

Ayen Enerji A.Ş. and Its Subsidiaries

Convenience translation into English of consolidated financial statements as of December 31, 2017 together with independent auditor's report

(Originally issued in Turkish)

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ayen Enerji A.Ş.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Ayen Enerji A.Ş. (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and Independent Auditing Standards (InAS) which are part of the Turkish Auditing Standards as issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey (POA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Independent Auditors (Code of Ethics) as issued by the POA, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matter	Audit procedures applied for the key audit matter
<p><i>Recognition of deferred tax assets calculated over carry forward tax losses</i></p> <p>According to Turkish tax legislation, tax losses shown in the tax return can be deducted from the period corporate income for not more than 5 years. As indicated Note 23, the Group has TL 14.937.253 deferred tax asset which is calculated over carry forward tax losses as of December 31, 2017. Accumulated losses is TL 209.570.032 and partially or fully recoverable amount of deferred tax asset which is calculated over TL 73.380.204 and recognized has been estimated by Group management according to assumptions in the current conditions. Business plans for the future, the loss amounts incurred in the last 5 years and the expiration dates of unused losses are taken in the consideration during the assessment. There is an uncertainty about the estimation of taxable profit in the future supporting to which extent the deferred tax will be recognized. For this reason, matter is considered as key audit matter.</p>	<p>During our audit, we have inquired management evaluation about recoverability of tax assets by examining business plans in the future and expire date of carry forward tax losses.</p> <p>During evaluation phase, profit projections, current year profit or losses, expiry date of carry forward losses and other tax assets have been taken into consideration.</p> <p>We have inquired that whether deferred tax calculated over carry forward losses within the scope of prospective budgets could be used before the expiration date. Besides, convenience to TAS of disclosures in financial statements have been evaluated.</p>
<p><i>Goodwill impairment test</i></p> <p>As of December 31, 2017, the Group has recognized goodwill amounting to TL 22.143.133 consisting of previous acquisitions. According to TAS, the Group has made an impairment test for every cash generating unit whether the goodwill amount has been impaired. For the purpose of goodwill impairment test, the last valuation has been made as of December 31, 2017. Within the scope of mentioned valuation, income approach (discounted cash flow analysis) has been used. Since the fair value resulting from the tests performed for various cash generating units of the Group is above goodwill amount and other net assets of the companies are above net book value, there is no evidence regarding goodwill impairment.</p> <p>Assumptions, sensitivities and results for the tests performed are stated in Note 2.6 and 9 of the financial statements. Since these tests depend on management's estimations and market conditions in the future, it is considered as key audit matter.</p>	<p>For the test of impairment of cash generating units and evaluation of model which calculates discounted cash flow in the future we have incorporated valuation experts from another entity that is a part of the same audit network in order to investigate assumptions and methods used for the test by consulting company. In addition to this, we have investigated expected growth rates and expected discounted cash flows in the future.</p> <p>Besides, convenience to TAS of disclosures in financial statements have been evaluated.</p>

Key Audit Matter	Audit procedures applied for the key audit matter
<i>Valuation of lands over fair value</i>	
<p>The Group has decided to measure lands disclosed in financial statements according to TAS 16 revaluation model. The Group has chosen revaluation model as accounting policy and put out of application of cost method stated in TAS 16 to be valid as of December 31, 2017. Aforementioned first implication of accounting policy is significant for our audit and has been determined as key audit matter due to the complexity of valuation model and applied judgements and assumptions.</p>	<p>During our audit, convenience of valuation methods used by valuation experts for mentioned valuation reports of fair value of related property, plant and equipments which are measured according to revaluation model have been evaluated. For the control of convenience of assumptions used by independent valuation experts during valuation phase with market conditions, it has been ensured to incorporate valuation experts from another entity that is a part of the same audit network. Evaluation of whether the fair value which is determined by valuation experts is in acceptable range or not has been performed by us.</p> <p>Besides, within the scope of specific measurement which is stated above, convenience of disclosures in financial statements and explanatory notes with TAS 16 has been inquired by us.</p> <p>Detailed explanations for property, plant and equipments are in Note 7.</p>

Other matters

The consolidated financial statements of the Group for the period January 1 – December 31, 2016 were audited by another audit firm whose report thereon dated March 13, 2017 expressed an unqualified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

- 1) Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on March 12, 2018.
- 2) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January – 31 December 2017 and financial statements are not in compliance with laws and provisions of the Company's articles of association in relation to financial reporting.
- 3) In accordance with paragraph 4 of Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

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

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



Necati Tolga Kirelli, SMMM
Partner

March 12, 2018
Ankara, Turkey

CONSOLIDATED FINANCIAL STATEMENTS	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	10-80
NOTE 1 ORGANIZATION AND OPERATIONS OF THE GROUP	10-13
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	48-49
NOTE 11 BORROWING COSTS	50
NOTE 12 PROVISIONS, CONTINGENT ASSETS AND LIABILITIES	50-51
NOTE 13 COMMITMENTS	52
NOTE 14 EMPLOYEE BENEFITS	53-54
NOTE 15 EXPENSES BY NATURE	55
NOTE 16 OTHER ASSETS AND LIABILITIES	55
NOTE 17 SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS	56
NOTE 18 REVENUE AND COST OF SALES	57
NOTE 19 OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES	57-58
NOTE 20 INCOME AND EXPENSES FROM INVESTING ACTIVITIES	58
NOTE 21 FINANCE EXPENSES	59
NOTE 22 ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS	59-60
NOTE 23 INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)	60-64
NOTE 24 EARNINGS PER SHARE	65
NOTE 25 FINANCIAL INSTRUMENTS	65-67
NOTE 26 DISCONTINUED OPERATIONS	68
NOTE 27 DISPOSAL OF SUBSIDIARY	69
NOTE 28 NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS	70-78
NOTE 29 FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES)	79
NOTE 30 EVENTS AFTER THE REPORTING PERIOD	80
NOTE 31 DISCLOSURES RELATED TO STATEMENT OF CASH FLOWS	80

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31,2017**

(Amounts are expressed in Turkish Lira (TL))

		Current Period December 31, 2017	<i>Restated (Note 2.1)</i> Prior Period December 31, 2016
ASSETS	Notes		
Current Assets			
Cash and Cash Equivalents	31	254.490.339	146.651.810
Trade Receivables	4	50.106.976	27.737.036
<i>Due from Related Parties</i>	3	6.787.821	3.621.481
<i>Other Parties</i>		43.319.155	24.115.555
Other Receivables	5	6.619.287	6.154.915
<i>Due from Related Parties</i>	3	4.220.668	2.207.541
<i>Other Parties</i>		2.398.619	3.947.374
Service Concession Arrangements	10	18.248.512	17.255.681
Prepaid Expenses	6	3.913.977	2.644.290
Current Income Tax Assets	23	-	76.243
Other Current Assets	16	140.383.828	5.952.836
TOTAL CURRENT ASSETS		473.762.919	206.472.811
Non-Current Assets			
Financial Assets		412.408	412.408
Other Receivables	5	41.588.102	51.732.977
<i>Due from Related Parties</i>	3	39.221.416	48.640.325
<i>Other Parties</i>		2.366.686	3.092.652
Service Concession Arrangements	10	119.123.043	121.015.342
Property, Plant and Equipment	7	1.612.393.334	1.400.222.479
Intangible Assets		33.636.086	39.956.859
<i>Goodwill</i>	9	22.143.133	22.143.133
<i>Other Intangible Assets</i>	8	11.492.953	17.813.726
Prepaid Expenses	6	108.342	10.953.814
Deferred Tax Assets	23	32.130.875	28.065.851
Other Non-Current Assets	16	-	112.710.815
TOTAL NON-CURRENT ASSETS		1.839.392.190	1.765.070.545
TOTAL ASSETS		2.313.155.109	1.971.543.356

The accompanying notes presented between pages 10 and 80 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31,2017**

(Amounts are expressed in Turkish Lira (TL))

LIABILITIES	Notes	Restated (Note 2.1)	
		Current Period December 31, 2017	Prior Period December 31, 2016
Current Liabilities			
Short-Term Financial Liabilities	25	207.192.458	150.608.000
Short-Term Portion of Financial Liabilities	25	111.946.072	124.422.007
Other Financial Liabilities	25	797.938	667.376
Trade Payables	4	73.542.825	39.576.865
<i>Due to Related Parties</i>	3	33.324.274	6.777.258
<i>Other Parties</i>		40.218.551	32.799.607
Employee Benefit Obligations	14	315.651	929.451
Other Payables	5	251.165.411	245.930.078
<i>Due to Related Parties</i>	3	248.064.677	240.943.484
<i>Other Parties</i>		3.100.734	4.986.594
Deferred Income	6	7.543.815	40.484
Current Income Tax Liabilities	23	255.143	4.955.751
Short-Term Provisions	14	881.810	926.961
<i>Short-Term Provisions for Employee Benefits</i>	14	881.810	926.961
Other Current Liabilities		162.336	802.072
TOTAL CURRENT LIABILITIES		653.803.459	568.859.045
Non-Current Liabilities			
Long-Term Financial Liabilities	25	1.140.495.605	1.029.336.383
Other Financial Liabilities	25	50.000.000	50.000.000
Trade Payables		-	28.646.021
<i>Due to Related Parties</i>	3	-	28.646.021
Long-Term Provisions	14	2.672.254	3.624.071
<i>Long-Term Provisions for Employee Benefits</i>	14	2.672.254	3.624.071
Deferred Income	6	29.376.348	-
Other Payables		445.410	445.410
<i>Due to Related Parties</i>	3	445.410	445.410
Deferred Tax Liabilities		9.822.249	6.790.848
TOTAL NON-CURRENT LIABILITIES		1.232.811.866	1.118.842.733
TOTAL LIABILITIES		1.886.615.325	1.687.701.778

The accompanying notes presented between pages 10 and 80 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31,2017**

(Amounts are expressed in Turkish Lira (TL))

			<i>Restated (Note 2.1)</i>
		Current Period December 31, 2017	Prior Period December 31, 2016
	Notes		
SHAREHOLDERS' EQUITY			
Parent's Equity		368.719.959	223.983.462
Paid-in Share Capital	17	171.042.300	171.042.300
Other Accumulated Comprehensive			
Income / Expenses that not to be Reclassified to Profit or Loss	22	39.573.294	(664.496)
<i>Accumulated Losses on Remeasurement of Defined Benefit Plans</i>	22	(858.333)	(664.496)
<i>Property, Plant and Equipment Revaluation Fund</i>	22	40.431.627	-
Other Accumulated Comprehensive			
Income to be Reclassified to Profit or Loss		113.243.708	43.830.884
<i>Currency Translation Differences</i>		113.243.708	43.830.884
Restricted Profit Reserves	17	71.893.619	67.942.354
<i>Legal Reserves</i>	17	71.893.619	67.942.354
Retained Earnings/ Accumulated Loss		(62.118.845)	(29.882.861)
Net Profit or Loss for the Year		35.085.883	(28.284.719)
Non-Controlling Interests		57.819.825	59.858.116
TOTAL EQUITY		426.539.784	283.841.578
TOTAL LIABILITIES AND EQUITY		2.313.155.109	1.971.543.356

The accompanying notes presented between pages 10 and 80 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE PERIOD BETWEEN JANUARY 1 - DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

	Notes	Current Period January 1- December 31, 2017	Prior Period January 1- December 31, 2016
PROFIT OR LOSS			
Revenue	18	476.400.786	352.638.597
Cost of Sales (-)	18,15	(386.305.219)	(251.913.321)
GROSS PROFIT		90.095.567	100.725.276
General Administrative Expenses (-)	15	(11.548.010)	(14.035.351)
Other Income from Operating Activities	19	25.300.933	11.991.432
Other Expenses from Operating Activities (-)	19	(25.049.825)	(11.621.398)
OPERATING PROFIT / LOSS		78.798.665	87.059.959
Income from Investment Activities	20	90.943.922	47.171.920
OPERATING INCOME BEFORE FINANCIAL EXPENSE		169.742.587	134.231.879
Financial Income/ Expenses (-), Net	21	(138.789.532)	(156.327.049)
PROFIT/LOSS BEFORE TAXATION ON INCOME		30.953.055	(22.095.170)
Tax Expense / Income from Continued Operations	23	5.464.511	(5.723.817)
Current Tax Expense	23	(255.143)	(6.217.618)
Deferred Tax Income	23	5.719.654	493.801
PROFIT / LOSS FOR THE PERIOD FROM CONTINUED OPERATIONS		36.417.566	(27.818.987)
DICONTINUED OPERATIONS		(682.165)	-
Discontinued Operations Profit / Loss After Tax		(682.165)	-
PROFIT / LOSS FOR THE PERIOD		35.735.401	(27.818.987)
Attribution of Profit/(Loss) For The Period:		35.735.401	(27.818.987)
Non-Controlling Interests		649.518	465.732
Equity Holders of the Parent		35.085.883	(28.284.719)
		35.735.401	(27.818.987)
Earnings / losses per 1.000 shares	24	2,05	(1,65)

The accompanying notes presented between pages 10 and 80 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE PERIOD BETWEEN JANUARY 1 – DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

Notes	Current Period January 1- December 31, 2017	Prior Period January 1- December 31, 2016
PROFIT/LOSS FOR THE YEAR	35.735.401	(27.818.987)
Other Accumulated Comprehensive Income or Expenses to be Reclassified to Profit/Loss	78.459.306	30.287.614
<i>Currency Translation Differences</i>	22 78.459.306	30.287.614
Other Accumulated Comprehensive Income or Expenses not to be Reclassified to Profit or Loss	22 40.201.262	(206.527)
Accumulated Gain / Loss on Remeasurement of Defined Benefit Plans	14, 22 (165.881)	(258.159)
<i>Deferred Tax (Expense)/ Income</i>	22, 23 (64.484)	51.632
Property, Plant and Equipment Revaluation Fund	22 43.633.216	-
<i>Deferred Tax Expense</i>	22, 23 (3.201.589)	-
OTHER COMPREHENSIVE INCOME	118.660.568	30.081.087
TOTAL COMPREHENSIVE INCOME	154.395.969	2.262.100
Total Comprehensive Income for the Year Attributable to		
Non- Controlling Interests	9.696.000	4.122.483
Equity Holders of Parent	144.699.969	(1.860.383)
	154.395.969	2.262.100

The accompanying notes presented between pages 10 and 80 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

	Paid-in share capital	Actuarial gain/(loss) arising from employee benefits	Other Accumulated Comprehensive Income or Expense not to be Reclassified to Profit or Loss	Property, Plant and Equipment Revaluation Fund	Accumulated Other Comprehensive Income or Expense to be Reclassified to Profit or Loss	Currency Translation Differences	Restricted Profit Reserves	Retained Earnings or Accumulated Losses	Net Profit/Loss For The Year	Parent's Equity	Non-Controlling Interest	Total Equity
Balance as of January 1, 2017	171.042.300	(664.496)	43.830.884	67.942.354	(29.882.861)	(28.284.719)	223.983.462	59.858.116	283.841.578			
Transfers	-	-	-	3.951.265	(32.235.984)	28.284.719	-	538.293	538.293			
Total Comprehensive Income / (Expense)	-	(230.365)	69.412.824	-	-	35.085.883	144.699.969	9.696.000	154.395.969			
Dividends	-	-	-	-	-	-	-	(1.739.391)	(1.739.391)			
Capital increase of non-controlling shares	-	-	-	-	-	-	-	861.999	861.999			
Subsidiary establishment effect	-	-	-	-	-	-	-	9.434	9.434			
Subsidiary disposal effect	-	36.528	-	-	-	-	36.528	(11.404.626)	(11.368.098)			
Balance as of December 31, 2017	171.042.300	(858.333)	113.243.708	71.893.619	(62.118.845)	35.085.883	368.719.959	57.819.825	426.539.784			

The accompanying notes presented between pages 10 and 80 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

	Paid-in share capital	Other Accumulated Comprehensive Income or Expense not to be Reclassified to Profit or Loss	Actuarial gain/(loss) arising from employee benefits	Other Accumulated Comprehensive Income or Expense to be Reclassified to Profit or Loss	Currency Translation Reserves	Restricted Profit Reserves	Retained Earnings or Accumulated Losses	Net Profit/Loss For The Year	Parent's Equity	Non-Controlling Interest	Total Equity
Balance as of January 1, 2016	171.042.300	(457.969)	(457.969)	17.200.021	62.162.876	5.056.522	(29.159.905)	225.843.845	38.663.711	264.507.556	
Transfers	-	-	-	-	-	-	-	-	-	-	-
Total Comprehensive Income / (Expense)	-	(206.527)	(206.527)	26.630.863	5.779.478	(34.939.383)	29.159.905	(1.860.383)	4.122.483	2.262.100	
Profit (Loss) for The Period	-	-	-	-	-	-	(28.284.719)	(28.284.719)	4.122.483	(24.162.236)	
Other Comprehensive Income	-	(206.527)	(206.527)	26.630.863	-	-	-	26.424.336	-	26.424.336	
Dividends	-	-	-	-	-	-	-	-	(1.268.500)	(1.268.500)	
Capital increase of non-controlling shares	-	-	-	-	-	-	-	-	18.340.422	18.340.422	
Balances as of December 31, 2016	171.042.300	(664.496)	(664.496)	43.830.884	67.942.354	(29.882.861)	(28.284.719)	223.983.462	59.858.116	283.841.578	

The accompanying notes presented between pages 10 and 80 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

	Notes	Current Period January 1- December 31, 2017	Previous Period January 1- December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		139.684.382	153.849.136
Profit/ loss for the year		35.735.401	(27.818.987)
- Period income from continuing operations		36.417.566	(27.818.987)
- Discontinued operations period loss		(682.165)	-
Adjustments to reconcile profit/loss for the period		103.788.841	153.554.969
- Adjustments related to depreciation and amortization expenses	7,8	30.739.912	36.961.175
- Gain on sales of fixed asset		(49.427)	-
- Adjustments related to provisions		722.409	1.294.623
<i>Provisions and adjustments related to employee benefits</i>		722.409	1.294.623
- Adjustments for impairment loss/(reversal of impairment loss)		813.707	-
Adjustments for impairment of receivables		813.707	-
- Adjustments to interest (income)/ expenses		53.494.085	43.288.576
<i>Adjustments to interest income</i>	19, 21	(6.471.316)	(5.198.429)
<i>Adjustments to interest expenses</i>	21	59.965.401	48.487.005
- Unrealised foreign exchange gain/ (loss)		96.619.496	52.834.167
- Adjustments to tax income/ (expense)	23	(5.464.511)	5.723.817
- Gain on disposal of subsidiary	27	(81.897.622)	-
- Other adjustments to non-cash transactions		8.810.792	13.452.611
Changes in working capital		6.628.515	39.339.591
- Adjustments related to increase/decrease in trade receivables		(19.313.773)	(2.124.328)
<i>Increase/decrease in trade receivables from related parties</i>		(1.806.764)	1.983.516
<i>Increase/decrease in trade receivables from third parties</i>		(17.507.009)	(4.107.844)
- Adjustments related to increase/decrease in other receivables from operating activities		(2.552.705)	(37.237.998)
<i>Increase/decrease in other receivables from related parties</i>		7.405.782	(23.523.750)
<i>Increase/decrease in other receivables from third parties</i>		(9.958.487)	(13.714.248)
- Adjustment related to increase/decrease in service concession arrangements		9.896.341	(238.292)
- Deferred income		309.121	-
- Decrease/ (increase) in prepaid expenses		7.860.741	4.143.579
- Adjustment related to (decrease) in trade payables		7.494.746	(25.413.249)
<i>(Decrease) in trade payables to related parties</i>		(1.111.674)	(21.548.905)
<i>(Decrease) in trade payables to third parties</i>		8.606.420	(3.864.344)
- Increase in payables of employee benefits		(613.800)	556.473
- Adjustments related to increase/decrease in other payables		3.547.844	99.653.406
<i>Increase in other payables to related parties</i>		5.600.360	97.882.652
<i>Increase (decrease) in other payables to third parties</i>		(2.052.516)	1.770.754
Cash Flow from Operations		146.152.757	165.075.573
Payments for employee benefits	14	(1.512.624)	(366.435)
Income taxes paid		(4.955.751)	(10.860.002)

The accompanying notes presented between pages 10 and 73 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

	Notes	Current Period January 1- December 31, 2017	Previous Period January 1- December 31, 2016
CASH FLOWS FROM INVESTING ACTIVITIES		183.182	(124.009.145)
Cash outflow from sale of property, plant and equipment and intangible assets		(71.823.518)	(92.036.934)
<i>Cash outflow from purchases of property, plant and equipment</i>		(72.119.161)	(91.895.395)
<i>Cash outflow from purchases of intangible assets</i>		(41.219)	(141.539)
<i>Proceeds from sale of property, plant and equipment and intangible assets</i>		336.862	
Cash inflow from disposal of subsidiary	27	72.425.703	
Advances given for acquisition of property, plant and equipment		(5.872.281)	(21.220.714)
<i>Other advances given for acquisition of property, plant and equipment</i>		(5.872.281)	(21.220.714)
Tax payments		-	(15.949.926)
Interest received	21	5.453.278	5.198.429
CASH FLOWS FROM FINANCING ACTIVITIES		(31.078.143)	(29.520.519)
Cash inflows due to borrowings		331.382.244	335.519.280
<i>Cash inflows from bank loans</i>		331.382.244	335.519.280
Cash outflows due to borrowings		(271.543.687)	(310.918.795)
<i>Cash outflows from repayments of bank loans</i>		(271.543.687)	(310.918.795)
Dividends paid		(1.739.391)	(1.268.500)
Interest paid		(88.497.775)	(71.192.926)
Other cash inflows/(outflows)		(679.534)	18.340.422
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS BEFORE FOREIGN CURRENCY TRANSLATIONS		108.789.421	319.472
Foreign currency translation effects on cash and cash equivalents		(950.892)	(6.261.313)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		107.838.529	(5.941.841)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		146.651.810	152.593.651
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		254.490.339	146.651.810

The accompanying notes presented between pages 10 and 73 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(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 Aydın Group. Main shareholder of the Company is Aydın İnşaat A.Ş. (“Aydın İnşaat”).

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

Hülya Sok. No: 37, Gaziosmanpaşa/Ankara

The Company is registered to Capital Markets Board (“CMB”) and its shares are publicly traded in Borsa Istanbul. 15,01% of the shares of the Company is publicly held as of December 31, 2017 (December 31, 2016: 15,01%) (Note 17).

As of December 31, 2017, the number of personnel of the Group is 255 (December 31, 2016: 328).

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

<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 Ostim Enerji Üretim A.Ş. (“Ayen Ostim”)	Electricity production and trading	76%	76%	Hülya Sokak No: 37 Gaziosmanpaşa Ankara
Kayseri Elektrik Üretim Sanayi ve Ticaret A.Ş. (“Kayseri Elektrik”)	Electricity production, distribution and trading	96%	96%	Yemliha Kasabası Kayseri
Ayen Elektrik Ticaret A.Ş. (“Ayen Elektrik”)	Electricity trading	100%	100%	Hülya Sokak No: 37 Gaziosmanpaşa Ankara
Ayen-AS 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%	Papa Gijon Pali i II-te, ABA Business Center, Tirane/Albania (Albania)
Ayen Energy Trading D.O.O. Beograd-Stari Grad (“Ayen Serbia”)	Electricity trading	0%	100%	Kosañicev Venac Sokak No: 20, 11000 Belgrad, Serbia
Ayen Energija Trgovanje z Električno Energijo D.O.O. (“Ayen Slovenia”)	Electricity trading	0%	100%	Ayen Energija d.o.o. Zemljemerska ulica 12 1000 Ljubljana Slovenia

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

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

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 Ostim has been adversely affected by developments in the Energy Market where the Company operates in and this situation has prevented the Company's continuous production. Although precautions have been taken, the adverse situation that has been continuing for many years has created cost and imposed a burden for the Company. Since the energy production cost is higher than the energy sales price, continuity of operations has not been enabled and the Group has decided to discontinue the production of Ayen Ostim as of November 1, 2017.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(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.

The Company's subsidiary Aksu Temiz Enerji Elektrik Üretim Sanayi ve Ticaret A.Ş. with share of 69,87% has been sold to Samsun Makina Sanayi A.Ş., which is related party of the Company, for a consideration of TL 111.679.920 according to protocol in compliance with the sales agreement signed on December 29, 2017. Through the closing protocol signed between parties, transfer of all of the mentioned shares to Samsun Makine Sanayi A.Ş. has been completed on December 29, 2017.

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

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

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

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

Ayen Elektrik Ticaret A.Ş participated in 100% share of Ayen Energji Trading D.O.O. (Serbia) with EURO 110.000 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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

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

Approval of consolidated financial statements:

Board of Directors has approved the consolidated financial statements for the period between January 1 – December 31, 2017 and delegated publishing it on 12 March 2018. No authority other than Board of Directors and General Assembly has the right to revise the consolidated financial statements.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation

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

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

The accompanying consolidated financial statements are prepared in accordance with the requirements of Capital Markets Board ("CMB") Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets", which were published in the Official Gazette No:28676 on 13 June 2013. The accompanying consolidated financial statements are prepared based on the Turkish 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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

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, Ayen Serbia is measured using RSD. 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 0,03396). Additionally, Ayen Slovenia 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 4,5155, 1 RSD = 0,03823). 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.

Preparation of Consolidated Financial Statements in Hyperinflationary Periods

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

Comparative information, restatement and reclassification of prior period financial statements

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

In the consolidated financial statements for the year ended December 31, 2016, the following classifications have been made in order to comply with the presentation of the current period.

- Deferred tax liability amounting to TL 6.790.848 shown in deferred tax asset as net was classified as a separate account in the statement of financial position.
- Deferred finance expenses amounting to TL 2.250.368 have been reclassified from short term prepaid expenses to short term portion of long term borrowings, deferred finance expenses amounting to TL 25.643.177 have been reclassified from long term prepaid expenses to long term borrowings.
- Provisions for doubtful receivables amounting to TL 1.089.115 have been reclassified from general administrative expenses to other expenses from operating activities.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

Basis of Consolidation

As of December 31, 2017 and 2016, details of the Company's subsidiaries are as follows:

<u>Subsidiaries</u>	<u>Group's proportion of ownership and voting power held (%)</u>		<u>Place of incorporation and operation</u>	<u>Principle activity</u>
	<u>2017</u>	<u>2016</u>		
Ayen Ostim	76	76	Ankara- Ankara	Electricity production and trade
Kayseri Elektrik	96	96	Kayseri- Kayseri	Electricity production, distribution and trade
Ayen Elektrik	100	100	Ankara- Ankara	Electricity trade
Aksu (*)	-	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 Trading	100	100	Tirane-Albania	Electricity trade
Ayen Serbia	100	100	Belgrad-Serbia	Electricity trade
Ayen Slovenia	100	100	Ljubljana, Slovenia	Electricity trade
Ayen ALB	92	-	Tirane-Albania	Electricity production and trade

(*) The Company's subsidiary Aksu Temiz Enerji Elektrik Üretim Sanayi ve Ticaret A.Ş. with share of 69,87% has been sold to Samsun Makina Sanayi A.Ş., which is related party of the Company, for a consideration of TL 111.679.920 according to protocol in compliance with the sales agreement signed on December 29, 2017. Through the closing protocol signed between parties, transfer of all of the mentioned shares to Samsun Makine Sanayi A.Ş. has been completed on December 29, 2017.

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

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

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

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

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

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.

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 2.7.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(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

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

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

TAS 7 Statement of Cash Flows (Amendments)

In December 2017, POA issued amendments to TAS 7 'Statement of Cash Flows'. The amendments are intended to clarify TAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. When Group first applies those amendments, it is not required to provide comparative information for preceding periods.

TAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

In December 2017, POA issued amendments to TAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are retrospectively applied for annual periods beginning on or after January 1, 2017. If the group applies this relief, it shall disclose that fact.

Annual Improvements to TFRSs - 2014-2016 Cycle

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

- **TFRS 12 Disclosure of Interests in Other Entities:** This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with TFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The amendments did not have an impact on the financial position or performance of the Group.

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

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

TFRS 15 Revenue from Contracts with Customers

In September 2016, POA issued TFRS 15 Revenue from Contracts with Customers. The new standard issued includes the clarifying amendments to IFRS 15 made by IASB in April 2016. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles).

TFRS 15 effective date is January 1, 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. It is not expected that the amendment will have a significant impact on the financial position or performance of the Group.

TFRS 9 Financial Instruments

In January 2017, POA issued the final version of TFRS 9 Financial Instruments. The final version of TFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. TFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, TFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. TFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard.

The Group has performed an impact assessment of TFRS 9. This assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional supportable information being made available to the Group in the future. The Group does not expect any significant impact on the balance sheet and equity, except on the application of impairment requirements in TFRS 9.

TFRS 4 Insurance Contracts (Amendments)

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

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

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

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

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures (Amendments)

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

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

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

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

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

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

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

In December 2017, POA postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted.

Annual Improvements to TFRSs - 2014-2016 Cycle

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

- **TFRS 1 First-time Adoption of International Financial Reporting Standards:** This amendment deletes the short-term exemptions about some TFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.

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

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

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

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

Annual Improvements – 2010–2012 Cycle

IFRS 13 Fair Value Measurement

As clarified in the Basis for Conclusions short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately.

IFRS 16 Leases

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

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

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

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

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

In October 2017, the IASB issued minor amendments to IFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortised cost.

Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortised cost some prepayable financial assets with so-called negative compensation.

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

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

Annual Improvements – 2015–2017 Cycle

In December 2017, the IASB announced Annual Improvements to IFRS Standards 2015–2017 Cycle, containing the following amendments to IFRSs:

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

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

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

On 7 February 2018, the IASB published Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” to harmonise accounting practices and to provide more relevant information for decision-making. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

- (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 TFRIC 12.

Application of TFRIC 12 - Service Concession Arrangements

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

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

The Group recognises a financial asset to the extent that it has an unconditional contractual right to receive cash from or at the direction of the grantor for the construction services related to hydroelectric power plants in the context of BOT model. The amount due from or at the direction of the grantor is accounted for as a receivable 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 equipments except lands are carried at cost less accumulated depreciation and accumulated impairment losses. Lands are recognized in accordance with revaluation model. The change of accounting policy has been applied with the financial statements as of December 31, 2017.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

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

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

	Years
Buildings	10-45
Land improvements	10
Plant, machinery and equipment	5-40
Motor vehicles	5
Furniture and fixtures	1-25

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

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

Repair and maintenance expenses are charged to the consolidated statement of profit or loss during the financial period in which they are incurred. The cost of major subsequent expenditures is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group.

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

The gain on revaluation on tangible assets presented in the equity is transferred directly to the retained earnings when the asset is retired from use or disposed of or fully depreciated.

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).

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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

Leasings

a) The Group - as the lessee

Finance leases

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

Operating leases

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

b) The Group - as the lessor

Operating leases

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

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 2017, TL 34.783.790 of borrowing costs regarding the investment loans (December 31, 2016: 28.329.398) 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 DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (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.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another TAS.

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 DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (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.

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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

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.

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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

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.

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 DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (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 DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (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 it items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

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

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

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

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (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 DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (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 Going Concern

The Group has prepared its consolidated financial statements under the assumption that it will continue its operations in the foreseeable future. The Group has made investments by using financial liabilities and equity. As of December 31, 2017, the Group's gross profit is TL 90.095.567 and net profitability has increased by 224% when compared to prior year. As of December 31, 2017, accumulated losses of the Group is TL 62.118.845 and net profit attributable to owners is TL 35.085.883.

The Company's subsidiary Aksu Temiz Enerji Elektrik Üretim Sanayi ve Ticaret A.Ş. with share of 69,87% has been sold to Samsun Makina Sanayi A.Ş., which is related party of the Company, for a consideration of TL 111.679.920 according to protocol in compliance with the sales agreement signed on December 29, 2017. Through the closing protocol signed between parties, transfer of all of the mentioned shares to Samsun Makine Sanayi A.Ş. has been completed on December 29, 2017.

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

2.7 Critical accounting judgments and key sources of estimation uncertainty

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

Deferred Taxes

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

As of December 31, 2017, 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 generated starting from the following year the Group did not recognise deferred tax assets amounting to TL 165.451.022 (December 31, 2016: TL 96.030.471) for the carry forward tax losses of Ayen Ostim amounting to TL 26.703.852 (December 31, 2016: TL 23.981.351), the carry forward tax losses of Ayen Elektrik amounting to TL 11.767.201 (December 31, 2016: TL 15.914.273) and the carry forward tax losses of Ayen AS amounting to TL 5.647.957 (December 31, 2016: 388.860 TL), total carry forward tax losses of TL 44.191.652 (December 31, 2016: TL 27.243.548) (Note 23).

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

In accordance with estimated amount in future taxable profit projections of Ayen Enerji, the Group has recognized TL 73.380.204 (December 31, 2016: TL 59.529.811) of deferred tax asset over Ayen Enerji's carry forward tax losses amounting to TL 14.937.253 (December 31, 2016: TL 11.905.962) (Note 23).

Provisions

As described in the accounting policy in Note 2.5 provisions are accounted when, the Group has a present legal or constructive obligation as a result of past events, it is more likely than net that outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

As of December 31, 2017, the Group is subject to various legal proceedings. The Group evaluates the possible outcomes of the lawsuits based on the Group's legal advisors view and accounts the required provisions against the possible gains and losses (Note 12).

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% (2016: 13,44%).

The discount rate used reflects specific risks relating to Kayseri Elektrik. As of December 31, 2017, 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 137.371.555 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	159.407.416
Base discount rate 0	165.335.292
Base discount rate by -1	171.561.590

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 8,00% (December 31, 2016: 8,06%).

The discount rate used reflects specific risks relating to Company and Albania. As of December 31, 2017, 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 87.793.178 and TL 4.681.198 respectively and no impairment was identified.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

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	100.676.996
Base discount rate 0	122.693.365
Base discount rate by -1	156.199.219

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 December 31, 2017, 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. The Group has recognized lands over fair value on financial statements according to TAS 16 revaluation model.

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 31.313.799 and no impairment was identified.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

3. RELATED PARTY TRANSACTIONS

Related party transactions	December 31, 2017							
	Receivables				Payables			
	Short-term		Long-term		Short-term		Long-term	
	Trade	Non-trade	Trade	Non-trade	Trade	Non-trade	Trade	Non-trade
Aydiner İnşaat A.Ş. (*)	27.132	-	-	-	29.209.049	248.049.929	-	-
Aksu Temiz Enerji A.Ş.	235.976	1.451.463	-	-	3.486.104	-	-	-
Layne Bowler Pompa Sanayi A.Ş.	27.581	-	-	-	-	-	-	-
Samsun Makine Sanayi A.Ş.	3.096	-	-	-	-	-	-	-
Metay İnşaat Sanayi ve Ticaret A.Ş.	-	-	-	-	629.121	-	-	-
Agron Turizm ve Tic. A.Ş.	378.760	-	-	-	-	-	-	-
AS Enerji ShPk (**)	-	-	-	39.221.416	-	-	-	-
Kayseri Elektrik Other Shareholders	-	-	-	-	-	14.748	-	-
Ayen Elektrik Other Shareholders	5.046	-	-	-	-	-	-	-
Ayen Enerji Other Shareholders	-	2.742.572	-	-	-	-	-	445.410
Araklı Other Shareholders	-	-	-	-	-	-	-	-
Enerji Piyasaları İşletme A.Ş.	6.105.603	-	-	-	-	-	-	-
Other	4.627	26.633	-	-	-	-	-	-
	6.787.821	4.220.668	-	39.221.416	33.324.274	248.064.677	-	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 December 31, 2017, interest rate applied for aforementioned loan is 15,49% for TL, denominated borrowings; 4,49% for EURO denominated borrowings; 5,51% for USD denominated borrowings.

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

3. RELATED PARTY TRANSACTIONS (cont'd)

Related party transactions	December 31, 2016					
	Receivables			Payables		
	Short-term Trade	Non-trade	Long-term Trade	Short-term Trade	Non-trade	Long-term Trade
Aydiner İnşaat A.Ş. (*)	37.067	-	-	5.113.399	240.928.936	28.646.021
Kayseri ve Civarı Elektrik A.Ş.	-	-	-	21.019	-	-
Layne Bowler Pompa Sanayi A.Ş.	26.198	-	-	-	-	-
Samsun Makine Sanayi	1.428.396	-	-	-	-	-
Metay İnşaat Sanayi ve Ticaret A.Ş.	-	-	-	1.642.840	-	-
Aksu Other Shareholders (**)	-	-	18.386.039	-	14.548	-
Agrom Turizm ve Tic. A.Ş.	103.575	-	-	-	-	-
AS Enerji SHPk (***)	-	-	30.254.286	-	-	-
Ayen Enerji Other Shareholders	-	2.207.541	-	-	-	-
Araklı Other Shareholders	-	-	-	-	-	445.410
Enerji Piyasaları İşletme A.Ş.	1.944.327	-	-	-	-	-
Other	81.918	-	-	-	-	-
	<u>3.621.481</u>	<u>2.207.541</u>	<u>48.640.325</u>	<u>6.777.258</u>	<u>240.943.484</u>	<u>28.646.021</u>
						<u>445.410</u>

(*) Short-term trade payables consist of the progress bills issued by Aydiner İnşaat for constructions in progress of the Group. The short-term non-trade payables consist of loan given to Group by Aydiner İnşaat A.Ş.. As of December 31, 2016, interest rate applied for aforementioned loan is 15,19% for TL denominated borrowings; 4,78% for EURO denominated borrowings; 5,59% for USD denominated borrowings.

(**) 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. As of December 31, 2016, interest rate applied for aforementioned loan is 5,35% for Euro denominated borrowings.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

3. RELATED PARTY TRANSACTIONS (cont'd)

Related party transactions	January 1 – December 31, 2017									
	Foreign Currency Incomes	Foreign Currency Expenses	Energy Sales	Interest Income	Purchases of Fixed Assets	Purchases of services	Purchases of Energy	Interest Expenses		
Aydıncı İnşaat A.Ş. (*)	-	6.964.988	1.378.477	1.677	39.782.942	68.511	-	13.186.487		
Kayseri Elektrik Perakende Satış A.Ş.	-	-	-	-	-	22.533	-	-		
Kayseri ve Civarı Elektrik A.Ş.	-	-	-	-	-	89.700	-	6.477.576		
Aksu Temiz Enerji A.Ş.	-	-	26.400	-	-	-	30.121.426	-		
Samsun Makine Sanayi A.Ş.	-	-	5.571.278	-	-	-	-	-		
Aybet Beton A.Ş.	-	-	742.680	-	-	-	-	-		
Metay İnşaat Sanayii ve Ticaret A.Ş.	-	-	-	-	1.942.277	6.560	-	-		
Aksu Other Shareholders	-	-	-	2.992.819	-	-	-	-		
Agron Turizm ve Ticaret A.Ş.	-	-	-	-	-	-	-	-		
Layne Bowler Pompa Sanayi A.Ş.	-	-	215.383	174	-	-	-	-		
Enerji Piyasaları İşletme A.Ş.	-	-	16.135.620	-	-	-	-	-		
AS Enerji ShPk	6.622.947	-	-	-	-	-	-	-		
Other	-	-	250.418	-	-	-	-	-		
	<u>6.622.947</u>	<u>6.964.988</u>	<u>24.320.256</u>	<u>2.994.670</u>	<u>41.725.219</u>	<u>187.304</u>	<u>30.121.426</u>	<u>19.664.063</u>		

(*) Purchases of fixed assets consists of progress payment invoices issued by Aydıncı 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 DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

3. RELATED PARTY TRANSACTIONS (cont'd)

Related party transactions	January 1 – December 31, 2016						
	Foreign Currency Incomes	Foreign Currency Expenses	Energy Sales	Interest Income	Purchases of Fixed Assets	Purchases of Services	Interest Expenses
Aydıner İnşaat A.Ş. (*)	-	2.457.181	1.200.780	44.529	59.175.402	184.308	4.536.688
Kayseri ve Civarı Elektrik A.Ş.	-	-	-	-	-	197.421	-
Samsun Makine Sanayi A.Ş.	-	-	13.284.713	-	-	-	-
Aybet Beton A.Ş.	-	-	603.566	-	-	-	-
Metay İnşaat Sanayii ve Ticaret A.Ş.	-	-	-	-	7.963.116	-	-
Aksu Other Shareholders	-	-	-	2.642.742	-	-	-
Agron Turizm ve Ticaret A.Ş.	-	-	258.232	-	-	-	-
Layne Bowler Pompa Sanayi A.Ş.	-	-	239.058	-	-	-	-
Enerji Piyasaları İşletme A.Ş.	-	-	59.368.035	-	-	-	-
AS Enerji ShPK	12.327.609	-	-	1.989.926	-	-	-
Other	-	-	-	-	-	40.926	-
	<u>12.327.609</u>	<u>2.457.181</u>	<u>74.954.384</u>	<u>4.677.197</u>	<u>67.138.518</u>	<u>422.655</u>	<u>4.536.688</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 DECEMBER 31, 2017

(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:

	January 1 - December 31, 2017	January 1 - December 31, 2016
Salary and other short-term benefits	2.992.487	3.245.136
Other long-term benefits	235.513	253.638
	<u>3.228.000</u>	<u>3.498.774</u>

There is no payment for executive members who leave the job by the reason of retirement within the Group (December 31, 2016: None).

4. TRADE RECEIVABLES AND PAYABLES

a) Trade Receivables:

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

	December 31, 2017	December 31, 2016
Short-term trade receivables		
Trade receivables (*)	40.494.263	21.169.271
Income accruals	4.146.772	3.820.300
Trade receivables from related parties (Note 3)	6.787.821	3.621.481
Notes receivable	580.942	215.100
Provisions for doubtful receivables (-)	(1.902.822)	(1.089.116)
	<u>50.106.976</u>	<u>27.737.036</u>

(*) As of December 31, 2017 trade receivables consist of receivables from Türkiye Elektrik Ticaret ve Taahhüt A.Ş. ("TETAŞ") amounting to TL 12.174.991 (2016: TL 7.254.734) and Türkiye Elektrik İletim A.Ş. ("TEİAŞ") amounting to TL 462.482 (2016: TL 492.333). Remaining amount consists of trade receivables of Ayen Elektrik from its customers.

The maturities of trade receivables are less than one month as of December 31, 2017 and 2016.

Explanations on nature and level of risks of trade receivables are disclosed in Note 28.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(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:

	December 31, 2017	December 31, 2016
<u>Short-term trade payables</u>		
Trade payables (*)	38.814.669	31.103.378
Trade payables to related parties (Note 3)	33.324.274	6.777.258
Expense accruals	1.403.882	1.696.229
	<u>73.542.825</u>	<u>39.576.865</u>

(*) As of December 31, 2017, TL 6.556.194 (December 31, 2016: TL 9.134.939) of trade payables are related to the investments made for Ayen AS.

The maturities of trade payables are less than one month as of December 31, 2017 and 2016.

5. OTHER RECEIVABLES AND PAYABLES

	December 31, 2017	December 31, 2016
<u>Other Short-Term Receivables</u>		
Receivables from related parties (Note 3)	4.220.668	2.207.541
Deposits and guarantees given	1.378.777	1.622.514
Receivables from transmission lines (*)	672.397	1.748.399
Other receivables	347.445	576.461
	<u>6.619.287</u>	<u>6.154.915</u>
	December 31, 2017	December 31, 2016
<u>Other Long-Term Receivables</u>		
Receivables from related parties (Note 3)	39.221.416	48.640.325
Receivables from transmission lines (*)	2.077.461	2.898.943
Deposits and guarantees given	212.173	193.709
Other receivables	77.052	-
	<u>41.588.102</u>	<u>51.732.977</u>

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

	December 31, 2017	December 31, 2016
<u>Other Short-Term Payables</u>		
Payables to related parties (Note 3)	248.064.677	240.943.484
Taxes and funds payable	3.013.755	2.194.160
Other payables	86.979	19.218
Deposits and guarantees received	-	2.773.216
	<u>251.165.411</u>	<u>245.930.078</u>

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

6. PREPAID EXPENSES AND DEFERRED INCOME

Short-Term Prepaid Expenses	December 31, 2017	December 31, 2016
Prepaid expense for the following months	3.688.120	2.257.796
Job advances	81.092	97.374
Other	144.765	289.120
	3.913.977	2.644.290
Long-Term Prepaid Expenses	December 31, 2017	December 31, 2016
Advances given (*)	89.132	10.834.897
Other	19.210	118.917
	108.342	10.953.814

(*) The balance of TL 10.745.765 consists of advances given by Ayen AS to subcontractors as of December 31, 2016.

Short-Term Deferred Income	December 31, 2017	December 31, 2016
Deferred income (*)	7.194.208	-
Advances received (**)	349.607	40.484
	7.543.815	40.484
Long-Term Deferred Income	December 31, 2017	December 31, 2016
Deferred income (*)	29.376.348	-
	29.376.348	-

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

(**) 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 DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

7. PROPERTY, PLANT AND EQUIPMENT

<u>Cost</u>	<u>Land</u>	<u>Land improvements</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Vehicles</u>	<u>Furniture and fixtures</u>	<u>Construction in progress (*)</u>	<u>Total</u>
Opening balance as at January 1, 2017	9.641.050	153.375.682	181.740.203	631.931.669	3.419.972	2.665.101	597.559.713	1.580.333.390
Additions	36.570.556(*)	-	-	-	93.594	289.177	106.536.023	143.489.350
Disposals	-	-	-	-	(328.623)	-	-	(328.623)
Currency translation differences	-	-	-	204.542.783	546.367	(42.616)	-	205.046.534
Revaluation of property, plant and equipment	43.633.216	-	-	-	-	-	-	43.633.216
Transfers from constructions in progress	378.028	(128.010.924)	(161.715.844)	987.763.934	-	-	(698.415.194)	-
Disposal of subsidiary	(499.350)	(7.769.597)	(12.684.319)	(169.890.042)	-	(110.937)	(577.438)	(191.531.683)
Closing balance as of December 31, 2017	89.723.500	17.595.161	7.340.040	1.654.348.344	3.731.310	2.800.725	5.103.104	1.780.642.184
<u>Accumulated Depreciation</u>								
Opening balance as at January 1, 2017	-	(14.713.573)	(17.616.715)	(144.447.421)	(1.653.837)	(1.679.365)	-	(180.110.911)
Charge for the period	-	(2.536.476)	(3.621.039)	(32.343.404)	(698.702)	(366.343)	-	(39.565.964)
Disposals	-	-	-	-	70.827	-	-	70.827
Currency translation differences	-	-	-	(2.729.872)	(768.336)	(186.553)	-	(3.684.761)
Transfers	-	5.668.011	17.375.999	(23.044.010)	-	-	-	-
Disposal of subsidiary	-	4.532.265	1.650.864	48.774.281	-	84.549	-	55.041.959
Closing balance as of December 31, 2017	-	(7.049.773)	(2.210.891)	(153.790.426)	(3.050.048)	(2.147.712)	-	(168.248.850)
Net book value as at December 31, 2017	89.723.500	10.545.388	5.129.149	1.500.557.918	681.262	653.013	5.103.104	1.612.393.334

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

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

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

<u>Cost</u>	<u>Land</u>	<u>Land improvements</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Vehicles</u>	<u>Furniture and fixtures</u>	<u>Construction in progress (*)</u>	<u>Total</u>
Opening balance as at January 1, 2016	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
Additions	-	-	-	7.642	188.806	23.258	165.848.818	166.068.524
Currency translation differences	81.206	20.004.440	3.172.396	10.598.746	100.478	237.334	86.106.897	120.301.497
Transfers from constructions in progress	-	5.849.097	8.073.264	61.137.783	-	-	(75.060.144)	-
Closing balance as of December 31, 2016	9.641.050	153.375.682	181.740.203	631.931.669	3.419.972	2.665.101	597.559.713	1.580.333.390
<u>Accumulated Depreciation</u>								
Opening balance as at January 1, 2016	-	(8.499.248)	(13.405.974)	(116.255.911)	(1.231.512)	(1.537.937)	-	(140.930.582)
Charge for the period	-	(4.379.103)	(3.953.245)	(27.054.753)	(437.360)	(188.890)	-	(36.013.351)
Currency translation differences	-	(1.835.222)	(257.496)	(1.136.757)	15.035	47.462	-	(3.166.978)
Closing balance as of December 31, 2016	-	(14.713.573)	(17.616.715)	(144.447.421)	(1.653.837)	(1.679.365)	-	(180.110.911)
Net book value as at December 31, 2016	9.641.050	138.662.109	164.123.488	487.484.248	1.766.135	985.736	597.559.713	1.400.222.479

(*) As of December 31, 2016, TL 28.329.398 of borrowing cost regarding to the loans used for investments of Ayen AS have been capitalized over property, plant, and equipment. Additions during the period consist of expenses related to Ayen As and Akbük WPP II constructions. In addition, Peshqest 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 DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

Depreciation expense of TL 29.693.038 (December 31, 2016: TL 35.695.951) has been charged in cost of sales and TL 299.930 (December 31, 2016: TL 317.400) has been charged in general administrative expenses, TL 9.572.996 has been charged in discontinued operations.

There are no mortgages over the tangible assets of the Group for the borrowings obtained (December 31, 2016: USD 5.000.000 (TL 17.596.000)). 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).

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

8. INTANGIBLE ASSETS

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

8. INTANGIBLE ASSETS (cont'd)

Cost	Wholesale Licence	Electricity Production Licence	Rights	Other Intangible Assets	Total
Opening balance as at January 1, 2016	334.774	15.374.520	1.963.157	5.732.762	23.405.213
Charge for the period	16.155	-	-	125.384	141.539
Currency translation differences	-	-	28.671	23.772	52.443
Closing balance as at December 31, 2016	<u>350.929</u>	<u>15.374.520</u>	<u>1.991.828</u>	<u>5.881.918</u>	<u>23.599.195</u>
Accumulated Amortization					
Opening balance as at January 1, 2016	(326.667)	(728.996)	(1.368.042)	(2.404.497)	(4.828.202)
Charge for the period	(4.366)	(169.472)	(354.567)	(419.419)	(947.824)
Currency translation differences	-	-	(1.824)	(7.619)	(9.443)
Closing balance as at December 31, 2016	<u>(331.033)</u>	<u>(898.468)</u>	<u>(1.724.433)</u>	<u>(2.831.535)</u>	<u>(5.785.469)</u>
Net book value as at December 31, 2016	<u>19.896</u>	<u>14.476.052</u>	<u>267.395</u>	<u>3.050.383</u>	<u>17.813.726</u>

Amortization expense of TL 739.475 (December 31, 2016: TL 863.373) has been charged in cost of sales and TL 7.469 (December 31, 2016: TL 84.451) 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 2.7 to the consolidated financial statements, as a result of the impairment test carried out at December 31, 2017 and 2016 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 December 31, 2017, no impairment was identified in the carrying amount of goodwill.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

10. SERVICE CONCESSION ARRANGEMENTS

	December 31, 2017	December 31, 2016
<u>Due from Service Concession Arrangements</u>		
Short-term due from service concession arrangements	10.581.933	8.631.729
Invoiced and undue from service concession arrangements (*)	7.666.579	8.623.952
Total short-term receivables of service concession arrangements	<u>18.248.512</u>	<u>17.255.681</u>
Long-term due from service concession arrangements	119.123.043	121.015.342
Total due from service concession arrangements	<u><u>137.371.555</u></u>	<u><u>138.271.023</u></u>
Gross due from service concession arrangements	221.689.719	234.112.803
Unearned financial income (-)	(91.984.743)	(104.465.732)
Due from service concession arrangements (*)	7.666.579	8.623.952
Due from service concession arrangements-net	<u><u>137.371.555</u></u>	<u><u>138.271.023</u></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 DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

10. SERVICE CONCESSION ARRANGEMENTS (cont'd)

As of December 31, 2017 and 2016, the payment schedules for gross and net due from service concession arrangements are as follows:

	Gross due from service concession arrangements (USD)		Gross due from service concession arrangements (TL)	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Up to 1 year	7.750.420	7.750.420	29.233.809	27.275.279
1 to 2 years	7.750.420	7.750.420	29.233.809	27.275.278
2 to 3 years	7.750.420	7.750.420	29.233.809	27.275.278
3 to 4 years	7.750.420	7.750.420	29.233.809	27.275.278
More than 4 years	27.772.338	35.522.758	104.754.483	125.011.690
	<u>58.774.018</u>	<u>66.524.438</u>	<u>221.689.719</u>	<u>234.112.803</u>
	Net due from service concession arrangements (USD)		Net due from service concession arrangements (TL)	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Up to 1 year	2.805.465	2.452.753	10.581.933	8.631.729
1 to 2 years	3.208.897	2.805.464	12.103.639	9.872.990
2 to 3 years	3.658.396	3.208.897	13.799.104	11.292.750
3 to 4 years	4.196.430	3.658.396	15.828.514	12.874.627
More than 4 years	20.517.985	24.714.417	77.391.786	86.974.975
	<u>34.387.173</u>	<u>36.839.927</u>	<u>129.704.976</u>	<u>129.647.071</u>

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(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 amounting TL 34.783.690 have been capitalized over property, plant and equipment in 2017 (December 31, 2016: TL 28.329.398) (Note 7).

12. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Provisions

As of December 31, 2017, there are cases where the Group is litigant and defendant. Most of the cases are related with the bad debt and employee cases. The Group has not provided any provision as of December 31, 2017, as the lawyers have not foreseen a significant cash outflow for the ongoing lawsuits as of the date of preparation of the consolidated financial statements. (December 31, 2016: None).

b) Contingent Assets and Liabilities

<u>Contingent assets</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Letters of guarantee received (*)	18.806.902	5.563.000
Guarantee received behalf of Ayen Enerji (**)	428.620.279	592.501.401
	<u>447.427.181</u>	<u>598.064.401</u>

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

(**) Consists of Aydın 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:

<u>Contingent Liabilities</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Letters of conveyance given (*)	175.151.948	867.467.046

(*) 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 44.436.000 (December 31, 2016: USD 55.302.937) as a conveyance for the loan. However, these conveyances will be effective if payment schedules of the loans have not been met.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

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

b) Contingent Assets and Liabilities (cont'd)

Contingent Liabilities	December 31, 2017	December 31, 2016
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Commercial enterprise pledge (*)	290.000.000	515.000.000
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(*) 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	December 31, 2017	December 31, 2016
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Mortgages given (**)	-	17.596.000
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(**) As of December 31, 2016 Consists of the mortgages given for the long-term borrowings of the Group, there exists TL 17.596.000 (USD 5.000.000) of mortgages over property, plant and equipment (Note 25).

Contingent Liabilities	December 31, 2017	December 31, 2016
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Letters of guarantee given (***)	107.206.434	55.936.427
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(***) Letters of guarantee given consist of TL 55.424.317 in terms of EURO and TL 51.782.117 in terms of Turkish Lira. Letters of guarantee given comprises that TL 47.454.460 (Avro 10.509.237) has been given to the Albania Ministry of Economy for Ayen-AS, TL 8.488.743 has been given to Kayseri Elektrik Perakende A.Ş, TL 3.405.622 has been given to Enerjisa, TL 2.600.000 has been given to Eren Enerji, TL 4.179.312 has been given to TEİAŞ (TL 3.050.437 And Avro 250.000) and remaining part of guarantees given consists of guarantees given to distribution companies for electricity trade.

Contingent Liabilities	December 31, 2017	December 31, 2016
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Guarantee given (****)	-	248.563.300
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(****) 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 DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

13. COMMITMENTS

c) Guarantees- Pledges -Mortgages

Guarantees, pledge and mortgage (“GPM”) position of the Group as of December 31, 2017 and 2016 is as follows:

	December 31, 2017				December 31, 2016			
	TL Equivalent	TL	USD	EURO	TL Equivalent	TL	USD	EURO
GPM given on behalf of the legal entity	342.334.932	293.006.540	-	10.924.237	336.617.952	294.223.839	12.046.520	-
Guarantee Letter	52.334.932	3.006.540	-	10.924.237	29.021.952	4.223.839	7.046.520	-
Pledge	290.000.000	290.000.000	-	-	290.000.000	290.000.000	-	-
Mortgage	-	-	-	-	17.596.000	-	5.000.000	-
Guarantee	-	-	-	-	-	-	-	-
GPM given on behalf of the subsidiaries that are included in full consolidation	230.023.450	48.775.577	46.436.000	1.350.000	1.367.944.821	545.485.218	55.302.937	169.233.000
Conveyance	175.151.948	-	46.436.000	-	867.467.046	300.000.000	55.302.937	100.500.000
Guarantee Letter	54.871.502	48.775.577	-	1.350.000	26.914.475	20.485.218	-	1.733.000
Pledge	-	-	-	-	225.000.000	225.000.000	-	-
Guarantee	-	-	-	-	248.563.300	-	-	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	572.358.382	341.782.117	46.436.000	12.274.237	1.704.562.773	839.709.057	67.349.457	169.233.000

(*) As of December 31, 2017, rate of Group’s GPM to equity is 0% (2016: 0%).

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

14. EMPLOYEE BENEFITS**Payables related to employee benefits**

	December 31, 2017	December 31, 2016
Social security premiums payable	285.643	682.801
Due to personnel	30.008	246.650
	<u>315.651</u>	<u>929.451</u>

Short-term provisions for employee benefits:

	December 31, 2017	December 31, 2016
Provision for unused vacation	881.810	926.961
	<u>881.810</u>	<u>926.961</u>

The movement for provisions is as follows:

	2017	2016
As of January 1	926.961	643.961
Period Charge	994	283.000
Subsidiary sales effect	(46.145)	-
	<u>881.810</u>	<u>926.961</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 4.732,48 (December 31, 2016: TL 4.297,21) for each period of service at December 31, 2017.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(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 December 31, 2017, 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 6% and a discount rate of 11%, resulting in a real discount rate of approximately 4,72 % (December 31, 2016: discount rate of approximately 2,97%). 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 5.001,76 (January 1, 2017: TL 4.426,16) which is in effect since January 1, 2018 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 295.720
- If the anticipated turnover rate had been 1% higher/(lower) provision for employee termination benefits would decrease/(increase) by TL 77.579

	<u>2017</u>	<u>2016</u>
January 1	3.624.071	2.720.724
Service cost	360.164	910.897
Interest cost	361.251	100.726
Actuarial gain / loss	165.881	258.159
Termination benefits paid	(1.512.624)	(366.435)
Disposal of subsidiary effect	(326.489)	-
December 31	<u>2.672.254</u>	<u>3.624.071</u>

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

15. EXPENSES BY NATURE

	January 1 - December 31, 2017	January 1 - December 31, 2016
Cost of electricity (**)	291.196.741	155.887.392
Depreciation and amortization expenses	30.739.912	36.961.175
System usage and capacity fee (***)	26.104.859	10.254.985
Personnel expenses (*)	19.433.180	21.277.260
Plant technical assistance and maintenance	10.753.208	13.072.407
Cost of natural gas	8.254.455	14.504.897
Consultancy fees	2.535.119	2.480.693
Insurance expenses	1.462.105	1.452.800
Office expenses	1.265.015	742.027
Transportation expenses	737.768	885.361
Taxes and duties	735.528	480.806
Hydraulic contribution	621.728	552.083
Dues deduction	230.327	715.491
Other	3.783.284	6.681.295
	<u>397.853.229</u>	<u>265.948.672</u>

- (*) Personnel expenses of TL 13.307.458 (December 31, 2016: TL 11.641.057) has been charged in cost of sales; TL 6.125.722 (December 31, 2016: TL 9.636.203) has been charged in general administrative expenses.
- (**) Consists of the cost of electricity that Ayen Ostim, Ayen Enerji, Ayen Elektrik and trading companies which locate abroad purchased from suppliers other than EPIAŞ 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

	December 31, 2017	December 31, 2016
<u>Other Current Assets</u>		
VAT deductible (*)	131.865.658	3.176.469
VAT carried forward	8.442.149	2.773.006
Other	76.021	3.361
	<u>140.383.828</u>	<u>5.952.836</u>
<u>Other Non-Current Assets</u>		
VAT deductible (*)	-	112.710.815
	-	<u>112.710.815</u>

- (*) Balance comprised of the VAT deductible 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 DECEMBER 31, 2017

(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 (December 31, 2016: 17.104.230.000) with TL 0,01 nominal price each. The amount of 9.729.720.000 are nominative group (A) shares, 2.567.565.000 shares are publicly traded group (B) shares and bearer 4.806.945.000 shares to the bearer are non-public registered shares. The mentioned capital is fully paid.

The composition of the Company's paid-in share capital as of December 31, 2017 and December 31, 2016 is as follows:

Shareholders	%	December 31, 2017	%	December 31, 2016
Aydiner İnşaat A.Ş.	84,98	145.347.710	84,98	145.347.710
Public quotation	15,01	25.675.650	15,01	25.675.650
Other	<1	18.940	<1	18.940
Subscribed capital		171.042.300		171.042.300

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

Restricted profit reserves and retained earnings

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions. As of December 31, 2017, the amount of restricted profit reserves is TL 71.893.619 (December 31, 2016: TL 67.942.354).

Besides, in Kayseri Elektrik General Assembly which was hold on 25 March 2017, it was decided to appropriate amounting to TL 2.994.209 of reserve out of Company's profit for the year 2016. In Ayen Elektrik General Assembly which was hold on 23 March 2017, it was decided to appropriate amounting to TL 94.362 of reserve out of Company's profit for the year 2016.

Resources Available for Profit Distribution

As of December 31, 2017, there is net profit amounting TL 63.958.695 in the statutory records of the Group (December 31, 2016: None).

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

18. REVENUE AND COST OF SALES

	January 1 - December 31, 2017	January 1 - December 31, 2016
Electricity sales	457.093.646	332.555.680
Interest income from service concession arrangements	19.307.140	20.082.917
Revenue	476.400.786	352.638.597
Cost of sales	(386.305.219)	(251.913.321)
Gross Profit	90.095.567	100.725.276

During the year, TL 8.938.962 (2016: TL 6.428.638) 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 December 31, 2017 and 2016 are as follows:

	January 1 - December 31, 2017	January 1 - December 31, 2016
Foreign exchange gain arising from operating activities	22.935.949	10.155.817
Akbük WPP wing damage fee (*)	-	110.310
Mordoğan WPP transformer damage fee (**)	-	112.143
Discount income of trade payables	1.018.037	254.418
Other	1.346.947	1.358.744
	25.300.933	11.991.432

(*) 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 DECEMBER 31, 2017

(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 December 31, 2017 and 2016 are as follows:

	January 1 - December 31, 2017	January 1 - December 31, 2016
Foreign exchange losses arising from operating activities	(20.879.398)	(7.936.514)
Kızılcahamam forest expense (*)	(131.611)	(207.933)
Provision for doubtful receivables	(813.707)	(1.089.115)
Donations	-	(59.100)
Premium payment made to turbine suppliers (**)	-	(381.433)
Discount expenses of receivables		(1.895.956)
Other	(3.225.109)	(51.347)
	<u>(25.049.825)</u>	<u>(11.621.398)</u>

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

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

20. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

The details of other income from investing activities for the years ended December 31, 2017 and 2016 are as follows:

	January 1 - December 31, 2017	January 1 - December 31, 2016
Gain on disposal of subsidiary (Note 27)	81.897.622	-
Foreign exchange gains	8.996.873	47.111.151
Other	49.427	60.769
	<u>90.943.922</u>	<u>47.171.920</u>

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

21. FINANCE EXPENSES

	January 1 - December 31, 2017	January 1 - December 31, 2016
Net foreign exchange (loss)/ income	(78.511.237)	(110.438.028)
Bank loan interests	(51.989.584)	(35.616.263)
Bond interests	(7.975.817)	(10.563.742)
Interest income	5.453.278	5.198.429
Deferred finance expenses	(2.211.748)	(2.307.000)
Other finance expenses	(3.554.424)	(2.600.445)
	<u>(138.789.532)</u>	<u>(156.327.049)</u>

22. ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS

	January 1 - December 31, 2017	January 1 - December 31, 2016
Foreign currency translation reserve		
Balance at the beginning of period	49.765.285	19.477.671
Foreign exchange differences arising from the translation of net assets of the business abroad	78.459.306	30.287.614
Balance at the end of period	<u>128.224.591</u>	<u>49.765.285</u>
	January 1 - December 31, 2017	January 1 - December 31, 2016
Remeasurement of defined benefit plans income/(losses)		
Balance at the beginning of period	(664.496)	(457.969)
Remeasurement income/(losses) from defined benefit plans	(230.365)	(206.527)
Subsidiary sales effect	36.528	
Balance at the end of period	<u>(858.333)</u>	<u>(664.496)</u>

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

22. ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS (cont'd)

Property, plant and equipment revaluation fund	2017	2016
Balance at the beginning of period	-	-
Property, plant and equipment revaluation increase	40.431.627	-
Balance at the end of period	<u>40.431.627</u>	<u>-</u>

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

	December 31, 2017	December 31, 2016
<u>Short-term Assets related to current tax</u>		
Prepaid taxes and dues	-	76.243
	-	<u>76.243</u>
	December 31, 2017	December 31, 2016
<u>Current tax liability:</u>		
Current tax liability provision	255.143	6.217.618
Less: prepaid taxes and funds	-	(1.261.867)
	<u>255.143</u>	<u>4.955.751</u>
<u>Tax expense in profit or loss statement:</u>	January 1 - December 31, 2017	January 1 - December 31, 2016
<u>Income tax expense consists of the following:</u>		
Current tax expense	(255.143)	(6.217.618)
Deferred tax (expense)/income related with the formation of temporary differences with the dissolution of temporary differences	5.719.654	493.801
Total tax expense / income	<u>5.464.511</u>	<u>(5.723.817)</u>
<u>Tax recognized directly in equity</u>	January 1 - December 31, 2017	January 1 - December 31, 2016
<u>Deferred Tax</u>		
Recorded directly to equity		
Actuarial gain or loss	(64.484)	51.632
Revaluation fund of tangible fixed assets	(3.201.589)	-
Total deferred tax recognized directly in equity	<u>(3.266.073)</u>	<u>51.632</u>

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(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:

	January 1 – December 31, 2017		
	Amount before tax	Tax expense / income	Amount after tax
Actuarial gains and losses on defined benefit plans	(165.881)	(64.484)	(230.365)
	<u>(165.881)</u>	<u>(64.484)</u>	<u>(230.365)</u>
	January 1 – December 31, 2016		
	Amount before tax	Tax expense / income	Amount after tax
Actuarial gains and losses on defined benefit plans	(258.159)	51.632	(206.527)
	<u>(258.159)</u>	<u>51.632</u>	<u>(206.527)</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 2017 is 20% (2016: 20%).

In accordance with the regulation numbered 7061, published in Official Gazette on 28 November 2017 "Bazı Vergi Kanunları ile Diğer Bazı Kanunlarda Değişiklik Yapılmasına Dair Kanun", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of December 31, 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2017 is 20%. (2016: 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 DECEMBER 31, 2017

(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 the temporary differences between financial statements as reported in accordance with Turkish Financial Reporting Standards and its tax base of statutory financial statements. These differences usually result in the recognition of revenue and expense items in different periods for Turkish Financial Reporting Standards and statutory tax purposes.

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

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

<u>Deferred tax assets/ (liabilities):</u>	<u>Temporary differences</u>		<u>Deferred tax assets/ (liabilities)</u>	
	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Property, plant and equipment and intangible assets	104.567.526	82.536.266	20.913.505	16.550.704
Property, plant and equipment revaluation increase	(32.015.886)	-	(3.201.589)	-
Investment incentives	6.283.610	5.958.390	1.256.722	1.191.678
Carry forward tax losses	73.380.204	59.529.811	14.937.253	11.905.962
Provision for employment termination benefits	2.520.049	2.595.271	554.411	722.117
Due from service concession arrangements	(50.688.599)	(42.434.271)	(10.137.720)	(8.486.854)
Other	(10.027.832)	(3.042.816)	(2.013.956)	(608.604)
	<u>94.019.072</u>	<u>105.142.651</u>	<u>22.308.626</u>	<u>21.275.003</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, the Group recognised deferred tax assets amounting to TL 44.191.652 (December 31, 2016: 27.243.548) for the carry forward tax losses of Ayen Enerji amounting to TL 165.451.022 (December 31, 2016: TL 96.030.471), that of Ayen Ostim amounting to TL 26.703.852 (December 31, 2016: TL 23.981.351), that of Ayen Elektrik amounting to TL 11.767.201 (December 31, 2016: TL 15.914.273) and that of Ayen AS amounting to TL 5.647.957 (December 31, 2016: TL 388.860).

As of December 31, 2017 and December 31, 2016, the expiration dates of prior years' losses, which deferred tax asset have not been accounted for, are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
2017	-	2.598.617
2018	42.182.203	13.713.191
2019	32.207.019	11.828.602
2020	59.260.883	61.271.527
2021	22.934.481	46.903.018
2022	52.985.446	-
	<u>209.570.032</u>	<u>136.314.955</u>

The Group recognized TL 14.937.253 (December 31, 2016: TL 11.905.962) of deferred tax asset over Ayen Enerji's carry forward tax losses amounting to TL 73.380.204 (December 31, 2016: TL 59.529.811).

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

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

As of December 31, 2017 and December 31, 2016, the expiration dates of prior years' losses, which deferred tax asset have been accounted for, are as follows:

	December 31, 2017	December 31, 2016
2018	-	30.005.377
2019	5.818.412	23.267.865
2020	7.242.221	5.202.404
2021	24.760.436	1.054.165
2022	35.559.135	-
	<u>73.380.204</u>	<u>59.529.811</u>

Movements in deferred income taxes can be analysed as follows:

	2017	2016
January 1	21.275.003	20.729.570
Current year deferred taxation expense	5.719.654	493.801
Deferred tax credit recorded under equity	(3.266.073)	51.632
- Property, plant and equipment revaluation increase effect	(3.201.589)	-
- Actuarial loss / gain effect	(64.484)	51.632
Disposal of subsidiary effect	(1.419.958)	-
December 31	<u>22.308.626</u>	<u>21.275.003</u>

The reconciliation of current year tax charge calculated over current period tax charge and profit before tax disclosed in the consolidated statement of profit or loss for the period ended December 31, 2017 and 2016 is stated below:

	January 1 - December 31, 2017	January 1 - December 31, 2016
Profit/ (loss) before tax on profit or loss statement	30.953.055	(22.095.170)
Effective tax rate (20%) (2016: 20%)	(6.190.611)	4.419.034
Effect of tax:		
- discounts	11.367.620	125.062
- disallowable expenses	(308.946)	(48.413)
- investment incentive effect	6.853.993	-
- deferred tax effect of prior year's losses which are expired	(7.080.328)	(9.652.747)
- other	822.783	(566.753)
Tax expense on profit or loss statement	<u>5.464.511</u>	<u>(5.723.817)</u>

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

24. EARNINGS PER SHARE

	January 1 - December 31, 2017	January 1 - December 31, 2016
Profit/ (loss) for the year attributable to equity holders of the Parent	35.085.883	(28.284.719)
Average number of outstanding shares	17.104.230.000	17.104.230.000
Earnings/ (loss) per basic, 1.000 shares (TL)	2,05	(1,65)

25. FINANCIAL INSTRUMENTS

Other Financial Liabilities

	December 31, 2017	December 31, 2016
Other Short-Term Financial Liabilities		
Bonds issued	797.938	667.376
	<u>797.938</u>	<u>667.376</u>
Other Long-Term Financial Liabilities		
Bonds issued (*)	50.000.000	50.000.000
	<u>50.000.000</u>	<u>50.000.000</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 50.000.000 is issued by the Group as of December 1, 2016.

Financial Liabilities

The detail of borrowings of the Group as of December 31, 2017 and December 31, 2016 is as follows:

	December 31, 2017	December 31, 2016
Borrowings		
Short-term financial liabilities	207.192.458	150.608.000
Short-term portion of long-term liabilities	111.946.072	124.422.007
Long-term financial liabilities	1.140.495.605	1.029.336.383
	<u>1.459.634.135</u>	<u>1.304.366.390</u>

The accrued interest expense on short-term borrowings is TL 20.460.766 (December 31, 2016: TL 13.175.941).

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

Original Currency	Weighted average effective interest rate (%)	December 31, 2016	
		Short-term	Long-term
TL	14,27	62.773.640	9.000.000
USD	5,40	100.849.898	21.115.200
EURO	4,28	111.406.469	999.221.183
		<u>275.030.007</u>	<u>1.029.336.383</u>

The redemption schedule of the borrowings as of December 31, 2017 and 2016 is as follows:

	December 31, 2017	December 31, 2016
To be paid within 1 year	313.697.564	275.030.007
To be paid between 1-2 years	99.691.904	159.340.478
To be paid between 2-3 years	106.826.394	128.041.704
To be paid between 3-4 years	111.070.964	128.041.704
To be paid between 4-5 years	101.457.729	128.041.704
5 and more than 5 years	686.747.545	485.870.793
	<u>1.419.492.100</u>	<u>1.304.366.390</u>

For the long-term borrowings of the Group, TL 175.151.948 (USD 46.436.000) of conveyance on receivables (Note 12). Deferred finance expenses have been recognized in long term borrowings which have been paid for the long-term borrowings of the Group. As of December 31, 2017, deferred financing expense is TL 26.172.785 (December 31, 2016: 29.608.587 TL). 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 DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

25. FINANCIAL INSTRUMENTS (cont'd)

Financial Leasing Payables	December 31, 2017	December 31, 2016
Short term	5.440.967	-
- Gross financial leasing payables	12.232.126	-
- Interest (-)	(6.791.159)	-
Long term	34.701.068	-
- Gross financial leasing payables	48.928.505	-
- Interest (-)	(14.227.437)	-
	40.142.035	-

Short and long term financial leasing payables consist of payables related to a land sold to a financial leasing company in accordance with sale and leaseback agreement signed on December 25, 2017 (December 31, 2016: None).

Currency	Weighted average effective interest rate	December 31, 2017	
		Short-term	Long-term
TL	18%	5.440.967	34.701.068
		5.440.967	34.701.068

The repayment schedule of finance lease obligations is as follows:

	December 31, 2017	December 31, 2016
To be paid within 1 year	5.440.967	-
To be paid between 1-2 years	6.505.319	-
To be paid between 2-3 years	8.490.954	-
To be paid between 3-4 years	8.586.296	-
To be paid between 4-5 years	11.118.499	-
	40.142.035	-

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

26. DISCONTINUED OPERATIONS

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

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

27. DISPOSAL OF SUBSIDIARY

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

	December 31, 2017
Analysis of asset and liabilities over which control was lost	<u>2017</u>
Assets	213.050.193
Liabilities	(170.424.892)
Net assets	42.625.301
Percentage of disposal	69,87%
Net assets disposed of	29.782.298
	December 31, 2017
	<u>2017</u>
Total net assets as of disposal date	42.625.301
Percentage of disposal	69,87%
Net assets disposed of	29.782.298
Gain on disposal of subsidiary	
Consideration received	111.679.920
Net assets disposed of	(29.782.298)
Gain on disposal of subsidiary (Note 20)	<u>81.897.622</u>

The gain on disposal is included in gain on disposal of subsidiary under Note 20, "Income and expenses from investing activities".

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

	December 31, 2017	December 31, 2016
Net cash flows from discontinued operations:	<u>2017</u>	<u>2016</u>
Cash flows from operations	(6.807.149)	-
Cash flows from investment activities	422.650	-
Cash flows from financing activities	6.439.971	-
Net increase in cash and cash equivalents	<u>55.472</u>	<u>-</u>

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

28. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

a) Capital risk management

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

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

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

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

As of December 31, 2017 and 2016 net debt / total capital ratio is as follows:

	2017	2016
	<u>TL</u>	<u>TL</u>
Total Financial Debt	1.510.432.073	1.355.033.766
Less: Cash and cash equivalents	<u>(254.490.339)</u>	<u>(146.651.810)</u>
Net Debt	1.255.941.734	1.208.381.956
Equity Attributable to Owners of the Parent	<u>368.719.959</u>	<u>223.983.462</u>
Net Debt / Capital	<u>3,41</u>	<u>5,39</u>

b) Financial Risk Factors

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

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

b.1) Credit risk management

Credit risk of financial instruments

	Receivables					
	Trade Receivables			Other Receivables		
	Related Party	Third Party	Related Party	Third Party	Due From Service Concession Arrangements	Bank Deposits
December 31, 2017						
Maximum net credit risk as of balance sheet date (*)	6.787.821	43.319.155	43.442.084	4.765.305	137.371.555	254.085.871
- The part of maximum risk under guarantee with collateral etc. (**)	-	18.806.902	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	6.787.821	43.319.155	43.442.084	4.765.305	137.371.555	254.085.871
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross book value)	-	1.902.822	-	-	-	-
- Impairment (-)	-	(1.902.822)	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-	-
Maximum net credit risk as of balance sheet date (*)						

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

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

28. 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
December 31, 2016						
Maximum net credit risk as of balance sheet date (*)						
- The part of maximum risk under guarantee with collateral etc. (**)	3.621.481	24.115.555	50.847.866	7.040.026	138.271.023	146.226.120
A. Net book value of financial assets that are neither past due nor impaired	-	5.563.000	-	-	-	-
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	3.621.481	24.115.555	50.847.866	7.040.026	138.271.023	146.226.120
C. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross book value)	-	1.089.115	-	-	-	-
- Impairment (-)	-	(1.089.115)	-	-	-	-
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 DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

28. 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 12.174.991 (2016: TL 7.254.734) and TL 462.482 (2016: TL 492.333) of trade receivables are composed of the receivables from TETAŞ and TEİAŞ respectively and amounting to TL 6.105.603 from EPİAŞ. TETAŞ, TEİAŞ and EPİAŞ are all state-owned entities which are responsible for the trading, wholesale and distribution activities of the national power system operations in Turkey, EPİAŞ sustains financial reconciliation transactions of whole electricity marketing, and imbalance calculation and organize day ahead market transactions. Additionally, TEİAŞ, TETAŞ, EPİAŞ 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 December 31, 2017 and 2016, there are no past due receivables.

b.2) Liquidity risk management

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

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

December 31, 2017

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

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

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

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

December 31, 2016

<u>Contractual maturity analysis</u>	<u>Carrying Value</u>	<u>Total cash outflow according to contract (I+II+III+IV)</u>	<u>Less than 3 Months (I)</u>	<u>3-12 Months (II)</u>	<u>1-5 Years (III)</u>	<u>More than 5 Years (IV)</u>
Non-derivative financial liabilities						
Bank loan	1.304.366.390	1.420.848.931	34.143.005	202.922.197	629.395.754	554.387.975
Trade payables	32.799.607	32.873.860	32.873.860	-	-	-
Trade payables to related parties	35.423.279	38.282.961	6.777.258	-	31.505.703	-
Non-trade payables to related parties	241.388.894	241.388.894	240.943.484	-	445.410	-
Other long-term liabilities	50.667.376	64.622.068	1.905.944	55.762.568	6.953.556	-
Total liabilities	1.664.645.546	1.798.016.714	316.643.551	258.684.765	668.300.423	554.387.975

(*) 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 DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

28. 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 December 31, 2017 and 2016 the foreign currency denominated assets and liabilities of monetary and non-monetary items are as follows:

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

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

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

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

	December 31, 2016		
	TL Equivalent	USD	EURO
Trade receivables	23.499.809	2.061.473	4.378.844
Monetary financial assets	15.337.484	8.498	4.126.143
Due from short-term service concession arrangements	17.255.681	4.903.296	-
Other	1.094	-	295
CURRENT ASSETS	56.094.068	6.973.267	8.505.282
Due from long-term service concession arrangements	121.015.342	34.387.174	-
Other	10.621.748	-	2.863.082
NON-CURRENT ASSETS	131.637.090	34.387.174	2.863.082
TOTAL ASSETS	187.731.158	41.360.441	11.368.364
Trade payables	36.059.658	114.269	9.611.451
Financial borrowings	212.256.367	28.657.052	30.029.507
Other	69.365.633	14.555.644	4.890.000
CURRENT LIABILITIES	317.681.658	43.326.965	44.530.958
Financial borrowings	1.020.336.383	6.000.000	269.339.115
NON-CURRENT LIABILITIES	1.020.336.383	6.000.000	269.339.115
TOTAL LIABILITIES	1.338.018.041	49.326.965	313.870.073
Net Foreign Currency Position	(1.150.286.883)	(7.966.524)	(302.501.709)

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 DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

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

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

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

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

	December 31, 2017	
	<u>Profit/Loss</u>	
	<u>Appreciation of foreign currency</u>	<u>Depreciation of foreign currency</u>
In case 10% appreciation in USD against TL		
US Dollar net asset / liability	5.218.805	(5.218.805)
Part of hedged from US Dollar risk (-)	-	-
US Dollar net effect	<u>5.218.805</u>	<u>(5.218.805)</u>
In case 10% appreciation in EURO against TL		
EURO net asset / liability	(118.377.652)	118.377.652
Part of hedged from EURO risk (-)	-	-
EURO net effect	<u>(118.377.652)</u>	<u>118.377.652</u>
TOTAL	(113.158.847)	113.158.847
	December 31, 2016	
	<u>Profit/Loss</u>	
	<u>Appreciation of foreign currency</u>	<u>Depreciation of foreign currency</u>
In case 10% appreciation in USD against TL		
US Dollar net asset / liability	(2.803.579)	2.803.579
Part of hedged from US Dollar risk (-)	-	-
US Dollar net effect	<u>(2.803.579)</u>	<u>2.803.579</u>
EURO net asset / liability	(112.225.109)	112.225.109
Part of hedged from EURO risk (-)	-	-
EURO net effect	<u>(112.225.109)</u>	<u>112.225.109</u>
TOTAL	(115.028.688)	115.028.688

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts are expressed in Turkish Lira (TL))

28. 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 December 31, 2017, for USD denominated borrowings, had the interest rates increased/decreased by 100 base points (1%) with all other variables held constant, there is not any net profit of the Group due to loan interest loss/profit (2016: None) mainly as a result of interest expenses on short-term and long-term borrowings. As of December 31, 2017, 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 4.627.365 (2016: TL 5.215.266) mainly as a result of interest expenses on short-term and long-term borrowings. In addition to these, as of December 31, 2017, 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 166.667 (2016: TL 511.111).

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts are expressed in Turkish Lira (TL))

30. EVENTS AFTER THE REPORTING PERIOD

None.

31. DISCLOSURES RELATED TO THE STATEMENT OF CASH FLOWS

	December 31, 2017	December 31, 2016
Cash	233.830	41.840
Cash in bank	254.085.871	146.226.120
Demand deposits	136.585.871	121.226.120
Time deposits with maturities less than three months	117.500.000	25.000.000
Cash in transit (*)	170.638	383.850
	<u>254.490.339</u>	<u>146.651.810</u>

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

Explanations about the nature and level of risks related to cash and cash equivalents are provided in Note 28.

As of December 31, 2017, the time deposits with maturities less than three months of the Group consists of TL denominated time deposits with maturities in January 2018. The weighted average effective interest rates of TL denominated time deposits is 13,28% (2016: 9,50%).

The Group has no blocked deposits as of December 31, 2017 (2016: None).