarily as 22 % for corporate income related to 2018, 2019 and 2020 taxation periods. Also with the same regulation and stated in 5520 numbered Law No, 5, 75% of exemption from corporate tax rate the profits arising from the sale of real estates (immovables) which is in assets for at least two full years has been changed to 50%.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2018 is 22%. (2017: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 – 22 July 2006 is 10% and commencing from 22 July 2006, this rate has been changed to 15% upon the Council of Minister's' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Withholding tax at the rate of 19,8% is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Subsequent to this date, the investments without investment incentive certificates do not qualify for tax allowance.

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25. INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (cont'd)

Investment Incentives

The revoked phrase “only attributable to 2006, 2007 and 2008” stated in Provisional Article 69 of Income Tax Law No:193 with the effect of Article 5 of Law No:6009 after having published in the Official Gazette No: 27659 as at 1 August 2010 and the Constitutional Court’s issued resolution no: 2009/144 published in the Official Gazette as at 8 January 2010 has been revised. The revised regulation allows companies to continue to benefit from the exception of undeductible and carryforward investment incentive due to insufficient earnings irrespective of having any time constraints. However, deductible amount for investment incentive exception used in the determination of tax base cannot exceed 25% of the related period’s income. In addition, companies that opt to use the investment incentive exemption are allowed to apply 20% of income tax, instead of 30% under the related revised regulation.

The additional paragraph to Provisional Article 69 included in accordance with Law No:6009, which is related to the 25% threshold and requires the incentive amount that will be subject to investment incentive exemption in determining tax base cannot exceed 25% of the respective income, has been revoked based on the ground that it is contrary to the Constitution upon the Constitutional Court’s resolution No: E. 2010/93 K. 2012/20 (“stay of execution”) issued on 9 February 2012 and published in the Official Gazette No: 28208 on 18 February 2012. The related Constitutional Court’s decision was published in the official Gazette No: 28719 as at 26 July 2013.

Deferred tax:

The Group recognizes deferred tax assets and liabilities based upon the temporary differences between financial statements as reported in accordance with Turkish Financial Reporting Standards and its tax base of statutory financial statements. These differences usually result in the recognition of revenue and expense items in different periods for Turkish Financial Reporting Standards and statutory tax purposes.

Turkish Tax Legislation does not permit a parent company, its subsidiaries and joint ventures to file a consolidated tax return, therefore, tax liabilities, as reflected in these consolidated financial statements, have been calculated on a separate-entity basis. In this respect deferred tax assets and liabilities of consolidated entities in the accompanying consolidated financial statements are not offset.

<u>Deferred tax assets/ (liabilities):</u>	<u>Temporary differences</u>		<u>Deferred tax assets/(liabilities)</u>	
	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Property, plant and equipment and intangible assets	117.660.929	104.567.526	26.257.835	20.913.505
Property, plant and equipment revaluation increase	(32.015.886)	(32.015.886)	(3.201.589)	(3.201.589)
Investment incentives	6.963.160	6.283.610	1.392.632	1.256.722
Carry forward tax losses	44.114.363	73.380.204	8.886.690	14.937.253
Provision for employment termination benefits	2.999.665	2.520.049	659.927	554.411
Due from service concession arrangements	(119.075.638)	(50.688.599)	(23.815.128)	(10.137.720)
Other	3.775.694	(10.027.832)	814.403	(2.013.956)
	<u>24.422.287</u>	<u>94.019.072</u>	<u>10.994.770</u>	<u>22.308.626</u>

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25. INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (cont'd)

The Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all that deferred income tax asset to be utilized. The Group has deductible financial expenses. Accordingly, the Group recognised deferred tax assets amounting to TL 40.085.011 (December 31, 2017: 44.191.652) for the carry forward tax losses of Ayen Enerji amounting to TL 149.371.684 (December 31, 2017: 165.451.022 TL), that of Ayen Ostim amounting to TL 32.159.098 (December 31, 2017: 26.703.852 TL), that of Ayen Elektrik amounting to TL 5.871.385 (December 31, 2017: TL 11.767.201), that of Araklı Enerji amounting to TL 197.978 and that of Ayel Elektrik amounting to TL 3.660.440.

As of December 31, 2018 and December 31, 2017, the expiration dates of prior years' losses, which deferred tax asset have not been accounted for, are as follows:

	December 31, 2018	December 31, 2017
2018	-	42.182.203
2019	32.449.426	32.207.019
2020	59.195.285	59.260.883
2021	37.608.603	22.934.481
2022	40.011.707	52.985.446
2023	21.995.564	-
	<u>191.260.585</u>	<u>209.570.032</u>

The Group recognized TL 8.886.690 (December 31, 2017: TL 14.937.253) of deferred tax asset over Ayen Enerji's carry forward tax losses amounting to TL 44.114.363 (December 31, 2017: TL 73.380.204).

As of December 31, 2018 and December 31, 2017, the expiration dates of prior years' losses, which deferred tax asset have been accounted for, are as follows:

	December 31, 2018	December 31, 2017
2019	-	5.818.412
2020	3.190.877	7.242.221
2021	8.074.921	24.760.436
2022	11.483.379	35.559.135
2023	21.365.186	-
	<u>44.114.363</u>	<u>73.380.204</u>

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25. INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (cont'd)

Movements in deferred income taxes can be analysed as follows:

	<u>2018</u>	<u>2017</u>
January 1	22.308.626	21.275.003
Current year deferred taxation expense	(11.438.104)	5.719.654
Deferred tax credit recorded under equity	59.820	(3.266.073)
- Property, plant and equipment revaluation increase effect	-	(3.201.589)
- Actuarial loss / gain effect	59.820	(64.484)
Impact of accounting policy change (Note 2.2)	64.428	-
Disposal of subsidiary effect	-	(1.419.958)
December 31	<u>10.994.770</u>	<u>22.308.626</u>

The reconciliation of current year tax charge calculated over current period tax charge and profit before tax disclosed in the consolidated statement of profit or loss for the period ended December 31, 2018 and 2017 is stated below:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Profit/ (loss) before tax on profit or loss statement	(22.185.163)	30.953.055
Effective tax rate %22 (2017: %20)	4.880.735	(6.190.611)
Effect of tax:		
- discounts	101.230	11.367.620
- disallowable expenses	(16.313.798)	(308.946)
- investment incentive effect	742.425	6.853.993
- deferred tax effect of prior year's losses which are expired	(11.363.371)	(7.080.328)
- stoppage tax expense	(1.631.331)	-
- prior period tax expense	(6.785.453)	-
- different tax rate effect	2.515.808	328.101
- other	461.791	494.682
Tax expense on profit or loss statement	<u>(27.391.964)</u>	<u>5.464.511</u>

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26. EARNINGS PER SHARE

	January 1- December 31, 2018	January 1, December 31 2017
Profit/ (loss) for the year attributable to equity holders of the Parent	(49.669.939)	35.085.883
Average number of outstanding shares	17.104.230.000	17.104.230.000
Earnings/ (loss) per basic, 1.000 shares (TL)	(2,90)	2,05

27. DISCONTINUED OPERATIONS

Ayen Enerji has sold 69,87% shares of Aksu Temiz Enerji Elektrik Üretim Sanayi ve Ticaret A.Ş. to Samsun Makina Sanayi A.Ş. on December 29, 2017. As of December 31, 2017, the Group's share from net profit / loss of Aksu has been recognized under discontinued operations.

	January 1 – December 31, 2017
Revenue	37.265.602
Cost of Sales (-)	(16.999.071)
Gross Profit	20.266.531
General and Administrative Expenses (-)	(454.280)
Other Income from Operating Activities	325.675
Other Expense from Operating Activities (-)	(599.128)
OPERATING PROFIT	19.538.798
Financial Income	6.137.252
Financial Expense (-)	(26.513.688)
LOSS BEFORE TAX	(837.638)
Tax Income	155.473
Current tax expense	(1.503.994)
Deferred tax income	1.659.467
LOSS FOR THE YEAR	(682.165)

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28. DISPOSAL OF SUBSIDIARY

Ayen Enerji has disposed of 69,87% of shares of Aksu Temiz Enerji Elektrik Üretim Sanayi ve Ticaret A.Ş. to Samsun Makina Sanayi A.Ş. on December 29, 2017. According to share purchase-sales agreement, sales price of Aksu Temiz Enerji has been determined based on financial statements dated December 31, 2017 which is prepared in accordance with TFRS.

	December 31, 2017
Analysis of asset and liabilities over which control was lost	
Assets	213.050.193
Liabilities	(170.424.892)
Net assets	42.625.301
Percentage of disposal	69,87%
Net assets disposed of	29.782.298
	December 31, 2017
Total net assets as of disposal date	42.625.301
Percentage of disposal	69,87%
Net assets disposed of	29.782.298
Gain on disposal of subsidiary	
Consideration received	111.679.920
Net assets disposed of	(29.782.298)
Gain on disposal of subsidiary (Note 23)	81.897.622

The gain on disposal is included in gain on disposal of subsidiary under Note 23, "Income and expenses from investing activities".

Cash and cash equivalents	111.679.920
Less: Abandoned debt	(37.711.022)
Less: Amount recognized as receivable	(1.451.463)
Less: Cash and cash equivalent balances disposed of	(91.732)
	72.425.703

	December 31, 2017
Net cash flows from discontinued operations:	
Cash flows from operations	(6.807.149)
Cash flows from investment activities	422.650
Cash flows from financing activities	6.439.971
Net increase in cash and cash equivalents	55.472

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

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29. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The management of the Group considers the cost of capital and the risks associated with each class of capital. The management of the Group aims to balance its overall capital structure through the payment of dividends, new share issues and the issue of new debt or the redemption of existing debt.

The Group controls its capital using the net debt/total capital ratio. This ratio is calculated as net debt divided by the total capital amount. Net debt is calculated as total liability amount less cash and cash equivalents. Total capital is calculated as shareholders' equity plus the net debt amount as presented in the balance sheet.

As of December 31, 2018 and 2017 net debt / total capital ratio is as follows:

	2018	2017
	<u>TL</u>	<u>TL</u>
Total Financial Debt	1.839.581.605	1.510.432.073
Less: Cash and cash equivalents	<u>(121.209.720)</u>	<u>(254.490.339)</u>
Net Debt	1.718.371.885	1.255.941.734
Equity Attributable to Owners of the Parent	<u>479.652.307</u>	<u>368.719.959</u>
Net Debt / Capital	<u>3,58</u>	<u>3,41</u>

b) Financial Risk Factors

The risks of the Group, resulted from operations, include market risk, credit risk and liquidity risk. The Group's risk management program generally seeks to minimize the effects of uncertainty in financial market on financial performance of the Group.

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29. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

b.1) Credit risk management

Credit risk of financial instruments

	Receivables					
	Trade Receivables			Other Receivables		
	Related Party	Third Party	Related Party	Third Party	Concession Arrangements	Bank Deposits
December 31, 2018						
Maximum net credit risk as of balance sheet date (*)						
- The part of maximum risk under guarantee with collateral etc. (**)						
A. Net book value of financial assets that are neither past due nor impaired	9.513.188	64.020.571	59.033.053	5.602.332	166.506.599	120.711.372
	-	17.207.528	-	-	-	-
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	9.513.188	64.020.571	59.033.053	5.602.332	166.506.599	120.711.372
C. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross book value)	-	-	-	-	-	-
- Impairment (-)	-	2.042.354	-	-	-	-
D. Off-balance sheet items with credit risk	-	(2.042.354)	-	-	-	-
Maximum net credit risk as of balance sheet date (*)	-	-	-	-	-	-

(*) The factors that increase the credit reliability, such as guarantee received are not considered in the determination of the balance.

(**) Guarantees consists of guarantee letters, guarantee notes and mortgages obtained from the customers.

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29. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

b.1) Credit risk management (cont'd)

Credit risk of financial instruments

December 31, 2017	Receivables					
	Trade Receivables			Other Receivables		
	Related Party	Third Party	Related Party	Third Party	Due From Service Concession Arrangements	Bank Deposits
Maximum net credit risk as of balance sheet date (*)						
- The part of maximum risk under guarantee with collateral etc. (**)	6.787.821	43.319.155	43.442.084	4.765.305	137.371.555	254.085.871
A. Net book value of financial assets that are neither past due nor impaired	6.787.821	43.319.155	43.442.084	4.765.305	137.371.555	254.085.871
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross book value)	-	1.902.822	-	-	-	-
- Impairment (-)	-	(1.902.822)	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-	-
Maximum net credit risk as of balance sheet date (*)						

(*) The factors that increase the credit reliability, such as guarantee received are not considered in the determination of the balance.
(**) Guarantees consists of guarantee letters, guarantee notes and mortgages obtained from the customers.

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29. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

b.1) Credit risk management (cont'd)

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions. The Group assesses the credit quality of the customers by assessing the financial position of the customers, past experiences and other factors as a part of its credit risk management programme. All of the concession arrangement receivables amounting to TL 5.282.387 (2017: TL 12.174.991) of trade receivables are composed of the receivables from EÜAŞ and amounting to TL 4.937.924 (2017: TL 6.105.603) from EPIAŞ. As of December 31, 2018, the Group has no receivables from TEİAŞ (December 31, 2017: TL 462.482). EÜAŞ, TEİAŞ and EPIAŞ are all state-owned entities which are responsible for the trading, wholesale and distribution activities of the national power system operations in Turkey, EPIAŞ sustains financial reconciliation transactions of whole electricity marketing, and imbalance calculation and organize day ahead market transactions. Additionally, TEİAŞ, EÜAŞ, EPIAŞ are state-owned entities, EÜAŞ provides purchase guarantee for the electricity production which are performed by the Group's power plants with Build-Operate-Transfer model. Therefore, credit risk over the assets of the Group is limited. Rest of the trade receivables are related to gross sale activities, and mentioned receivables arises from industrial and commercial customers. Group obtains guarantees from these wholesale customers when necessary.

As of December 31, 2018 and 2017, there are no past due receivables.

b.2) Liquidity risk management

Having a conservative liquidity risk management requires obtaining adequate level of cash in addition to having the ability to utilize adequate level of borrowings and fund resources as well as closing market positions.

The following table presents the maturity of Group's derivative and non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of non-derivative financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

December 31, 2018

<u>Contractual maturity analysis</u>	<u>Carrying Value</u>	<u>Total cash outflow according to contract (I+II+III+IV)</u>	<u>Less than 3 Months (I)</u>	<u>3-12 Months (II)</u>	<u>1-5 Years (III)</u>	<u>More than 5 Years (IV)</u>
Non-derivative financial liabilities						
Bank loan	1.804.862.474	2.319.014.871	109.680.463	362.137.725	906.463.664	940.733.019
Financial lease liabilities	34.701.067	48.928.504	3.058.032	9.174.094	36.698.379	-
Trade payables	36.297.064	36.380.312	36.380.312	-	-	-
Trade payables to related parties	23.241.931	23.288.333	23.288.333	-	-	-
Non-trade payables to related parties	136.705.302	136.705.302	136.259.892	-	445.410	-
Other long-term liabilities	18.064	18.064	18.064	-	-	-
Total liabilities	2.035.825.902	2.564.335.386	308.685.096	371.311.819	943.607.453	940.733.019

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29. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

December 31, 2017

<u>Contractual maturity analysis</u>	<u>Carrying Value</u>	<u>Total cash outflow according to contract (I+II+III+IV)</u>	<u>Less than 3 Months (I)</u>	<u>3-12 Months (II)</u>	<u>1-5 Years (III)</u>	<u>More than 5 Years (IV)</u>
Non-derivative financial liabilities						
Bank loan	1.419.492.100	1.884.662.527	46.326.685	322.382.367	653.269.950	862.683.525
Financial lease liabilities	40.142.035	61.162.632	3.058.032	9.174.095	48.930.505	-
Trade payables	40.218.551	40.542.741	40.542.741	-	-	-
Trade payables to related parties	33.324.274	37.073.509	37.073.509	-	-	-
Non-trade payables to related parties	248.510.087	248.510.087	248.064.677	-	445.410	-
Other long-term liabilities	50.797.938	61.320.750	2.264.150	59.056.600	-	-
Total liabilities	1.832.484.985	2.333.272.246	377.329.794	390.613.062	702.645.865	862.683.525

(*) Since interest rates of the loans are floating, total cash outflows of financial liabilities are calculated over the interest rate announced after the Group's last loan repayment.

b.3) Market risk management

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Market risk exposures of the Group are measured using sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

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29. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

b.3.1) Foreign currency risk management

Transactions in foreign currencies expose the Group to foreign currency risk.

As of December 31, 2018 and 2017 the foreign currency denominated assets and liabilities of monetary and non-monetary items are as follows:

	December 31, 2018		
	TL Equivalent	USD	EURO
Trade receivables	12.837.627	651.668	1.560.927
Monetary financial assets	32.447.787	5.465.750	612.644
Due from short-term service concession arrangements	17.240.073	3.277.020	-
Other	943.696	-	156.552
CURRENT ASSETS	63.469.183	9.394.438	2.330.123
Due from long-term service concession arrangements	149.266.526	28.372.812	-
Other	1.848.137	-	306.592
NON-CURRENT ASSETS	151.114.663	28.372.812	306.592
TOTAL ASSETS	214.583.846	37.767.250	2.636.715
Trade payables			
Financial borrowings	28.524.203	364.093	4.414.192
CURRENT LIABILITIES	298.689.259	27.186.057	25.823.844
Financial borrowings	327.213.462	27.550.150	30.238.036
NON-CURRENT LIABILITIES	1.393.485.599	9.600.000	222.790.471
	1.393.485.599	9.600.000	222.790.471
TOTAL LIABILITIES	1.720.699.061	37.150.150	253.028.507
Net Foreign Currency Position	(1.506.115.215)	617.100	(250.391.792)

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29. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

b.3) Market risk management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

	December 31, 2017		
	TL Equivalent	USD	EURO
Trade receivables	32.279.669	3.227.813	4.452.371
Monetary financial assets	28.261.113	5.010.247	2.073.516
Due from short-term service concession arrangements	18.248.512	4.838.016	-
Other	2.041	-	452
CURRENT ASSETS	78.791.335	13.076.076	6.526.339
Due from long-term service concession arrangements	119.123.043	31.581.708	-
NON-CURRENT ASSETS	119.123.043	31.581.708	-
TOTAL ASSETS	197.914.378	44.657.784	6.526.339
Trade payables			
Financial borrowings	9.474.224	80.351	2.031.037
CURRENT LIABILITIES	243.881.337	30.741.423	28.330.808
Financial borrowings	253.355.561	30.821.774	30.361.845
NON-CURRENT LIABILITIES	1.076.147.294	-	238.322.953
	1.076.147.294	-	238.322.953
TOTAL LIABILITIES	1.329.502.855	30.821.774	268.684.798
Net Foreign Currency Position	(1.131.588.477)	13.836.010	(262.158.459)

The following table details the Group's sensitivity to a 10% increase and decrease in USD, and EURO. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

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(Amounts are expressed in Turkish Lira (TL))

29. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

b.3) Market risk management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

The Group is mainly exposed to USD and EURO denominated foreign exchange risk.

	December 31, 2018	
	<u>Profit/Loss</u>	
	<u>Appreciation of foreign currency</u>	<u>Depreciation of foreign currency</u>
In case 10% appreciation in USD against TL		
US Dollar net asset / liability	324.650	(324.650)
Part of hedged from US Dollar risk (-)		
US Dollar net effect	<u>324.650</u>	<u>(324.650)</u>
In case 10% appreciation in EURO against TL		
EURO net asset / liability	(150.936.172)	150.936.172
Part of hedged from EURO risk (-)		
EURO net effect	<u>(150.936.172)</u>	<u>150.936.172</u>
TOTAL	(150.611.522)	150.611.522
	December 31, 2017	
	<u>Profit/Loss</u>	
	<u>Appreciation of foreign currency</u>	<u>Depreciation of foreign currency</u>
In case 10% appreciation in USD against TL		
US Dollar net asset / liability	5.218.805	(5.218.805)
Part of hedged from US Dollar risk (-)	-	-
US Dollar net effect	<u>5.218.805</u>	<u>(5.218.805)</u>
In case 10% appreciation in EURO against TL		
EURO net asset / liability	(118.377.652)	118.377.652
Part of hedged from EURO risk (-)	-	-
EURO net effect	<u>(118.377.652)</u>	<u>118.377.652</u>
TOTAL	(113.158.847)	113.158.847

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(Amounts are expressed in Turkish Lira (TL))

29. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

b.3) Market risk management (cont'd)

b.3.2) Interest rate risk management

The Group is exposed to interest risks through the impact of EURO borrowings, due to variable interest rate used. As of December 31, 2018, for EURO denominated borrowings, had the interest rates increased/decreased by 100 base points (1%) with all other variables held constant, net profit before taxation of the Group due to loan interest loss/profit would have been decreased/increased by TL 5.789.040 (2017: TL 4.627.365) mainly as a result of interest expenses on short-term and long-term borrowings.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts are expressed in Turkish Lira (TL))

30. FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING)

Fair values and categories of financial instruments

<u>December 31, 2018</u>	<u>Loans and receivables (including cash and equivalents)</u>	<u>Financial liabilities at amortized costs</u>	<u>Carrying value</u>	<u>Note</u>
<u>Financial Assets</u>				
Cash and cash equivalents	-	121.209.720	121.209.720	32
Trade receivables	-	64.020.571	64.020.571	5
Trade receivables from related parties	-	9.513.188	9.513.188	4
Receivables from service concession agreements	-	166.506.599	166.506.599	12
Other receivables	-	5.602.332	5.602.332	6
Other receivables from related parties	-	59.033.053	59.033.053	4
<u>Financial liabilities</u>				
Trade payables and non – trade payables	-	38.687.935	38.687.935	5
Trade and non-trade payables to related parties	-	159.947.233	159.947.233	4
Other financial liabilities	-	18.064	18.064	14
Financial borrowings	-	1.839.563.541	1.839.563.541	14

<u>December 31, 2017</u>	<u>Loans and receivables (including cash and equivalents)</u>	<u>Financial liabilities at amortized costs</u>	<u>Carrying value</u>	<u>Note</u>
<u>Financial Assets</u>				
Cash and cash equivalents	254.490.339	-	254.490.339	32
Trade receivables	43.319.155	-	43.319.155	5
Trade receivables from related parties	6.787.821	-	6.787.821	4
Receivables from service concession agreements	137.371.555	-	137.371.555	12
Other receivables	4.765.305	-	4.765.305	6
Other receivables from related parties	43.442.084	-	43.442.084	4
<u>Financial liabilities</u>				
Trade payables	-	40.218.551	40.218.551	5
Trade and non-trade payables to related parties	-	281.834.361	281.834.361	4
Other financial liabilities	-	50.797.938	50.797.938	14
Financial borrowings	-	1.459.634.135	1.459.634.135	14

Group, considers that the book value of financial instruments reflects their fair values.

AYEN ENERJİ A.Ş. VE BAĞLI ORTAKLIKLARI

BAĞIMSIZ DENETİMDEN GEÇMİŞ 31 ARALIK 2017 TARİHİ İTİBARIYLA KONSOLİDE FİNANSAL TABLOLARA İLİŞKİN DİPNOTLAR

(Tüm tutarlar Türk Lirası (TL) olarak gösterilmiştir)

31. EVENTS AFTER THE REPORTING PERIOD

None.

32. DISCLOSURES RELATED TO THE STATEMENT OF CASH FLOWS

	December 31, 2018	December 31, 2017
Cash	497.968	233.830
Cash in bank	120.711.372	254.085.871
Demand deposits	120.209.873	136.585.871
Time deposits with maturities less than three months	501.499	117.500.000
Cash in transit (*)	380	170.638
	<u>121.209.720</u>	<u>254.490.339</u>

(*) Cash in transit consists of receivables from sales made via POS devices.

Explanations about the nature and level of risks related to cash and cash equivalents are provided in Note 29.

As of December 31, 2018, the time deposits with maturities less than three months of the Group consists of TL denominated time deposits with maturities in January 2019. The weighted average effective overnight interest rates of TL denominated time deposits is 4,25% (2017: 13,28%).

The Group has no blocked deposits as of December 31, 2018 (2017: None).