

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

**Convenience Translation Of The
Independent Auditor's Report And
Consolidated Financial Statements
For The Year Ended 31 December 2016
Originally Issued in Turkish**

**DRT BAĞIMSIZ DENETİM VE SERBEST
MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
13 March 2017**

*This report consists of 2 pages of audit
report and 73 pages of consolidated
financial statements and footnotes.*

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Ayen Enerji A.Ş. Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Ayen Enerji A.Ş. ("the Company") and its subsidiaries (together will be referred as "the Group, which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Turkish Accounting Standards ("TAS"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ayen Enerji A.Ş. and its subsidiaries as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Turkish Accounting Standards.

Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of Article 398 of the Turkish Commercial Code No. 6102 ("TCC"), the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 13 March 2017.

In accordance with paragraph four of Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Group's set of accounts and financial statements prepared for the period 1 January-31 December 2016 does not comply with TCC and the provisions of the Group's articles of association in relation to financial reporting.

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

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



Erdem TAŞ
Partner

Ankara, 13 March 2017

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AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES**AUDITED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016**

(Amounts are expressed in Turkish Lira (TL))

ASSETS	Notes	Current Period 31 December 2016	Prior Period 31 December 2015
Current Assets			
Cash and Cash Equivalents	29	146.651.810	152.593.651
Trade Receivables	4	27.737.036	26.344.803
<i>Trade Receivables from Related Parties</i>	3	3.621.481	5.133.733
<i>Trade Receivables from Third Parties</i>	4	24.115.555	21.211.070
Other Receivables	5	6.154.915	2.474.699
<i>Other Receivables from Related Parties</i>	3	2.207.541	476.640
<i>Other Receivables from Third Parties</i>	5	3.947.374	1.998.059
Service Concession Arrangements	10	17.255.681	8.150.322
Prepaid Expenses	6	4.894.658	5.813.961
Assets Related to Current Tax	23	76.243	69.657
Other Current Assets	16	5.952.836	4.192.115
TOTAL CURRENT ASSETS		208.723.179	199.639.208
Non-Current Assets			
Financial Assets		412.408	412.408
Other Receivables	5	51.732.977	31.470.733
<i>Other Receivables from Related Parties</i>	3	48.640.325	26.847.475
<i>Other Receivables from Third Parties</i>		3.092.652	4.623.258
Service Concession Arrangements	10	121.015.342	107.115.770
Property, Plant and Equipment	7	1.400.222.479	1.153.032.787
Intangible Assets		39.956.859	40.720.144
<i>Goodwill</i>	9	22.143.133	22.143.133
<i>Other Intangible Assets</i>	8	17.813.726	18.577.011
Prepaid Expenses	6	36.596.991	60.796.804
Deferred Tax Assets	23	21.275.003	20.729.570
Other Non-Current Assets	16	112.710.815	84.320.634
TOTAL NON-CURRENT ASSETS		1.783.922.874	1.498.598.850
TOTAL ASSETS		1.992.646.053	1.698.238.058

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

**AUDITED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016**

(Amounts are expressed in Turkish Lira (TL))

LIABILITIES	Notes	Current Period 31 December 2016	Prior Period 31 December 2015
Current Liabilities			
Short-Term Borrowings	25	150.608.000	77.920.101
Short-Term Portion of Long-Term Borrowings	25	126.672.375	90.141.518
Other Financial Liabilities	25	667.376	70.259.766
Trade Payables	4	39.576.865	68.343.642
<i>Trade Payables to Related Parties</i>	3	6.777.258	33.879.246
<i>Trade Payables to Third Parties</i>		32.799.607	34.464.396
Payables Related to Employee Benefits	14	929.451	372.978
Other Payables	5	245.930.078	139.990.344
<i>Other Payables to Related Parties</i>	3	240.943.484	136.629.974
<i>Other Payables to Third Parties</i>		4.986.594	3.360.370
Deferred Income	6	40.484	73.359
Current Tax Liabilities	23	4.955.751	9.598.135
Short-Term Provisions	14	926.961	643.961
<i>Short-Term Provisions for Employee Benefits</i>	14	926.961	643.961
Other Current Liabilities		802.072	617.215
TOTAL CURRENT LIABILITIES		571.109.413	457.961.019
Non-Current Liabilities			
Long-Term Borrowings	25	1.054.979.560	949.510.411
Other Financial Liabilities	25	50.000.000	-
Trade Payables		28.646.021	23.092.938
<i>Trade Payables to Related Parties</i>	3	28.646.021	23.092.938
Long-Term Provisions	14	3.624.071	2.720.724
<i>Long-Term Provisions for Employee Benefits</i>	14	3.624.071	2.720.724
Other Payables		445.410	445.410
<i>Other Payables to Related Parties</i>	3	445.410	445.410
TOTAL NON-CURRENT LIABILITIES		1.137.695.062	975.769.483
TOTAL LIABILITIES		1.708.804.475	1.433.730.502

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

**AUDITED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016**

(Amounts are expressed in Turkish Lira (TL))

	<u>Notes</u>	<u>Current Period 31 December 2016</u>	<u>Prior Period 31 December 2015</u>
EQUITY			
Equity Attributable to Owners of the Parent		223.983.462	225.843.845
Paid-in Capital	17	171.042.300	171.042.300
Accumulated Other Comprehensive			
Income / Expenses that will not be Reclassified			
Subsequently to Profit or Loss	22	(664.496)	(457.969)
<i>Revaluation and Measurement Gains (Losses)</i>		(664.496)	(457.969)
<i>Accumulated Gains (Losses) on Remeasurement</i>			
<i>of Defined Benefit Plans</i>	22	(664.496)	(457.969)
Accumulated Other Comprehensive			
Income or Expenses that may be Reclassified			
Subsequently to Profit or Loss		43.830.884	17.200.021
<i>Currency Translation Reserves</i>		43.830.884	17.200.021
Restricted Profit Reserves	17	67.942.354	62.162.876
<i>Legal Reserves</i>	17	67.942.354	62.162.876
Retained Earnings or Losses		(29.882.861)	5.056.522
Net Profit or Loss for the Period		(28.284.719)	(29.159.905)
Non-Controlling Interests		59.858.116	38.663.711
TOTAL EQUITY		283.841.578	264.507.556
TOTAL LIABILITIES AND EQUITY		1.992.646.053	1.698.238.058

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

**AUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts are expressed in Turkish Lira (TL))

	Notes	Current Period 1 January- 31 December 2016	Prior Period 1 January- 31 December 2015
PROFIT OR LOSS			
Revenue	18	352.638.597	283.822.999
Cost of Sales (-)	18,15	(251.913.321)	(226.089.957)
GROSS PROFIT		100.725.276	57.733.042
General Administration Expenses (-)	15	(15.124.466)	(15.598.354)
Other Income from Operating Activities	19	11.991.432	19.019.428
Other Expenses from Operating Activities (-)	19	(10.532.283)	(11.083.915)
OPERATING PROFIT / LOSS		87.059.959	50.070.201
Income from Investing Activities	20	52.370.349	28.104.710
OPERATING PROFIT BEFORE FINANCE EXPENSE		139.430.308	78.174.911
Finance Expenses (-)	21	(161.525.478)	(96.025.503)
PROFIT/LOSS BEFORE TAX FROM CONTINUING OPERATIONS		(22.095.170)	(17.850.592)
Tax Expense / Income from Continuing Operations	23	(5.723.817)	(11.671.465)
Current Tax Expense / Income	23	(6.217.618)	(9.598.135)
Deferred Tax Expense / Income	23	493.801	(2.073.330)
PROFIT / LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		(27.818.987)	(29.522.057)
PROFIT / LOSS FOR THE PERIOD		(27.818.987)	(29.522.057)
Profit / Loss for the Period Attributable to:		(27.818.987)	(29.522.057)
Non-Controlling Interests		465.732	(362.152)
Owners of the Company		(28.284.719)	(29.159.905)
		(27.818.987)	(29.522.057)
Earnings / losses per 1.000 shares	24	(1,65)	(1,70)

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

**AUDITED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts are expressed in Turkish Lira (TL))

Notes	Current Period 1 January- 31 December 2016	Prior Period 1 January- 31 December 2015
PROFIT/LOSS FOR THE PERIOD	(27.818.987)	(29.522.057)
Accumulated Other Comprehensive Income or Expenses that will be Reclassified Subsequently to Profit/Loss	30.287.614	16.066.352
<i>Currency Translation Reserves</i>	30.287.614	16.066.352
<i>Gain from Currency Translation Reserves</i>	30.287.614	16.066.352
Accumulated Other Comprehensive Income or Expenses that will not be Reclassified Subsequently to Profit or Loss	(206.527)	(1.401)
Accumulated Gain / Loss on Remeasurement of Defined Benefit Plans	(258.159)	(1.751)
Taxes From Items not to Be Reclassified as Income or Loss	51.632	350
<i>Deferred Tax Income (Expense)</i>	51.632	350
OTHER COMPREHENSIVE INCOME/EXPENSE	30.081.087	16.064.951
TOTAL COMPREHENSIVE INCOME/EXPENSE	2.262.100	(13.457.106)
Total Comprehensive Income for the Period Attributable to		
Non- Controlling Interests	4.122.483	1.915.498
Owners of the Company	(1.860.383)	(15.372.604)
	2.262.100	(13.457.106)

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

**AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts are expressed in Turkish Lira (TL))

	Accumulated Other Comprehensive Income or Expense that will not be Reclassified to Profit or Loss	Accumulated Other Comprehensive Income or Expense that will be Reclassified to Profit or Loss	Currency Translation Reserves	Restricted Profit Reserves	Retained Earnings or Losses	Net Profit/Loss For The Period	Equity Attributable to Owners of the Parent	Non- Controlling Interest	Total Equity
Balance as of 1 January 2015	171.042.300	3.411.319	56.068.938	(15.687.799)	26.838.259	241.216.449	32.746.662	273.963.111	
Transfers	-	-	6.093.938	20.744.321	(26.838.259)	-	-	-	
Total Comprehensive Income / (Expense)	(1.401)	13.788.702	-	-	(29.159.905)	(15.372.604)	1.915.498	(13.457.106)	
Profit (Loss) for The Period	-	-	-	-	(29.159.905)	(29.159.905)	1.915.498	(27.244.407)	
Other Comprehensive Income	(1.401)	13.788.702	-	-	-	13.787.301	-	13.787.301	
Dividends	-	-	-	-	-	-	(1.337.518)	(1.337.518)	
Capital increase of non-controlling shares	-	-	-	-	-	-	5.339.069	5.339.069	
Balances as of 31 December 2015	171.042.300	17.200.021	62.162.876	5.056.522	(29.159.905)	225.843.845	38.663.711	264.507.556	

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

**AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts are expressed in Turkish Lira (TL))

	Paid-in share capital	Accumulated Other Comprehensive Income or Expense that will not be reclassified to Profit or Loss	Actuarial gain/(loss) arising from employee benefits	Accumulated Other Comprehensive Income or Expense that will be reclassified to Profit or Loss	Currency Translation Reserves	Restricted Profit Reserves	Retained Earnings or Losses	Net Profit/Loss For The Period	Equity Attributable to Owners of the Parent	Non-Controlling Interest	Total Equity
Balance as of 1 January 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	-	-	-	-	5.779.478	(34.939.383)	29.159.905	-	4.122.483	-	2.262.100
Total Comprehensive Income / (Expense)	-	(206.527)	(206.527)	26.630.863	-	-	(28.284.719)	(1.860.383)	(28.284.719)	4.122.483	(24.162.236)
Profit (Loss) for The Period	-	-	-	26.630.863	-	-	-	26.424.336	-	-	26.424.336
Other Comprehensive Income	-	(206.527)	(206.527)	-	-	-	-	-	-	-	(1.268.500)
Dividends	-	-	-	-	-	-	-	-	-	(1.268.500)	18.340.422
Capital increase of non-controlling shares	-	-	-	-	-	-	-	-	-	18.340.422	-
Balances as of 31 December 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 73 form an integral part of these consolidated financial statements.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts are expressed in Turkish Lira (TL))

	Notes	Current Period 1 January- 31 December 2016	Previous Period 1 January- 31 December 2015
CASH FLOWS FROM OPERATING ACTIVITIES		153.849.136	189.010.531
Profit for the period		(27.818.987)	(29.522.057)
- Period income from continuing operations		(27.818.987)	(29.522.057)
Adjustments to reconcile profit/loss for the period		153.554.969	139.338.992
- Adjustments related to depreciation and amortization expenses	7,8	36.961.175	33.391.171
- Adjustments related to provisions		1.294.623	873.898
<i>Provisions and adjustments related to employee benefits</i>		1.294.623	873.898
- Adjustments to interest (income) expenses		43.288.576	28.832.075
<i>Adjustments to interest income</i>	20	(5.198.429)	(2.507.736)
<i>Adjustments to interest expenses</i>	21	48.487.005	31.339.811
- Unrealised foreign exchange gain/(loss)		52.834.167	15.488.797
- Adjustments to tax income (expense)	23	5.723.817	11.671.465
- Other adjustments to non-cash transactions		13.452.611	49.081.586
Changes in working capital		39.339.591	89.470.947
- Adjustments related to increase/decrease in trade receivables		(2.124.328)	(2.416.322)
<i>Increase/decrease in trade receivables from related parties</i>		1.983.516	(5.066.133)
<i>Increase/decrease in trade receivables from third parties</i>		(4.107.844)	2.649.812
- Adjustments related to increase/decrease in other receivables from operating activities		(37.238.998)	(2.128.685)
<i>Increase/decrease in other receivables from related parties</i>		(23.523.750)	(8.295.954)
<i>Increase/decrease in other receivables from third parties</i>		(13.714.248)	6.167.269
- Adjustment related to increase/decrease in service concession arrangements		(238.292)	34.199.011
- Adjustment related to increase/decrease in prepaid expenses		4.143.579	(27.344.123)
- Adjustment related to increase/decrease in trade payables		(25.413.249)	(12.519.426)
<i>Increase/decrease in trade payables to related parties</i>		(21.548.905)	(11.340.383)
<i>Increase/decrease in trade payables to third parties</i>		(3.864.344)	(1.179.043)
- Increase in payables of employee benefits		556.473	649.686
- Adjustments related to increase/decrease in other payables		99.653.406	99.030.806
<i>Increase/decrease in other payables to related parties</i>		97.882.652	101.149.541
<i>Increase/decrease in other payables to third parties</i>		1.770.754	(2.118.735)
Cash Flow from Operations		165.075.573	199.287.883
Payments for employee benefits	14	(366.435)	(168.626)
Income taxes paid		(10.860.002)	(10.108.726)

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

**AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts are expressed in Turkish Lira (TL))

	<u>Notes</u>	<u>Current Period 1 January- 31 December 2016</u>	<u>Previous Period 1 January- 31 December 2015</u>
CASH FLOWS FROM INVESTING ACTIVITIES		(124.009.145)	(261.327.699)
Proceeds from sale of property, plant and equipment and intangible assets		(92.036.934)	(196.622.231)
<i>Proceeds from sale of property, plant and equipment</i>		(91.895.395)	(196.577.028)
<i>Proceeds from sale of intangible assets</i>		(141.539)	(45.203)
Advances given for acquisition of property, plant and equipment		(21.220.714)	(33.701.812)
<i>Other advances given for acquisition of property, plant and equipment</i>		(21.220.714)	(33.701.812)
Tax payments		(15.949.926)	(33.511.392)
Interest received	20	5.198.429	2.507.736
CASH FLOWS FROM FINANCING ACTIVITIES		(29.520.519)	46.314.883
Cash inflows due to borrowings		335.519.280	265.628.406
<i>Cash inflows due to bank loans</i>		335.519.280	265.628.406
Cash outflows due to borrowings		(310.918.795)	(179.356.096)
<i>Cash outflows due to bank loans</i>		(310.918.795)	(179.356.096)
Dividends paid		(1.268.500)	(1.337.518)
Interest paid		(71.192.926)	(43.958.978)
Other cash inflows/(outflows)		18.340.422	5.339.069
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS BEFORE FOREIGN CURRENCY TRANSLATIONS		319.472	(26.002.285)
Foreign currency translation effects on cash and cash equivalents		(6.261.313)	(10.096.671)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(5.941.841)	(36.098.956)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		152.593.651	188.692.607
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		146.651.810	152.593.651

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 31 DECEMBER 2016

(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 31 December 2016 (31 December 2015: 15,01%) (Note 17).

As of 31 December 2016, the number of personnel of the Group is 328 (31 December 2015: 304).

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
Aksu Temiz Enerji Elektrik Üretim Sanayi ve Ticaret A.Ş. (“Aksu”)	Electricity production and trading	70%	70%	Hülya Sokak No: 37 Gaziosmanpaşa Ankara
Ayen-AS Enerji SHA (“Ayen-AS”)	Electricity production and trading	82%	89%	Papa Gijon Pali i II-te, ABA Business Center, Tirane/Albania (Albania)
Ayel Elektrik Üretim Sanayii ve Ticaret A.Ş. (“Ayel Elektrik”)	Electricity production, distribution and trading	82%	82%	Hülya Sokak No: 37 Gaziosmanpaşa Ankara
Araklı Doğalgaz Enerji Sanayi ve Ticaret A.Ş. (“Araklı Enerji”)	Electricity production and trading	76%	76%	Hülya Sokak No: 37 Gaziosmanpaşa Ankara
Ayen Energy Trading SHA (“Ayen Trading”)	Electricity trading	0%	100%	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%	Kosançicev 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 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

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

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

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

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

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

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

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

The main operation of Ayen Ostim which is located at Ostim Organize Sanayi Bölgesi and began to operate in July 2004, is to supply electricity to end users in the market according to "Act of Electricity Market" (within "Electricity Market Balancing and Settlement Regulation"). The installed capacity of the natural gas power plant is 41 MW. 24% of shares in Ayen Ostim's capital belongs to Aydın İnşaat which is the main shareholder of the Company.

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

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

Ayen AS Enerji SHA; the construction of the facilities of PESHQESHIT 3 Hydroelectricity Energy Production Facility, established in Albania has been completed with the annual electricity energy production capacity of 118.400.000 kWh, installation power of 34 MW and one of the HEPP projects within the scope of the “Albanian Fan Basin HEPP Project” with the annual electricity energy production capacity of 347.246.000 and installation power of 109,73 MW and has been commissioned commercially on 4 May 2015 and the electricity energy production in this facility has started.

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

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

Ayen Elektrik participated in 100% share of Ayen Enerji Trading SHA which established with ALL 3.500.000 (EURO 25.000) 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 Enerji Trading D.O.O. (Serbia) with EURO 10.000 nominal capital and Ayen Enerji Trgovanje z Električno Energijo, D.O.O. (Slovenia) with EURO 67.500 nominal capital in respectively 13 June 2014 and 19 June 2014. The main operations of these companies are to sale, import and export of the electricity and/or the electricity capacity as wholesale and sale directly to end users particularly to European Countries in accordance with the European Union regulations.

Approval of consolidated financial statements:

Board of Directors has approved the consolidated financial statements for the period between 1 January - 31 December 2016 and delegated publishing it on 13 March 2017. No authority other than Board of Directors and General Assembly has the right to modify 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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

2.1 Basis of presentation (cont'd)

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

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

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

Functional Currency

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

Subsidiaries of the Group are measured using the currency that has significant impact on the entity or on the operations of entity, which reflects the economic substance of the underlying events and circumstances relevant to the entity. In this context, Ayen-AS and Ayen Trading is measured using ALL. According to TAS 21, balance sheet items (except capital accounts) in terms of ALL have been included into consolidation by being translated to TL with buying rate applicable as of balance sheet date (ALL 1= TL 0,02743). Additionally, Ayen Slovenia and Ayen Serbia is measured using EURO and the balance sheet items (except capital accounts) in terms of EURO have been included into consolidation by being translated to TL with buying rate applicable as of balance sheet date (EURO 1 = TL 3,7099). 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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

2.1 Basis of presentation (cont'd)

Comparative information, adjustment 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 addition, as of June 2, 2016, the 2016 TAS Taxonomy is approved by the board decision numbered 30. This Taxonomy is developed in order to provide TAS financial statements appropriate for 'Extensible Business Reporting Language' format based on the Article 9 (b) of Decree Law No. 660. Necessary reclassifications and adjustments are considered in the statement for the year ended 31 December 2016, in accordance with 2016 TAS Taxonomy.

- In accordance with 2016 TAS Taxonomy, taxes and funds payable is presented as "Payables Related to Current Tax" amounting to TL 1.714.171 as of 31 December 2015. In current period, the Group has presented as "Other Payables".
- Necessary reclassifications are considered in the statement of cash flows for the year ended 31 December 2016, in accordance with 2016 TAS Taxonomy.

Basis of Consolidation

As of 31 December 2016 and 31 December 2015, details of the Company's subsidiaries are as follows:

<u>Subsidiaries</u>	Group's proportion of ownership and voting power held (%)		<u>Place of incorporation and operation</u>	<u>Principle activity</u>
	2016	2015		
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	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

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

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

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

2.1 Basis of presentation (cont'd)

Basis of Consolidation (cont'd)

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

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

2.1 Basis of presentation (cont'd)

Basis of Consolidation (cont'd)

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

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

2.2 Changes in the Accounting Policies

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

2.3 Changes in Accounting Estimates and Errors

If changes in accounting estimates relate only for one period, changes are applied in the current period but if changes in estimates relate more than one period, changes are applied both in the current and following periods prospectively. Significant accounting estimates and errors used in the preparation of the consolidated financial statements are explained in note 2.6.

2.4 New and Revised Turkish Accounting Standards

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

None.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

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

b) Standards, amendments, and interpretations to existing standards effective in 2016 but not relevant to the Group

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

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

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

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

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

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

TFRS 9	<i>Financial Instruments</i> ¹
TFRS 15	<i>Revenue from Contracts with Customers</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2018.

TFRS 9 *Financial Instruments*

TFRS 9, issued by Public Oversight Authority (“POA”) in 2010, introduces new requirements for the classification and measurement of financial assets. TFRS 9 is amended in 2011 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Revised version of IFRS 9 is issued by POA in January 2017 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income (“FVTOCI”) measurement category for certain simple debt instruments.

TFRS 9 is effective for the annual periods beginning on or after 1 January 2018. Early adoption is permitted unless before 1 February 2015.

TFRS 15 *Revenue from Contracts with Customers*

TFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts,
- Recognise revenue when the entity satisfies a performance obligation.

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies

Related Parties

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

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

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

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

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

Revenue

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

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

Dividend and interest revenue

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

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Application of TFRS Comment 12 - Service Concession Arrangements

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

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

The Group recognises a financial asset to the extent that it has an unconditional contractual right to receive cash from or at the direction of the grantor for the construction services related to hydroelectric power plants in the context of BOT model. The amount due from or at the direction of the grantor is accounted for as a receivable in accordance with TAS 39 "Financial Instruments: Recognition and Measurement". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income and the interest calculated using the effective interest method is recognised in the profit or loss statement.

The receivables that are due but not collected as of the balance sheet date are classified as due receivables from the grantor and carried at their net realisable value (Note 10).

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

Property, Plant and Equipment

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

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Property, Plant and Equipment (cont'd)

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

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

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

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

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

Intangible Assets

Intangible assets comprise wholesale license, energy production licenses, other rights and other intangible assets that are likely to generate future economic benefits to the Group. Licences and other identified assets are booked in consolidated financial statements with their net value after deducting accumulated depreciations and permanent impairments, if any, from their acquisition costs. Other intangible assets that are likely to generate economic benefits are recognized with their fair values on agreement date. These contractual intangible assets have certain useful lives and recognized with deducting accumulated depreciations from acquisition costs. Intangible assets are amortized on a straight line basis over their estimated useful lives for a period not exceeding 5 - 45 years (Note 8).

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

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

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

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. In 2016, TL 28.329.398 of borrowing costs regarding the investment loans (31 December 2015: 22.238.994) is capitalized over tangible assets (Note 7).

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Business Combinations

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

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

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

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

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.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Business Combinations (cont'd)

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.

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

Goodwill

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

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

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

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

Deferred Financing Charges

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Financial Instruments

Financial Assets

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

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

Effective interest method

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

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

Loans and receivables

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

Cash and cash equivalents

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

Financial Liabilities

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

Financial liabilities at FVTPL

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

Other financial liabilities

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

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

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

Foreign Currency Transactions

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

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Foreign Currency Transactions (cont'd)

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

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

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

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

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

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Earnings Per Share

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

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

Events After the Reporting Period

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

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

Provisions, Contingent Assets and Liabilities

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

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

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

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

Segment Reporting

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Income Tax

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

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and 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 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Income Tax (cont'd)

Deferred tax (cont'd)

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

Current and deferred tax for the period

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

Employee Benefits

Termination and retirement benefits

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

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

Statement of Cash Flows

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

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

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

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

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

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

2.5 Summary of Significant Accounting Policies (cont'd)

Share Capital and Dividends

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

2.6 Critical accounting judgments and key sources of estimation uncertainty

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

Deferred Taxes

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

As of 31 December 2016, the Group recognized deferred income tax asset to the extent that it is probable that future taxable profit will be available. However, the Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all that deferred tax asset to be utilized.

Accordingly, since it is foreseen that the sufficient profit can not be sustained starting from the following year the Group did not recognise deferred tax assets amounting to TL 96.030.471 (31 December 2015: TL 61.571.358) for the carry forward tax losses of Ayen Ostim amounting to TL 23.981.351 (31 December 2015: TL 25.958.460), the carry forward tax losses of Ayen Elektrik amounting to TL 15.914.273 (31 December 2015: TL 16.499.566) and the carry forward tax losses of Ayen AS amounting to TL 388.860 (31 December 2015: 3.726.440 TL), total carry forward tax losses of TL 27.243.548 (31 December 2015: TL 21.364.843) (Note 23).

Group recognized TL 11.905.962 (31 December 2015: TL 11.905.962) of deferred tax asset over Ayen Enerji's carry forward tax losses amounting to TL 59.529.811 (31 December 2015: TL 59.529.811) (Note 23). There is not any Aksu's carry forward tax losses as of 31 December 2016 (31 December 2015: Group recognized TL 870.193 of deferred tax asset over Aksu's carry forward tax losses amounting to TL 4.350.964) (Note 23).

Provisions

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

As of 31 December 2016, the Group is subject to various legal proceedings. The Group evaluates the possible outcomes of the lawsuits based on the Group's legal advisers view and accounts the required provisions against the possible gains and losses (Note 12).

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

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

Impairment of goodwill

The Group tests annually whether goodwill has been impaired, in accordance with the accounting policies stated in Note 2.5. The recoverable amount of cash-generating unit has been determined based on value-in-use calculations. This value-in-use calculation includes the discounted cash flow projections. This calculation includes discounted values of the fund flow of Yamula Dam of Kayseri Elektrik determined in USD, approved by the Ministry of Energy and Natural Resources ("MENR") and will be expired in 2025. In the determination of the recoverable amount, the USD calculated amount was converted to TL. Therefore, the value-in-use is affected from the changes in foreign exchange rates. The discount rate used in the value-in-use calculations is 13,44% (2015: 13,44%).

The discount rate used reflects specific risks relating to Kayseri Elektrik. As of 31 December 2016, 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 138.271.023 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	158.829.591
Base discount rate 0	200.030.621
Base discount rate by -1	172.050.614

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 8,06% (31 December 2015: 8,27%).

The discount rate used reflects specific risks relating to Company and Albania. As of 31 December 2016, 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 64.027.672 and TL 4.681.198 respectively and no impairment was identified.

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

	Value in use (TL)
Base discount rate by +1	78.411.417
Base discount rate 0	87.106.000
Base discount rate by -1	97.800.463

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

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

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

Impairment of property, plant and equipment

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

As of 31 December 2016, valuation of Ayen Ostim's property, plant, and equipment was performed by "Lal Gayrimenkul Değerleme ve Müşavirlik A.Ş." which is authorized by CMB and independent from the Group.

Fair value of machine and equipments was determined in accordance with the benchmark second-hand prices of similar machine and equipments. Aforementioned fair values have been compared with tangible assets of Ayen Ostim amounting to TL 17.338.704 and no impairment was identified.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts are expressed in Turkish Lira (TL))

3. RELATED PARTY TRANSACTIONS

Related party transactions	31 December 2016							
	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. (*)	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	-	-	-	-	-	-	-
Melay İnşaat Sanayi ve Ticaret A.Ş.	-	-	-	-	1.642.840	-	-	-
Aksu Other Shareholders (**)	-	-	-	18.386.039	-	14.548	-	-
Agron 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 Fizyaları İşletme A.Ş.	1.944.327	-	-	-	-	-	-	-
Other	81.918	-	-	-	-	-	-	-
	<u>3.621.481</u>	<u>2.207.541</u>	<u>-</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 31 December 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 31 December 2016, interest rate for aforementioned EURO denominated receivables is 5,35%.

AYEN ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (TL))

3. RELATED PARTY TRANSACTIONS (cont'd)

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

(*) Short-term trade payables consist of the progress bills issued by Aydiner İnşaat for constructions in progress of the Group. The short-term non-trade payables consist of loan given to Group by Aydiner İnşaat A.Ş. as of 31 December 2015, interest rate for aforementioned loan is %15.

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

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

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3. RELATED PARTY TRANSACTIONS (cont'd)

İlişkili taraflarla olan işlemler	1 January – 31 December 2016							
	Foreign currency incomes	Foreign currency expenses	Energy sales	Interest income	Purchases of fixed assets	Purchases of services	Interest Expenses	
Aydiner İnşaat A.Ş. (*)	-	2.457.181	1.200.780	44.529	59.175.402	184.308	4.536.688	
Kayseri ve Cıvırı 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 Diğer Ortaklar	-	-	-	2.642.742	-	-	-	
Agron Turizm ve Ticaret A.Ş.	-	-	258.232	-	-	-	-	
Layne Bowler Pompa Sanayi A.Ş.	-	-	239.058	-	-	-	-	
Eneji Piyasaları İşletme A.Ş.	-	-	59.368.035	-	-	-	-	
AS Enerji ŞhpK	12.327.609	-	-	1.989.926	-	-	-	
Diğer	-	-	-	-	-	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.

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3. RELATED PARTY TRANSACTIONS (cont'd)

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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3. RELATED PARTY TRANSACTIONS (cont'd)

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

Compensation of key management personnel during the period as follow:

	1 January- 31 December 2016	1 January- 31 December 2015
Salary and other short-term benefits	3.245.136	3.100.126
Other long-term benefits	253.638	138.261
	<u>3.498.774</u>	<u>3.238.387</u>

4. TRADE RECEIVABLES AND PAYABLES

a) Trade Receivables:

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

	31 December 2016	31 December 2015
<u>Short-term trade receivables</u>		
Trade receivables (*)	21.169.271	18.460.067
Income accruals	3.820.300	3.507.596
Trade receivables from related parties (Note 3)	3.621.481	5.133.733
Notes receivable	215.100	233.170
Provisions for doubtful receivables (-)	(1.089.116)	(989.763)
	<u>27.737.036</u>	<u>26.344.803</u>

(*) As of 31 December 2016 trade receivables consist of receivables from Türkiye Elektrik Ticaret ve Taahhüt A.Ş. ("TETAŞ") amounting to TL 7.254.734 (2015: TL 2.893.366) and Türkiye Elektrik İletim A.Ş. ("TEİAŞ") amounting to TL 492.333 (2015: TL 176.912). Remaining amount consists of trade receivables of Ayen Elektrik from its customers.

The maturities of trade receivables are less than one month as of 31 December 2016 and 2015.

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

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4. TRADE RECEIVABLES AND PAYABLES (cont'd)

b) Trade Payables:

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

	31 December 2016	31 December 2015
<u>Short-term trade payables</u>		
Trade payables	19.241.085	21.047.928
Expense accruals	1.696.229	1.098.809
Trade payables to related parties (Note 3)	6.777.258	33.879.246
Other trade payables (*)	11.862.293	12.317.659
	<u>39.576.865</u>	<u>68.343.642</u>

(*) As of 31 December 2016, TL 9.134.939 (31 December 2015: TL 10.229.997) of trade payables are related to the investments made for Ayen AS.

The maturities of trade payables are less than one month as of 31 December 2016 and 2015.

5. OTHER RECEIVABLES AND PAYABLES

	31 December 2016	31 December 2015
<u>Other Short-Term Receivables</u>		
Deposits and guarantees given	1.622.514	623.142
Receivables from transmission lines (*)	1.748.399	1.034.443
Non-trade receivables from related parties (Note 3)	2.207.541	476.640
Other receivables	576.461	340.474
	<u>6.154.915</u>	<u>2.474.699</u>
<u>Other Long-Term Receivables</u>		
Deposits and guarantees given	193.709	176.268
Receivables from transmission lines (*)	2.898.943	4.446.990
Non-trade receivables from related parties (Note 3)	48.640.325	26.847.475
	<u>51.732.977</u>	<u>31.470.733</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.

	31 December 2016	31 December 2015
<u>Other Short-Term Payables</u>		
Deposits and guarantees received	2.773.216	1.645.681
Non-trade payables to related parties (Note 3)	240.943.484	136.629.974
Other payables	19.218	518
Taxes and funds payable	2.194.160	1.714.171
	<u>245.930.078</u>	<u>139.990.344</u>

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6. PREPAID EXPENSES AND DEFERRED INCOME

	31 December 2016	31 December 2015
Short-Term Prepaid Expenses		
Prepaid expenses	542.754	1.845.968
Deferred finance charges (*)	3.965.410	3.579.674
Advances given for business purposes	97.374	247.472
Other	289.120	140.847
	4.894.658	5.813.961
	31 December	31 December
Long-Term Prepaid Expenses	2016	2015
Deferred finance charges (*)	25.643.177	26.872.556
Advances given (**)	10.834.897	33.778.070
Other	118.917	146.178
	36.596.991	60.796.804

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

(**) The balance of TL 10.745.765 consists of advances given by Ayen AS to subcontractors as of 31 December 2016 (31 December 2015: TL 32.148.988).

	1 January- 31 December 2016	1 January- 31 December 2015
The movement for the deferred finance charge		
Opening balance	30.452.230	23.278.350
Current period capitalization	1.907.621	8.783.856
Current period amortization	(2.307.000)	(2.216.699)
Currency translation differences	(444.264)	606.723
	29.608.587	30.452.230

	31 December 2016	31 December 2015
Short-Term Deferred Income		
Advances received (*)	40.484	73.359
	40.484	73.359

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

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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 1 January 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 31 December 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 1 January 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 31 December 2016	-	(14.713.573)	(17.616.715)	(144.447.421)	(1.653.837)	(1.679.365)	-	(180.110.911)
Net book value as at 31 December 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

(*) In the current period, TL 28.329.398 of borrowing cost regarding to the bans 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.

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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 1 January 2015	9.559.844	19.515.659	153.366.378	505.284.994	2.144.520	2.135.343	328.549.209	1.020.555.947
Additions	-	-	-	14.677	840.695	184.736	212.738.399	213.778.507
Currency translation differences	-	7.686.240	1.218.919	3.980.090	145.473	84.430	46.513.763	59.628.915
Transfers from constructions in progress	-	100.320.246	15.909.246	50.907.737	-	-	(167.137.229)	-
Closing balance as of 31 December 2015	9.559.844	127.522.145	170.494.543	560.187.498	3.130.688	2.404.509	420.664.142	1.293.963.369
<u>Accumulated Depreciation</u>								
Opening balance as at 1 January 2015	-	(4.581.958)	(9.496.905)	(91.774.509)	(989.034)	(1.297.272)	-	(108.139.678)
Charge for the period	-	(3.777.400)	(3.882.923)	(24.386.329)	(222.431)	(220.166)	-	(32.489,249)
Currency translation differences	-	(139.890)	(26.146)	(95.073)	(20.047)	(20.499)	-	(301.655)
Closing balance as of 31 December 2015	-	(8.499.248)	(13.405.974)	(116.255.911)	(1.231.512)	(1.537.937)	-	(140.930.582)
Net book value as at 31 December 2015	9.559.844	119.022.897	157.088.569	443.931.587	1.899.176	866.572	420.664.142	1.153.032.787

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

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

Depreciation expense of TL 35.695.951 (31 December 2015: TL 32.163.420) has been charged in cost of sales and TL 317.400 (31 December 2015: TL 325.829) has been charged in general administrative expenses.

As of 31 December 2015 there are mortgages over the tangible assets of the Group for the borrowings obtained amounting to TL 17.596.000 (USD 5.000.000) (Note 12). (31 December 2015: USD 5.000.000 (TL 14.538.000)). 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. In addition, there are commercial enterprise pledges amounting to TL 225.000.000 on 20 April 2016 as a guarantee for the investment loan obtained for Aksu WPP (Note 12).

8. INTANGIBLE ASSETS

Cost	Wholesale Licence	Electricity Production Licence	Rights	Other Intangible Assets	Total
Opening balance as at 1 January 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 31 December 2016	350.929	15.374.520	1.991.828	5.881.918	23.599.195
Accumulated Amortization					
Opening balance as at 1 January 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 31 December 2016	(331.033)	(898.468)	(1.724.433)	(2.831.535)	(5.785.469)
Net book value as at 31 December 2016	19.896	14.476.052	267.395	3.050.383	17.813.726
Cost	Wholesale Licence	Electricity Production Licence	Rights	Other Intangible Assets	Total
Opening balance as at 1 January 2015	334.774	15.374.520	1.881.508	5.698.634	23.289.436
Charge for the period	-	-	81.649	34.128	115.777
Closing balance as at 31 December 2015	334.774	15.374.520	1.963.157	5.732.762	23.405.213
Accumulated Amortization					
Opening balance as at 1 January 2015	(323.887)	(559.524)	(1.020.931)	(2.021.938)	(3.926.280)
Charge for the period	(2.780)	(169.472)	(347.111)	(382.559)	(901.922)
Closing balance as at 31 December 2015	(326.667)	(728.996)	(1.368.042)	(2.404.497)	(4.828.202)
Net book value as at 31 December 2015	8.107	14.645.524	595.115	3.328.265	18.577.011

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8. INTANGIBLE ASSETS (cont'd)

Amortization expense of TL 863.373 (31 December 2015: TL 864.422) has been charged in cost of sales and TL 84.451 (31 December 2015: TL 37.500) has been charged in general administrative expenses.

9. GOODWILL

The difference between Ayen Enerji's interest in the net fair value of the acquired identifiable assets due to the acquisition of Demir Enerji in 2002, who was the shareholder of Kayseri Elektrik and the acquisition price has been considered as goodwill. Ayen Enerji has merged with Demir Enerji on the basis of its balance sheet as of 30 June 2008. As described in Note 2.6 to the consolidated financial statements, as a result of the impairment test carried out at 31 December 2016 and 2015 no impairment was identified in the carrying amount of goodwill amounting to TL 17.461.935.

Ayel Elektrik has acquired 8% shares of Ayen-AS Energy's shares whose book value is TL 178.002 (ALL 11.000.000) from AS Energy S.H.P.K. in 2011 amounting to TL 4.859.200. Exceeding amount of the book value of the acquired shares which is TL 4.681.198 has been recognised as goodwill on the consolidated financial statements. As described in Note 2.6 to the consolidated financial statements, as a result of the impairment test carried out at 31 December 2016, no impairment was identified in the carrying amount of goodwill.

10. SERVICE CONCESSION ARRANGEMENTS

	31 December 2016	31 December 2015
<u>Due from Service Concession Arrangements</u>		
Short-term due from service concession arrangements Invoiced and undue from service concession arrangements (*)	8.631.729 8.623.952	6.193.298 1.957.024
Total short-term receivables of service concession arrangements	<u>17.255.681</u>	<u>8.150.322</u>
Long-term due from service concession arrangements	121.015.342	107.115.770
Total due from service concession arrangements	<u>138.271.023</u>	<u>115.266.092</u>
Gross due from service concession arrangements	234.112.803	215.961.578
Unearned financial income (-)	(104.465.732)	(102.652.510)
Due from service concession arrangements(*)	8.623.952	1.957.024
Due from service concession arrangements-net	<u>138.271.023</u>	<u>115.266.092</u>

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

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10. SERVICE CONCESSION ARRANGEMENTS (cont'd)

As of 31 December 2016 and 31 December 2015, the payment schedules for gross and net due from service concession arrangements are as follows:

	Gross due from service concession arrangements (USD)		Gross due from service concession arrangements (TL)	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	Up to 1 year	7.750.420	7.750.420	27.275.279
1 to 2 years	7.750.420	7.750.420	27.275.278	22.535.121
2 to 3 years	7.750.420	7.750.420	27.275.278	22.535.121
3 to 4 years	7.750.420	7.750.420	27.275.278	22.535.121
More than 4 years	35.522.758	43.273.178	125.011.690	125.821.093
	<u>66.524.438</u>	<u>74.274.858</u>	<u>234.112.803</u>	<u>215.961.578</u>
	Net due from service concession arrangements (USD)		Net due from service concession arrangements (TL)	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	Up to 1 year	2.452.753	2.130.037	8.631.729
1 to 2 years	2.805.464	2.452.753	9.872.990	7.131.625
2 to 3 years	3.208.897	2.805.465	11.292.750	8.157.170
3 to 4 years	3.658.396	3.208.897	12.874.627	9.330.189
More than 4 years	24.714.417	28.372.812	86.974.975	82.496.786
	<u>36.839.927</u>	<u>38.969.964</u>	<u>129.647.071</u>	<u>113.309.068</u>

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

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11. BORROWING COSTS

According to TAS 23, the borrowing costs of Group regarding the loans used for the qualifying assets investments which are interest expenses amounting TL 28.329.398 have been capitalized over property, plant and equipment in 2016 (31 December 2015: TL 22.238.994) (Note 7).

12. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Provisions

As of 31 December 2016, there are 30 case where the Group is litigant and 55 cases where the Group is defendant. Most of the cases are related with the bad debt and employee cases. At the end of each period, the Group evaluates the potential results of those cases and their financial effects and books a provision accordingly. As of 31 December 2016, there is no provision accounted for the litigations except provision for doubtful receivables (31 December 2015: None).

b) Contingent Assets and Liabilities

	31 December 2016	31 December 2015
Contingent assets		
Letters of guarantee received (*)	5.563.000	8.272.223
Guarantee received behalf of Ayen Enerji (**)	592.501.401	644.414.323
	<u>598.064.401</u>	<u>652.686.546</u>

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

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

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

	31 December 2016	31 December 2015
Contingent Liabilities		
Letters of conveyance given (*)	867.467.046	536.376.321

(*) 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 55.302.937 (31 December 2015: USD 74.641.464) as a conveyance for the loan. However, these conveyances will be effective if payment schedules of the loans have not been met. Moreover, there exists EURO 100.500.000 (TL 372.844.950, 31 December 2015: USD 100.500.000) of conveyance over receivables of Aksu Temiz Energy (insurance claims, carbon indemnity etc.) and conveyance over receivables from EPIAŞ due to electricity trade amounting to TL 300.000.000 as of 31 December 2016 (Note 25). However, these conveyances will be effective if payment schedules of the loans have not been met.

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

	31 December 2016	31 December 2015
<u>Contingent Liabilities</u>		

Commercial enterprise pledge (**)	515.000.000	290.000.000
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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, amounting to TL 225.000.000 as guarantee for the loan used for Aksu WPP on 30 April 2016.

	31 December 2016	31 December 2015
<u>Contingent Liabilities</u>		

Mortgages given (***)	17.596.000	14.538.000
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(***) Consists of the mortgages given for the long-term borrowings of the Group, there exists TL 147.596.000 (USD 5.000.000) of mortgages over property, plant and equipment (Note 25).

	31 December 2016	31 December 2015
<u>Contingent Liabilities</u>		

Letters of guarantee given (****)	55.936.427	62.643.572
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(****) Letters of guarantee given consist of TL 24.798.114 in terms of USD, TL 6.429.257 in terms of EURO and TL 24.709.056 in terms of Turkish Lira. Letters of guarantee given comprises that TL 24.192.776 (USD 6.874.510) has been given to the Albania Ministry of Economy for Ayen-AS, TL 605.338 (ABD 172.010) has been given to MTA General Directorate), TL 3.733.600 has been given to EMRA, TL 2.000.000 has been given to TEAİŞ as guarantee of Akbük II Wind Energy Plant, TL 27.404.713 consists of advances given to suppliers as guarantees for payables from electricity receiving and system using agreements.

	31 December 2016	31 December 2015
<u>Contingent Liabilities</u>		

Guarantee given (*****)	248.563.300	212.899.200
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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 31 DECEMBER 2016

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13. COMMITMENTS

c) Guarantees- Pledges -Mortgages

Guarantees, pledge and mortgage (“GPM”) position of the Group as of 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016				31 December 2015			
	TL Equivalent	TL	USD	EURO	TL Equivalent	TL	USD	EURO
GPM given on behalf of the legal entity	336.617.952	294.223.839	12.046.520	-	331.883.997	296.857.535	12.046.520	-
Guarantee Letter	29.021.952	4.223.839	7.046.520	-	27.345.997	6.857.535	7.046.520	-
Pledge	290.000.000	290.000.000	-	-	290.000.000	290.000.000	-	-
Mortgage	17.596.000	-	5.000.000	-	14.538.000	-	5.000.000	-
Guarantee	-	-	-	-	-	-	-	-
GPM given on behalf of the subsidiaries that are included in full consolidation	1.367.944.821	545.485.218	55.302.937	169.233.000	784.573.096	25.980.577	76.574.828	168.663.000
Conveyance	867.467.046	300.000.000	55.302.937	100.500.000	536.376.321	-	74.641.464	100.500.000
Guarantee Letter	26.914.475	20.485.218	-	1.733.000	35.297.575	25.980.577	1.933.364	1.163.000
Pledge	225.000.000	225.000.000	-	-	212.899.200	-	-	67.000.000
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	<u>1.704.562.773</u>	<u>839.709.057</u>	<u>67.349.457</u>	<u>169.233.000</u>	<u>1.116.457.093</u>	<u>322.838.112</u>	<u>88.621.348</u>	<u>168.663.000</u>

(*): As of 31 December 2016, rate of Group’s GPM to equity is 0% (2015: 0%).

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

	31 December 2016	31 December 2015
Social security premiums payable	682.801	318.151
Due to personnel	246.650	54.827
	<u>929.451</u>	<u>372.978</u>

Short-term provisions for employee benefits:

	31 December 2016	31 December 2015
Provision for unused vacation	926.961	643.961
	<u>926.961</u>	<u>643.961</u>

The movement for provisions is as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
As of 1 January	643.961	606.919
Period Charge	283.000	37.042
	<u>926.961</u>	<u>643.961</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 4.297,21 (2015: TL 3.828,37) for each period of service at 31 December 2016.

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14. EMPLOYEE BENEFITS (cont'd)

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

Provisions for Severance Indemnity (cont'd):

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

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2016, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated with the assumption of an annual inflation rate of 7,80% and a discount rate of 11%, resulting in a real discount rate of approximately 2,97 % (31 December 2015: discount rate of approximately 3,64%). Estimated amount of retirement pay not paid due to voluntary leaves and retained in the Company is also taken into consideration. Ceiling for retirement pay is revised semi-annually. Ceiling amount of TL 4.426,16 (1 January 2016: TL 4.092,53) which is in effect since 1 January 2017 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 369.034.
- If the anticipated turnover rate had been 1% higher/(lower) provision for employee termination benefits would decrease/(increase) by TL 141.034.

	1 January- 31 December 2016	1 January - 31 December 2015
Provision at January 1	2.720.724	2.054.245
Service cost	910.897	793.675
Interest cost	100.726	39.679
Actuarial gain / loss	258.159	1.751
Termination benefits paid	<u>(366.435)</u>	<u>(168.626)</u>
Provision at December 31	<u>3.624.071</u>	<u>2.720.724</u>

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15. EXPENSES BY NATURE

	1 January - 31 December 2016	1 January - 31 December 2015
Cost of electricity (**)	155.887.392	143.175.375
Cost of natural gas	14.504.897	13.227.719
Depreciation and amortization expenses	36.961.175	33.391.171
Personnel expenses (*)	21.277.260	17.974.156
Plant technical assistance and maintenance	13.072.407	12.192.769
System usage fee (***)	10.254.985	7.231.922
Transportation expenses	885.361	970.060
Office expenses	742.027	1.000.374
Consultancy fees	2.480.693	2.350.174
Insurance expenses	1.452.800	1.199.168
Provisions for doubtful receivables	1.089.115	989.763
Greensite expenses	-	854.222
Hydraulic contribution	552.083	-
Taxes and duties	480.806	507.791
Contribution fees	715.491	686.725
Other	6.681.295	5.936.922
	<u>267.037.787</u>	<u>241.688.311</u>

(*) Personnel expenses of TL 11.641.057 (31 December 2015: TL 10.733.421) has been charged in cost of sales; TL 7.240.735 (31 December 2015: TL 7.240.735) has been charged in general administrative expenses.

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

	31 December 2016	31 December 2015
<u>Other Current Assets</u>		
VAT carried forward	2.773.006	4.146.669
VAT deductible (*)	3.176.469	-
Other	3.361	45.446
	<u>5.952.836</u>	<u>4.192.115</u>
<u>Other Non-Current Assets</u>		
VAT deductible (*)	112.710.815	84.320.634
	<u>112.710.815</u>	<u>84.320.634</u>

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

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17. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

The Company is not subject to registered capital system. The approved and issued capital of the Company consists of 17.104.230.000 shares (31 December 2015: 17.104.230.000) with TL 0,01 nominal price each. The amount of 9.729.720.000 are nominative group (A) shares, 2.567.565.000 shares are publicly traded group (B) shares and bearer 4.806.945.000 shares to the bearer are non-public registered shares. The mentioned capital is fully paid.

The composition of the Company's paid-in share capital as of 31 December 2016 and 31 December 2015 is as follows:

Shareholders	%	31 December 2016	%	31 December 2015
Aydiner İnşaat A.Ş.	84,98	145.347.710	84,98	145.347.710
Public quotation	15,01	25.675.650	15,01	25.675.650
Other	<1	18.940	<1	18.940
Subscribed capital		171.042.300		171.042.300

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

Restricted profit reserves and retained earnings

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions. As of 31 December 2015, the amount of restricted profit reserves is TL 67.942.354 (31 December 2015: TL 62.162.876).

Besides, in Kayseri Elektrik General Assembly which was hold on 21 March 2016, it was decided to appropriate amounting to TL 5.779.478 of reserve out of Company's profit for the year 2016.

Resources Available for Profit Distribution

As of balance sheet date, period loss of the Group is TL 12.856.656 and retained earnings is TL 1.679.377 according to the statutory records. As of 31 December 2016, the Group does not have any source of profit distribution (31 December 2015: TL 1.679.377).

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(Amounts are expressed in Turkish Lira (TL))

18. REVENUE AND COST OF SALES

	1 January - 31 December 2016	1 January - 31 December 2015
Electricity sales	332.555.680	257.526.196
Interest income from service concession arrangements	20.082.917	26.296.803
Revenue	352.638.597	283.822.999
Cost of sales	(251.913.321)	(226.089.957)
Gross Profit	100.725.276	57.733.042

During the year, TL 6.428.638 (2015: TL 26.652.554) of invoices issued to TETAŞ related to the Service Concession Arrangements, which is stated in Note 2.5, have been deducted from Service Concession Receivables.

19. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

The details of other income from operating activities for the years ended 31 December 2016 and 2015 are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Foreign exchange gain arising from operating activities	10.155.817	12.790.987
Akbük WPP wing damage fee (*)	110.310	499.225
Mordoğan WPP transformer damage fee (**)	112.143	220.269
Discount income of trade payables	254.418	3.118.725
Other	1.358.744	2.390.222
	11.991.432	19.019.428

(*) 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.

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(Amounts are expressed in Turkish Lira (TL))

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

The details of other expenses from operating activities for the years ended 31 December 2016 and 2015 are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Foreign exchange losses arising from operating activities	(7.936.514)	(7.899.089)
Kızılcahamam forest expense (*)	(207.933)	(139.631)
Donations	(59.100)	(337.900)
Transmission line fee (***)	-	(1.255.595)
Premium payment made to turbine suppliers (**)	(381.433)	(222.666)
Discount expenses of receivables	(1.895.956)	-
Other	(51.347)	(1.229.034)
	<u>(10.532.283)</u>	<u>(11.083.915)</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.

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

20. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

The details of other income from investing activities for the years ended 31 December 2016 and 2015 are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Interest income	5.198.429	2.507.736
Foreign exchange gains	47.111.151	25.470.248
Other	60.769	126.726
	<u>52.370.349</u>	<u>28.104.710</u>

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21. FINANCE EXPENSES

	1 January - 31 December 2016	1 January - 31 December 2015
Net foreign exchange (loss) / income	(110.438.028)	(62.266.467)
Bank loan interests	(35.616.263)	(21.488.711)
Bond interests	(10.563.742)	(9.851.101)
Deferred finance expenses	(2.307.000)	(2.216.699)
Other finance expenses	(2.600.445)	(202.525)
	<u>(161.525.478)</u>	<u>(96.025.503)</u>

22. ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS

	1 January- 31 December 2016	1 January- 31 December 2015
Foreign currency translation reserve		
Balance at the beginning of period	19.477.671	3.411.319
Foreign exchange differences arising from the translation of net assets of the business abroad	30.287.614	16.066.352
Balance at the end of period	<u>49.765.285</u>	<u>19.477.671</u>
	1 January- 31 December 2016	1 January- 31 December 2015
Remeasurement of defined benefit plans income/(losses)		
Balance at the beginning of period	(457.969)	(456.568)
Remeasurement income/(losses) from defined benefit plans	(206.527)	(1.401)
Balance at the end of period	<u>(664.496)</u>	<u>(457.969)</u>

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

	31 December 2016	31 December 2015
<u>Short-term Assets related to current tax</u>		
Prepaid taxes and dues	76.243	69.657
	<u>76.243</u>	<u>69.657</u>
	31 December 2016	31 December 2015
<u>Current tax liability:</u>		
Current tax liability provision	6.217.618	9.598.135
Less: prepaid taxes and funds	(1.261.867)	-
	<u>4.955.751</u>	<u>9.598.135</u>
<u>Tax expense in profit or loss statement:</u>	1 January- 31 December 2016	1 January- 31 December 2015
<u>Income tax expense consists of the following:</u>		
Current tax expense	(6.217.618)	(9.598.135)
Deferred tax (expense)/income related with the formation of temporary differences with the dissolution of temporary differences	493.801	(2.073.330)
Total tax expense / income	<u>(5.723.817)</u>	<u>(11.671.465)</u>
<u>Tax recognized directly in equity</u>	1 January- 31 December 2016	1 January- 31 December 2015
<u>Deffered Tax</u>		
Recorded directly to equity		
Actuarial gain or loss	51.632	350
Total deferred tax recognized directly in equity	<u>51.632</u>	<u>350</u>

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

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

	1 January-31 December 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>

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

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 2016 is 20% (2015: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2016 is 20%. (2015: 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.

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

Income Withholding Tax

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

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

Investment Incentives

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

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

Deferred tax:

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

For calculation of deferred tax asset and liabilities, the rate of 20% (2015: 20%) is used.

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

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

Deferred tax (cont'd):

<u>Deferred tax assests/ (liabilities):</u>	<u>Temporary differences</u>		<u>Deferred tax assests/ (liabilities)</u>	
	<u>31 December 2016</u>	<u>31 December 2015</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Property, plant and equipment and intangible assets	172.573.605	155.309.645	34.514.721	31.061.929
Investment incentives	28.528.500	53.557.500	57.057	107.115
Carry forward tax losses	59.529.811	63.880.775	11.905.962	12.776.155
Provision for employment termination benefits	3.610.584	2.710.940	722.117	542.188
Due from service concession arrangements	(132.706.245)	(116.930.775)	(26.541.249)	(23.386.155)
Deferred finance charges	-	(642.070)	-	(128.414)
Other	3.081.955	(1.216.240)	616.395	(243.248)
	<u>134.618.210</u>	<u>156.669.775</u>	<u>21.275.003</u>	<u>20.729.570</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 27.243.548 (31 December 2015: 21.364.843) for the carry forward tax losses of Ayen Enerji amounting to TL 96.030.471 (31 December 2015: TL 61.571.358), that of Ayen Ostim amounting to TL 23.981.351 (31 December 2015: TL 25.958.460), that of Ayen Elektrik amounting to TL 15.914.273 (31 December 2015: TL 16.499.566) and that of Ayen AS amounting to TL 388.860 (31 December 2015: TL 3.726.440).

As of 31 December 2016 and 31 December 2015, the expiration dates of prior years' losses, which deferred tax asset have not been accounted for, are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
2016	-	13.259.661
2017	2.598.617	2.598.617
2018	13.713.191	19.525.745
2019	11.828.602	16.470.768
2020	61.271.527	55.901.033
2021	46.903.018	-
Closing balance at 31 December	<u>136.314.955</u>	<u>107.755.824</u>

Group recognized TL 11.905.962 (31 December 2015: TL 11.905.962) of deferred tax asset over Ayen Enerji's carry forward tax losses amounting to TL 59.529.811 (31 December 2015: TL 59.529.811). There is not any Aksu's carry forward tax losses as of 31 December 2016 (31 December 2015: Group recognized TL 870.193 of deferred tax asset over Aksu's carry forward tax losses amounting to TL 4.350.964).

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

Deferred Tax (cont'd):

As of 31 December 2016 and 31 December 2015, the expiration dates of prior years' losses, which deferred tax asset have been accounted for, are as follows:

	31 December 2016	31 December 2015
2016	-	2.538.547
2017	-	4.350.963
2018	30.005.377	24.192.823
2019	23.267.865	20.655.687
2020	5.202.404	12.142.755
2021	1.054.165	-
Closing balance at 31 December	<u>59.529.811</u>	<u>63.880.775</u>

Movements in deferred income taxes can be analysed as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Opening balance at 1 January	20.729.570	22.802.550
Current year deferred taxation expense	493.801	(2.073.330)
Actuarial gain / (loss) effect directly recorded to equity:	51.632	350
Closing balance at 31 December	<u>21.275.003</u>	<u>20.729.570</u>

The reconciliation of current year tax charge calculated over current period tax charge and profit before tax disclosed in the consolidated statement of profit or loss for the period ended 31 December 2016 and 2015 is stated below:

	1 January - 31 December 2016	1 January - 31 December 2015
Profit / (loss) before tax on profit or loss statement	(22.095.170)	(17.850.592)
Effective tax rate (20%) (2015: 20%)	4.419.034	3.570.118
Effect of tax:		
-revenue that is exempt from taxation	125.062	141.994
-non-deductible expenses	(48.413)	(148.273)
-effect of subsidiaries in loss	(9.652.747)	(15.235.304)
-other	(566.753)	-
Tax expense on profit or loss statement	<u>(5.723.817)</u>	<u>(11.671.465)</u>

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24. EARNINGS PER SHARE

	1 January - 31 December 2016	1 January - 31 December 2015
Profit/ (loss) for the year attributable to equity holders of the Parent	(28.284.719)	(29.159.905)
Average number of outstanding shares	17.104.230.000	17.104.230.000
Earnings/ (loss) per basic, 1.000 shares (TL)	(1,65)	(1,70)

25. FINANCIAL INSTRUMENTS**Other Financial Liabilities**

	31 December 2016	31 December 2015
Other Short-Term Financial Liabilities		
Bonds issued	667.376	70.259.766
	<u>667.376</u>	<u>70.259.766</u>
Other Long-Term Financial Liabilities		
Bonds issued (*)	50.000.000	-
	<u>50.000.000</u>	<u>-</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 1 December 2016.

Financial Liabilities

The detail of borrowings of the Group as of 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016	31 December 2015
Borrowings		
Short-term financial borrowings	150.608.000	77.920.101
Short-term portion of long-term borrowings	126.672.375	90.141.518
Long-term financial borrowings	1.054.979.560	949.510.411
	<u>1.332.259.935</u>	<u>1.117.572.030</u>

The accrued interest expense on short-term borrowings is TL 13.175.941 (31 December 2015: TL 11.869.932).

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25. FINANCIAL INSTRUMENTS (cont'd)

The detail of borrowings is as follows:

Original Currency	Weighted average effective interest rate (%)	31 December 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 %	113.656.837	1.024.864.360
		<u>277.280.375</u>	<u>1.054.979.560</u>

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

The redemption schedule of the borrowings as of 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016	31 December 2015
To be paid within 1 year	277.280.375	168.061.619
To be paid between 1-2 years	162.028.391	67.788.924
To be paid between 2-3 years	130.729.617	93.946.262
To be paid between 3-4 years	130.729.617	92.932.508
To be paid between 4-5 years	130.729.617	92.932.508
5 and more than 5 years	500.762.318	601.910.209
	<u>1.332.259.935</u>	<u>1.117.572.030</u>

For the long-term borrowings of the Group, there exists TL 17.596.000 (USD 5.000.000) of mortgages over land, TL 248.563.300 (EURO 67.000.000) of guarantee given and TL 867.467.046 (USD 55.302.937, EURO 100.500.000 and TL 300.000.000) of conveyance on receivables (Note 12). Deferred finance expenses have been recognized in deferred finance expenses which have been paid for the long-term borrowings of the Group. As of 31 December 2016, deferred financing expense is TL 29.608.587 (31 December 2015: 30.452.230 TL) (Not 6). Group has also given commercial enterprise pledge amounting to TL 515.000.000 as guarantee for the investment loans (31 December 2015: TL 290.000.000) (Note 12). According to the investment loan agreements related with the investment loans used, at the end of each financial year, the Group is obliged to meet some financial ratios, to be calculated over the consolidated financial statements of the Group prepared in accordance with financial reporting standards accepted by the Turkey Financial Reporting Standards ("TFRS") of Turkey.

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26. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

a) Capital risk management

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

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

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

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

As of 31 December 2016 and 31 December 2015 net debt / total capital ratio is as follows:

	2016	2015
	<u>TL</u>	<u>TL</u>
Total Financial Debt	1.382.927.311	1.187.831.796
Less: Cash and cash equivalents	<u>(146.651.810)</u>	<u>(152.593.651)</u>
Net Debt	1.236.275.501	1.035.238.145
Equity Attributable to Owners of the Parent	<u>223.983.462</u>	<u>225.843.845</u>
Net Debt / Capital	<u>5,19</u>	<u>4,58</u>

b) Finansal Risk Faktörleri

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

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26. 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
31 December 2016						
Maximum net credit risk as of balance sheet date (*)	3.621.481	24.115.555	50.847.866	7.040.026	138.271.023	146.226.120
- The part of maximum risk under guarantee with collateral etc. (**)	-	5.563.000	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	3.621.481	24.115.555	50.847.866	7.040.026	138.271.023	146.226.120
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)	-	1.089.115	-	-	-	-
- 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.

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

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

Credit risk of financial instruments

	Receivables					
	Trade Receivables			Other Receivables		
	Related Party	Third Party	Related Party	Third Party	Due From Service Concession Arrangements	Bank Deposits
31 December 2015						
Maximum net credit risk as of balance sheet date (*)	5.133.733	21.211.070	27.324.115	-	115.266.092	152.373.772
- The part of maximum risk under guarantee with collateral etc. (**)	-	3.650.211	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	5.133.733	21.211.070	27.324.115	-	115.266.092	152.373.772
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross book value)	-	989.763	-	-	-	-
- Impairment (-)	-	(989.763)	-	-	-	-
D. Off-balance sheet items with credit risk	-	-	-	-	-	-
Maximum net credit risk as of balance sheet date (*)	-	-	-	-	-	-

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

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

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

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

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions. The Group assesses the credit quality of the customers by assessing the financial position of the customers, past experiences and other factors as a part of its credit risk management programme. All of the concession arrangement receivables amounting to TL 7.254.734 (2015: TL 2.893.366) and TL 492.333 (2015: TL 176.912) of trade receivables are composed of the receivables from TETAŞ and TEİAŞ respectively and amounting to TL 1.944.327 from EPIAŞ. TETAŞ, TEİAŞ and EPIAŞ are all state-owned entities which are responsible for the trading, wholesale and distribution activities of the national power system operations in Turkey, EPIAŞ sustains financial reconciliation transactions of whole electricity marketing, and imbalance calculation and organize day ahead market transactions. Additionally, TEİAŞ, TETAŞ, EPIAŞ are state-owned entities, TETAŞ provides purchase guarantee for the electricity production which are performed by the Group's power plants with Build-Operate-Transfer model. Therefore, credit risk over the assets of the Group is limited. Rest of the trade receivables are related to gross sale activities, and mentioned receivables arises from industrial and commercial customers. Group obtains guarantees from these wholesale customers when necessary.

As of 31 December 2016 and 2015, there are no past due receivables.

b.2) Liquidity risk management

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

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

31 December 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						
Borrowings	1.332.259.935	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	1.692.539.091	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.

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

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

31 December 2015

<u>Contractual maturity analysis</u>	<u>Carrying Value</u>	<u>Total cash outflow according to contract (I+II+III+IV)</u>	<u>Less than 3 Months (I)</u>	<u>3-12 Months (II)</u>	<u>1-5 Years (III)</u>	<u>More than 5 Years (IV)</u>
Non-derivative financial liabilities						
Borrowings	1.117.572.030	1.335.794.772	76.466.555	26.052.567	486.961.887	746.313.763
Trade payables	34.464.396	34.531.255	34.531.255	-	-	-
Trade payables to related parties	56.972.184	60.087.459	33.879.246	-	26.208.213	-
Non-trade payables to related parties	137.075.384	137.075.384	136.629.974	-	445.410	-
Other long-term liabilities	70.259.766	80.647.047	3.635.604	77.011.443	-	-
Total liabilities	1.416.343.760	1.648.135.917	285.142.634	103.064.010	513.615.510	746.313.763

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

b.3) Market risk management

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

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

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

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

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

b.3.1) Foreign currency risk management

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

As of 31 December 2016 and 2015 the foreign currency denominated assets and liabilities of monetary and non-monetary items are as follows:

	31 December 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	214.506.735	28.657.052	30.636.092
Other	69.365.633	14.555.644	4.890.000
CURRENT LIABILITIES	319.932.026	43.326.965	45.137.543
Financial borrowings	1.045.979.560	6.000.000	276.251.209
NON-CURRENT LIABILITIES	1.045.979.560	6.000.000	276.251.209
TOTAL LIABILITIES	1.365.911.586	49.326.965	321.388.752
Net Foreign Currency Position	(1.178.180.428)	(7.966.524)	(310.020.388)

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

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

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

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

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.

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

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

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

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

	31 December 2016	
	Profit/Loss	
	<u>Appreciation of foreign currency</u>	<u>Depreciation of foreign currency</u>
In case 10% appreciation in USD against TL		
US Dollar net asset / liability	(2.803.580)	2.803.580
Part of hedged from US Dollar risk (-)		
US Dollar net effect	<u>(2.803.580)</u>	<u>2.803.580</u>
In case 10% appreciation in EURO against TL		
EURO net asset / liability	(115.014.464)	115.014.464
Part of hedged from EURO risk (-)		
EURO net effect	<u>(115.014.464)</u>	<u>115.014.464</u>
TOTAL	(117.818.044)	117.818.044
	31 December 2015	
	Profit/Loss	
	<u>Appreciation of foreign currency</u>	<u>Depreciation of foreign currency</u>
In case 10% appreciation in USD against TL		
US Dollar net asset / liability	5.677.961	(5.677.961)
Part of hedged from US Dollar risk (-)		
US Dollar net effect	<u>5.677.961</u>	<u>(5.677.961)</u>
In case 10% appreciation in EURO against TL		
EURO net asset / liability	(99.676.401)	99.676.401
Part of hedged from EURO risk (-)		
EURO net effect	<u>(99.676.961)</u>	<u>99.676.401</u>
TOTAL	(93.998.440)	93.998.440

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

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

b.3.2) Interest rate risk management

The Group is exposed to interest risks through the impact of borrowings, due to variable interest rate used. As of 31 December 2016, 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 (2015: TL 10.177) mainly as a result of interest expenses on short-term and long-term borrowings. As of 31 December 2016, for EURO denominated borrowings, had the interest rates increased/decreased by 100 base points (1%) with all other variables held constant, net profit before taxation of the Group due to loan interest loss/profit would have been decreased/increased by TL 5.215.266 (2015: TL 4.156.959) mainly as a result of interest expenses on short-term and long-term borrowings. In addition to these, as of 31 December 2016, 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 511.111 (2015: 70.000).

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28. EVENTS AFTER THE REPORTING PERIOD

None.

29. DISCLOSURES RELATED TO THE STATEMENT OF CASH FLOWS

	31 December 2016	31 December 2015
Cash	41.840	54.440
Cash in bank	146.226.120	152.373.772
Demand deposits	121.226.120	102.373.772
Time deposits with maturities less than three months	25.000.000	50.000.000
Other liquid assets	383.850	165.439
	<u>146.651.810</u>	<u>152.593.651</u>

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

As of 31 December 2016, the time deposits with maturities less than three months of the Group consists of TL denominated time deposits with maturities in January 2017. The weighted average effective interest rates of TL denominated time deposits is 9,50% (2015: 11%). There is not any EURO denominated time deposits as of 2016 (2015: 0,34 %).