

**AYEN ENERJİ A.Ş.
AND ITS SUBSIDIARIES**

**Convenience Translation Of The
Independent Auditor's Report And
Consolidated Financial Statements
For The Year Ended 31 December 2015
Originally Issued in Turkish**

**DRT BAĞIMSIZ DENETİM VE SERBEST
MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
9 March 2016**

*This report consists of 2 pages of audit
report and 76 pages of consolidated
financial statements and footnotes.*

CONVENIENCE TRANSLATION OF THE REPORT AND THE CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of
Ayen Enerji A.Ş.**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Ayen Enerji A.Ş. ("the Company") and its subsidiaries (together will be referred as "the Group, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Turkish Accounting Standards ("TAS"), 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued by Capital Markets Board and Independent Auditing Standards which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ayen Enerji A.Ş. and its subsidiaries as at 31 December 2015, and of their financial performance and their cash flows for the year then ended in accordance with Turkish Accounting Standards.

Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of Article 398 of the Turkish Commercial Code No. 6102 ("TCC"), the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 9 March 2016.

In accordance with paragraph four of Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Group's set of accounts and financial statements prepared for the period 1 January-31 December 2015 does not comply with TCC and the provisions of the Group's articles of association in relation to financial reporting.

In accordance with paragraph four of Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**



Erdem TAŞ
Partner

Ankara, 9 March 2016

INDEX

CONSOLIDATED BALANCE SHEET.....	1-3
CONSOLIDATED STATEMENT OF PROFIT OR LOSS.....	4
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME.....	5
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....	6-7
CONSOLIDATED STATEMENT OF CASH FLOWS.....	8-9
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	10-76
NOTE 1 ORGANIZATION AND OPERATIONS OF THE GROUP.....	10-12
NOTE 2 BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS.....	13-36
NOTE 3 RELATED PARTY DISCLOSURES.....	37-41
NOTE 4 TRADE RECEIVABLES AND PAYABLES.....	41-42
NOTE 5 OTHER RECEIVABLES AND PAYABLES.....	42
NOTE 6 PREPAID EXPENSES AND DEFERRED INCOME.....	43
NOTE 7 PROPERTY, PLANT AND EQUIPMENT.....	44-46
NOTE 8 INTANGIBLE ASSETS.....	46-47
NOTE 9 GOODWILL.....	47
NOTE 10 SERVICE CONCESSION ARRANGEMENTS.....	47-48
NOTE 11 BORROWING COSTS.....	49
NOTE 12 PROVISIONS, CONTINGENT ASSETS AND LIABILITIES.....	49-50
NOTE 13 COMMITMENTS.....	51
NOTE 14 EMPLOYEE BENEFITS.....	52-53
NOTE 15 EXPENSES BY NATURE.....	54
NOTE 16 OTHER ASSETS AND LIABILITIES.....	54
NOTE 17 SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS.....	55
NOTE 18 REVENUE AND COST OF SALES.....	56
NOTE 19 OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES.....	56-57
NOTE 20 INCOME AND EXPENSES FROM INVESTING ACTIVITIES.....	57
NOTE 21 FINANCE EXPENSES.....	58
NOTE 22 ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS.....	58
NOTE 23 INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES).....	59-63
NOTE 24 EARNINGS PER SHARE.....	64
NOTE 25 FINANCIAL INSTRUMENTS.....	64-65
NOTE 26 NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS.....	66-74
NOTE 27 FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES).....	75
NOTE 28 EVENTS AFTER THE REPORTING PERIOD.....	76
NOTE 29 DISCLOSURES RELATED TO STATEMENT OF CASH FLOWS.....	76

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES**AUDITED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

ASSETS	Notes	Current Period 31 December 2015	Prior Period 31 December 2014
Current Assets		199.639.208	253.278.411
Cash and Cash Equivalents	29	152.593.651	188.692.607
Trade Receivables	4	26.344.803	31.100.923
<i>Trade Receivables from Third Parties</i>	4	<i>21.211.070</i>	<i>31.033.323</i>
<i>Trade Receivables from Related Parties</i>	3	<i>5.133.733</i>	<i>67.600</i>
Other Receivables	5	2.474.699	1.343.418
<i>Other Receivables from Third Parties</i>	5	<i>1.998.059</i>	<i>1.343.418</i>
<i>Other Receivables from Related Parties</i>	3	<i>476.640</i>	-
Service Concession Arrangements	10	8.150.322	26.613.132
Prepaid Expenses	6	5.813.961	4.136.999
Assets Related to Current Tax	23	69.657	218.160
Other Current Assets	16	4.192.115	1.173.172
Non-Current Assets		1.498.598.850	1.177.704.576
Service Concession Arrangements	10	107.115.770	90.367.450
Financial Assets		412.408	464.936
Other Receivables		31.470.733	24.208.601
<i>Other Receivables from Third Parties</i>	5	<i>4.623.258</i>	<i>5.180.440</i>
<i>Other Receivables from Related Parties</i>	3	<i>26.847.475</i>	<i>19.028.161</i>
Property, Plant and Equipment	7	1.153.032.787	912.416.269
Intangible Assets		40.720.144	41.506.289
<i>Other Intangible Assets</i>	8	<i>18.577.011</i>	<i>19.363.156</i>
<i>Goodwill</i>	9	<i>22.143.133</i>	<i>22.143.133</i>
Prepaid Expenses	6	60.796.804	35.129.643
Deferred Tax Assets	23	20.729.570	22.802.550
Other Non-Current Assets	16	84.320.634	50.808.838
TOTAL ASSETS		1.698.238.058	1.430.982.987

The accompanying notes presented between pages 10 and 76 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**AUDITED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

LIABILITIES	Notes	Current Period 31 December 2015	Prior Period 31 December 2014
Current Liabilities		457.961.019	309.161.410
Short-Term Borrowings	25	77.920.101	61.296.610
Short-Term Portion of Long-Term Borrowings	25	90.141.518	92.865.188
Other Financial Liabilities	25	70.259.766	18.064
Trade Payables	4	68.343.642	79.316.772
<i>Trade Payables to Third Parties</i>	4	34.464.396	34.097.143
<i>Trade Payables to Related Parties</i>	3	33.879.246	45.219.629
Payables Related to Employee Benefits	14	372.978	389.771
Other Payables	5	138.276.173	59.521.797
<i>Other Payables to Third Parties</i>	5	1.646.199	948.426
<i>Other Payables to Related Parties</i>	3	136.629.974	58.573.371
Deferred Income	6	73.359	1.972.617
Current Tax Liabilities	23	9.598.135	10.108.726
Short-Term Provisions	14	643.961	606.919
<i>Short-Term Provisions for Employee Benefits</i>	14	643.961	606.919
Payables Related to Current Tax	23	1.714.171	1.741.250
Other Current Liabilities		617.215	1.323.696
Non-Current Liabilities		975.769.483	847.858.466
Long-Term Borrowings	25	949.510.411	775.021.665
Other Financial Liabilities	25	-	70.175.251
Trade Payables		23.092.938	-
<i>Trade Payables to Related Parties</i>		23.092.938	-
Other Payables		445.410	607.305
<i>Other Payables to Third Parties</i>		-	161.895
<i>Other Payables to Related Parties</i>	3	445.410	445.410
Long-Term Provisions	14	2.720.724	2.054.245
<i>Long-Term Provisions for Employee Benefits</i>	14	2.720.724	2.054.245
TOTAL LIABILITIES		1.433.730.502	1.157.019.876

The accompanying notes presented between pages 10 and 76 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES**AUDITED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

	Notes	Current Period 31 December 2015	Prior Period 31 December 2014
EQUITY		264.507.556	273.963.111
Equity Attributable to Owners of the Parent		225.843.845	241.216.449
Paid-in Capital	17	171.042.300	171.042.300
Accumulated Other Comprehensive Income or Expenses that may be Reclassified Subsequently to Profit or Loss		17.200.021	3.411.319
<i>Currency Translation Reserves</i>	22	<i>17.200.021</i>	3.411.319
Accumulated Other Comprehensive Income or Expenses that will not be Reclassified Subsequently to Profit or Loss		(457.969)	(456.568)
<i>Accumulated Gain/Loss on Remeasurement of Defined Benefit Plans</i>	22	<i>(457.969)</i>	<i>(456.568)</i>
Restricted Reserves	17	62.162.876	56.068.938
Retained Earnings/Accumulated Losses		5.056.522	(15.687.799)
Net Profit/Loss for the Period		(29.159.905)	26.838.259
Non-Controlling Interests		38.663.711	32.746.662
TOTAL LIABILITIES AND EQUITY		1.698.238.058	1.430.982.987

The accompanying notes presented between pages 10 and 76 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**AUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

	Notes	Current Period 1 January- 31 December 2015	Prior Period 1 January- 31 December 2014
PROFIT OR LOSS			
Revenue	18	283.822.999	229.960.881
Cost of Sales (-)	15,18	(226.089.957)	(172.144.829)
GROSS PROFIT / LOSS		57.733.042	57.816.052
General Administration Expenses (-)	15	(15.598.354)	(10.240.124)
Other Income from Operating Activities	19	19.019.428	7.654.964
Other Expenses from Operating Activities (-)	19	(11.083.915)	(9.357.970)
OPERATING PROFIT / LOSS		50.070.201	45.872.922
Income from Investing Activities	20	28.104.710	12.264.571
OPERATING PROFIT / LOSS BEFORE FINANCE EXPENSE		78.174.911	58.137.493
Finance Expenses (-)	21	(96.025.503)	(18.846.914)
PROFIT/LOSS BEFORE TAX FROM CONTINUING OPERATIONS		(17.850.592)	39.290.579
Tax Expense / Income from Continuing Operations		(11.671.465)	(9.337.058)
Current Tax Expense / Income	23	(9.598.135)	(10.108.726)
Deferred Tax Expense / Income	23	(2.073.330)	771.668
PROFIT / LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		(29.522.057)	29.953.521
PROFIT / LOSS FOR THE PERIOD		(29.522.057)	29.953.521
Profit / Loss for the Period Attributable to:		(29.522.057)	29.953.521
Non-Controlling Interests		(362.152)	3.115.262
Owners of the Company		(29.159.905)	26.838.259
		(29.522.057)	29.953.521
Earnings / losses per 1.000 shares	24	(1,70)	1,57

The accompanying notes presented between pages 10 and 76 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**AUDITED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

Notes	Current Period 1 January- 31 December 2015	Prior Period 1 January- 31 December 2014
PROFIT/LOSS FOR THE PERIOD	(29.522.057)	29.953.521
Accumulated Other Comprehensive Income or Expenses that will be Reclassified Subsequently to Profit or Loss	22 16.066.352	(5.034.670)
Currency Translation Reserves	22 16.066.352	(5.034.670)
Accumulated Other Comprehensive Income or Expenses that will not be Reclassified Subsequently to Profit or Loss	22 (1.401)	(367.261)
Accumulated Gain / Loss on Remeasurement of Defined Benefit Plans	23 (1.751)	(459.077)
Deferred Tax Expense/Income	23 350	91.816
OTHER COMPREHENSIVE INCOME/EXPENSE	16.064.951	(5.401.931)
TOTAL COMPREHENSIVE INCOME/EXPENSE	(13.457.106)	24.551.590
Total Comprehensive Income for the Period Attributable to		
Non- Controlling Interests	1.915.498	3.115.262
Owners of the Company	(15.372.604)	21.436.328
	(13.457.106)	24.551.590

The accompanying notes presented between pages 10 and 76 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

	Retained Earnings		Net Profit/Loss for the Period	Accumulated Other Comprehensive Income or Expense that will be reclassified to Profit or Loss		Accumulated Gain / Loss on Remeasurement of Defined Benefit Plans	Equity Attributable to Owners of the Parent	Non-Controlling Interest	Total Equity
	Share Capital	Restricted Profit Reserves		Retained Earnings	Profit/Loss for the Period				
Balances as of 1 January 2014	171.042.300	51.589.982	37.712.818	(48.846.437)	8.445.989	(89.307)	219.855.345	22.542.765	242.398.110
Transfers	-	4.478.956	(53.325.393)	48.846.437	-	-	-	-	-
Total comprehensive (expense)/income	-	-	-	26.838.259	(5.034.670)	(367.261)	21.436.328	3.115.262	24.551.590
Capital increase of non-controlling shares	-	-	-	-	-	-	-	8.000.370	8.000.370
Change in consolidation structure (*)	-	-	(75.224)	-	-	-	(75.224)	73.019	(2.205)
Dividends paid	-	-	-	-	-	-	-	(984.754)	(984.754)
Balances as of 31 December 2014	171.042.300	56.068.938	(15.687.799)	26.838.259	3.411.319	(456.568)	241.216.449	32.746.662	273.963.111

(*) Related changes arise from the inclusion of subsidiaries in the consolidation as of 31 December 2014 and the changes in the participation rates (Note 2).

The accompanying notes presented between pages 10 and 76 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

	Share Capital	Restricted Profit Reserves	Retained Earnings	Net Profit/Loss for the Period	Accumulated Other Comprehensive Income or Expense that will be reclassified to Profit or Loss	Currency Translation Reserves	Accumulated Other Comprehensive Income or Expense that will be reclassified to Profit or Loss	Equity Attributable to Owners of the Parent	Non- Controlling Interest	Total Equity
Balance as of 1 January 2015	171.042.300	56.068.938	(15.687.799)	26.838.259	3.411.319	(456.568)	241.216.449	32.746.662	273.963.111	
Transfers	-	6.093.938	20.744.321	(26.838.259)	-	-	-	-	-	
Total comprehensive (expense)/income	-	-	-	(29.159.905)	13.788.702	(1.401)	(15.372.604)	(362.152)	(13.457.106)	
Capital increase of non-controlling shares	-	-	-	-	-	-	-	5.339.069	5.339.069	
Dividends paid	-	-	-	-	-	-	-	(1.337.518)	(1.337.518)	
Balance as of 31 December 2015	171.042.300	62.162.876	5.056.522	(29.159.905)	17.200.021	(457.969)	225.843.845	38.663.711	264.507.556	

The accompanying notes presented between pages 10 and 76 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

	Notes	Current Period 1 January- 31 December 2015	Prior Period 1 January- 31 December 2014
A. Cash Flows from Operating Activities			
(Loss)/Profit for the Period		(17.850.592)	39.290.579
Adjustments to reconcile profit/loss for the period			
- Adjustments related to depreciation and amortization expenses	7,8	33.391.171	29.103.462
- Adjustments related to provisions		870.396	1.343.213
- Adjustments related to interest income and expenses	20,21	28.832.076	26.914.473
- Discount (income)/expense	19	-	1.403.940
- Adjustments related to accrued income		7.172.441	8.206.628
- Adjustments related to accrued expense		(4.501.530)	(16.793.899)
- Adjustments related to deferred finance expenses	6	2.216.699	2.371.610
- Adjustments related to gain/loss on disposal of non-current assets	20	-	(17.421)
- Realised foreign exchange (gain)/loss due to foreign currency translation		(28.437.000)	3.594.154
- Unrealised foreign exchange gain/(loss)		65.045.301	(22.486.149)
Changes in working capital			
- Adjustments related to increase/decrease in trade receivables		(2.416.322)	8.824.873
- Adjustments related to increase/decrease in financial assets		52.528	(356.641)
- Adjustments related to decrease in service concession arrangements		34.199.011	40.975.332
- Adjustments related to increase/decrease in other receivables from operating activities		(11.850.510)	41.319.476
- Adjustments related to increase/decrease in trade payables		(6.471.600)	(48.912.773)
- Adjustments related to decrease/increase in other liabilities from operating activities		99.035.808	27.009.410
		199.287.877	141.790.267
Cash Generated From Operations			
Income taxes paid	23	(10.108.726)	(7.554.708)
Other cash inflows/outflows		(168.626)	(496.302)
		189.010.525	133.739.257

The accompanying notes presented between pages 10 and 76 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

Notes	Current Period 1 January- 31 December 2015	Prior Period 1 January- 31 December 2014
B. Cash Flows from Investing Activities		
Proceeds from sales of property, plant and equipment	-	39.955
Payments for property, plant and equipment and intangible asset	(196.622.231)	(221.022.311)
Tax related with investments	(33.511.392)	(27.874.547)
Interest received	2.507.736	2.439.437
Advances given for acquisition of property, plant and equipment	(33.701.812)	(36.385.795)
	<u>(261.327.699)</u>	<u>(282.803.261)</u>
C. Cash Flows from Financing Activities		
Cash obtained from borrowings	265.628.406	446.206.123
Cash used for repayments of the borrowings	(179.356.096)	(172.959.178)
Capital increase in non-controlling interests	5.339.069	8.000.370
Interest paid	(43.958.978)	(36.252.079)
Dividends paid	(1.337.518)	(984.754)
- owners of the Parent	-	-
- non-controlling interests	(1.337.518)	(984.754)
Change in consolidation structure	-	(2.205)
Payments for the other financial liabilities	-	(1.532.716)
	<u>46.314.883</u>	<u>242.475.561</u>
Increase/(Decrease) in Cash and Cash Equivalents (A+B+C)	<u>(26.002.291)</u>	<u>93.411.557</u>
D. Foreign Currency Reserves Effects on Cash and Cash Equivalents	<u>(10.096.665)</u>	<u>-</u>
E. Cash and cash equivalents at the beginning of the period	29	95.281.050
Cash and cash equivalents at the end of the period (A+B+C+D+E)	29	188.692.607
	<u>188.692.607</u>	<u>188.692.607</u>

The accompanying notes presented between pages 10 and 76 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 31 DECEMBER 2015

(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 Aydiner Group. Main shareholder of the Company is Aydiner İnşaat A.Ş. (“Aydiner 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 31 December 2015 (31 December 2014: 15,01%) (Note 17).

As of 31 December 2015, the number of personnel of the Group is 304 (31 December 2014: 237).

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
Aksu Temiz Enerji Elektrik Üretim Sanayi ve Ticaret A.Ş. (“Aksu”)	Electricity production and trading	70%	70%	Hülya Sokak No: 37 Gaziosmanpaşa Ankara
Ayen-AS Enerji SHA (“Ayen-AS”)	Electricity production and trading	82%	89%	Papa Gijon Pali i II-te, ABA Business Center, Tirane/Albania (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%	Bulevardi Deshmoret e Kombit Qendra e Biznesit Twin Towers, Kulla nr.2, Kati i 10 Tirane/Albania
Ayen Energy Trading D.O.O. Beograd-Stari Grad (“Ayen Serbia”)	Electricity trading	0%	100%	Kosançicev Venac Sokak No: 20, 11000 Belgrad, Serbia
Ayen Energija Trgovanje z Električno Energijo D.O.O. (“Ayen Slovenia”)	Electricity trading	0%	100%	Dolenjska cesta 148, 1000 Ljubljana, Slovenia

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

<u>Subsidiaries</u>	<u>Place of incorporation and the nature of the business</u>	<u>Direct Share</u>	<u>Indirect Share</u>	<u>Registered address</u>
Ayen Doğalgaz Enerji Üretim Sanayi ve Ticaret A.Ş. ("Ayen Doğalgaz")(*)	Electricity production and trading	-	90%	Hülya Sokak No: 37 Gaziosmanpaşa Ankara

(*) The project term of the licence is cancelled with the assent of EMRA and therefore the project is terminated by the management in the Extraordinary General Assembly as of 27 October 2014 and liquidation process has been completed in 2015.

<u>Subsidiary</u>	<u>Place of incorporation and the nature of the business</u>	<u>Direct Share</u>	<u>Indirect Share</u>	<u>Registered address</u>
Elektrik Piyasaları İşletim A.Ş. ("EPIAŞ")(*)	Electricity market operations	1%	1%	Harbiye Mahallesi Asker Ocağı Caddesi Süzer Plaza Kat 4 No :15 Şişli -İstanbul

(*) Participated to EPIAŞ as of December 2014.

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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(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.

The production license for the Wind Power Plant ("WPP") located in Kayseri, Yahyalı with an annual production capacity of 72 MW obtained by Aksu Temiz Enerji Elektrik Üretim Sanayi ve Ticaret A.Ş. on 29 November 2007 for 49 years. The first part of the plant with a capacity of 30 MW, the second part of the plant with a capacity of 36 MW and third part of the plant with a capacity of 6 MW started to operate respectively in March, April and May of 2012. In addition, total installed capacity increased to 80 MW after increasing capacity by 8 MW, and license amendment is implemented by EMRA.

Ayen AS Energji SHA; the construction of the facilities of PESHQESHIT 3 Hydroelectricity Energy Production Facility, established in Albania has been completed with the annual electricity energy production capacity of 118,400,000 kWh, installation power of 28 MW and one of the HEPP projects within the scope of the "Albanian Fan Basin HEPP Project" with the annual electricity energy production capacity of 380,000,000 and installation power of 110 MW and has been commissioned commercially on 4 May 2015 and the electricity energy production in this facility has started.

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 Energji Trading SHA which established with ALL 3.500.000 (EURO 25.000) nominal capital. 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 Energji Trading D.O.O. (Serbia) with EURO 10.000 nominal capital and Ayen Energji Trgovanje z Električno Energijo, D.O.O. (Slovenia) with EURO 67.500 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.

Approval of consolidated financial statements:

Board of Directors has approved the consolidated financial statements for the period between 1 January - 31 December 2015 and delegated publishing it on 9 March 2016. No authority other than Board of Directors and General Assembly has the right to modify the consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation

Statement of Compliance

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 Accounting Standards/Turkish Financial Reporting Standards and Interpretations (“TAS/TFRS”) 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 and Ayen Trading is measured using ALL. 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 0,0231). Additionally, Ayen Slovenia and Ayen Serbia is measured using EURO and the balance sheet items (except capital accounts) in terms of EURO have been included into consolidation by being translated to TL with buying rate applicable as of balance sheet date (EURO 1 = TL 3,1776). Profit or loss statement and other comprehensive income items have been included into consolidation by being translated to TL with buying rate applicable at the transaction date.

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 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.1 Basis of presentation (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.

Basis of Consolidation

As of 31 December 2015 and 31 December 2014, details of the Company's subsidiaries are as follows:

Subsidiaries	Group's proportion of ownership and voting power held (%)		Place of incorporation and operation	Principle activity
	2015	2014		
Ayen Ostim	76	76	Ankara- Ankara	Electricity production and trade
Kayseri Elektrik	96	96	Ankara- Kayseri	Electricity production, distribution and trade
Ayen Elektrik	100	100	Ankara- Ankara	Electricity trade
Aksu	70	70	Ankara- Kayseri	Electricity production and 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 and trade
Ayen Doğalgaz (*)	-	90	Ankara	Electricity production 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 Doğalgaz project term of the licence is cancelled with the assent of EMRA and therefore the project is terminated by the management in the Extraordinary General Assembly as of 27 October 2014 and liquidation process is completed in 2015.

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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.1 Basis of presentation (cont'd)

Basis of Consolidation (cont'd)

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.

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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.1 Basis of presentation (cont'd)

Basis of Consolidation (cont'd)

Changes in the Group's ownership interests in existing subsidiaries (cont'd)

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable TAS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under TAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

2.2 Changes in the Accounting Policies

Significant changes in accounting policies and accounting errors are applied retrospectively and prior periods financial statements are adjusted accordingly. There is no significant change in Group's accounting policies in current year.

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 2.6.

2.4 New and Revised Turkish Accounting Standards

a) Amendments to TAS affecting amounts reported and/or disclosures in the consolidated financial statements

None.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.4 New and Revised Turkish Accounting Standards (cont'd)

b) Standards, amendments, and interpretations to existing standards effective in 2015 but not relevant to the Group

Amendments to TAS 19	<i>Defined Benefit Plans: Employee Contributions</i> ¹
Annual Improvements to 2010-2012 Cycle	<i>TFRS 2, TFRS 3, TFRS 8, TFRS 13, TAS 16 and TAS 38, TAS 24, TFRS 9, TAS 37, TAS 39</i> ¹
Annual Improvements to 2011-2013 Cycle	<i>TFRS 3, TFRS 13, TAS 40</i> ¹

¹ Effective for annual periods beginning on or after 30 June 2014.

Amendments to TAS 19 *Defined Benefit Plans: Employee Contributions*

This amendment clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions, can, but are not required, to be recognised as a reduction in the service cost in the period in which the related service is rendered.

Annual Improvements to 2010-2012 Cycle

TFRS 2: Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.

TFRS 3: Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

TFRS 8: Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.

TFRS 13: Clarify that issuing TFRS 13 and amending TFRS 9 and TAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).

TAS 16 and TAS 38: Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.

TAS 24: Clarify how payments to entities providing management services are to be disclosed.

Annual Improvements to 2010-2012 Cycle also led to amendments in related provisions of TFRS 9, TAS 37 and TAS 39, respectively.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.4 New and Revised Turkish Accounting Standards (cont'd)

b) Standards, amendments, and interpretations to existing standards effective in 2015 but not relevant to the Group

Annual improvements to 2011-2013 Cycle

TFRS 3: Clarify that TFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

TFRS 13: Clarify the scope of the portfolio exception in paragraph 52.

TAS 40: Clarifying the interrelationship of TFRS 3 and TAS 40 when classifying property as investment property or owner-occupied property.

c) New and revised TAS in issue but not yet effective

The Group has not applied the following new and revised TAS that have been issued but are not yet effective:

TFRS 9	<i>Financial Instruments</i>
Amendments to TFRS 9 and TFRS 7	<i>Mandatory Effective Date of TFRS 9 and Transition Disclosures</i>
Amendments to TAS 16 and TAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to TAS 16 and TAS 41 and amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40	<i>Agriculture: Bearer Plants</i> ¹
Amendments to TFRS 11 and TFRS 1	<i>Accounting for Acquisition of Interests in Joint operations</i> ¹
Annual Improvements to 2011-2013 Cycle	<i>TFRS 1</i> ²
Amendments to TAS 1	<i>Disclosure Initiative</i> ²
Annual Improvements to 2012-2014 Cycle	<i>TFRS 5, TFRS 7, TAS 34, TAS 19</i> ²
Amendments to TAS 27	<i>Equity Method in Separate Financial Statements</i> ²
Amendments to TFRS 10 and TAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to TFRS 10, TFRS 12 and TAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> ²
TFRS 14	<i>Regulatory Deferral Accounts</i> ²

¹ Effective for annual periods beginning on or after 31 December 2015.

² Effective for annual periods beginning on or after 1 January 2016.

TFRS 9 *Financial Instruments*

TFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. TFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.4 New and Revised Turkish Accounting Standards (cont'd)

c) New and revised TAS in issue but not yet effective (cont'd)

Amendments to TFRS 9 and TFRS 7 *Mandatory Effective Date of TFRS 9 and Transition Disclosures*

The mandatory effective date of TFRS 9 will be no earlier than annual periods beginning on or after 1 January 2018.

Amendments to TAS 16 and TAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

This amendment clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Amendments to TAS 16 and TAS 41 and Amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40 *Agriculture: Bearer Plants*

This amendment includes 'bearer plants' within the scope of TAS 16 rather than TAS 41, allowing such assets to be accounted for as property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with TAS 16. The amendment also introduces a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of TAS 41.

Amendments to TAS 16 and TAS 41 also led to amendments in related provisions of TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40, respectively.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.4 New and Revised Turkish Accounting Standards (cont'd)

c) New and revised TAS in issue but not yet effective (cont'd)

Amendments to TFRS 11 and TFRS 1 *Accounting for Acquisition of Interests in Joint operations*

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in TFRS 3 and other TAS, except for those principles that conflict with the guidance in TFRS 11,
- disclose the information required by TFRS 3 and other TAS for business combinations.

Amendments to TFRS 11 also led to amendments in related provisions of TFRS 1.

Annual Improvements 2011-2013 Cycle

TFRS 1: Clarify which versions of TAS can be used on initial adoption (amends basis for conclusions only).

Amendments to TAS 1 *Disclosure Initiative*

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

Annual Improvements 2012-2014 Cycle

TFRS 5: Adds specific guidance in TFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

TFRS 7: Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

TAS 34: Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

Annual Improvements to 2012-2014 Cycle also led to amendments in related provisions of TAS 19.

Amendments to TAS 27 *Equity Method in Separate Financial Statements*

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.4 New and Revised Turkish Accounting Standards (cont'd)

Annual Improvements 2012-2014 Cycle (cont'd)

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

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

Amendments to TFRS 10, TFRS 12 and TAS 28 Investment Entities: Applying the Consolidation Exception

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by TFRS 12.

TFRS 14 Regulatory Deferral Accounts

TFRS 14 *Regulatory Deferral Accounts* permits an entity which is a first-time adopter of Turkish Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of TFRS and in subsequent financial statements.

TFRS 14 also led to amendments in related provisions of TFRS 1.

The Group evaluates the effects of these standards, amendments and improvements on the consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(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).

Revenue

Electricity sales revenue is recognised on an accrual basis at the time the electricity is distributed.

Interest income related to service concession arrangements is recognised in accordance with TFRS Comment 12.

Dividend and interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend revenue from investments is recognized when the shareholders' rights to receive payment have been established.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Application of TFRS Comment 12 - Service Concession Arrangements

TFRS Comment 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 TFRS Comment 12.

Under the terms of contractual arrangements within the scope of TFRS Comment 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 in accordance with TAS 39 "Financial Instruments: Recognition and Measurement". 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.

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 10).

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 equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated and carried at cost less accumulated impairment.

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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Property, Plant and Equipment (cont'd)

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	45
Land improvements	10
Plant, machinery and equipment	5-35
Motor vehicles	5
Furniture and fixtures	5

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.

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.

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 8).

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

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.

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.

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 2015, TL 22.238.994 of borrowing costs regarding the investment loans (31 December 2014: 13.467.493) is capitalized over tangible assets (Note 7).

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 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Business Combinations

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with TAS 12 *Income Taxes* and TAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with TFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with TFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. When the changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Business Combinations (cont'd)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with TAS 39, or TAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Deferred Financing Charges

Deferred financing charges primarily comprising legal and other costs incurred in relation to obtaining long-term borrowings from financing institutions are amortized over the remaining life of the long-term borrowings (Note 6).

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Financial Instruments

Financial Assets

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: 'financial assets at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. Classification is determined during initial recording, according to purpose acquisition and specification of the asset.

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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

Financial Liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

Other financial liabilities

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts 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 at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at 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 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Foreign Currency Transactions (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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

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.

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

As the primary operation of the Group is to produce and sell electricity and as these operations have similar economical features, production processes, customer classes and distribution methods, the Group operations are considered to be as single operating segment. Accordingly, the Group management considers single operating segment, rather than multiple operating segments, when making decisions on the resources management and in the assessment of performance measurement of the operations.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

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.

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 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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Income Tax (cont'd)

Deferred tax (cont'd)

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.

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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

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 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 31 December 2015, 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.

Accordingly, since it is foreseen that the sufficient profit can not be sustained starting from the following year the Group did not recognise deferred tax assets amounting to TL 61.571.358 (31 December 2014: none) for the carry forward tax losses of Ayen Ostim amounting to TL 25.958.460 (31 December 2014: TL 17.543.604), the carry forward tax losses of Ayen Elektrik amounting to TL 16.499.566 (31 December 2014: TL 10.343.452) and the carry forward tax losses of Ayen AS amounting to TL 1.569.857 (31 December 2014: 2.156.583 TL), total carry forward tax losses of TL 21.364.843 (31 December 2014: TL 5.900.899) (Note 23) .

Group recognized TL 12.776.175 (31 December 2014: TL 15.836.491) of deferred tax asset over Ayen Enerji's carry forward tax losses amounting to TL 59.529.811 (31 December 2014: TL 68.873.245) and Aksu's carry forward tax losses amounting to TL 4.350.964 (31 December 2014: TL 10.309.211) (Note 23).

Provisions

As described in the accounting policy in Note 2.5, the Group measures provisions at the Group management's best estimate of the expenditure required to settle the obligations at the balance sheet date. These estimates are made, taking into account information available and different possible outcomes.

As of 31 December 2015, the Group is subject to various legal proceedings. The Group evaluates the possible outcomes of the lawsuits based on the Group's legal advisers view and accounts the required provisions against the possible gains and losses (Note 12).

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.6 Critical accounting judgments and key sources of estimation uncertainty (cont'd)

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. 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% (2014: 13,44%).

The discount rate used reflects specific risks relating to Kayseri Elektrik. As of 31 December 2015, 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 115.266.089 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	138.396.082
Base discount rate 0	144.433.812
Base discount rate by -1	150.841.087

Recoverable amount of Ayen AS is calculated based on discounted value of future cash flows. In the determination of the recoverable amount, the EUR 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 8,27% (31 December 2014: 8,19%).

The discount rate used reflects specific risks relating to Company and Albania. As of 31 December 2015, the Group compared the 8% of recoverable amount (share of Ayel Elektrik) calculated based on the aforementioned assumptions with 8% of the property, plant and equipment and goodwill balance of Ayen AS amounting to TL 42.838.728 and TL 4.681.198 respectively 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	51.376.644
Base discount rate 0	51.851.187
Base discount rate by -1	52.334.577

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

2.6 Critical accounting judgments and key sources of estimation uncertainty (cont'd)

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.

As of 31 December 2015, valuation of Ayen Ostim's property, plant, and equipment was performed by "Lal Gayrimenkul Değerleme ve Müşavirlik A.Ş." which is authorized by CMB and independent from the Group.

Fair value of machine and equipments was determined in accordance with the benchmark second-hand prices of similar machine and equipments. Aforementioned fair values have been compared with tangible assets of Ayen Ostim amounting to TL 19.178.906 and no impairment was identified.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

3. RELATED PARTY TRANSACTIONS

Related party transactions	31 December 2015					
	Receivables			Payables		
	Short-term Trade	Non-trade	Long-term Trade	Short-term Trade	Non-trade	Long-term Trade
Aydiner İnşaat A.Ş. (*)	221.230	-	-	29.945.037	136.615.813	23.092.938
Kayseri ve Civarı Elektrik A.Ş.	8.659	-	-	20.847	-	-
Layne Bowler Pompa Sanayi A.Ş.	26.721	-	-	-	-	-
Samsun Makine Sanayi	1.729.437	-	-	-	-	-
Metay İnşaat Sanayi ve Ticaret A.Ş.	-	-	-	3.913.362	-	-
Aksu Other Shareholders (**)	-	-	15.349.919	-	14.161	-
AS Enerji SHPk (***)	-	-	11.497.556	-	-	-
Ayen Enerji Other Shareholders	-	476.640	-	-	-	-
Araklı Other Shareholders	-	-	-	-	-	445.410
Enerji Piyasaları İşletme A.Ş.	3.147.686	-	-	-	-	-
	5.133.733	476.640	26.847.475	33.879.246	136.629.974	23.092.938
						445.410

(*) 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 30 June 2015, interest rate for aforementioned loan is %15.

(**) Receivables consist of due from other shareholders of Aksu related to capital commitments.

(***) Receivables consist of due from other shareholders of Ayen AS related to capital commitments.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

3. RELATED PARTY TRANSACTIONS (cont'd)

Related party transactions	31 December 2014							
	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. (*)	-	-	-	-	43.500.299	58.573.371	-	-
Kayseri ve Civarı Elektrik A.Ş.	8.659	-	-	-	24.375	-	-	-
Layne Bowler Pompa Sanayi A.Ş.	-	-	-	-	-	-	-	-
Metay İnşaat Sanayi ve Ticaret A.Ş.	-	-	-	-	1.694.955	-	-	-
Aksu Other Shareholders (**)	-	-	-	12.717.857	-	-	-	-
AS Enerji SHPk (***)	-	-	-	6.310.304	-	-	-	-
Araklı Other Shareholders	-	-	-	-	-	-	-	445.410
Other	58.941	-	-	-	-	-	-	-
	<u>67.600</u>	<u>-</u>	<u>-</u>	<u>19.028.161</u>	<u>45.219.629</u>	<u>58.573.371</u>	<u>-</u>	<u>445.410</u>

(*) The short-term trade payables consist of the progress bills for the facility construction of Korkmaz WPP, located in Izmir and Ayen AS HEPP, located in Albania. The short-term non-trade payables consist of loan given to Group by Aydiner İnşaat A.Ş. As of 31 December 2014, interest rate for aforementioned loan is 12,86%.

(**) Receivables consist of due from other shareholders of Aksu related to capital commitments.

(***) Receivables consist of due from other shareholders of Ayen AS related to capital commitments.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

3. RELATED PARTY TRANSACTIONS (cont'd)

	1 January – 31 December 2015				
Related Party Transactions	Energy sales	Interest income	Purchases of fixed assets	Purchases of services	Interest Expenses
Aydiner İnşaat A.Ş. (*)	460.641	3.178.806	88.331.520	207.653	697.602
Kayseri ve Civan Elektrik A.Ş.	-	-	-	204.891	-
Samsun Makine Sanayi A.Ş.	4.213.434	-	-	-	-
Aybet Beton A.Ş.	494.241	-	-	-	-
Metay İnşaat Sanayii ve Ticaret A.Ş.	-	-	1.666.296	1.860.341	-
Aksu Other Shareholders	133.960	1.854.665	-	-	-
Agron Turizm ve Ticaret A.Ş.	781.894	-	-	-	-
Laync Bowler Pompa Sanayi A.Ş.	217.258	-	-	3.827	-
Enerji Piyasaları İşletme A.Ş.	12.441.375	-	-	-	-
Other	-	-	-	129.887	-
	<u>18.742.803</u>	<u>5.033.471</u>	<u>89.997.816</u>	<u>2.406.599</u>	<u>697.602</u>

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

3. RELATED PARTY TRANSACTIONS (cont'd)

Related Party Transactions	1 January – 31 December 2014				
	Energy sales	Interest income	Purchases of fixed assets	Purchases of services	Interest expenses
Aydiner İnşaat A.Ş. (*)	1.502.813	2.173.554	128.701.293	327.918	1.229.897
Kayseri ve Çevresi Elektrik A.Ş.	-	-	-	255.034	-
Samsun Makina Sanayii A.Ş.	24.358	-	-	-	423.308
Aybet Beton A.Ş.	833.594	-	-	-	-
Metay İnşaat Sanayii ve Ticaret A.Ş.	-	-	2.883.770	1.730	-
Aksu Other Shareholders	-	1.602.771	-	-	-
Layne Bowler Pompa Sanayi A.Ş.	201.005	-	-	3.200	-
	<u>2.561.770</u>	<u>3.776.325</u>	<u>131.585.063</u>	<u>587.882</u>	<u>1.653.205</u>

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

3. 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:

	1 January- 31 December 2015	1 January- 31 December 2014
Salary and other short-term benefits	3.100.126	2.169.340
Other long-term benefits	138.261	157.082
	<u>3.238.387</u>	<u>2.326.422</u>

4. TRADE RECEIVABLES AND PAYABLES

a) Trade Receivables:

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

	31 December 2015	31 December 2014
Short-term trade receivables		
Trade receivables (*)	18.460.067	20.104.373
Income accruals	3.507.596	10.680.037
Trade receivables from related parties (Note 3)	5.133.733	67.600
Notes receivable	233.170	248.913
Provisions for doubtful receivables (-)	(989.763)	-
	<u>26.344.803</u>	<u>31.100.923</u>

(*) As of 31 December 2015 trade receivables consist of receivables from Türkiye Elektrik Ticaret ve Taahhüt A.Ş. ("TETAŞ") amounting to TL 2.893.366 (2014: TL 1.960.796) and Türkiye Elektrik İletim A.Ş. ("TEİAŞ") amounting to TL 176.912 (2014: TL 6.232.537). Remaining amount consists of trade receivables of Ayen Elektrik from its customers.

The maturities of trade receivables are less than one month as of 31 December 2015 and 2014.

Explanations on nature and level of risks of trade receivables are disclosed in Note 26.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

4. TRADE RECEIVABLES AND PAYABLES (cont'd)**b) Trade Payables:**

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

	31 December 2015	31 December 2014
<u>Short-term trade payables</u>		
Trade payables	21.047.928	14.696.853
Expense accruals	1.098.809	5.600.339
Trade payables to related parties (Note 3)	33.879.246	45.219.629
Other trade payables (*)	12.317.659	13.799.951
	<u>68.343.642</u>	<u>79.316.772</u>

(*) As of 31 December 2015, TL 10.229.997 (31 December 2014: TL 12.243.372) of trade payables are related to the investments made for Ayen AS.

The maturities of trade payables are less than one month as of 31 December 2015 and 2014.

5. OTHER RECEIVABLES AND PAYABLES

	31 December 2015	31 December 2014
<u>Other Short-Term Receivables</u>		
Deposits and guarantees given	623.142	472.704
Receivables from transmission lines (*)	1.034.443	847.275
Non-trade receivables from related parties (Note 3)	476.640	-
Other receivables	340.474	23.439
	<u>2.474.699</u>	<u>1.343.418</u>
<u>Other Long-Term Receivables</u>		
Deposits and guarantees given	176.268	374.088
Receivables from transmission lines (*)	4.446.990	4.806.352
	<u>4.623.258</u>	<u>5.180.440</u>

(*) As of 31 December 2015, the balance consists of the costs regarding Büyükdüz, Korkmaz, Mordoğan and Aksu transmission lines constructed for TEİAŞ which are structured with a payment plan.

	31 December 2015	31 December 2014
<u>Other Short-Term Payables</u>		
Deposits and guarantees received	1.645.681	638.702
Non-trade payables to related parties (Note 3)	136.629.974	58.573.371
Other payables	518	309.724
	<u>138.276.173</u>	<u>59.521.797</u>

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

6. PREPAID EXPENSES AND DEFERRED INCOME

Short-Term Prepaid Expenses	31 December 2015	31 December 2014
Prepaid expenses	1.845.968	1.649.574
Deferred finance charges (*)	3.579.674	2.216.699
Advances given for business purposes	247.472	183.841
Other	140.847	86.885
	5.813.961	4.136.999
Long-Term Prepaid Expenses	31 December 2015	31 December 2014
Deferred finance charges (*)	26.872.556	21.061.650
Advances given (**)	33.778.070	13.892.581
Other	146.178	175.412
	60.796.804	35.129.643

(*) The movement of deferred finance charges are given below.

(**) The balance of TL 32.148.988 consists of advances given by Ayen AS to subcontractors as of 31 December 2015.

The movement for the deferred finance charge	1 January- 31 December 2015	1 January- 31 December 2014
Opening balance	23.278.350	25.759.689
Current period capitalization	8.783.856	-
Current period amortization	(2.216.699)	(2.371.610)
Currency translation differences	606.723	(109.730)
	30.452.230	23.278.349
Short-Term Deferred Income	31 December 2015	31 December 2014
Advances received (*)	73.359	1.972.617
	73.359	1.972.617

(*) Advances received arising from the sales performed to the Day-Ahead Market system.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

7. PROPERTY, PLANT AND EQUIPMENT

<u>Cost</u>	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Construction in progress (*)	Total
Opening balance as at 1 January 2015	9.559.844	19.515.659	153.366.378	505.284.994	2.144.520	2.135.343	328.549.209	1.020.555.947
Additions	-	-	-	14.677	840.695	184.736	212.738.399	213.778.507
Currency translation differences	-	7.686.240	1.218.919	3.980.090	145.473	84.430	46.513.763	59.628.915
Transfers from constructions in progress	-	100.320.246	15.909.246	50.907.737	-	-	(167.137.229)	-
Closing balance as of 31 December 2015	9.559.844	127.522.145	170.494.543	560.187.498	3.130.688	2.404.509	420.664.142	1.293.963.369
<u>Accumulated Depreciation</u>								
Opening balance as at 1 January 2015	-	(4.581.958)	(9.496.905)	(91.774.509)	(989.034)	(1.297.272)	-	(108.139.678)
Charge for the period	-	(3.777.400)	(3.882.923)	(24.386.329)	(222.431)	(220.166)	-	(32.489.249)
Currency translation differences	-	(139.890)	(26.146)	(95.073)	(20.047)	(20.499)	-	(301.655)
Closing balance as of 31 December 2015	-	(8.499.248)	(13.405.974)	(116.255.911)	(1.231.512)	(1.537.937)	-	(140.930.582)
Net book value as at 31 December 2015	9.559.844	119.022.897	157.088.569	443.931.587	1.899.176	866.572	420.664.142	1.153.032.787

(*) In the current period, TL 22.238.994 of borrowing cost regarding to the bans used for investments of Ayen AS have been capitalized over property, plant, and equipment in 2015. Additions during the period consist of expenses related to Ayen As and Akbuk WPP II constructions. In addition, Peshqesit 3 HEPP, with installed capacity of 28 MW, related with Albania Fan Project, started to operate as of 4 May 2015.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

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

<u>Cost</u>	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Construction in progress (*)	Total
Opening balance as at 1 January 2014	9.559.844	17.353.125	148.289.795	448.300.981	1.305.020	1.571.121	170.969.360	797.349.246
Additions	-	-	-	2.113.755	910.690	578.127	228.260.640	231.863.212
Disposals	-	-	-	-	(35.580)	-	-	(35.580)
Currency translation differences	-	-	-	(20)	(35.610)	(13.905)	(8.571.396)	(8.620.931)
Transfers from constructions in progress	-	2.162.534	5.076.583	54.870.278	-	-	(62.109.395)	-
Closing balance as of 31 December 2014	9.559.844	19.515.659	153.366.378	505.284.994	2.144.520	2.135.343	328.549.209	1.020.555.947
<u>Accumulated Depreciation</u>								
Opening balance as at 1 January 2014	-	(2.767.052)	(6.029.865)	(69.277.645)	(721.870)	(1.131.215)	-	(79.927.647)
Charge for the period	-	(1.814.906)	(3.467.040)	(22.496.864)	(274.420)	(163.954)	-	(28.217.184)
Disposals	-	-	-	-	13.046	-	-	13.046
Currency translation differences	-	-	-	-	(5.790)	(2.103)	-	(7.893)
Closing balance as of 31 December 2014	-	(4.581.958)	(9.496.905)	(91.774.509)	(989.034)	(1.297.272)	-	(108.139.678)
Net book value as at 31 December 2014	9.559.844	14.933.701	143.869.473	413.510.485	1.155.486	838.071	328.549.209	912.416.269

(*) Korkmaz WPP began to operate on August and September 2014 and accordingly TL 62.109.395 have been transferred from construction in progress to related tangible assets respectively. In addition, TL 13.467.493 (2013: TL 5.408.407) of borrowing cost regarding the loans used for investments of Ayen AS have been capitalized over property, plant and equipment in 2014. Additions during the period consist of expenses related to Korkmaz WPP and Ayen-AS constructions.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

Depreciation expense of TL 32.163.420 (31 December 2014: TL 27.824.775) has been charged in cost of sales and TL 325.829 (31 December 2014: TL 392.409) has been charged in general administrative expenses.

As of 31 December 2014 there are mortgages over the tangible assets of the Group for the borrowings obtained amounting to TL 14.538.000 (USD 5.000.000) (Note 12). (31 December 2014: USD 5.000.000 (TL 11.594.500)). 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 12).

8. INTANGIBLE ASSETS

Cost	Wholesale Licence	Electricity Production Licence	Rights	Other Intangible Assets	Total
Opening balance as at 1 January 2015	334.774	15.374.520	1.881.508	5.698.634	23.289.436
Additions	-	-	81.649	34.128	115.777
Closing balance as at 31 December 2015	334.774	15.374.520	1.963.157	5.732.762	23.405.213
<u>Accumulated Amortization</u>					
Opening balance as at 1 January 2015	(323.887)	(559.524)	(1.020.931)	(2.021.938)	(3.926.280)
Charge for the period	(2.780)	(169.472)	(347.111)	(382.559)	(901.922)
Closing balance as at 31 December 2015	(326.667)	(728.996)	(1.368.042)	(2.404.497)	(4.828.202)
Net book value as at 31 December 2015	8.107	14.645.524	595.115	3.328.265	18.577.011
Cost	Wholesale Licence	Electricity Production Licence	Rights	Other Intangible Assets	Total
Opening balance as at 1 January 2014	334.774	15.099.520	1.812.562	5.599.604	22.846.460
Additions	-	275.000	68.946	99.030	442.976
Closing balance as at 31 December 2014	334.774	15.374.520	1.881.508	5.698.634	23.289.436
<u>Accumulated Amortization</u>					
Opening balance as at 1 January 2014	(315.816)	(400.031)	(679.990)	(1.644.165)	(3.040.002)
Charge for the period	(8.071)	(159.493)	(340.941)	(377.773)	(886.278)
Closing balance as at 31 December 2014	(323.887)	(559.524)	(1.020.931)	(2.021.938)	(3.926.280)
Net book value as at 31 December 2014	10.887	14.814.996	860.577	3.676.696	19.363.156

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

8. INTANGIBLE ASSETS (cont'd)

Amortization expense of TL 864.422 (31 December 2014: TL 850.372) has been charged in cost of sales and TL 37.500 (31 December 2014: TL 35.906) has been charged in general administrative expenses.

9. GOODWILL

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. Ayen Enerji has merged with Demir Enerji on the basis of its balance sheet as of 30 June 2008. As described in Note 2.6 to the consolidated financial statements, as a result of the impairment test carried out at 31 December 2015 and 2014 no impairment was identified in the carrying amount of goodwill amounting to TL 17.461.935.

Ayel Elektrik has acquired 8% shares of Ayen-AS Energy's shares whose book value is TL 178.002 (ALL 11.000.000) from AS Energy S.H.P.K. in 2011 amounting to TL 4.859.200. Exceeding amount of the book value of the acquired shares which is TL 4.681.198 has been recognised as goodwill on the consolidated financial statements. As described in Note 2.6 to the consolidated financial statements, as a result of the impairment test carried out at 31 December 2015, no impairment was identified in the carrying amount of goodwill.

10. SERVICE CONCESSION ARRANGEMENTS

	31 December 2015	31 December 2014
<u>Due from Service Concession Arrangements</u>		
Short-term due from service concession arrangements	6.193.298	22.730.057
Invoiced and undue from service concession arrangements (*)	1.957.024	3.883.075
Total short-term receivables of service concession arrangements	<u>8.150.322</u>	<u>26.613.132</u>
Long-term due from service concession arrangements	107.115.770	90.367.450
Total due from service concession arrangements	<u>115.266.092</u>	<u>116.980.582</u>
Gross due from service concession arrangements	215.961.578	211.229.710
Unearned financial income (-)	(102.652.510)	(98.132.203)
Due from service concession arrangements(*)	1.957.024	3.883.075
Due from service concession arrangements-net	<u>115.266.092</u>	<u>116.980.582</u>

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

10. SERVICE CONCESSION ARRANGEMENTS (cont'd)

As of 31 December 2015 and 31 December 2014, 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)	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
	Up to 1 year	7.750.420	16.815.620	22.535.122
1 to 2 years	7.750.420	7.750.420	22.535.121	17.972.449
2 to 3 years	7.750.420	7.750.420	22.535.121	17.972.449
3 to 4 years	7.750.420	7.750.420	22.535.121	17.972.449
More than 4 years	43.273.178	51.023.598	125.821.093	118.318.622
	<u>74.274.858</u>	<u>91.090.478</u>	<u>215.961.578</u>	<u>211.229.710</u>
	Net due from service concession arrangements (USD)		Net due from service concession arrangements (TL)	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
	Up to 1 year	2.130.037	9.802.086	6.193.298
1 to 2 years	2.452.753	2.130.038	7.131.625	4.939.345
2 to 3 years	2.805.465	2.452.753	8.157.170	5.687.689
3 to 4 years	3.208.897	2.805.465	9.330.189	6.505.593
More than 4 years	28.372.812	31.581.708	82.496.786	73.234.823
	<u>38.969.964</u>	<u>48.772.050</u>	<u>113.309.068</u>	<u>113.097.507</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 HEEPs and the electricity equipments will be transferred to the MENR at the end of the operation terms.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

11. BORROWING COSTS

According to TAS 23, the borrowing costs of Group regarding the loans used for the qualifying assets investments which are interest expenses amounting TL 22.238.994 have been capitalized over property, plant and equipment in 2015. In 2014, the borrowing costs of the Group regarding the investment loans amounting TL 13.467.493 have been capitalized over property, plant and equipment (Note 7).

12. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Provisions

As of 31 December 2015, there are 3 case where the Group is litigant and 30 cases where the Group is defendant. Most of the cases are related with the bad debt and employee cases. At the end of each period, the Group evaluates the potential results of those cases and their financial effects and books a provision accordingly.

b) Contingent Assets and Liabilities

	31 December 2015	31 December 2014
<u>Contingent assets</u>		
Letters of guarantee received (*)	8.272.223	20.094.684
Guarantee received behalf of Ayen Enerji (**)	644.414.323	592.162.355
	<u>652.686.546</u>	<u>612.257.039</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:

	31 December 2015	31 December 2014
<u>Contingent Liabilities</u>		
Letters of conveyance given (*)	536.376.321	560.956.024

(*) Regarding the "Royalty agreement of the establishment and operation of Yamula Dam and HEPP and sale of the produced electricity to TETAŞ" and the "Energy sales agreement for Yamula Dam and HEPP" signed with MENR on 7 July 2003 Kayseri Elektrik gave its receivable of USD 74.641.464 (31 December 2014: USD 119.658.318) as a conveyance for the loan. However, these conveyances will be effective if payment schedules of the loans have not been met. Moreover, there exists EURO 100.500.000 (TL 319.348.800, 31 December 2014: USD 100.500.000) of conveyance over receivables of Aksu Temiz Energy as of 31 December 2015 (Note 25).

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

12. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

b) Contingent Assets and Liabilities (cont'd)

Contingent Liabilities	31 December 2015	31 December 2014
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.

Contingent Liabilities	31 December 2015	31 December 2014
Mortgages given (***)	14.538.000	11.594.500

(***) Consists of the mortgages given for the long-term borrowings of the Group, there exists TL 14.538.000 (USD 5.000.000) of mortgages over property, plant and equipment (Note 25).

Contingent Liabilities	31 December 2015	31 December 2014
Letters of guarantee given (****)	62.643.572	95.305.195

(****) Letters of guarantee given consist of TL 26.109.910 in terms of USD, TL 3.695.549 in terms of EURO and TL 32.838.113 in terms of Turkish Lira. Letters of guarantee given comprises that TL 19.988.325 (USD 6.874.510) has been given to the Albania Ministry of Economy for Ayen-AS, TL 500.136 (ABD 172.010) has been given to MTA General Directorate), TL 4.558.600 has been given to EMRA, TL 2.000.000 has been given to TEAİŞ as guarantee of Akbük II Wind Energy Plant, TL 35.596.511 consists of advances given to suppliers as guarantees for payables from electricity receiving and system using agreements.

Contingent Liabilities	31 December 2015	31 December 2014
Guarantee given (*****)	212.899.200	235.364.900

(*****). Guarantee given is due to the joint guarantee for the loan obtained by Aksu Temiz Enerji from TSKB.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

13. COMMITMENTS

c) Guarantees- Pledges -Mortgages

Guarantees, pledge and mortgage ("GPM") position of the Group as of 31 December 2015 and 31 December 2014 is as follows:

	31 December 2015				31 December 2014			
	TL Equivalent	TL	USD	EURO	TL Equivalent	TL	USD	EURO
GPM given on behalf of the legal entity	331.883.997	296.857.535	12.046.520	-	398.255.859	302.629.965	41.237.610	-
Guarantee Letter	27.345.997	6.857.535	7.046.520	-	50.283.359	12.629.965	16.237.610	-
Pledge	290.000.000	290.000.000	-	-	290.000.000	290.000.000	-	-
Mortgage	14.538.000	-	5.000.000	-	11.594.500	-	5.000.000	-
Guarantee	-	-	-	-	46.378.000	-	20.000.000	-
GPM given on behalf of the subsidiaries that are included in full consolidation	784.573.096	25.980.577	76.574.828	168.663.000	794.964.760	37.000.258	122.229.566	168.230.000
Conveyance	536.376.321	-	74.641.464	100.500.000	560.956.024	-	119.658.318	100.500.000
Guarantee Letter	35.297.575	25.980.577	1.933.364	1.163.000	45.021.836	37.000.258	2.571.248	730.000
Guarantee	212.899.200	-	-	67.000.000	188.986.900	-	-	67.000.000
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	1.116.457.093	322.838.112	88.621.348	168.663.000	1.193.220.619	339.630.223	163.467.176	168.230.000

(*) As of 31 December 2015, rate of Group's GPM to equity is 0% (2014: 0%).

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

14. EMPLOYEE BENEFITS

Payables related to employee benefits

	31 December 2015	31 December 2014
Social security premiums payable	318.151	385.088
Due to personnel	54.827	4.683
	<u>372.978</u>	<u>389.771</u>

Short-term provisions for employee benefits:

	31 December 2015	31 December 2014
Provision for unused vacation	643.961	606.919
	<u>643.961</u>	<u>606.919</u>

The movement for provisions is as follows:

	Provision for unused vacation
As of 1 January 2015	606.919
Period Charge	37.042
As of 31 December 2015	<u>643.961</u>
	Provision for unused vacation
As of 1 January 2014	388.973
Cancelled provision	217.946
As of 1 December 2014	<u>606.919</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 3.828,37 (2014: TL 3.438,22) for each period of service at 31 December 2015.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

14. EMPLOYEE BENEFITS (cont'd)

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

Provisions for Severance Indemnity (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 31 December 2014, 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 7,10% and a discount rate of 11%, resulting in a real discount rate of approximately 3,64% (31 December 2014: discount rate of approximately 1,93%). 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 4.092,53 (1 January 2015: TL 3.541,37) which is in effect since 1 January 2016 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 286.900.
- If the anticipated turnover rate had been 1% higher/(lower) provision for employee termination benefits would decrease/(increase) by TL 144.969.

	1 January- 31 December 2015	1 January - 31 December 2014
Provision at January 1	2.054.245	1.425.280
Service cost	793.675	375.035
Interest cost	39.679	31.854
Actuarial gain / loss	1.751	459.077
Termination benefits paid	(168.626)	(237.001)
Provision at December 31	<u>2.720.724</u>	<u>2.054.245</u>

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

15. EXPENSES BY NATURE

	1 January - 31 December 2015	1 January - 31 December 2014
Cost of electricity (**)	143.175.375	90.469.610
Cost of natural gas	13.227.719	26.722.024
Depreciation and amortization expenses	33.391.171	29.103.462
Personnel expenses (*)	17.974.156	13.207.145
Plant technical assistance and maintenance	12.192.769	8.628.110
System usage fee (***)	7.231.922	4.001.924
Transportation expenses	970.060	1.022.488
Office expenses	1.000.374	671.283
Consultancy fees	2.350.174	2.023.503
Insurance expenses	1.199.168	1.108.730
Provisions for doubtful receivables	989.763	-
Greensite expenses	854.222	-
Taxes and duties	507.791	372.410
Contribution fees	686.725	1.325.366
Other	5.936.922	3.728.898
	<u>241.688.311</u>	<u>182.384.953</u>

(*) Personnel expenses of TL 10.733.421 (31 December 2014: TL 7.304.541) has been charged in cost of sales; TL 7.240.735 (31 December 2014: TL 5.902.604) has been charged in general administrative expenses.

(**) Consists of the cost of electricity that Ayen Ostim, Ayen Enerji ve Ayen Elektrik purchased from suppliers other than TEİAŞ and Group Companies.

(***) TEİAŞ charges system usage fees to the Group and the Group reflects the same amount to TETAŞ and to other customers. The amounts that could be reflected to the customers and TETAŞ 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.

16. OTHER ASSETS AND LIABILITIES

	31 December 2015	31 December 2014
<u>Other Current Assets</u>		
VAT carried forward	4.146.669	1.136.347
Other	45.446	36.825
	<u>4.192.115</u>	<u>1.173.172</u>
	31 December 2015	31 December 2014
<u>Other Non-Current Assets</u>		
VAT carried forward (*)	84.320.634	50.808.838
	<u>84.320.634</u>	<u>50.808.838</u>

(*) Balance comprised of the VAT carried forward amount of the Ayen AS which in investment phase.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

17. 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 (31 December 2014: 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 31 December 2015 and 31 December 2014 is as follows:

Shareholders	%	31 December 2015	%	31 December 2014
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 31 December 2015, the amount of restricted profit reserves is TL 62.162.876 (31 December 2014: TL 56.068.938).

Besides, in Kayseri Elektrik General Assembly which was hold on 17 April 2015, it was decided to appropriate amounting to TL 6.093.938 of reserve out of Company's profit for the year 2015.

Resources Available for Profit Distribution

As of balance sheet date, period loss of the Group is TL 19.844.854 and retained earnings is TL 21.524.231 according to the statutory records. Total profit available for distribution resources after deducting period loss from retained earnings is TL 1.679.377 (31 December 2014: TL 21.524.231).

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

18. REVENUE AND COST OF SALES

	1 January - 31 December 2015	1 January - 31 December 2014
Electricity sales	257.526.196	209.543.630
Interest income from service concession arrangements	26.296.803	20.417.251
Revenue	283.822.999	229.960.881
Cost of sales	(226.089.957)	(172.144.829)
Gross Profit	57.733.042	57.816.052

During the year, TL 26.652.554 (2014: TL 27.419.940) of invoices issued to TETAŞ related to the Service Concession Arrangements, which is stated in Note 2.5, have been deducted from Service Concession Receivables.

19. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

The details of other income from operating activities for the years ended 31 December 2015 and 2014 are as follows:

	1 January - 31 December 2015	1 January - 31 December 2014
Foreign exchange gain arising from operating activities	12.790.987	4.427.412
Akbük WPP wing damage fee (*)	499.225	313.504
Mordoğan WPP transformer damage fee (**)	220.269	-
Discount income of trade payables	3.118.725	1.753.002
Other	2.390.222	1.161.046
	19.019.428	7.654.964

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

(**) Income received from insurance arising from the streak of lightning amount due to the damage occurred at the transformer of Mordoğan WPP.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

19. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES (cont'd)

The details of other expenses from operating activities for the years ended 31 December 2015 and 2014 are as follows:

	1 January - 31 December 2015	1 January - 31 December 2014
Foreign exchange losses arising from operating activities	(7.899.089)	(3.823.061)
Discount expenses of receivables (*)	-	(3.156.942)
Kızılcahamam forest expense (**)	(139.631)	(119.491)
Donations	(337.900)	(523.100)
Transmission line fee (*****)	(1.255.595)	-
Not reflected transformer station expenses (***)	-	(504.425)
Premium payment made to turbine suppliers (****)	(222.666)	(437.668)
Other	(1.229.034)	(793.283)
	<u>(11.083.915)</u>	<u>(9.357.970)</u>

(*) As of 31 December 2014, the amount of TL 2.957.395 is the discount expense of TEİAŞ receivables, related to transmission lines which are restructured with payment plan.

(**) 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.

(***) The balance is related with the estimated cost of transmission line which sustains connection of Akbük WPP to TEİAŞ transformer station is returned by TEİAŞ.

(****) The amount is the premium payment made since "Waiting period while working" (Availability) amount stated in the agreement is higher than expected.

(*****) Ayen AS Enerji SHA consists of expenses related to transmission line of PESHQESHIT 3 Hydroelectric energy production facility.

20. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

The details of other income from investing activities for the years ended 31 December 2015 and 2014 are as follows:

	1 January - 31 December 2015	1 January - 31 December 2014
Interest income	2.507.736	2.439.437
Foreign exchange gains	25.470.248	9.753.388
Gain on sale of fixed assets	-	17.421
Other	126.726	54.325
	<u>28.104.710</u>	<u>12.264.571</u>

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

21. FINANCE EXPENSES

	1 January - 31 December 2015	1 January - 31 December 2014
Net foreign exchange (loss) / income	(62.266.467)	14.442.372
Bank loan interests	(21.488.711)	(29.178.659)
Bond interests	(9.851.101)	(175.251)
Deferred finance expenses	(2.216.699)	(2.371.610)
Other finance expenses	(202.525)	(1.563.766)
	<u>(96.025.503)</u>	<u>(18.846.914)</u>

22. ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS

	1 January- 31 December 2015	1 January- 31 December 2014
Foreign currency translation reserve		
Balance at the beginning of period	3.411.319	8.445.989
Foreign exchange differences arising from the translation of net assets of the business abroad	16.066.352	(5.034.670)
Balance at the end of period	<u>19.477.671</u>	<u>3.411.319</u>
	1 January- 31 December 2015	1 January- 31 December 2014
Remeasurement of defined benefit plans income/(losses)		
Balance at the beginning of period	(456.568)	(89.307)
Remeasurement income/(losses) from defined benefit plans	(1.401)	(367.261)
Balance at the end of period	<u>(457.969)</u>	<u>(456.568)</u>

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

	31 December 2015	31 December 2014
<i>Short-term Assets related to current tax</i>		
Prepaid taxes and dues	69.657	218.160
	<u>69.657</u>	<u>218.160</u>
<i>Short-term Payables related to current tax</i>		
Taxes and funds payable	1.714.171	1.741.250
	<u>1.714.171</u>	<u>1.741.250</u>
<i>Current tax liability:</i>		
Current tax liability provision	9.598.135	10.108.726
<u>Tax expense in profit or loss statement:</u>		
<u>Income tax expense consists of the following:</u>	1 January- 31 December 2015	1 January- 31 December 2014
Current tax expense	(9.598.135)	(10.108.726)
Deferred tax (expense)/income related with the formation of temporary differences with the dissolution of temporary differences	(2.073.330)	771.668
Total tax expense / income	<u>(11.671.465)</u>	<u>(9.337.058)</u>
<u>Tax recognized directly in equity</u>		
<u>Deffered Tax</u>	1 January- 31 December 2015	1 January- 31 December 2014
Recorded directly to equity		
Actuarial gain or loss	350	91.816
Total deferred tax recognized directly in equity	<u>350</u>	<u>91.816</u>

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

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

	1 January-31 December 2015		
	Amount before tax	Tax expense / income	Amount after tax
Actuarial gains and losses on defined benefit plans	(1.751)	350	(1.401)
	<u>(1.751)</u>	<u>350</u>	<u>(1.401)</u>
	1 January-31 December 2014		
	Amount before tax	Tax expense / income	Amount after tax
Actuarial gains and losses on defined benefit plans	(459.077)	91.816	(367.261)
	<u>(459.077)</u>	<u>91.816</u>	<u>(367.261)</u>

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 2015 is 20% (2014: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2015 is 20%. (2014: 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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

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.

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 temporary differences arising between its financial statements as reported for TFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for TFRS and tax purposes and they are given below.

For calculation of deferred tax asset and liabilities, the rate of 20% (2014: 20%) is used.

Companies in Turkey can not declare a consolidated tax return, therefore subsidiaries that have deferred tax assets position were not netted off against subsidiaries that have deferred tax liabilities position and disclosed seperately.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

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

Deferred tax (cont'd):

<u>Deferred tax assests/ (liabilities):</u>	<u>Temporary differences</u>		<u>Deferred tax assests/ (liabilities)</u>	
	<u>31 December 2015</u>	<u>31 December 2014</u>	<u>31 December 2015</u>	<u>31 December 2014</u>
Property, plant and equipment and intangible assets	155.309.645	146.099.630	31.061.929	29.219.926
Investment incentives	53.557.500	102.033.000	107.115	204.066
Carry forward tax losses	63.880.775	79.182.456	12.776.155	15.836.491
Provision for employment termination benefits	2.710.940	2.054.245	542.188	410.849
Due from service concession arrangements	(116.930.775)	(116.269.135)	(23.386.155)	(23.253.827)
Deferred finance charges	(642.070)	(765.835)	(128.414)	(153.167)
Other	(1.216.240)	2.691.059	(243.248)	538.212
	<u>156.669.775</u>	<u>215.025.420</u>	<u>20.729.570</u>	<u>22.802.550</u>

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, Group recognised deferred tax assets amounting to TL 21.364.843 (31 December 2014: 5.900.899) for the carry forward tax losses of Ayen Ostim amounting to TL 25.958.460 (31 December 2014: TL 17.543.604) that of Ayen Elektrik amounting to TL 16.499.566 (31 December 2014: TL 10.343.452) that of Ayen AS amounting to TL 1.569.857 (31 December 2014: TL 2.156.583), and that of Ayen Enerji amounting to TL 61.571.358 (31 December 2014: None).

As of 31 December 2015 and 31 December 2014, the expiration dates of prior years' losses, which deferred tax asset have not been accounted for, are as follows:

	<u>31 December 2015</u>	<u>31 December 2014</u>
2015	-	559.726
2016	13.259.661	4.335.491
2017	2.598.617	6.259.526
2018	19.525.745	13.713.752
2019	16.470.768	5.175.144
2020	55.901.033	-
Closing balance at 31 December	<u>107.755.824</u>	<u>30.043.639</u>

Group recognized TL 12.776.175 (31 December 2014: TL 15.836.491) of deferred tax asset over Ayen Enerji's and Aksu's carry forward tax losses amounting to TL 59.529.811 (31 December 2014: TL 68.873.245) and TL 4.350.964 (31 December 2014: TL 10.309.211) respectively.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

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

Deferred Tax (cont'd):

As of 31 December 2015 and 31 December 2014, the expiration dates of prior years' losses, which deferred tax asset have been accounted for, are as follows:

	31 December 2015	31 December 2014
2016	2.538.547	9.048.665
2017	4.350.963	10.309.251
2018	24.192.823	30.029.650
2019	20.655.687	29.794.890
2020	12.142.755	-
Closing balance at 31 December	<u>63.880.775</u>	<u>79.182.456</u>

Movements in deferred income taxes can be analysed as follows:

	1 January- 31 December 2015	1 January- 31 December 2014
Opening balance at 1 January	22.802.550	21.939.066
Current year deferred taxation expense	(2.073.330)	771.668
Actuarial gain / (loss) effect directly recorded to equity:	350	91.816
Closing balance at 31 December	<u>20.729.570</u>	<u>22.802.550</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 31 December 2015 and 2014 is stated below:

	1 January - 31 December 2015	1 January - 31 December 2014
Profit / (loss) before tax on profit or loss statement	(17.850.592)	39.290.579
Effective tax rate (20%) (2014: 20%)	3.570.118	(7.858.116)
Effect of tax:		
-revenue that is exempt from taxation	141.994	47.400
-non-deductible expenses	(148.273)	(66.754)
-effect of non-taxable consolidation adjustment	-	3.257
-effect of subsidiaries in loss	(15.235.304)	(1.462.845)
Tax expense on profit or loss statement	<u>(11.671.465)</u>	<u>(9.337.058)</u>

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

24. EARNINGS PER SHARE

	1 January - 31 December 2015	1 January - 31 December 2014
Profit/ (loss) for the year attributable to equity holders of the Parent	(29.159.905)	26.838.259
Average number of outstanding shares	17.104.230.000	17.104.230.000
Earnings/ (loss) per basic, 1.000 shares (TL)	(1,70)	1,57

25. FINANCIAL INSTRUMENTS

Other Financial Liabilities

	31 December 2015	31 December 2014
<u>Other Short-Term Financial Liabilities</u>		
Bonds issued	70.259.766	-
Forestation Fund	-	18.064
	<u>70.259.766</u>	<u>18.064</u>
<u>Other Long-Term Financial Liabilities</u>		
Bonds issued (*)	-	70.175.251
	<u>-</u>	<u>70.175.251</u>

(*) 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 70.000.000 is issued by the Group as of 24 December 2015.

Financial Liabilities

The detail of borrowings of the Group as of 31 December 2015 and 31 December 2014 is as follows:

	31 December 2015	31 December 2014
<u>Borrowings</u>		
Short-term financial borrowings	77.920.101	61.296.610
Short-term portion of long-term borrowings	90.141.518	92.865.188
Long-term financial borrowings	949.510.411	775.021.665
	<u>1.117.572.030</u>	<u>929.183.463</u>

The accrued interest expense on short-term borrowings is TL 11.869.932 (31 December 2014: TL 7.276.678).

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

25. FINANCIAL INSTRUMENTS (cont'd)

The detail of borrowings is as follows:

Original Currency	Weighted average effective interest rate (%)	31 December 2015	
		Short-term	Long-term
TL	14,76 %	31.685.061	-
USD	5,79 %	49.610.713	10.176.394
EURO	4,02 %	86.765.845	939.334.017
		<u>168.061.619</u>	<u>949.510.411</u>

Original Currency	Weighted average effective interest rate (%)	31 December 2014	
		Short-term	Long-term
TL	12,04 %	49.701.816	-
USD	5,88 %	38.091.767	24.348.455
EURO	4,06 %	66.368.215	750.673.210
		<u>154.161.798</u>	<u>775.021.665</u>

The redemption schedule of the borrowings as of 31 December 2015 and 31 December 2014 is as follows:

	31 December 2015	31 December 2014
To be paid within 1 year	168.061.619	154.161.798
To be paid between 1-2 years	67.788.924	64.816.025
To be paid between 2-3 years	93.946.262	57.328.078
To be paid between 3-4 years	92.932.508	72.578.118
To be paid between 4-5 years	92.932.508	72.578.118
5 and more than 5 years	601.910.209	507.721.326
	<u>1.117.572.030</u>	<u>929.183.463</u>

For the long-term borrowings of the Group, there exists TL 14.538.000 (USD 5.000.000) of mortgages over land, TL 4.731.724 (USD 1.627.364) of letters of guarantee, TL 212.899.200 (EURO 67.000.000) of guarantee given and TL 536.776.321 (USD 74.641.464 and EURO 100.500.000) of conveyance on receivables (Note 12). Deferred finance expenses have been recognized in deferred finance expenses which have been paid for the long-term borrowings of the Group. As of 31 December 2015, deferred financing expense is TL 30.452.230 (31 December 2014: 23.278.349 TL) (Not 6). Group has also given commercial enterprise pledge amounting to TL 290.000.000 as guarantee for the investment loans (Note 12). 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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

26. 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 31 December 2015 and 31 December 2014 net debt / total capital ratio is as follows:

	2015	2014
	<u>TL</u>	<u>TL</u>
Total Financial Debt	1.187.831.796	929.183.463
Less: Cash and cash equivalents	<u>(152.593.651)</u>	<u>(188.692.607)</u>
Net Debt	1.035.238.145	740.490.856
Equity Attributable to Owners of the Parent	<u>225.843.845</u>	<u>241.216.449</u>
Net Debt / Capital	<u>4,58</u>	<u>3,07</u>

b) Finansal Risk Faktörleri

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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

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

b.1) Credit risk management

Credit risk of financial instruments

	Receivables				Bank Deposits
	Trade Receivables		Other Receivables		
	Related Party	Third Party	Related Party	Third Party	
31 December 2015					
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	5.133.733	21.211.070	27.324.115	-	152.373.772
	-	3.650.211	-	-	-
	5.133.733	21.211.070	27.324.115	-	152.373.772
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	-	(989.763)	-	-	-
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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

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

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

Credit risk of financial instruments

	Receivables					
	Trade Receivables			Other Receivables		
	Related Party	Third Party	Related Party	Third Party	Due From Service Concession Arrangements	Bank Deposits
31 December 2014						
Maximum net credit risk as of balance sheet date (*)	67.600	31.033.323	19.028.161	-	116.980.582	188.508.235
- The part of maximum risk under guarantee with collateral etc. (**)	-	8.545.287	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	67.600	31.033.323	19.028.161	-	116.980.582	188.508.235
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	-	-	-	-	-	-
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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

26. 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 2.893.366 (2014: TL 1.960.796) and TL 176.912 (2014: TL 6.232.537) of trade receivables are composed of the receivables from TETAŞ and TEİAŞ respectively and amounting to TL 3.147.868 from EPIAŞ. TETAŞ, 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, TETAŞ, EPIAŞ are state-owned entities, TETAŞ 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 31 December 2015 and 2014, 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.

31 December 2015

<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						
Borrowings	1.117.572.030	1.335.794.772	76.466.555	26.052.567	486.961.887	746.313.763
Trade payables	34.464.396	34.531.255	34.531.255	-	-	-
Trade payables to related parties	56.972.184	60.087.459	33.879.246	-	26.208.213	-
Non-trade payables to related parties	137.075.384	137.075.384	136.629.974	-	445.410	-
Other long-term liabilities	70.259.766	80.647.047	3.635.604	77.011.443	-	-
Total liabilities	1.416.343.760	1.648.135.917	285.142.634	103.064.010	513.615.510	746.313.763

(*) 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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

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

b.2) Liquidity risk management (cont'd)

31 December 2014

<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						
Borrowings	929.183.463	1.156.149.427	86.599.865	23.789.083	380.342.828	665.417.651
Trade payables	34.097.143	34.108.787	34.108.787	-	-	-
Trade payables to related parties	45.219.629	47.371.345	47.371.345	-	-	-
Trade payables to third parties	59.018.781	59.018.781	58.573.371	-	445.410	-
Long-term other financial liabilities	70.175.251	88.151.020	2.290.784	6.872.352	78.987.884	-
Total liabilities	1.137.694.267	1.384.799.360	228.944.152	30.661.435	459.776.122	665.417.651

(*) 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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

26. 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

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

As of 31 December 2015 and 2014 the foreign currency denominated assets and liabilities of monetary and non-monetary items are as follows:

	31 December 2015		
	TL Equivalent	USD	EURO
Trade receivables	5.505.201	1.018.293	800.734
Monetary financial assets	33.993.302	17.928	10.681.387
Due from short-term service concession arrangements	8.150.322	2.803.110	-
Other	21.779	-	6.854
CURRENT ASSETS	47.670.604	3.839.331	11.488.975
Due from long-term service concession arrangements	107.115.770	36.839.927	-
Other	1.307.900	-	411.600
NON-CURRENT ASSETS	108.423.670	36.839.927	411.600
TOTAL ASSETS	156.094.274	40.679.258	11.900.575
Trade payables	10.191.713	588.905	2.668.496
Financial borrowings	136.376.558	17.062.427	27.305.464
CURRENT LIABILITIES	146.568.271	17.651.332	29.973.960
Financial borrowings	949.510.411	3.499.929	295.611.158
NON-CURRENT LIABILITIES	949.510.411	3.499.929	295.611.158
TOTAL LIABILITIES	1.096.078.682	21.151.261	325.585.118
Net Foreign Currency Position	(939.984.408)	19.527.997	(313.684.543)

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

26. 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)

	31 December 2014		
	TL Equivalent	USD	EURO
Trade receivables	7.358.155	2.448.381	595.811
Monetary financial assets	73.322.908	17.738	25.979.996
Due from short-term service concession arrangements	26.613.132	11.476.619	-
Other	20.918	-	7.416
CURRENT ASSETS	107.315.113	13.942.738	26.583.223
Due from long-term service concession arrangements	90.367.450	38.969.964	-
Other	2.832.578	-	1.004.211
NON-CURRENT ASSETS	93.200.028	38.969.964	1.004.211
TOTAL ASSETS	200.515.141	52.912.702	27.587.434
Trade payables	43.519.547	430.515	15.074.707
Financial borrowings	104.459.982	16.426.654	23.528.987
CURRENT LIABILITIES	147.979.529	16.857.169	38.603.694
Financial borrowings	775.021.665	10.500.002	266.130.113
NON-CURRENT LIABILITIES	775.021.665	10.500.002	266.130.113
TOTAL LIABILITIES	923.001.194	27.357.171	304.733.807
Net Foreign Currency Position	(722.486.053)	25.555.531	(277.146.373)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Amounts are expressed in Turkish Lira (TL))

26. 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.

	31 December 2015	
	Profit/Loss	
	<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	5.677.961	(5.677.961)
Part of hedged from US Dollar risk (-)		
US Dollar net effect	<u>5.677.961</u>	<u>(5.677.961)</u>
In case 10% appreciation in EURO against TL		
EURO net asset / liability	(99.676.401)	99.676.401
Part of hedged from EURO risk (-)		
EURO net effect	<u>(99.676.401)</u>	<u>99.676.401</u>
TOTAL	(93.998.440)	93.998.440

	31 December 2014	
	Profit/Loss	
	<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	5.926.072	(5.926.072)
Part of hedged from US Dollar risk (-)		
US Dollar net effect	<u>5.926.072</u>	<u>(5.926.072)</u>
In case 10% appreciation in EURO against TL		
EURO net asset / liability	(78.174.677)	78.174.677
Part of hedged from EURO risk (-)		
EURO net effect	<u>(78.174.677)</u>	<u>78.174.677</u>
TOTAL	(72.248.605)	72.248.605

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

26. 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 borrowings, due to variable interest rate used. As of 31 December 2015, for USD denominated borrowings, had the interest rates increased/decreased by 100 base points (1%) with all other variables held constant, net profit of the Group due to loan interest loss/profit loans would have been decreased/increased by TL 10.177 (2014: TL 124.306) mainly as a result of interest expenses on short-term and long-term borrowings. As of 31 December 2015, 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 4.156.959 (2014: TL 3.731.564) mainly as a result of interest expenses on short-term and long-term borrowings. In addition to these, as of 31 December 2015, for TL issued bonds, 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 interest related with the bonds issued loss/profit loans would have been decreased/increased by TL 70.000 (2014: 54.444).

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts are expressed in Turkish Lira (TL))

28. EVENTS AFTER THE REPORTING PERIOD

Akbük II WPP Electricity Energy Production facility is approved by Ministry of Energy and Natural Resources as of 12 February 2016, started to operate and produce energy. Besides, as of January 2016, in order to finance Group operations, the company applied for bond issue, payable to holder, valuing of TL 150.000.000 to Capital Markets Board.

29. DISCLOSURES RELATED TO THE STATEMENT OF CASH FLOWS

	31 December 2015	31 December 2014
Cash	54.440	56.594
Cash in bank	152.373.772	188.508.235
Demand deposits	102.373.772	116.827.762
Time deposits with maturities less than three months	50.000.000	71.680.473
Other liquid assets	165.439	127.778
	<u>152.593.651</u>	<u>188.692.607</u>

Explanations about the nature and level of risks related to cash and cash equivalents are provided in Note 26.

As of 31 December 2015, the time deposits with maturities less than three months of the Group consists of TL denominated time deposits with maturities in January 2016. The weighted average effective interest rates of TL denominated time deposits is 11% (2014: 3,5%). EURO denominated time deposits is 0,34 % as of 2015 (2014: none).