

**ENERJİSA ELEKTRİK
DAĞITIM A.Ş. AND
ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL
STATEMENTS FOR THE
YEARS ENDED 31 DECEMBER 2016,
31 DECEMBER 2015 AND
31 DECEMBER 2014
AND THE INDEPENDENT
AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Enerjisa Elektrik Dağıtım A.Ş.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Enerjisa Elektrik Dağıtım A.Ş. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, 31 December 2015 and 31 December 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial positions of the Group as at 31 December 2016, 31 December 2015 and 31 December 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (cont'd)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

DRT BAĞIMSIZ DENETİM VE ŞİRKETLER A.Ş.

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

Ankara, 26 July 2017

ENERJİSA ELEKTRİK DAĞITIM A.Ş. AND ITS SUBSIDIARIES

CONTENT	PAGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	1-2
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	3
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	4
CONSOLIDATED STATEMENT OF CASH FLOWS.....	5
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	6-73
NOTE 1 ORGANIZATION AND OPERATIONS OF THE GROUP	6-7
NOTE 2 BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS.....	7-28
NOTE 3 SHARES IN SUBSIDIARIES	29
NOTE 4 RELATED PARTY TRANSACTIONS	30-36
NOTE 5 TRADE RECEIVABLES AND PAYABLES	37-38
NOTE 6 OTHER RECEIVABLES AND PAYABLES	39-40
NOTE 7 INVENTORIES	41
NOTE 8 PREPAID EXPENSES AND DEFERRED INCOME	41
NOTE 9 FINANCIAL ASSETS.....	42
NOTE 10 PROPERTY, PLANT AND EQUIPMENTS.....	43-44
NOTE 11 INTANGIBLE ASSETS	45-46
NOTE 12 PROVISIONS.....	47
NOTE 13 COMMITMENT AND CONTINGENCIES.....	48-49
NOTE 14 EMPLOYMENT BENEFITS	50-51
NOTE 15 OTHER ASSETS AND LIABILITIES.....	52
NOTE 16 SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS.....	52-53
NOTE 17 REVENUE.....	53
NOTE 18 COST OF SALES	53
NOTE 19 GENERAL ADMINISTRATIVE EXPENSES	54
NOTE 20 OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES	55
NOTE 21 FINANCE INCOME AND EXPENSES	56
NOTE 22 TAXATION ON INCOME (INCLUDES DEFERRED TAX ASSET AND LIABILITIES).....	57-59
NOTE 23 FINANCIAL INSTRUMENTS	59-62
NOTE 24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES.....	63-71
NOTE 25 EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS	72-73
NOTE 26 EVENTS AFTER THE REPORTING DATE	73

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

		Current Period	Prior Period	Prior Period
		31 December	31 December	31 December
	Notes	2016	2015	2014
ASSETS				
Current Assets		2,939,550	2,532,462	2,241,969
Cash and Cash Equivalents	25	74,570	152,103	112,669
Financial Assets	9	653,754	455,975	312,870
Trade Receivables	5	1,720,529	1,545,331	1,471,367
<i>Due from related parties</i>	4	15,801	6,124	17,185
<i>Due from third parties</i>		1,704,728	1,539,207	1,454,182
Other Receivables	6	393,471	272,263	217,707
<i>Due from related parties</i>	4	2	67	-
<i>Due from third parties</i>		393,469	272,196	217,707
Derivative Financial Instruments		3,886	-	-
Inventory	7	74,459	63,471	55,201
Prepaid Expenses	8	14,156	13,412	12,041
Assets Related with Current Taxes	22	238	5,980	20,322
Other Current Assets	15	4,487	23,927	39,792
Non-Current Assets		12,191,898	11,488,597	10,521,490
Other Receivables	6	230,735	382,182	302,476
<i>Due from third parties</i>		230,735	382,182	302,476
Financial Assets	9	3,639,552	2,565,064	1,469,322
Property, Plant and Equipment	10	58,010	30,850	128
Intangible Assets	11	7,891,350	8,072,256	8,281,023
<i>Goodwill</i>		2,730,031	2,730,031	2,730,031
<i>Other intangible assets</i>		5,161,319	5,342,225	5,550,992
Prepaid Expenses	8	1,516	1,876	4,140
Deferred Tax Assets	22	247,703	278,930	348,069
Other Non-Current Assets	15	123,032	157,439	116,332
TOTAL ASSETS		15,131,448	14,021,059	12,763,459

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

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

LIABILITIES	Notes	Current Period 31 December 2016	Prior Period 31 December 2015	Prior Period 31 December 2014
Current Liabilities		4,950,759	4,580,790	3,294,155
Short-Term Financial Liabilities	23	1,556,770	915,335	762,210
Short-Term Portion of Long Term Financial Liabilities	23	1,541,024	1,000,729	43,161
Other Financial Liabilities	23	25,087	20,630	17,185
Trade Payables	5	1,117,668	826,990	816,488
<i>Due to related parties</i>	4	<i>126,061</i>	<i>129,999</i>	<i>63,252</i>
<i>Due to third parties</i>		<i>991,607</i>	<i>696,991</i>	<i>753,236</i>
Payables for Employee Benefits	14	39,230	15,539	21,366
Other Payables	6	160,238	117,718	36,517
<i>Due to third parties</i>		<i>160,238</i>	<i>117,718</i>	<i>36,517</i>
Payables to Privatization Administration	6	-	1,188,456	1,237,732
Deferred Income	8	165,733	173,289	75,161
Income Tax Liability	22	6,316	8,875	-
Short-Term Provisions		167,879	167,334	163,689
<i>Provisions for employment benefits</i>	14	<i>29,462</i>	<i>22,114</i>	<i>19,142</i>
<i>Other short-term provisions</i>	12	<i>138,417</i>	<i>145,220</i>	<i>144,547</i>
Other Short-Term Liabilities	15	170,814	145,895	120,646
Long-Term Liabilities		5,433,861	5,074,438	5,428,962
Long-Term Financial Liabilities	23	3,200,000	2,878,000	2,098,000
Other Financial Liabilities	23	245,134	232,392	239,728
Other Payables	6	880,004	735,201	608,063
<i>Due to third parties</i>		<i>880,004</i>	<i>735,201</i>	<i>608,063</i>
Payables to Privatization Administration	6	-	-	1,176,074
Deferred Income	8	25,617	101,624	158,385
Long-Term Provisions		56,442	58,825	38,555
<i>Provisions for Employment Benefits</i>	14	<i>56,442</i>	<i>58,825</i>	<i>38,555</i>
Deferred Tax Liabilities	22	1,026,664	1,068,396	1,110,157
Equity		4,746,828	4,365,831	4,040,342
Paid-in Capital	16	3,964,528	4,389,585	4,389,585
Other Funds		4,340	4,340	4,340
Accumulated other comprehensive income or expenses that will not be reclassified subsequently to profit or loss		(7,209)	(10,813)	-
<i>Accumulated gain/loss on remeasurement of defined benefit plans</i>		<i>(7,209)</i>	<i>(10,813)</i>	-
Restricted Profit Reserves	16	139,190	53,303	53,303
Retained Earnings and Accumulated Losses		268,586	(406,886)	(130,172)
Profit for the Period		377,393	336,302	(276,714)
TOTAL LIABILITIES AND EQUITY		15,131,448	14,021,059	12,763,459

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

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

	Notes	Current Period 1 January- 31 December 2016	Prior Period 1 January- 31 December 2015	Prior Period 1 January- 31 December 2014
Sales Revenue (net)	17	9,103,380	9,153,614	8,064,421
Cost of Sales (-)	18	(6,500,956)	(7,108,120)	(6,753,511)
Gross Profit		2,602,424	2,045,494	1,310,910
General Administrative Expenses (-)	19	(1,227,836)	(1,079,790)	(967,303)
Other Income from Operating Activities	20	144,651	123,333	104,204
Other Expenses from Operating Activities (-)	20	(246,929)	(50,760)	(140,174)
OPERATING PROFIT BEFORE FINANCE INCOME / (EXPENSE)		1,272,310	1,038,277	307,637
Finance Income	21	39,729	31,484	68,647
Finance Expense (-)	21	(797,837)	(606,854)	(639,991)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		514,202	462,907	(263,707)
Tax Expense from Continuing Operations		(136,809)	(126,605)	(13,007)
Current Tax Expense	22	(148,215)	(96,524)	(51,485)
Deferred Tax Income / (Expense)	22	11,406	(30,081)	38,478
INCOME FOR THE PERIOD FROM CONTINUING OPERATIONS		377,393	336,302	(276,714)
PROFIT FOR THE PERIOD		377,393	336,302	(276,714)
OTHER COMPREHENSIVE INCOME / (EXPENSE)				
Other Comprehensive Income or Expenses that will not be Reclassified Subsequently to Profit or Loss		3,604	(10,813)	-
<i>Gain/loss on measurement of defined benefit obligation</i>	14	4,505	(13,516)	-
<i>Income Tax Relating to Other Comprehensive Income/ (Loss) Items that will not be Reclassified Subsequently Profit/ (Loss)</i>	22	(901)	2,703	-
TOTAL COMPREHENSIVE INCOME / (EXPENSE)		380,997	325,489	(276,714)

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

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

	Paid-in capital	Restricted profit reserves	Other funds (**)	Accumulated comprehensive income or expenses that will not be reclassified subsequently to profit or loss	Retained earnings and Accumulated losses	Profit for the period	Total Equity
Balance as at 1 January 2014	3,489,585	54,894	-	-	(38,884)	(92,879)	3,412,716
Issue of share capital	900,000	-	-	-	-	-	900,000
Transfers	-	(1,591)	4,340	-	(91,288)	92,879	4,340
Total comprehensive income	-	-	-	-	-	(276,714)	(276,714)
Balance as at 31 December 2014	4,389,585	53,303	4,340	-	(130,172)	(276,714)	4,040,342
Transfers	-	-	-	-	(276,714)	276,714	-
Total comprehensive income	-	-	-	(10,813)	-	336,302	325,489
Balance as at 31 December 2015	4,389,585	53,303	4,340	(10,813)	(406,886)	336,302	4,365,831
Transfers (*)	(425,057)	85,887	-	-	675,472	(336,302)	-
Total comprehensive income	-	-	-	3,604	-	377,393	380,997
Balance as at 31 December 2016	3,964,528	139,190	4,340	(7,209)	268,586	377,393	4,746,828

(*) It has been decided by the Board of Directors of the Company to make a capital reduction pursuant to Article 474 of the Turkish Commercial Code in order to recover the deficit in the carry forward-losses in the balance sheet with the BOD decision taken on November 30rd, 2016. As a result of this transaction, the capital account has been deducted from previous years' losses and no change has occurred in total equity.

(**) The aforementioned amount has been transferred to equity due to the finalization of the reconciliation with regards to the unbundling of Başkent Elektrik Dağıtım A.Ş. from TEDAŞ in 2006.

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

ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

		Current Period 1 January- 31 December	Prior Period 1 January- 31 December	Prior Period 1 January- 31 December
	Notes	2016	2015	2014
Cash Flows from Operating Activities		1,859,439	1,021,362	98,044
Profit for the period		377,393	336,302	(276,714)
Profit for the period from continued operations		377,393	336,302	(276,714)
Adjustments to reconcile profit/loss for the period		800,945	829,795	777,037
Adjustments related to the depreciation and amortization	10,11	217,938	219,428	208,663
Adjustments related to the depreciation of property, plant and equipment	10	8,552	10,661	-
Adjustments related to the amortization of intangible assets	11	209,386	208,767	208,663
Adjustments related to impairment loss	5	264,351	179,111	149,668
Adjustments related to impairment loss recognised on receivables	5	264,351	179,111	149,668
Adjustments related to provisions		20,999	18,295	20,681
Adjustments related to provisions for employee benefits		27,802	17,622	30,796
Adjustments related to provision for employee termination benefits		20,454	14,650	24,987
Adjustments related to provision for bonus and unused vacation provision	14	7,348	2,972	5,809
Adjustments related to legal case provisions		(6,803)	673	(10,115)
Adjustments related to interest (income) and expenses		695,445	543,852	566,417
Adjustments related to interest income	21	(39,729)	(31,484)	(58,692)
Adjustments related to interest expense	21	735,174	575,336	625,109
Unrealized foreign exchange loss	21	54,114	19,837	(9,955)
Adjustments related to tax expense	22	136,809	126,605	13,007
Other adjustments to reconcile profit/loss	25	(588,711)	(277,333)	(171,444)
Changes in operating assets and liabilities		(7,081)	(462,595)	(664,912)
Adjustments related to (increase) in trade receivables		(439,549)	(253,075)	(248,569)
Adjustments related to (increase) / decrease in trade receivables from related parties		(9,677)	11,061	(220)
Adjustments related to (increase) in trade receivables from third parties		(429,872)	(264,136)	(248,349)
Adjustments related to (increase) in inventories		(10,988)	(8,270)	(6,289)
Adjustments related to decrease / (increase) in other receivables and current assets		62,507	(437,045)	(330,100)
Adjustments related to decrease / (increase) in other receivables from third parties		62,507	(437,045)	(330,100)
Adjustments related to increase in trade payables		290,678	10,502	70,739
Adjustments related to (decrease) / increase in trade payables to related parties		(3,938)	66,747	24,268
Adjustments related to increase / (decrease) in trade payables to third parties		294,616	(56,245)	46,471
Adjustments related to increase in other payables and expense accruals		90,271	225,293	(150,693)
Adjustments related to increase in other payables to third parties		90,271	225,293	(150,693)
Cash Generated From Operating Activities		1,171,257	703,502	(164,589)
Payments for employment benefits		(18,332)	(7,896)	(39,136)
Employee termination benefits paid	14	(18,332)	(7,896)	(39,136)
Tax payments	22	(145,032)	(73,307)	(48,225)
Tax payments	16	(145,032)	(73,307)	(48,225)
Other cash in-flows	25	851,546	399,063	349,994
Cash Flows from Investing Activities		(2,709,132)	(2,286,473)	(1,642,809)
Cash used for purchase of tangible and intangible assets	10,11	(64,192)	(41,383)	-
Cash used for property, plant and equipment purchases	10	(35,712)	(41,383)	-
Cash used for purchase of intangible assets	11	(28,480)	-	-
Interest received	21	39,729	31,484	58,692
Other cash out-flows	25	(2,684,669)	(2,276,574)	(1,701,501)
Cash Flows from Financing Activities		772,160	1,304,545	1,316,799
Cash in-flows from borrowings		21,337,887	16,127,177	8,547,470
Loans received		21,337,887	16,127,177	8,547,470
Cash out-flows from borrowings		(19,924,143)	(14,416,888)	(7,475,914)
Repayments of the borrowings		(19,924,143)	(14,416,888)	(7,475,914)
Interest paid		(641,584)	(405,744)	(654,757)
Proceeds on issue of equity shares		-	-	900,000
(Decrease) / increase in cash and cash equivalents		(77,533)	39,434	(227,966)
Cash and cash equivalents at the beginning of the period	25	152,103	112,669	340,635
Cash and cash equivalents at the end of the period	25	74,570	152,103	112,669

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

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

1. ORGANIZATION AND OPERATIONS OF THE GROUP

Enerjisa Elektrik Dağıtım A.Ş. (the “Company”) and its subsidiaries will be referred as the “Group” for consolidated financial statements. The Company is incorporated in İstanbul, Turkey on 24 October 2008. The address of its registered office is Sabancı Center, 4. Levent, Beşiktaş. As of 31 December 2016 total employees of the Group are 8,972 (31 December 2015: 8,589; 31 December 2014: 8,883).

The Company, which was a joint venture of Hacı Ömer Sabancı Holding A.Ş. (“Sabancı”) and Österreichische Elektrizitätswirtschafts-Aktiengesellschaft has officially acquired 100% of the shares of Başkent Elektrik Dağıtım A.Ş. (“BEDAŞ”) as of 28 January 2009 by successful finalization of privatization bid for the consideration of USD 1,225 million. BEDAŞ currently operates in Ankara, Kırıkkale, Kastamonu, Zonguldak, Bartın, Çankırı and Karabük provinces and holds the licence that gives the right for distribution of electricity in these provinces for 30 years starting from the date of Transfer of Operation Rights (“TOR”) agreement signed with Türkiye Elektrik Dağıtım A.Ş. (“TEDAŞ”) on 31 March 2006. Following the privatization bid, shares of Österreichische Elektrizitätswirtschafts-Aktiengesellschaft was transferred to Verbund International GMBH (“Verbund”). In December 2011, Sabancı and Verbund transferred their shares to Enerjisa Enerji A.Ş. which was established in December 2011 as a joint venture of Sabancı and Verbund.

On 4 December 2012, Verbund International and E.ON SE (“E.ON”) entered into a Share Purchase Agreement for the sale and transfer of all Verbund shares in Enerjisa Enerji A.Ş. to E.ON and the transfer is finalized on 24 April 2013.

The Company, has officially acquired 100% of the shares of the İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş. (“AYEDAŞ”) and Enerjisa İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş. (“AEPSAŞ”) as of 31 July 2013, and acquired 100% of the shares of the Toroslar Elektrik Dağıtım A.Ş. (“TOROSLAR EDAŞ”) and Enerjisa Toroslar Elektrik Perakende Satış A.Ş. (“TOROSLAR EPSAŞ”) as of 30 September 2013 by successful finalization of privatization bids for the consideration of USD 1,227 million and USD 1,725 million, respectively.

AYEDAŞ and AEPSAŞ currently operate in Anatolian Side of İstanbul and AYEDAŞ holds the licence that gives the right for distribution of electricity in this province until 31 December 2042 starting from the date of TOR agreement signed with TEDAŞ on 24 July 2006.

TOROSLAR EDAŞ and TOROSLAR EPSAŞ currently operate in Adana, Gaziantep, Hatay, Kilis, Mersin and Osmaniye and TOROSLAR EDAŞ holds the licence that gives the right for distribution of electricity in these provinces until 31 December 2042 starting from the date of TOR agreement signed with TEDAŞ on 24 July 2006.

In 2006, EMRA has set a unique pricing mechanism for all of the electricity distribution companies in Turkey which will be effective for the period between 1 January 2006 and 31 December 2012 which is called the “transition period”. In accordance with this pricing mechanism, distribution companies in Turkey have already determined their regional tariffs for the period between 1 January 2006 and 31 December 2010 and by using these regional tariffs, EMRA has already determined the national tariffs for the same period. In December 2010, EMRA has announced new tariff for the period between 1 January 2011 and 31 December 2016. In December 2016, EMRA has announced new tariff for the period between 1 January 2016 and 31 December 2020.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

As of 1 January 2013, distribution companies (BEDAŞ, AYEDAŞ and TOROSLAR EDAŞ) are obliged to carry out the distribution and the retail sales activities under separate legal entities in accordance with Electricity Market Law. After the establishment of retail companies (Enerjisa Elektrik Perakende Satış A.Ş., AEPSAŞ and TOROSLAR EPSAŞ) with the same shareholder structure, as of 31 December 2012 the distribution companies have transferred some of their assets and liabilities to retail companies due to the legal unbundling and the unbundling transactions have been registered as of 31 December 2012.

Further to Board of Directors resolution dated 20 April 2017, the Company has merged with its shareholding company, Enerjisa Enerji A.Ş also being the surviving entity. The merger has been registered as of 28 April 2017.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain assets and liabilities being carried by their fair values.

In order to determine the historical cost, the fair values paid for assets are considered.

2.2 Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board.

2.3 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 TL, which is the functional currency of the Group, 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 each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses arising on settlement and translation of foreign currency items are included in the consolidated statement of comprehensive income.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.4 Comparative Information and Reclassification of Prior Period Consolidated Financial Statements

Consolidated financial statements of the Group have been prepared comparatively with prior period in order to give information about financial position and performance trends. If the presentation or classification of the financial statements is changed, in order to maintain consistency, financial statements of the prior periods are also reclassified in line with the related changes.

The nature, amount and reasons for each of the reclassifications are described below:

- In 2014, the Group had presented “Financial Assets” amounting to TL 161,237 in “Non-current Financial Assets”. In the current year, it has been recognized in ‘Current Financial Assets’ (Note: 9).
- In 2014 the Group had presented “Provision for doubtful and other receivables” amounting to TL 74,468 in “General Administrative Expenses”. In the current year it has been reclassified under “Other Expenses From Operating Expenses”.

2.5 Changes in Accounting Policies

The significant changes that were made on accounting policies applied retrospectively and the financial statements of preceding period are restated. No changes has been observed at the accounting policies of the Group in the current year.

2.6 Changes and Misstatements in Accounting Estimates

If changes in accounting estimates are related to only one period, the changes are applied prospectively in the current period in which changes are made. If changes in accounting estimates are related to future periods, the changes are applied prospectively both in the current period in which changes are made and also in future periods. No changes has been observed at the accounting estimates of the Group in the current year.

The accounting misstatements which are identified are applied retrospectively and consolidated financial statements of preceding period are restated. No material misstatement has been observed in order to restate the financial statements of the Group in the current year.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.7 Basis of Consolidation

The details of the Company's subsidiaries at 31 December 2016, 31 December 2015 and 31 December 2014 are as follows:

Subsidiaries

	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group %			Principal activity
		2016	2015	2014	
Başkent Elektrik Dağıtım A.Ş. ("BEDAŞ")	Ankara	100	100	100	Electricity distribution services
Enerjisa Elektrik Perakende Satış A.Ş. ("EPS")	Ankara	100	100	100	Electricity retail services
İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş. ("AYEDAŞ")	İstanbul	100	100	100	Electricity distribution services
Enerjisa İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş. ("AEPŞAŞ")	İstanbul	100	100	100	Electricity retail services
Toroslar Elektrik Dağıtım A.Ş. ("TOROSLAR EDAŞ")	Adana	100	100	100	Electricity distribution services
Enerjisa Toroslar Elektrik Perakende Satış A.Ş. ("TOROSLAR EPSAŞ")	Adana	100	100	100	Electricity retail services

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.7 Basis of Consolidation

- 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.8 New and Revised International Financial Reporting Standards

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

None.

b) New and revised IFRSs applied with no material effect on the consolidated financial statements

IFRS 14	<i>Regulatory Deferral Accounts</i> ¹
Amendments to IFRS 11	<i>Accounting for Acquisition of Interests in Joint Operations</i> ¹
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> ¹
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i> ¹
Annual Improvements to 2012-2014 Cycle	<i>IFRS 5, IFRS 7, IAS 19, IAS 34</i> ¹
Amendments to IAS 1	<i>Disclosure Initiative</i> ¹
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> ¹

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

IFRS 14 *Regulatory Deferral Accounts*

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

IFRS 14 was issued by the IASB on 30 January 2014 and is applied to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016.

Amendments to IFRS 11 *Accounting for Acquisition of Interests in Joint Operations*

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

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

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.8 New and Revised International Financial Reporting Standards (cont'd)

b) New and revised IFRSs applied with no material effect on the consolidated financial statements (cont'd)

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

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

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

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

Amendments to IAS 27 Equity Method in Separate Financial Statements

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

Annual Improvements 2012-2014 Cycle

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

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

IAS 19: Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

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

Amendments to IAS 1 Disclosure Initiative

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

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.8 New and Revised International Financial Reporting Standards (cont'd)

b) New and revised IFRSs applied with no material effect on the consolidated financial statements (cont'd)

Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*

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

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

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

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

Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealized Losses</i> ¹
Amendments to IAS 7	<i>Disclosure Initiative</i> ¹
IFRS 9	<i>Financial Instruments</i> ²
IFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to IFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to IFRS 2	<i>Classification and Measurement of Share-Based Payment Transactions</i> ²
IFRS 16	<i>Leases</i> ³
Amendments to IFRS 4	<i>Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> ²
Amendments to IAS 40	<i>Transfers of Investment Property</i> ²
Annual Improvements to IFRS Standards 2014–2016 Cycle	<i>IFRS 1</i> ² , <i>IFRS 12</i> ¹ , <i>IAS 28</i> ²

¹ Effective for annual periods beginning on or after 1 January 2017.

² Effective for annual periods beginning on or after 1 January 2018.

³ Effective for annual periods beginning on or after 1 January 2019.

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.8 New and Revised International Financial Reporting Standards (cont'd)

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

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

This amendment clarifies the following aspects:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

Amendments to IAS 7 Disclosure Initiative

This amendment clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 is amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 is issued in July 2014 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.

IFRS 15 Revenue from Contracts with Customers

IFRS 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,
- Recognize revenue when the entity satisfies a performance obligation.

Amendments to IFRS 15 Revenue from Contracts with Customers

This amendment clarifies three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and provides some transition relief for modified contracts and completed contracts.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.8 New and Revised International Financial Reporting Standards (cont'd)

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

Amendments to IFRS 2 Classification and Measurement of Share-Based Payment Transactions

This amendment clarifies the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity settled.

IFRS 16 Leases

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

Amendments to IFRS 4 Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'

This amendment provides optional approaches for entities that issue insurance contracts within the scope of IFRS 4, and the entities are permitted to stop applying them before the new insurance standard is applied.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Amendments to IAS 40 Transfers of Investment Property

The amendments to IAS 40 Investment Property:

- Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.8 New and Revised International Financial Reporting Standards (cont'd)

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

Annual Improvements to IFRS Standards 2014–2016 Cycle

- **IFRS 1:** Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
- **IFRS 12:** Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.
- **IAS 28:** Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

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

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.9 Summary of Significant Accounting Policies

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 recognized in profit or loss as incurred.

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

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 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 IFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 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 recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. 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 IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.9 Summary of Significant Accounting Policies (cont'd)

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 (Note: 2.10), or more frequently when there is 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 comprehensive income. 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.

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).

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.9 Summary of Significant Accounting Policies (cont'd)

Related Parties (cont'd)

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Revenue Recognition

Distribution part of the revenue is composed of distribution, meter reading services, transmission and theft and loss components. Distribution and meter reading service components are considered within the content of service concession arrangements due to the regulations of Energy Market Regulatory Authority ("EMRA"). Additionally, according to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations, the Company's distribution, transmission and meter reading services are subject to revenue caps which cover operating expenses and investment requirements related to distribution and meter reading services. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by TEİAŞ. These regulations guarantee revenue to the Group during the transition period regardless of the consumption level. The underbillings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years.

Revenue, excluding the distribution business, is recognized upon delivery of electricity to customers or upon fulfilment of services. Delivery is deemed complete when the risk and rewards associated with ownership has been transferred to the buyer as contractually agreed, compensation has been contractually established and collection of the resulting receivable is probable.

Revenue from the sale and delivery of electricity is measured at the fair value of the consideration received or receivable. The estimated value of the electricity supplied but not invoiced to the customers is considered for the measurement of revenue.

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.

Interest income related to service concession arrangements is recognized in accordance with Service Concession Arrangements ("IFRIC 12"). Interest income on receivable from concession arrangement is recognised on a time-proportion basis using the effective interest method.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.9 Summary of Significant Accounting Policies (cont'd)

Service Concession Arrangements

Service concession arrangements are defined within scope of IFRIC 12 as those whereby a government or other body grants contracts for the supply of public services – operations such as roads, energy distribution, prisons or hospitals – to private operators. The Group's electricity distribution and meter reading service businesses are in the scope of service concession agreements.

Considering the Group's terms in the service concession arrangements, a financial asset model where the Group recognises a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor has been applied, since the right to receive cash for the distribution and meter reading services are constituted through actual billing to subscribers where the distribution and meter reading service components of the billing are already specified or determinable through the regulated by the Energy Market Regulatory Authority ("EMRA").

The Group has measured the financial asset at fair value, with the effective interest method which is calculated by discounting estimated future cash receipts with regards to the compensation of TOR and the initial and annual capital expenditures made by the Group, through the expected life of the arrangement and presented as "Financial Asset" on the consolidated balance sheet and recognizes the revenue on an effective interest method as "Finance Income from Service Concession Arrangements".

Inventories

Inventories mainly include electricity equipment and materials related to the Group's electricity distribution business. Inventories are stated at the lower of cost or net realizable value. The cost of inventories is determined on a weighted average basis. Additional costs, incurred to bring the inventories to the intended usable condition or position, are included in determination of cost.

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, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees. 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.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.9 Summary of Significant Accounting Policies (cont'd)

Property, Plant and Equipment (cont'd)

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any 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.

Intangible Assets

Customer contracts and relations and transfer of operational rights ("TOR")

Customer contracts and relations are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The useful lives of customer contracts and relations range between 25-30 years.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (3-5 years).

Computer software development costs recognized as assets are amortized over their estimated useful lives.

Financial Leasing Transactions

Leasing - the Group as Lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Impairment of Non-financial Assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.9 Summary of Significant Accounting Policies (cont'd)

Borrowing Cost

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. There were no capitalized borrowing costs in 2016, 2015 and 2014.

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

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 as 'at fair value through profit or loss (FVTPL)', 'held-to-maturity investments', 'available-for-sale' financial assets and 'loans and receivables'.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset 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 recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method less any impairment.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.9 Summary of Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

Financial assets (cont'd)

Impairment of financial assets (cont'd)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, except for irrigation and government receivables, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Cash and cash equivalents

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

Financial liabilities

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

Financial liabilities at Fair value through Profit or Loss

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss. Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.9 Summary of Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

Financial liabilities (cont'd)

Other financial liabilities

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

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

The effective interest method is a method of calculating the amortized 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 to the net carrying amount on initial recognition.

Derivative Financial Instruments

The Group's financing activities expose it primarily to the financial risks of changes in for exchange rates and interest rates. The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. Derivatives are initially recognized at fair value on the date the derivative contract and are subsequently measured at their respective fair value. If the derivative cannot meet the requirements of hedge accounting the gain or loss relating to the fair value of the derivative is recognized in the statement of profit/loss immediately.

The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. If the fair value is positive then the derivative is recognized as asset, the fair value is negative then it is recognized as liability.

Provisions, Contingent Liabilities, Contingent Assets

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Contingent liabilities are assessed continuously to determine probability of outflow of economically beneficial assets. For contingent liabilities, when an outflow of resources embodying economic benefits are probable, provision is recognized for this contingent liability in the period when the probability has changed, except for cases where a reliable estimate cannot be made.

When the outflow of economic benefits from the Group is probable but the amount cannot be measured reliably, the Group discloses this fact in the notes.

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.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where 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.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.9 Summary of Significant Accounting Policies (cont'd)

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Government Grants

The Company has obtained the investment incentive certificate from the Ministry of Economy on January 15, 2016 and utilizes VAT exemption for machinery equipment purchases from domestic suppliers in the scope of renewal of existing investments.

Taxation and Deferred Income Taxes

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 as reported in the comprehensive income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 balance sheet date.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is 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 and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Such deferred tax 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 balance sheet date. 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.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.9 Summary of Significant Accounting Policies (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.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Current and deferred tax for the period

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

Subsequent Events

Subsequent events; even if they occur after any announcement related with profit or public announcement of other chosen financial information, covers any event between the balance sheet date and the publication date of the balance sheet.

In the case that events requiring an adjustment to the financial statements occur subsequent to the balance sheet date, the Group makes the necessary corrections on the financial statements.

Employment 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 International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19").

The retirement benefit obligation recognized in the statement of the financial position represents the present value of the defined benefit obligation. Calculated whole actuarial gains and losses are recognized in other comprehensive income

Statement of Cash Flow

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

Share Capital and Dividends

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

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.10 Significant Accounting Estimates and Assumptions

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

Critical judgments in applying the Group's accounting policies

Use of Estimates

The preparation of consolidated financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Impairment test of Goodwill

Pursuant to IAS 36, Impairment of Assets, the Group tested goodwill as of 31 December 2016 in accordance with the accounting policy stated at (Note: 2.9). The goodwill impairment test is carried out for Retail and Distribution Cash Generating Units ("CGUs").

The following assumptions were used to determine the recoverable amount of Retail CGU:

CGU:	Retail
Base used for the recoverable amount:	Value in use
Source:	Forecasted cash flows
WACC (TL):	14.5%

The net present value of Retail CGU was calculated by discounting the TL post-tax free cash flows, which is the functional currency of the Group. The Group compared the recoverable amount calculated based on the aforementioned assumptions to the total value of Retail CGU and no impairment was identified.

The following assumptions were used to determine the recoverable amount of Distribution CGU:

CGU:	Distribution
Base used for the recoverable amount:	Value in use
Source:	Forecasted cash flows for the license period
WACC (TL):	13%

The net present value of Distribution CGU was calculated by discounting the post-tax free cash flows for the discrete period from 2016 to 2036 for BEDAŞ and from 2016 to 2042 for AYEDAŞ and TOROSLAR EDAŞ. This calculation includes the discounted values of the TL cash flows of Distribution CGU which is the functional currency of the Group. The Group compared the recoverable amount calculated based on the aforementioned assumptions to the total value of Distribution CGU and no impairment was identified.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

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

2.10 Significant Accounting Estimates and Assumptions (cont'd)

Critical Accounting Judgments and Key Sources of Estimation Uncertainty (cont'd)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the consolidated balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below:

Service concession arrangements

The Group determines the financial asset and financial income balances recognized under service concession arrangements based on the cash flows derived from the tariffs announced by EMRA. The distribution revenue requirement of the Group during the second (2011 - 2016) and third tariff periods (2016 - 2020) was determined by EMRA considering the projected expenses and related tariffs which were published in 2010 and 2016. Moreover, distribution revenue requirements from the end of third tariff period to the end of license (2036 for BEDAŞ and 2042 for AYEDAŞ and TOROSLAR EDAŞ) are expected by the Group management based on the tariff components announced for the third tariff period. These tariffs are revised yearly due to inflation, based on the changes in the Electricity Market Index ("EMI" is defined as change in CPI on the communique of Distribution System). In determination of the aforementioned projected cash inflows in the upcoming periods the Group management made expectations related to the CPI and WACC rates.

Revenue recognition

Invoices of the subscribers other than residential and commercial groups are issued monthly at the end of each month by the Group whereas the invoices of the residential subscribers are issued continuously during each month due to the high number of subscribers in this group. Commercial group subscribers are also issued continuously during the month due to the high number of customers in this group although the subscribers with high consumption level are billed at the end of the month. As a result, the total electricity supplied to the residential and commercial subscribers during each month cannot be invoiced and income accruals are recognized as revenue at period-ends for these customer groups based on the actual billing performance.

ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

3. SHARES IN SUBSIDIARIES

Subsidiaries:

Name of Subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership (%)		
			31 December 2016	31 December 2015	31 December 2014
BEDAŞ	Electricity distribution services	Ankara	100	100	100
EPS	Electricity retail services	Ankara	100	100	100
AYEDAŞ	Electricity distribution services	İstanbul	100	100	100
AEPSAŞ	Electricity retail services	İstanbul	100	100	100
TOROSLAR EDAŞ	Electricity distribution services	Adana	100	100	100
TOROSLAR EPSAŞ	Electricity retail services	Adana	100	100	100

Group Structure:

Principal Activity	Place of incorporation and operation	Number of subsidiaries wholly owned by the Group		
		31 December 2016	31 December 2015	31 December 2014
Electricity distribution services	Ankara, İstanbul, Adana	3	3	3
Electricity retail services	Ankara, İstanbul, Adana	3	3	3

ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

4. RELATED PARTY TRANSACTIONS

The immediate parents and ultimate controlling parties of the Group are Hacı Ömer Sabancı Holding A.Ş. (incorporated in Turkey) and E.ON SE ("E.ON"- incorporated in Germany). Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

Details of transactions between the Group and other related parties are disclosed below.

Related Party Bank Balances- Akbank T.A.Ş.	31 December 2016	31 December 2015	31 December 2014
Demand deposits	4,307	32,366	3,067
Repurchase agreements	8,614	55,406	67,796
	<u>12,921</u>	<u>87,772</u>	<u>70,863</u>

				31 December 2016	
Loans provided by related parties	Original currency	Maturity	Interest rate %	Current liabilities	Non-current liabilities
Akbank T.A.Ş.	TL	2 January 2017	10.20	49,800	-
Akbank T.A.Ş.	TL	2 January 2017	10.80	189,650	-
Akbank T.A.Ş.	TL	28 January 2017	13.91	18,000	-
Akbank T.A.Ş.	TL	29 March 2017	12.86	19,000	-
Akbank T.A.Ş.	TL	2 June 2017	12.08	404,000	-
Akbank T.A.Ş.	TL	29 September 2017	11.18	494,000	-
Akbank T.A.Ş.	TL	1 December 2017	13.65	162,000	-
Akbank T.A.Ş.	TL	2 December 2017	12.90	150,000	-
Akbank T.A.Ş.	TL	30 March 2018	12.86	-	250,000
Akbank T.A.Ş.	TL	29 July 2019	13.91	-	297,000
Akbank T.A.Ş.	TL	9 September 2019	12.87	-	200,000
Akbank T.A.Ş.	TL	30 September 2020	13.65	-	303,000
Enerjisa Enerji A.Ş.	TL	23 January 2017	14.53	83,502	-
				<u>1,569,952</u>	<u>1,050,000</u>

ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

4. RELATED PARTY TRANSACTIONS (cont'd)

				31 December 2015	
Loans provided by related parties	Original currency	Maturity	Interest rate %	Current liabilities	Non-current liabilities
Akbank T.A.Ş.	TL	4 January 2016	interest free	1,831	-
Akbank T.A.Ş.	TL	4 January 2016	interest free	875	-
Akbank T.A.Ş.	TL	4 January 2016	12.75	12,850	-
Akbank T.A.Ş.	TL	4 January 2016	11.25	85,360	-
Enerjisa Enerji A.Ş.	TL	25 January 2016	13.62	71,000	-
Akbank T.A.Ş.	TL	2 June 2017	12.08	-	403,946
Akbank T.A.Ş.	TL	20 June 2016	10.60	100,000	-
Akbank T.A.Ş.	TL	30 September 2016	10.60	150,000	-
Enerjisa Enerji A.Ş.	TL	12 December 2016	14.22	28,000	-
Akbank T.A.Ş.	TL	30 December 2016	10.50	50,000	-
Akbank T.A.Ş.	TL	29 September 2017	11.18	-	493,754
Akbank T.A.Ş.	TL	1 December 2017	13.65	-	161,769
Akbank T.A.Ş.	TL	2 December 2017	12.90	-	150,000
Enerjisa Enerji A.Ş.	TL	23 January 2017	14.53	-	20,000
				<u>499,916</u>	<u>1,229,469</u>
				31 December 2014	
Loans provided by related parties	Original currency	Maturity	Interest rate %	Current liabilities	Non-current liabilities
Akbank T.A.Ş.	TL	30 January 2015	9.45%	200,000	-
Akbank T.A.Ş.	TL	2 January 2015	interest free	2,711	-
Akbank T.A.Ş.	TL	19 June 2016	10.60%	-	100,000
Akbank T.A.Ş.	TL	31 December 2016	10.50%	-	100,000
Akbank T.A.Ş.	TL	30 October 2016	10.60%	-	150,000
Akbank T.A.Ş.	TL	1 January 2015	11.00%	20,900	-
Akbank T.A.Ş.	TL	29 September 2017	10.65%	-	480,000
				<u>223,611</u>	<u>830,000</u>

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

4. RELATED PARTY TRANSACTIONS (cont'd)

31 December 2016			
Balances with Related Parties	Receivables		Payables
	Current		Current
	Trade	Non-trading	Trade
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş.	-	-	7,164
Çimsa Çimento Sanayi A.Ş.	13,518	-	-
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. (*)	2,242	-	111,738
Aksigorta A.Ş.	-	-	2,304
Enerjisa Enerji A.Ş.	41	-	2,575
Other	-	2	2,280
	<u>15,801</u>	<u>2</u>	<u>126,061</u>

31 December 2015			
Balances with Related Parties	Receivables		Payables
	Current		Current
	Trade	Non-trading	Trade
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş.	-	-	13,440
Çimsa Çimento Sanayi A.Ş.	300	-	-
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. (*)	3,906	28	114,098
Enerjisa Enerji Üretim A.Ş.	1,309	-	20
AvivaSA Emeklilik ve Hayat A.Ş.	-	-	32
Temsa Global San. ve Tic. A.Ş.	191	-	-
Aksigorta A.Ş.	22	39	1,294
Enerjisa Enerji A.Ş.	52	-	749
Hacı Ömer Sabancı Holding A.Ş.	1	-	15
Other	343	-	351
	<u>6,124</u>	<u>67</u>	<u>129,999</u>

31 December 2014			
Balances with Related Parties	Receivables		Payables
	Current		Current
	Trade	Non-trading	Trade
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. (*)	17,099	-	58,233
Enerjisa Üretim A.Ş. (*)	86	-	6
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş.	-	-	79
AvivaSA Emeklilik ve Hayat A.Ş.	-	-	3
Temsa Global San. ve Tic. A.Ş.	-	-	91
Aksigorta A.Ş.	-	-	1,640
Enerjisa Enerji A.Ş.	-	-	3,109
Hacı Ömer Sabancı Holding A.Ş.	-	-	48
Other	-	-	43
	<u>17,185</u>	<u>-</u>	<u>63,252</u>

(*) Due to the electricity purchased and sold.

ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

4. RELATED PARTY TRANSACTIONS (cont'd)

Key management compensation

Key management personnel comprises, members of board of directors and members of execution committee. Compensation of key management personnel comprises professional fees and other benefits such as; salaries, premium, healthcare insurance and transportation. The remuneration of directors and other members of key management during the year were as follows:

	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
Gross salaries	2,963	2,225	2,747
Other personnel related expense	689	325	176
	<u>3,652</u>	<u>2,550</u>	<u>2,923</u>

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

4. RELATED PARTY TRANSACTIONS (cont'd)

Transactions with Related Parties	1 January - 31 December 2016					
	Electricity sales	Electricity purchases	Interest received	Interests paid	Other income	Other expenses
Akbank T.A.Ş.	825	-	14,884	257,432	-	-
Hacı Ömer Sabancı Holding	-	-	-	-	-	7
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş.	-	-	-	-	-	6,131
Çimsa Çimento Sanayi A.Ş.	20,988	-	-	-	-	-
Enerjisa Enerji Üretim A.Ş.	-	-	-	-	1,000	-
Enerjisa Enerji A.Ş.	-	-	-	11,884	-	13,098
Temsa Global San. ve Tic. A.Ş.	3,711	-	-	-	-	-
Enerjisa Elektrik Enerjisi Tüptan Satış A.Ş.	40,747	646,862	-	-	-	7,974
Aksigorta A.Ş.	7	-	-	-	-	453
Avivasa Emeklilik ve Hayat A.Ş.	-	-	-	-	-	315
Exsa Export San. Mamülleri Satış ve Araştırma A.Ş.	8	-	-	-	-	-
Teknosa İç ve Dış Ticaret A.Ş.	118	-	-	-	-	-
	<u>66,404</u>	<u>646,862</u>	<u>14,884</u>	<u>269,316</u>	<u>1,000</u>	<u>27,978</u>

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

4. RELATED PARTY TRANSACTIONS (cont'd)

Transactions with Related Parties	1 January - 31 December 2015					
	Electricity sales	Electricity purchases	Interest received	Interests paid	Other income	Other expenses
Akbank T.A.Ş.	489	-	12,347	152,029	-	-
Hacı Ömer Sabancı Holding	-	-	-	-	-	1,728
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş.	-	-	-	-	-	3,161
Çimsa Çimento Sanayi A.Ş.	27,233	-	-	-	-	-
Enerjisa Enerji Üretim A.Ş.	-	-	-	-	1,409	-
Enerjisa Enerji A.Ş.	-	-	-	2,452	469	11,351
Temsa Global San. ve Tic. A.Ş.	191	-	-	-	-	-
Enerjisa Elektrik Enerjisi Toplan Satış A.Ş.	74,068	915,016	-	-	469	6,371
Aksigorta A.Ş.	-	-	-	-	-	679
Avivasa Emeklilik ve Hayat A.Ş.	-	-	-	-	-	230
Exsa Export San. Maaulleri Satış ve Araştırma A.Ş.	9	-	-	-	-	-
Teknosa İç ve Dış Ticaret A.Ş.	2	-	-	-	-	-
	<u>101,992</u>	<u>915,016</u>	<u>12,347</u>	<u>154,481</u>	<u>2,347</u>	<u>23,520</u>

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

4. RELATED PARTY TRANSACTIONS (cont'd)

Transactions with Related Parties	1 January - 31 December 2014					
	Electricity sales	Electricity purchases	Interest received	Interests paid	Other income	Other expenses
Akbank T.A.Ş.	-	-	34,312	72,377	-	-
Hacı Ömer Sabancı Holding	-	-	-	-	-	803
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş.	-	-	-	-	-	105
Çimsa Çimento Sanayi A.Ş.	2,099	-	-	-	-	-
Enerjisa Enerji Üretim A.Ş.	-	-	-	-	1,009	-
Enerjisa Enerji A.Ş.	-	-	-	-	-	11,654
Enerjisa Elektrik Enerjisi Toplan Satış A.Ş.	100,434	322,358	-	-	263	448
Aksigorta A.Ş.	-	-	-	-	-	848
Avivasa Emeklilik ve Hayat A.Ş.	-	-	-	-	-	258
	<u>102,533</u>	<u>322,358</u>	<u>34,312</u>	<u>72,377</u>	<u>1,272</u>	<u>14,116</u>

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

5. TRADE RECEIVABLES AND PAYABLES

a) Trade Receivables:

	31 December 2016	31 December 2015	31 December 2014
<u>Current Trade Receivables</u>			
Trade receivables	2,737,656	2,433,869	2,348,528
Due from related parties (Note: 4)	15,801	6,124	17,185
Allowance for doubtful receivables (-)	(1,032,928)	(894,662)	(894,346)
	<u>1,720,529</u>	<u>1,545,331</u>	<u>1,471,367</u>

As of 31 December 2016, trade receivables amounting TL 1,287,924 (31 December 2015: TL 1,118,804, 31 December 2014: TL 1,017,461) were neither past due nor impaired. The average credit period on sale of electricity is 15 days for public institutions and 10 days for the remaining subscribers. Interest is charged at 1.40% (31 December 2015: 1.40%, 31 December 2014: 1.40%) per month on the outstanding receivable balances.

As of 31 December 2016, trade receivables amounting TL 432,605 (31 December 2015: TL 426,527, 31 December 2014: TL 453,906) were past due but not impaired. The balance relates to many independent public and private subscribers. The aging analysis of these trade receivables is as follows:

Aging of Receivables that are Due but not Impaired

	31 December 2016	31 December 2015	31 December 2014
Up to 3 months	333,392	304,567	330,850
3 to 6 months	94,918	117,407	113,499
Over 6 months	4,295	4,553	9,557
	<u>432,605</u>	<u>426,527</u>	<u>453,906</u>

As of 31 December 2016, trade receivables of TL 1,032,928 (31 December 2015: TL 894,662, 31 December 2014: TL 894,346) were considered as impaired and a provision was provided for these trade receivables. The provision for trade receivables is provided based on the aging analysis taken from the aforementioned billing and collection system. Group management considers the receivables overdue by more than 180 days as impaired by taking the past default experience into consideration. In addition, Group management considers irrigation and government receivables overdue by more than 365 days as impaired.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

5. TRADE RECEIVABLES AND PAYABLES (cont'd)

a) Trade Receivables (cont'd):

Movements of the provision for allowance of trade receivables are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
Balance at beginning of the year	(894,662)	(894,346)	(662,244)
Charge for the period	(264,351)	(179,111)	(149,668)
Amounts collected during the year	126,085	178,795	72,131
Provision charged due to system migration(*)	-	-	(154,565)
Closing balance	<u>(1,032,928)</u>	<u>(894,662)</u>	<u>(894,346)</u>

(*) In 2014, AYEDAŞ, AEPSAŞ, TOROSLAR EDAŞ and TOROSLAR EPSAŞ switched to a new billing, collection and customer relations management system from Abonet which is integrated with the accounting software and the customer database. With the effect of the system change, these companies were able to reconcile trade receivables, deposits and guarantees received and paid balances periodically to the accounting records following the data cleansing procedures performed. Due to the aforementioned system migration, the Group adjusted its trade receivables, deposits and guarantees paid and received accounts as of 31 December 2014.

The Group received guarantee letters amounting to TL 477,204 (31 December 2015: TL 440,687, 31 December 2014: TL 383,835) and deposits and guarantees amounting to TL 880,004 (31 December 2015: TL 735,201, 31 December 2014: 608,063) as collateral for its electricity receivables.

b) Trade Payables:

	31 December 2016	31 December 2015	31 December 2014
Current Trade Payables			
Trade payables	991,607	696,991	753,236
Due to related parties (Note: 4)	<u>126,061</u>	<u>129,999</u>	<u>63,252</u>
	<u>1,117,668</u>	<u>826,990</u>	<u>816,488</u>

Trade payables mainly arise from the Group's electricity purchases made from Türkiye Elektrik Ticaret ve Taahhüt A.Ş. (TETAŞ) and Enerji Piyasaları İşletme A.Ş. (EPIAŞ). The average credit period on purchases of electricity is between 18 and 20 days.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

6. OTHER RECEIVABLES AND PAYABLES

a) Other Receivables:

	31 December 2016	31 December 2015	31 December 2014
Other Current Receivables			
Sundry receivables	95,126	35,983	21,167
Allowance for other doubtful receivables (-)	(3,123)	(3,123)	(3,123)
Receivables from personnel	176	51	97
Due from related parties (Note: 4)	2	67	-
Deposits paid	25,624	24,339	16,798
Income accruals (*)	275,666	214,946	182,768
	<u>393,471</u>	<u>272,263</u>	<u>217,707</u>
Other Non-Current Receivables			
Deposits paid (**)	161,011	130,923	101,211
Income accruals (*)	33,879	251,259	201,265
Sundry receivables (***)	35,845	-	-
	<u>230,735</u>	<u>382,182</u>	<u>302,476</u>

(*) According to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations the Group's distribution, transmission and meter reading services have revenue caps which cover operating expenses and investment requirements related to distribution and meter reading. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by TEİAŞ. These regulations guarantee a revenue to the Group regardless of the consumption level of subscribers. The underbillings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years. The effects of the underbillings, which means the actual revenue is below the revenue cap set by EMRA, are accounted as income accruals at the Group's consolidated financial statements.

(**) The balance represents subscription fees refunded to the subscribers, subscribed before 31 March 2006 for EPS and 24 July 2006 for AEPSAŞ and TOROSLAR EPSAŞ (Note: 1) when they leave the system. The balances were paid to the subscribers based on their indexed amounts as required by EMRA periodically. According to the TOR Agreement signed with TEDAŞ, retail companies (EPS, AEPSAŞ and TOROSLAR EPSAŞ) are obliged to keep deposits refunded with their fair values and the net balance of deposits received and paid will be paid back to TEDAŞ at the end of the license periods.

(***) The Company management has assessed that the severance payment provision can be taken with the revenue requirement according to the tariff structure changing with the "Third Tariff Period" and has imposed an allowance for the severance payment provision calculated as of 31 December 2016.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

6. OTHER RECEIVABLES AND PAYABLES (cont'd)

a) Other Receivables (cont'd):

Movement of allowance for other doubtful receivables is as follows:

	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
Opening balance	(3,123)	(3,123)	(6,192)
Amounts recovered during the year	-	-	3,069
Closing balance	<u>(3,123)</u>	<u>(3,123)</u>	<u>(3,123)</u>

b) Other Payables:

	31 December 2016	31 December 2015	31 December 2014
Other Current Payables			
Other payable	123,510	105,918	30,707
Lighting payables	28,236	-	-
Deposits received	8,492	11,800	5,810
	<u>160,238</u>	<u>117,718</u>	<u>36,517</u>

	31 December 2016	31 December 2015	31 December 2014
Other Non-Current Payables			
Deposits received (*)	880,004	735,201	608,063
	<u>880,004</u>	<u>735,201</u>	<u>608,063</u>

(*) The Group receives deposits from the customers subscribed after 31 March 2006 for EPS and 24 July 2006 for AEPSAŞ and TOROSLAR EPSAŞ (Note 1) upon their subscription on behalf of TEDAŞ and these deposits are initially recorded at their fair values as the subscription fee charged to customers represents the fees announced by EMRA. According to the TOR Agreements signed with TEDAŞ, retail companies (EPS, AEPSAŞ and TOROSLAR EPSAŞ) are obliged to carry the deposits received by their fair values and the net balance of deposits received and paid will be paid back to TEDAŞ at the end of the license period.

c) Payables to Privatization Administration:

	31 December 2016	31 December 2015	31 December 2014
Current payables to Privatization Administration (*)	-	1,188,456	1,237,732
Non-current payables to Privatization Administration (*)	-	-	1,176,074
	<u>-</u>	<u>1,188,456</u>	<u>2,413,806</u>

(*) The balance represents the remaining installments of AYEDAŞ, AEPSAŞ, TOROSLAR EDAŞ and TOROSLAR EPSAŞ acquisitions with PPI + 2% interest rate.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

7. INVENTORIES

	31 December 2016	31 December 2015	31 December 2014
Spare parts and equipments	72,531	61,763	53,596
Other inventories	1,928	1,708	1,605
	<u>74,459</u>	<u>63,471</u>	<u>55,201</u>

8. PREPAID EXPENSES AND DEFERRED INCOME

a) Prepaid Expenses:

	31 December 2016	31 December 2015	31 December 2014
Short-term Prepaid Expenses			
Prepaid expenses	11,317	10,353	8,506
Inventory advances given	2,411	2,667	3,214
Personnel advances	345	385	-
Other advances given	83	7	321
	<u>14,156</u>	<u>13,412</u>	<u>12,041</u>
Long-term Prepaid Expenses			
Fixed asset advances given	1,516	1,876	4,140
	<u>1,516</u>	<u>1,876</u>	<u>4,140</u>

b) Deferred Income:

	31 December 2016	31 December 2015	31 December 2014
Short Term Deferred Income			
Deferred income (*)	165,711	173,216	75,161
Advances received	22	73	-
	<u>165,733</u>	<u>173,289</u>	<u>75,161</u>
Long Term Deferred Income			
Deferred income (*)	25,617	101,624	158,385
	<u>25,617</u>	<u>101,624</u>	<u>158,385</u>

(*) According to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations the Group's distribution, transmission and meter reading services have revenue caps which cover operating expenses and investment requirements related to distribution and meter reading. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by TEİAŞ. These regulations guarantee a revenue to the Group regardless of the consumption level of subscribers. The underbillings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years. The effects of the overbillings, which means the actual revenue is above the revenue cap set by EMRA, are accounted as deferred income at the Group's consolidated financial statements.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

9. FINANCIAL ASSETS

As explained in (Note: 2.9), considering the terms in the service concession arrangement, the Group has recognised the discounted estimated future cash receipts through the expected life of the arrangement, as financial asset. The detail of the financial assets recognised under the service concession arrangement is as follows:

	Financial assets			PV of financial assets		
	31 December 2016	31 December 2015	31 December 2014 (*)	31 December 2016	31 December 2015	31 December 2014 (*)
Within one year	1,341,573	964,857	667,324	653,754	455,975	312,870
More than one year	47,610,474	47,464,601	47,232,564	3,639,552	2,565,064	1,469,322
	48,952,047	48,429,458	47,899,888	4,293,306	3,021,039	1,782,192
Future financial income	(44,658,741)	(45,408,419)	(46,117,696)	-	-	-
	4,293,306	3,021,039	1,782,192	4,293,306	3,021,039	1,782,192
Current financial asset				653,754	455,975	312,870
Non - current financial asset				3,639,552	2,565,064	1,469,322
				4,293,306	3,021,039	1,782,192

(*) The Group's financial asset model, prepared in accordance with the terms of service concession arrangements, comprises certain estimates. The distribution revenue requirement of the Group during the second (2011-2015) and third (2016-2020) tariff periods was determined by EMRA considering the related tariffs which were published in 2010 and 2015. During the second tariff period, revenue requirement for distribution and meter reading services were determined by EMRA for such periods; but, due to uncertainty on the tariff methodology to be implemented during the following tariff periods, financial asset model applied during this period was developed based on the figures until the year 2015 which was the last year of the second tariff period. However, following the announcement of tariff components related to third tariff period by the end of 2015, The Group came to a conclusion that there would not be any significant changes in the method to be implemented for the following periods. Therefore, the Group estimates the financial asset model at the third tariff period and the revenue requirement for the period up to the end of the license based on the tariff components announced in such period.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

10. PROPERTY, PLANT AND EQUIPMENTS

	Machinery and equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
Cost Value					
Opening balance as of 1 January 2016	4,806	36,946	213	-	41,965
Additions	10,255	-	25,457	-	35,712
Closing balance as of 31 December 2016	15,061	36,946	25,670	-	77,677
Accumulated Depreciation					
Opening balance as of 1 January 2016	-	(10,974)	(141)	-	(11,115)
Charge for the period	(1,052)	(4,801)	(2,699)	-	(8,552)
Closing balance as of 31 December 2016	(1,052)	(15,775)	(2,840)	-	(19,667)
Carrying value as of 31 December 2016	14,009	21,171	22,830	-	58,010
	Machinery and equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
Cost Value					
Opening balance as of 1 January 2015	-	369	213	-	582
Additions	-	36,577	-	4,806	41,383
Transfers from constructions in progress	4,806	-	-	(4,806)	-
Closing balance as of 31 December 2015	4,806	36,946	213	-	41,965
Accumulated Depreciation					
Opening balance as of 1 January 2015	-	(369)	(85)	-	(454)
Charge for the period	-	(10,605)	(56)	-	(10,661)
Closing balance as of 31 December 2015	-	(10,974)	(141)	-	(11,115)
Carrying value as of 31 December 2015	4,806	25,972	72	-	30,850

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

10. PROPERTY, PLANT AND EQUIPMENTS (cont'd)

	<u>Machinery and equipment</u>	<u>Motor vehicles</u>	<u>Furniture and fixtures</u>	<u>Construction in progress</u>	<u>Total</u>
Cost Value					
Opening balance as of 1 January 2014	-	369	922	-	1,291
Disposals	-	-	(709)	-	(709)
Closing balance as of 31 December 2014	-	369	213	-	582
Accumulated Depreciation					
Opening balance as of 1 January 2014	-	(369)	(204)	-	(573)
Disposals	-	-	119	-	119
Closing balance as of 31 December 2014	-	(369)	(85)	-	(454)
Carrying value as of 31 December 2014	-	-	128	-	128

	<u>Useful Life</u>
Plant, machinery and equipment	5 years
Vehicles	3 years
Furniture and fixtures	5 years

Depreciation expense of TL 8,552 (2015: TL 10,661, 2014: None) in 'administrative expenses'.

ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

11. INTANGIBLE ASSETS

	Customer contracts and related relationships	Transfer of operating rights	Goodwill	Computer software	Other intangible assets	Total
Cost Value						
Opening balance as of 1 January 2016	4,390,673	1,650,121	2,730,031	1,152	-	8,771,977
Additions	-	-	-	-	28,480	28,480
Closing balance as of 31 December 2016	4,390,673	1,650,121	2,730,031	1,152	28,480	8,800,457
Accumulated Amortization						
Opening balance as of 1 January 2016	(547,263)	(152,031)	-	(427)	-	(699,721)
Charge for the period	(152,108)	(56,555)	-	(723)	-	(209,386)
Closing balance as of 31 December 2016	(699,371)	(208,586)	-	(1,150)	-	(909,107)
Carrying value as of 31 December 2016	3,691,302	1,441,535	2,730,031	2	28,480	7,891,350
	Customer contracts and related relationships	Transfer of operating rights	Goodwill	Computer software	Other intangible assets	Total
Cost Value						
Opening balance as of 1 January 2015	4,390,673	1,650,121	2,730,031	1,152	-	8,771,977
Closing balance as of 31 December 2015	4,390,673	1,650,121	2,730,031	1,152	-	8,771,977
Accumulated Amortization						
Opening balance as of 1 January 2015	(395,155)	(95,475)	-	(324)	-	(490,954)
Charge for the period	(152,108)	(56,556)	-	(103)	-	(208,767)
Closing balance as of 31 December 2015	(547,263)	(152,031)	-	(427)	-	(699,721)
Carrying value as of 31 December 2015	3,843,410	1,498,090	2,730,031	725	-	8,072,256

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

11. INTANGIBLE ASSETS (cont'd)

	Customer contracts and related relationships	Transfer of operating rights	Goodwill	Computer software	Other intangible assets	Total
Cost Value						
Opening balance as of 1 January 2014	4,390,673	1,650,121	2,730,031	1,152	-	8,771,977
Closing balance as of 31 December 2014	4,390,673	1,650,121	2,730,031	1,152	-	8,771,977
Accumulated Amortization						
Opening balance as of 1 January 2014	(243,047)	(38,920)	-	(324)	-	(282,291)
Charge for the period	(152,108)	(56,555)	-	-	-	(208,663)
Closing balance as of 31 December 2014	(395,155)	(95,475)	-	(324)	-	(490,954)
Carrying value as of 31 December 2014	3,995,518	1,554,646	2,730,031	828	-	8,281,023

Customer contracts and related relationships and transfer of operating rights are separately recognised during the business combination according to IFRS 3.

On 31 March 2006 BEDAŞ and on 24 July 2006, AYEDAŞ and TOROSLAR EDAŞ signed TOR Agreements with TEDAŞ. In accordance with the TOR agreement, TEDAŞ transferred the operating rights of the distribution system, the distribution facilities, the other movables and immovables which are crucial for the operation of the distribution facilities to BEDAŞ until the end of 2036 and to AYEDAŞ and TOROSLAR EDAŞ until the end of 2042. Based on the future cash flows fair value of the TOR agreements are determined. The residual value of TOR after the portion recognized as financial asset which calculated based on TFRIC 12 (see Note: 9) is recognized as intangible asset based on IFRS 3.

In recognition of customer contracts and related relationships; relationships with the different customer groups are identified and a fair value for retail customers is estimated by Group management.

Customer contracts and related relationships and TOR amortization is calculated on a straight line basis in a range between 25-30 years and charged to operating expenses.

Amortization expense of TL 209,386 (2015: TL 208,767, 2014: TL 208,663) in 'administrative expenses'.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

12. PROVISIONS

	31 December 2016	31 December 2015	31 December 2014
Current Provisions			
Legal claims (*)	138,417	145,220	144,547
	<u>138,417</u>	<u>145,220</u>	<u>144,547</u>

(*) Legal claims are set for the probable cash outflows related to the legal disputes. As of 31 December 2016, actual provision amount for the legal claims are determined according to the assessment made by the Group management in which there is high probability that the legal cases will be finalized against the Group.

The Group is charging the theft and loss costs to the subscribers in accordance with the tariff determined by Energy Market Regulatory Authority ("EMRA"). There are legal cases filed by the subscribers to claim back the theft and loss amounts from the Group claiming that they are unfair. Some cases are finalized against the Group while some others in favour of the Group at local courts and consumer arbitration committees. In June of 2016, statement of "In applications filed in respect of the amounts determined by EMRA within the scope of income and tariff regulations, the authority of the consumer arbitration committees and the courts is limited to the control of compliance with the regulatory procedures of EMRA." has been added to article 17 of Law No. 6446. By this article, it has been determined that in the cases for the theft and loss amounts, the courts can only examine if the theft and loss amounts incurred in accordance with the regulations of the EMRA and it has been ruled that no judgement can be made whether the theft and loss amounts will be collected or not. As of reporting date, the total amount of ongoing cases against the Group is TL 176,134 (31 December 2015: TL 89,826; 31 December 2014: None).

Movements of provisions are as follows:

	Legal claims	Total
Balance at 1 January 2016	145,220	145,220
Additional provisions recognized	31,726	31,726
Reversal of provisions	(38,529)	(38,529)
Balance at 31 December 2016	<u>138,417</u>	<u>138,417</u>
	Legal claims	Total
Balance at 1 January 2015	144,547	144,547
Additional provisions recognized	16,270	16,270
Reversal of provisions	(15,597)	(15,597)
Balance at 31 December 2015	<u>145,220</u>	<u>145,220</u>
	Legal claims	Total
Balance at 1 January 2014	154,662	154,662
Additional provisions recognized	38,110	38,110
Reversal of provisions	(48,225)	(48,225)
Balance at 31 December 2014	<u>144,547</u>	<u>144,547</u>

**ENERJISA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

13. COMMITMENT AND CONTINGENCIES

31 December 2016	TL Amount	TL	USD
A. Total amount of Collateral Pledge Mortgage given on behalf of the legal entity	25,395	25,395	-
<i>-Collateral</i>	25,395	25,395	-
B. Total amount of CPM given against the subsidiaries included in full consolidation	1,598,516	1,598,516	-
<i>-Collateral</i>	1,598,516	1,598,516	-
Total	1,623,911	1,623,911	-
31 December 2015	TL Amount	TL	USD
A. Total amount of Collateral Pledge Mortgage given on behalf of the legal entity	1,144,138	1,144,138	-
<i>-Collateral (*)</i>	1,144,138	1,144,138	-
B. Total amount of CPM given against the subsidiaries included in full consolidation	1,833,566	1,833,566	-
<i>-Collateral</i>	1,833,566	1,833,566	-
Total	2,977,704	2,977,704	-
31 December 2014	TL Amount	TL	USD
A. Total amount of Collateral Pledge Mortgage given on behalf of the legal entity	2,356,925	2,352,148	2,060
<i>-Collateral (*)</i>	2,356,925	2,352,148	2,060
B. Total amount of CPM given against the subsidiaries included in full consolidation	1,203,157	1,203,157	-
<i>-Collateral</i>	1,203,157	1,203,157	-
Total	3,560,082	3,555,305	2,060

(*) The amount represents the collaterals given regarding the acquisitions of new regions.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

13. COMMITMENT AND CONTINGENCIES (cont'd)

Investment obligations

Annual expansion, replacement, and improvement investments that are stated in TOR and required to be completed by the Group have been determined during the preparation of the tariffs. These investments have been included in the first implementation period tariffs approved by EMRA and as a result the Group is obliged to make these determined investments. Implementation of these investments is monitored by EMRA by the reports received from the Group at the end of each year. Some of these investments are subject to unit prices per announced by EMRA. According to the regulations, the Group is allowed to make transfers between the years after taking approval of EMRA.

Energy Sales Agreements

Distribution and retail companies signed Energy Sales Agreements (ESA) with TETAŞ in order to obtain their energy needs during the year. These Energy Sales Agreements have been established based on regulated prices. During the year, the Group is obliged to purchase the energy quantity stated in these agreements. At the current operating conditions and market structure, the Group's energy needs are higher than the contracted quantities and the Group makes purchases regularly from EPIAŞ. As a result, the Group management does not expect any liability related to the Energy Sales Agreements arising from not fulfilling the requirements of ESAs.

Competition Board Investigation

Further to a preliminary inquiry in November 2016, The Competition Board resolved to commence an investigation in December 2016 to check if the Company's subsidiaries are in compliance with the Competition Law (Law no: 4054). Investigation process is expected to be finalized by the end of August 2018.

The Competition Board's Investigation Notification contains very limited information concerning the allegation. The Investigation Notification to the Company's subsidiaries and the announcement to the Public cannot be interpreted as the undertakings of the related subsidiaries have violated the Competition Law or the subsidiaries will be punished. The Company and its subsidiaries execute its transactions within the Competition Law and other regulations.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

14. EMPLOYMENT BENEFITS

	31 December 2016	31 December 2015	31 December 2014
Payable to personnel	16,079	3,648	11,714
Social security premiums payable	23,151	11,891	9,652
	<u>39,230</u>	<u>15,539</u>	<u>21,366</u>

Short-term Provisions Related to Employee Benefits:

	31 December 2016	31 December 2015	31 December 2014
Bonus provisions	12,398	7,794	7,814
Provisions for unused vacation	17,064	14,320	11,328
	<u>29,462</u>	<u>22,114</u>	<u>19,142</u>

The movement for bonus and unused vacation provisions are as follows:

	Bonus provisions	Unused vacation provision	Total
Balance at 1 January 2016	7,794	14,320	22,114
Additional provisions recognized	13,736	3,179	16,915
Reversal of provisions	(9,132)	(435)	(9,567)
Balance at 31 December 2016	<u>12,398</u>	<u>17,064</u>	<u>29,462</u>
	Bonus provisions	Unused vacation provision	Total
Balance at 1 January 2015	7,814	11,328	19,142
Additional provisions recognized	7,010	2,888	9,898
Reversal of provisions	(7,030)	104	(6,926)
Balance at 31 December 2015	<u>7,794</u>	<u>14,320</u>	<u>22,114</u>
	Bonus provisions	Unused vacation provision	Total
Balance at 1 January 2014	3,550	9,783	13,333
Additional provisions recognized	7,814	2,108	9,922
Reversal of provisions	(3,550)	(563)	(4,113)
Balance at 31 December 2014	<u>7,814</u>	<u>11,328</u>	<u>19,142</u>

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

14. EMPLOYMENT BENEFITS (cont'd)

Long-term Provisions Related to Employee Benefits:

	31 December 2016	31 December 2015	31 December 2014
Provision for employment termination benefits	56,442	58,825	38,555
	<u>56,442</u>	<u>58,825</u>	<u>38,555</u>

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, who 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 (full digit) (2015: TL 3,828.37 (full digit), 2014 TL 3,438.22 (full digit)) for each period of service at 31 December 2016.

The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. IAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability.

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 assuming an annual inflation rate of 7.00% and a discount rate of 11.30%, resulting in a real discount rate of approximately 4.02% (31 December 2015: inflation rate of 7.50% and discount rate of 11.00%, resulting in a real discount rate of approximately 3.26%, 31 December 2014: inflation rate of 6.00% and discount rate of 9.00%, resulting in a real discount rate of approximately 2.83%) Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration as 3.28 % for employees with 0-15 years of service, and 0% for those with 16 or more years of service. Ceiling amount of TL 4,426.16 which is in effect since 1 January 2016 is used in the calculation of Groups' provision for retirement pay liability (1 January 2016: TL 4,092.53 (full digit), 1 January 2015: 3,541.37 (full digit)).

The movement for retirement pay provisions is as follows:

	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
Provision at 1 January	58,825	38,555	52,704
Service cost	18,897	13,208	23,018
Interest cost	1,557	1,442	1,969
Actuarial gain / loss	(4,505)	13,516	-
Retirement pay paid	(18,332)	(7,896)	(39,136)
Provision at 31 December	<u>56,442</u>	<u>58,825</u>	<u>38,555</u>

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

15. OTHER ASSETS AND LIABILITIES

a) Other Current Assets:

	31 December 2016	31 December 2015	31 December 2014
Deferred VAT	3,587	20,578	39,792
Prepaid taxes and funds	181	3,167	-
Other	719	182	-
	<u>4,487</u>	<u>23,927</u>	<u>39,792</u>

b) Other Non-current Assets:

	31 December 2016	31 December 2015	31 December 2014
Deferred VAT	123,032	157,439	116,332
	<u>123,032</u>	<u>157,439</u>	<u>116,332</u>

c) Other Current Liabilities:

	31 December 2016	31 December 2015	31 December 2014
Taxes and funds payable	166,702	141,563	116,733
Other	4,112	4,332	3,913
	<u>170,814</u>	<u>145,895</u>	<u>120,646</u>

16. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

a) Share Capital:

Shareholders	%	31 December 2016	%	31 December 2015	%	31 December 2014
Enerjisa Enerji A.Ş.	100	3,964,528	100	4,389,585	100	4,389,585
Nominal Capital	100	<u>3,964,528</u>	100	<u>4,389,585</u>	100	<u>4,389,585</u>

At 31 December 2016, the capital of the Company comprising 396,452,800 (2015: 438,958,520, 2014: 438,958,520) registered shares of TL 0,01 each (2015: TL 0,01 each, 2014: TL 0,01 each).

It has been decided by the Board of Directors of the Company to make a capital reduction pursuant to Article 474 of the Turkish Commercial Code in order to close the deficit in the carry forward-losses in the balance sheet with the 14-point decision taken on November 30, 2016. As a result of this transaction, decreased capital amount has been deducted from previous years losses and no change has occurred in total equity.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

16. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (cont'd)

b) Restricted Profit Reserves:

	31 December 2016	31 December 2015	31 December 2014
Restricted Profit Reserves	139,190	53,303	53,303
	<u>139,190</u>	<u>53,303</u>	<u>53,303</u>

The Company, reserves 5% of the historical statutory profit as first legal reserve, until the total reserve reaches 20% of the historical paid in share capital. The other legal reserve is appropriated at the rate of 10% per annum of all cash dividend distributions after the payment of dividends to the shareholders at a rate of 5%. According to Turkish Commercial Law, general legal reserves can only be used if it does not exceed the capital or issued capital for close the losses, continue the business when business is not going well or end the unemployment and to take suitable precautions to reduce the results of unemployment.

17. REVENUE

	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
Revenue from electricity sales and services provided	8,491,243	8,771,706	7,797,085
Retail sales revenue	5,543,040	6,534,463	5,943,531
Retail sales service revenue	243,962	204,659	157,378
Distribution revenue	2,704,241	2,032,584	1,696,176
Finance income from service concession arrangements	609,628	310,955	208,758
Other sales	2,509	70,953	58,578
	<u>9,103,380</u>	<u>9,153,614</u>	<u>8,064,421</u>

18. COST OF SALES

	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
Energy purchases	(5,953,189)	(6,782,254)	(6,463,201)
System usage costs	(547,314)	(325,289)	(284,950)
Other	(453)	(577)	(5,360)
	<u>(6,500,956)</u>	<u>(7,108,120)</u>	<u>(6,753,511)</u>

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

19. GENERAL ADMINISTRATIVE EXPENSES

	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
General Administrative Expenses (-)	(1,227,836)	(1,079,790)	(967,303)
	<u>(1,227,836)</u>	<u>(1,079,790)</u>	<u>(967,303)</u>

Details of general administrative expenses are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
Payroll and employee benefit expenses	(539,642)	(454,467)	(381,034)
Depreciation and amortization expenses	(217,938)	(219,428)	(208,663)
Material expenses	(125,768)	(99,683)	(91,043)
Consulting expenses	(43,432)	(40,645)	(33,738)
Rent expenses	(39,535)	(40,299)	(13,155)
Outsourcing expenses	(35,443)	(43,371)	(98,893)
Attorney expenses	(35,152)	(20,823)	(42,162)
Maintenance expenses	(32,511)	(26,228)	(7,825)
Communication and IT expenses	(23,435)	(19,171)	(19,242)
Tax and duties	(23,282)	(22,804)	(20,319)
Security expenses	(22,357)	(20,587)	(17,469)
Travel expenses	(10,793)	(9,305)	(7,004)
Insurance expenses	(9,931)	(13,683)	(12,598)
Other expenses	(68,617)	(49,297)	(14,158)
	<u>(1,227,836)</u>	<u>(1,079,790)</u>	<u>(967,303)</u>

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

20. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

a) Other Income From Operating Activities:

	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
Late payment interest from electricity receivables	77,949	91,763	83,089
Interest income/(expense) related to revenue cap regulation - net	19,370	2,496	5,313
Power theft penalties	15,398	17,560	7,736
Lawsuit income	14,174	-	-
Rent income	6,303	1,717	-
Income from derivative financial instruments	3,886	-	-
Reversal of provision for doubtful and other receivables	-	-	3,069
Other income	7,571	9,797	4,997
	<u>144,651</u>	<u>123,333</u>	<u>104,204</u>

b) Other Expenses From Operating Activities:

	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
Provision for doubtful and other receivables	(138,266)	(316)	(74,468)
Fair value differences arising from deposits and guarantees	(40,287)	(36,118)	(42,627)
Penalty expenses	(38,393)	(5,474)	(3,713)
Expense due to system migration (*)	-	-	(10,131)
Other expenses	(29,983)	(8,852)	(9,235)
	<u>(246,929)</u>	<u>(50,760)</u>	<u>(140,174)</u>

(*) In 2014, AYEDAŞ, AEPSAŞ, TOROSLAR EDAŞ and TOROSLAR EPSAŞ switched to a new billing, collection and customer relations management system from Abonet which is integrated with the accounting software and the customer database. With the effect of the system change, these companies were able to reconcile trade receivables, deposits and guarantees received and paid balances periodically to the accounting records following the data cleansing procedures performed. Due to the aforementioned system migration, the Group adjusted its trade receivables, deposits and guarantees paid and received accounts as of 31 December 2014 and as a result, recognized TL 10,131 of other expense in the statement of profit or loss.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

21. FINANCE INCOME AND EXPENSES

a) Finance Income:

	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
Interest revenue from repurchase agreements	39,729	31,484	58,692
Foreign exchange gains/(losses) - net	-	-	9,955
	<u>39,729</u>	<u>31,484</u>	<u>68,647</u>

b) Finance Expenses:

	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
Bank commission expenses	(8,549)	(11,681)	(14,882)
Interest expense of borrowings (*)	(735,174)	(575,336)	(625,109)
Foreign exchange gains/(losses) - net	(54,114)	(19,837)	-
	<u>(797,837)</u>	<u>(606,854)</u>	<u>(639,991)</u>

(*) Total interest expense related to payables of Privatization Administration is TL 41,780 (31 December 2015: TL 129,099, 31 December 2014: TL 375,639).

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

22. TAXATION ON INCOME (INCLUDES DEFERRED TAX ASSET AND LIABILITIES)

	31 December 2016	31 December 2015	31 December 2014
<u>Assets Related with Current Taxes</u>			
Prepaid taxes and funds	238	5,980	20,322
	<u>238</u>	<u>5,980</u>	<u>20,322</u>
	31 December 2016	31 December 2015	31 December 2014
<u>Current Tax Liability</u>			
Current corporate tax provision	148,215	96,524	51,485
Less: prepaid taxes and funds	(141,899)	(87,649)	(51,485)
	<u>6,316</u>	<u>8,875</u>	<u>-</u>
	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
<u>Income Tax Recognized in Profit or Loss</u>			
Current tax expense	148,215	96,524	51,485
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	(11,406)	30,081	(38,478)
Total tax expense	<u>136,809</u>	<u>126,605</u>	<u>13,007</u>

Corporate tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the period.

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

Valid rate of corporate tax in 2016 is 20% (2015: 20%, 2014: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was applied as 20% in 2016 (2015: 20%, 2014: 20%). Losses are allowed to be carried 5 years maximum to be deducted from the taxable profit of the following years. Tax carry back is not allowed.

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

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied is 15%. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

22. TAXATION ON INCOME (INCLUDES DEFERRED TAX ASSET AND LIABILITIES) (cont'd)

Deferred tax

The Company recognizes deferred tax assets and liabilities on the temporary timing differences between the legal books and the financial statements prepared in accordance with IFRS. Such differences generally arise from timing differences of some revenue and expense balances in legal books and financial statements prepared in accordance with IFRS and are explained below.

For calculation of deferred tax assets and liabilities, the rate of 20% (2015: 20%, 2014: 20%) is used.

a) Deferred tax assets - net:

<u>Deferred Tax (Assets) / Liabilities</u>	<u>31 December 2016</u>	<u>31 December 2015</u>	<u>31 December 2014</u>
Carrying amount differences of property, plant and equipment and intangible assets	(948,556)	(692,630)	(547,928)
Provision for employment termination benefits	(1,737)	(8,500)	(7,711)
Provision for doubtful receivables	(4,693)	(5,723)	(19,586)
Provision for lawsuits	(24,088)	(24,498)	(26,676)
Provision for unused vacation	(2,366)	(2,483)	(1,639)
Effect of revenue cap adjustments	21,879	22,110	19,503
Late penalty payments	(13,576)	(9,769)	(2,519)
Effect of concession arrangement differences	822,224	565,035	324,311
Adjustments due to system migration	20,976	20,976	(33,640)
Carry forward tax loss	(112,936)	(117,615)	(124,889)
Other	(4,830)	(25,833)	72,705
	<u>(247,703)</u>	<u>(278,930)</u>	<u>(348,069)</u>

b) Deferred tax liabilities - net:

<u>Deferred Tax (Assets) / Liabilities</u>	<u>31 December 2016</u>	<u>31 December 2015</u>	<u>31 December 2014</u>
Differences arising from customer contracts and transfer of operational rights	1,026,568	1,068,300	1,110,033
Other	96	96	124
	<u>1,026,664</u>	<u>1,068,396</u>	<u>1,110,157</u>

Movement of deferred tax (assets)/liabilities is as follows:

	<u>1 January- 31 December 2016</u>	<u>1 January- 31 December 2015</u>	<u>1 January- 31 December 2014</u>
Opening balance	789,466	762,088	800,566
Charged to income	(11,406)	30,081	(38,478)
Charged to equity	901	(2,703)	-
Closing balance	<u>778,961</u>	<u>789,466</u>	<u>762,088</u>

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

22. TAXATION ON INCOME (INCLUDES DEFERRED TAX ASSET AND LIABILITIES) (cont'd)

	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
<u>Tax Reconciliation:</u>			
Profit / loss from operations before tax	514,202	462,907	(263,707)
	%20	%20	%20
Tax at the domestic income tax rate of 20% (2015: 20%)	102,840	92,581	(52,741)
Tax effects of:			
- expenses that are not deductible in determining taxable profit	10,765	3,337	1,451
- unused tax losses	23,204	31,222	74,249
- other	-	(535)	(9,952)
Income tax expense recognised in profit or loss	136,809	126,605	13,007

The expiration dates of previous years' losses on which deferred tax asset was unrecognized are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
Expiring in 2015	-	-	6,064
Expiring in 2016	-	43,945	43,945
Expiring in 2017	-	8,982	8,982
Expiring in 2018	-	29,070	29,070
Expiring in 2019	-	74,249	74,249
Expiring in 2020	-	144,637	-
Expiring in 2021	113,439	-	-
	113,439	300,883	162,310

23. FINANCIAL INSTRUMENTS

a) Financial Liabilities:

	31 December 2016	31 December 2015	31 December 2014
Short-term liabilities	1,556,770	915,335	762,210
Bonds issued	364,382	359,677	-
Short-term portion of long-term liabilities and bonds issued	1,176,642	641,052	43,161
Total short term financial liabilities	3,097,794	1,916,064	805,371
Bonds issued	-	-	350,000
Long-term liabilities	3,200,000	2,878,000	1,748,000
Total long term financial liabilities	3,200,000	2,878,000	2,098,000
Total financial liabilities	6,297,794	4,794,064	2,903,371

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

23. FINANCIAL INSTRUMENTS (cont'd)

a) Financial Liabilities (cont'd):

The financial liabilities are repayable as follows:

	31 December 2016	31 December 2015	31 December 2014
To be paid within 1 year	3,097,794	1,916,064	805,371
To be paid between 1-2 years	2,850,000	2,878,000	1,318,000
To be paid between 2-3 years	350,000	-	480,000
To be paid between 3-4 years	-	-	300,000
	<u>6,297,794</u>	<u>4,794,064</u>	<u>2,903,371</u>

As of 31 December 2016, 31 December 2015 and 31 December 2014, details of short and long term financial liabilities in terms of currencies are as follows:

Currency Type	Weighted average effective interest rate	31 December 2016	
		Current	Non-current
TL	12.37%	3,083,412	2,850,000
		<u>3,083,412</u>	<u>2,850,000</u>

Currency Type	Weighted average effective interest rate	31 December 2015	
		Current	Non-current
TL	11.76%	1,556,387	2,878,000
		<u>1,556,387</u>	<u>2,878,000</u>

Currency Type	Weighted average effective interest rate	31 December 2014	
		Current	Non-current
TL	10.74%	796,219	1,748,000
		<u>796,219</u>	<u>1,748,000</u>

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

23. FINANCIAL INSTRUMENTS (cont'd)

a) Financial Liabilities (cont'd):

As of 31 December 2016, 31 December 2015 and 31 December 2014, details of bond are as follows:

Currency Type	Weighted average effective interest rate	31 December 2016	
		Current	Non-current
TL	12.52%	14,382	350,000
		<u>14,382</u>	<u>350,000</u>
Currency Type	Weighted average effective interest rate	31 December 2015	
		Current	Non-current
TL	12.46%	359,677	-
		<u>359,677</u>	<u>-</u>
Currency Type	Weighted average effective interest rate	31 December 2014	
		Current	Non-current
TL	11.96%	9,152	350,000
		<u>9,152</u>	<u>350,000</u>

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

23. FINANCIAL INSTRUMENTS (cont'd)

a) Other Financial Liabilities:

	31 December 2016	31 December 2015	31 December 2014
Other current financial liabilities	25,087	20,630	17,185
Other non-current financial liabilities	245,134	232,392	239,728
	<u>270,221</u>	<u>253,022</u>	<u>256,913</u>

The other financial liabilities are repayable as follows:

	31 December 2016	31 December 2015	31 December 2014
To be paid within 1 year	25,087	20,630	17,185
To be paid between 1-2 years	25,568	21,488	19,204
To be paid between 2-3 years	26,071	21,899	19,981
To be paid between 3-4 years	26,597	22,330	20,346
To be paid between 4-5 years	34,491	22,780	20,407
To be paid between 5+ years	132,407	143,895	159,790
	<u>270,221</u>	<u>253,022</u>	<u>256,913</u>

As of 31 December 2016, 31 December 2015 and 31 December 2014, details of short and long term other financial liabilities in terms of currencies are as follows:

Currency Type	Weighted average effective interest rate	31 December 2016	
		Current	Non-current
EURO	4.70%	25,087	245,134
		<u>25,087</u>	<u>245,134</u>
Currency Type	Weighted average effective interest rate	31 December 2015	
		Current	Non-current
EURO	4.70%	20,630	232,392
		<u>20,630</u>	<u>232,392</u>
Currency Type	Weighted average effective interest rate	31 December 2014	
		Current	Non-current
EURO	4.70%	17,185	239,728
		<u>17,185</u>	<u>239,728</u>

Other financial liabilities represent the payables to TEDAŞ for the capital expenditures denominated in EURO.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

a) Capital risk management:

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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 and reserves.

The Group management 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 new share issues, and by issue of new debt or the redemption of existing debt.

	2016 <u>TL</u>	2015 <u>TL</u>	2014 <u>TL</u>
Total borrowings (Note: 23)	6,568,015	6,235,542	5,574,090
Less: cash and cash equivalents (Note: 25)	(74,570)	(152,103)	(112,669)
Net debt	6,493,445	6,083,439	5,461,421
Total equity	4,746,828	4,365,831	4,040,342
Total capital	<u>11,240,273</u>	<u>10,449,270</u>	<u>9,501,763</u>
Net debt / Total capital ratio	<u>58%</u>	<u>58%</u>	<u>57%</u>

b) Financial risk factors:

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by finance department. Finance department identifies and evaluates financial risks in close co-operation with the Group's operating units.

b.1) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's credit risks mainly arise from trade receivables. The Group manages this risk by the guarantees received from customers. Trade receivables, are evaluated based on the Group's policies and procedures and as a result presented net of doubtful provision in the consolidated financial statements. Group management evaluates the adequacy of the provision set for the impaired trade receivable balances based on the aging analysis and considers the receivables overdue by more than 180 days as impaired. In addition, Group management considers irrigation and government receivables overdue by more than 365 days as impaired.

Trade receivables consist of a large number of customers, spread across diverse industries within several different provinces. Credit risk of the financial instruments is as the follows:

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira ("TL") unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial risk factors (cont'd):

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

Credit risk exposure based on financial instrument categories

	Receivables					
	Trade receivables			Other receivables		
	Related party	Third party	Related party	Current Related party	Non-current Related party	Third party
31 December 2016						
Maximum net credit risk as of the balance sheet date (*)	15,801	1,704,728	2	393,469	-	230,735
The part of maximum risk under guarantee	-	1,357,208	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	15,801	1,272,123	2	393,469	-	230,735
B. Net book value of financial assets that are due but not impaired	-	432,605	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-
-Past due	-	1,032,928	-	3,123	-	-
-Impairment	-	(1,032,928)	-	(3,123)	-	-
					Bank deposits & repos	Financial assets
					74,570	4,293,306
						4,293,306

(*) The factors such as collaterals received, that increase the credit reliability have not been taken into consideration in determination of the amount.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial risk factors (cont'd):

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

Credit risk exposure based on financial instrument categories

	Receivables					
	Trade receivables			Other receivables		
	<u>Related party</u>	<u>Third party</u>	<u>Current Related party</u>	<u>Non-current Related party</u>	<u>Bank deposits&repos</u>	<u>Financial assets</u>
31 December 2015						
Maximum net credit risk as of the balance sheet date (*)	6,124	1,539,207	67	-	152,103	3,021,039
The part of maximum risk under guarantee	-	1,175,888	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	6,124	1,112,680	67	-	152,103	3,021,039
B. Net book value of financial assets that are due but not impaired	-	426,527	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-
-Past due	-	894,662	-	-	-	-
-Impairment	-	(894,662)	-	-	-	-

(*) The factors such as collaterals received, that increase the credit reliability have not been taken into consideration in determination of the amount.

**ENERJISA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial risk factors (cont'd):

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

Credit risk exposure based on financial instrument categories

	Receivables					
	Trade receivables			Other receivables		
	<u>Related party</u>	<u>Third party</u>	<u>Current Related party</u>	<u>Non-current Related party</u>	<u>Third party</u>	<u>Bank deposits&repos</u>
31 December 2014						Financial assets
Maximum net credit risk as of the balance sheet date (*)	17,185	1,454,182	-	-	302,476	112,555
The part of maximum risk under guarantee	-	991,898	-	-	-	-
A. Net book value of financial assets that	17,185	1,000,276	-	-	302,476	112,555
B. Net book value of financial assets that are due but not impaired	-	453,906	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-
-Past due	-	894,346	-	-	3,123	-
-Impairment	-	(894,346)	-	-	(3,123)	-
						1,782,192

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial risk factors (cont'd):

b.2) Liquidity risk management

Ultimate control for liquidity risk management rests with the Board of Directors, which aims to maintain an appropriate liquidity risk management framework for the Group's short, medium and long-term funding and liquidity management requirements.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of 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.

The maturities of the financial liabilities determined with respect to the contracts including the expected interest payments as of 31 December 2016, 2015 and 2014 are as follows:

31 December 2016

<u>Maturity analysis of non- derivative financial liabilities</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>Unallocated (IV)</u>
Non-derivative financial liabilities						
Borrowings	6,297,794	7,867,019	677,672	2,686,931	4,502,416	-
Trade payables	1,117,668	1,117,668	1,117,668	-	-	-
Deferred income	191,350	195,293	-	165,733	29,560	-
Other payables	1,040,242	1,094,754	132,518	82,232	-	880,004
Other financial liabilities	270,221	285,751	8,912	17,480	118,288	141,071
Total liabilities	8,917,275	10,560,485	1,936,770	2,952,376	4,650,264	1,021,075

31 December 2015

<u>Maturity analysis of non- derivative financial liabilities</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>Unallocated (IV)</u>
Non-derivative financial liabilities						
Borrowings	4,794,064	5,852,486	988,125	851,839	4,012,522	-
Trade payables	826,990	826,990	826,990	-	-	-
Deferred income	274,913	281,625	-	173,216	108,409	-
Other payables	2,041,375	2,156,944	55,772	735,284	630,687	735,201
Other financial liabilities	253,022	266,807	3,776	18,490	94,058	150,483
Total liabilities	8,190,364	9,384,852	1,874,663	1,778,829	4,845,676	885,684

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial risk factors (cont'd):

b.2) Liquidity risk management

31 December 2014

<u>Maturity analysis of non- derivative financial liabilities</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>Unallocated (IV)</u>
Non-derivative financial liabilities						
Borrowings	2,903,371	3,477,837	692,056	315,395	2,470,386	-
Trade payables	816,488	816,488	816,488	-	-	-
Deferred income	233,546	248,224	-	75,161	173,063	-
Other payables	3,058,386	3,412,506	125,300	1,404,749	1,274,394	608,063
Other financial liabilities	256,913	323,059	5,302	18,618	104,086	195,053
Total liabilities	<u>7,268,704</u>	<u>8,278,114</u>	<u>1,639,146</u>	<u>1,813,923</u>	<u>4,021,929</u>	<u>803,116</u>

b.3) Market risk management

b.3.1) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed by adjusting the unit price / tariff of the energy sold semi-annually.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is disclosed below.

	31 December 2016		
	USD	EUR	TL Equivalent
Derivative financial instruments	1,104	-	3,886
Other financial liabilities	-	(72,838)	(270,221)
Trade payables	(6,216)	(6,655)	(46,565)
Other payables	-	(24,138)	(89,550)
Net foreign currency position	<u>(5,112)</u>	<u>(103,631)</u>	<u>(402,450)</u>
	31 December 2015		
	USD	EUR	TL Equivalent
Other financial liabilities	-	(79,627)	(253,022)
Trade payables	(3,103)	(5,344)	(26,003)
Net foreign currency position	<u>(3,103)</u>	<u>(84,971)</u>	<u>(279,025)</u>
	31 December 2014		
	USD	EUR	TL Equivalent
Cash and cash equivalents	1,396	-	3,237
Other financial liabilities	-	(91,081)	(256,913)
Trade payables	(7,104)	(2,418)	(23,293)
Net foreign currency position	<u>(5,708)</u>	<u>(93,499)</u>	<u>(276,969)</u>

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial risk factors (cont'd):

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

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

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and EUR.

The following table details the Group's sensitivity to a 10% increase and decrease in the TL against the relevant foreign currencies. 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 currency 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. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss before taxation on income where the TL strengthens against the relevant currency.

	TL effect of USD balances			TL effect of EUR Balances		
	2016	2015	2014	2016	2015	2014
Profit and loss	(1,799)	(902)	(1,324)	(38,446)	(29,685)	(26,373)

b.3.2) Interest rate risk management

The Group is not exposed to interest rate risk as the Group does not have funds at floating interest rates as of 31 December 2016, 31 December 2015 and 31 December 2014.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Fair value of financial instruments

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and the tariff structure imposed by EMRA.

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial risk factors (cont'd):

Categories of financial instruments and fair values

	Loans and receivables	Financial assets at amortized cost	Financial liabilities at amortized cost	Carrying value	Note
31 December 2016					
<u>Financial assets</u>					
Cash and cash equivalents	74,570	-	-	74,570	25
Trade receivables (including related parties)	1,720,529	-	-	1,720,529	5
Derivatives	-	3,886	-	3,886	
Financial assets	4,293,306	-	-	4,293,306	9
Prepaid expenses	15,672	-	-	15,672	8
Other assets	127,519	-	-	127,519	15
Other receivables	624,206	-	-	624,206	6
<u>Financial liabilities</u>					
Borrowings	-	-	6,297,794	6,297,794	23
Trade payables (including related parties)	-	-	1,117,668	1,117,668	5
Deferred income	-	-	191,350	191,350	8
Other payables	-	-	1,040,242	1,040,242	6
Other financial liabilities	-	-	270,221	270,221	23
31 December 2015					
<u>Financial assets</u>					
Cash and cash equivalents	152,103	-	-	152,103	25
Trade receivables (including related parties)	1,545,331	-	-	1,545,331	5
Financial assets	3,021,039	-	-	3,021,039	9
Prepaid expenses	15,288	-	-	15,288	8
Other assets	181,366	-	-	181,366	15
Other receivables	654,445	-	-	654,445	6
<u>Financial liabilities</u>					
Borrowings	-	-	4,794,064	4,794,064	23
Trade payables (including related parties)	-	-	826,990	826,990	5
Deferred income	-	-	274,913	274,913	8
Other payables	-	-	2,041,375	2,041,375	6
Other financial liabilities	-	-	253,022	253,022	23

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial risk factors (cont'd):

Categories of financial instruments and fair values (cont'd)

31 December 2014	Loans and receivables	Financial assets at amortized cost	Financial liabilities at amortized cost	Carrying value	Note
Financial assets					
Cash and cash equivalents	112,669	-	-	112,669	25
Trade receivables (including related parties)	1,471,367	-	-	1,471,367	5
Financial assets	1,782,192	-	-	1,782,192	9
Prepaid expenses	16,181	-	-	16,181	8
Other assets	156,124	-	-	156,124	15
Other receivables	520,183	-	-	520,183	6
Financial liabilities					
Borrowings	-	-	2,903,371	2,903,371	23
Trade payables (including related parties)	-	-	816,488	816,488	5
Deferred income	-	-	233,546	233,546	8
Other payables	-	-	3,058,386	3,058,386	6
Other financial liabilities	-	-	256,913	256,913	23

(*) The Group management considers the carrying amount of financial assets approximate their fair values.

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined and grouped as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined.

Financial assets/financial liabilities	Fair value as at			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 December 2016	31 December 2015	31 December 2014				
Derivatives	3,886	-	-	Level 2	Market Value	-	-
Deposits paid	161,011	130,923	101,211	Level 2	CPI	-	-
Deposits and guarantees received (Note :6)	880,004	735,201	608,063	Level 2	CPI	-	-
Financial assets	4,293,306	3,021,039	1,782,192	Level 2	CPI	-	-

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

25. EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

	31 December 2016	31 December 2015	31 December 2014
Cash on hand	-	-	114
Cash at banks	55,956	72,748	43,154
<i>Demand deposits</i>	55,956	72,748	43,154
Repurchase agreements	18,614	79,355	69,401
	<u>74,570</u>	<u>152,103</u>	<u>112,669</u>

As at 31 December 2016, TL 28,961 of the Group's demand deposits are blocked at different banks (31 December 2015: TL 24,459, 31 December 2014: TL 22,029). These blocked deposits are related to the collections made through bank branches which are made available for use by banks 1 or 2 days after the collection depending on the agreements with related banks.

Repurchase agreements consist of short term TL balances with original maturities between 1-3 days (31 December 2015: 1-3 days, 31 December 2014: 1-3 days). The weighted average effective interest rate of TL repurchase agreements is 11.80% as at 31 December 2016 (31 December 2015: 11.10%, 31 December 2014: 10.07%).

Details of "Other adjustments to reconcile profit / (loss)" that presented on cash flow statement as follows:

	1 January 31 December 2016	1 January 31 December 2015	1 January 31 December 2014
Adjustments related to finance (income) / cost based on revenue cap regulation	(19,370)	(2,496)	(5,313)
Adjustments related to investment revenue recognised relate to service concession arrangements	(609,628)	(310,955)	(208,758)
Adjustments related to fair value differences arising from deposits	40,287	36,118	42,627
	<u>(588,711)</u>	<u>(277,333)</u>	<u>(171,444)</u>

Details of "Other cash in-flows generated from operating activities" that presented on cash flow statement as follows:

	1 January 31 December 2016	1 January 31 December 2015	1 January 31 December 2014
Net collections from financial assets related to service concession arrangements	851,546	399,063	349,994
	<u>851,546</u>	<u>399,063</u>	<u>349,994</u>

**ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014**

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

25. EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

Details of “Other cash-out flows from investing activities” that presented on cash flow statement as follows:

	1 January 31 December 2016	1 January 31 December 2015	1 January 31 December 2014
Capital expenditures related to service concession arrangements	(1,496,213)	(1,051,224)	(525,427)
Payment to Privatization Administration	(1,188,456)	(1,225,350)	(1,176,074)
	<u>(2,684,669)</u>	<u>(2,276,574)</u>	<u>(1,701,501)</u>

26. EVENTS AFTER THE REPORTING DATE

Following the approval of Capital Markets Board with decision numbered 27/1319 on 29 December 2016; bonds with the nominal amount of TL 405,000 are issued by the Group on 2 March 2017 with 1,454 days maturity, CPI based variable interests and capital payment at the end of the maturity.

Further to Board of Directors resolution dated 20 April 2017, the Company has merged with its shareholding company, Enerjisa Enerji A.Ş. also being the surviving entity. The merger has been registered as of 28 April 2017.