

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

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2016
AND INDEPENDENT
AUDITOR'S REPORT

(CONVENIENCE TRANSLATION
OF INDEPENDENT AUDITOR'S
REPORT ORIGINALLY ISSUED
IN TURKISH)

**(CONVENIENCE TRANSLATION OF INDEPENDENT
AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH)**

INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

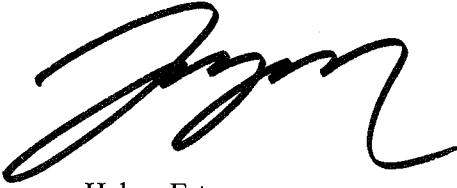
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Enerjisa Enerji A.Ş. and its subsidiaries as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Turkish Accounting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

Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 402 of the Turkish Commercial Code No. 6102 ("TCC"), nothing has come to our attention that may cause us to believe that the Group's set of accounts and financial statements prepared for the period 1 January - 31 December 2016 does not comply with TCC and the provisions of the Group's articles of association in relation to financial reporting.

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

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



Hakan Erten
Partner

İstanbul, 23 February 2017

CONTENTS	PAGES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	1-3
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	4
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....	5
CONSOLIDATED STATEMENT OF CASH FLOWS	6-7
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	8-84

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

(Amounts expressed in millions of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

ASSETS	Notes	31 December 2016	31 December 2015
Current assets			
Cash and cash equivalents	7	110	258
Trade receivables		2.020	1.926
<i>Trade receivables from related parties</i>	8	77	82
<i>Trade receivables from third parties</i>	9	1.943	1.844
Other receivables		431	348
<i>Other receivables from third parties</i>	10	431	348
Derivative financial instruments		184	131
<i>Held for trading</i>	17	184	131
Inventories	11	182	134
Prepaid expenses		22	21
<i>Prepaid expenses from third parties</i>	12	22	21
Assets related to current tax	21	7	9
Due from service concession arrangements	13	654	456
Other current assets		4	25
<i>Other current assets from third parties</i>	14	4	25
		3.614	3.308
Assets held for sale	31	409	368
Total current assets		4.023	3.676
Non-current assets			
Other receivables		313	472
<i>Other receivables from third parties</i>	10	313	472
Derivative financial instruments		396	15
<i>Held for trading</i>	17	393	15
<i>Held for hedging</i>	17	3	-
Available-for-sale financial assets		1	1
Property, plant and equipment	15	10.247	9.778
Intangible assets	16	8.654	8.845
<i>Goodwill</i>		2.730	2.730
<i>Other intangible assets</i>		5.924	6.115
Prepaid expenses		167	249
<i>Prepaid expenses from third parties</i>	12	167	249
Due from service concession arrangements	13	3.640	2.565
Deferred tax assets	21	444	516
Other non-current assets		488	547
<i>Other non-current assets from third parties</i>	14	488	547
Total non-current assets		24.350	22.988
TOTAL ASSETS		28.373	26.664

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

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

(Amounts expressed in millions of Turkish Lira (TL), unless otherwise indicated.
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LIABILITIES	Notes	31 December 2016	31 December 2015
Current liabilities			
Short-term bank borrowings	18	1.875	903
Short-term portion of long-term bank borrowings	18	2.813	1.900
Other financial liabilities	18	25	21
Trade payables		1.407	1.407
<i>Trade payables to related parties</i>	8	8	14
<i>Trade payables to third parties</i>	9	1.399	1.393
Obligations related to employee benefits	20	44	19
Other payables		206	170
<i>Other payables to third parties</i>	10	206	170
Derivative financial instruments		-	3
<i>Held for trading</i>	17	-	3
Deferred revenue	12	166	173
Corporate tax payable	21	6	9
Payable to Privatization Administration		-	1.188
Short-term provisions		315	265
<i>Provisions for employee benefits</i>	20	41	35
<i>Other short-term provisions</i>	19	274	230
Other current liabilities		171	146
<i>Other current liabilities to third parties</i>	14	171	146
		7.028	6.204
Liabilities directly associated with assets classified as held for sale	31	4	2
Total current liabilities		7.032	6.206
Non-current liabilities			
Long-term bank borrowings	18	8.985	8.611
Other financial liabilities	18	245	232
Other payables		881	737
<i>Other payables to third parties</i>	10	881	737
Derivative financial instruments		628	206
<i>Held for trading</i>	17	108	-
<i>Held for hedging</i>	17	520	206
Deferred revenue	12	26	102
Long-term provisions		60	63
<i>Provisions for employee benefits</i>	20	60	63
Deferred tax liabilities	21	1.027	1.068
Total non-current liabilities		11.852	11.019
TOTAL LIABILITIES		18.884	17.225

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

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

(Amounts expressed in millions of Turkish Lira (TL), unless otherwise indicated.
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EQUITY	Notes	31 December 2016	31 December 2015
Share capital	22	9.590	9.590
Adjustment to share capital	22	(33)	(33)
Total paid-in capital		9.557	9.557
Share premium		282	282
Other comprehensive loss that will not be reclassified to profit or loss		(7)	(11)
Other comprehensive loss to be reclassified to profit or loss		(395)	(147)
Other funds		4	4
Restricted profit reserves		144	58
Accumulated deficit		(390)	(588)
Net profit		294	284
TOTAL EQUITY		9.489	9.439
TOTAL LIABILITIES AND EQUITY		28.373	26.664

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

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in millions of Turkish Lira (TL), unless otherwise indicated.
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	Notes	1 January- 31 December 2016	1 January- 31 December 2015
Net sales	25	12.565	11.865
Cost of sales (-)	26	(9.332)	(9.265)
Gross profit		3.233	2.600
Operating expenses (-)	27	(1.294)	(1.132)
Other income from operating activities	28	475	182
Other expense from operating activities (-)	28	(426)	(119)
Operating profit		1.988	1.531
Income from investing activities	29	-	134
Expense from investing activities (-)	29	-	(191)
Operating profit before financial income		1.988	1.474
Financial income	30	58	59
Financial expense (-)	30	(1.512)	(1.101)
Profit before taxation on income		534	432
Current tax expense (-)	21	(148)	(98)
Deferred tax expense (-)	21	(92)	(50)
Tax expense		(240)	(148)
Net profit for the year		294	284
Other comprehensive income / (expense)			
Items that will not be reclassified			
subsequently to profit or loss		4	(11)
Actuarial gain / (loss)	20, 24	5	(14)
Taxes related to items that			
will not be classified to profit or loss	24	(1)	3
Items that may be reclassified			
subsequently to profit or loss		(248)	39
Fair value gain on			
derivative financial instruments	17, 24	(310)	48
Taxes related to items			
to be classified to profit or loss	24	62	(9)
Other comprehensive (expense) / income after tax		(244)	28
Total comprehensive income		50	312

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

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira (TL), unless otherwise indicated.)

Currencies other than TL are expressed in millions unless otherwise indicated.)

	Share capital	Adjustment to share capital	Share premium	Restricted profit reserves	Other funds	Items that may be reclassified subsequently to profit or loss (Hedge reserves)	Items that will not be reclassified subsequently to profit or loss (Actuarial loss)	(Accumulated deficit) / Retained earnings	Net profit for the year	Total equity
Balances at 1 January 2015	8,890	(33)	282	58	4	(186)	-	(421)	(167)	8,427
Capital increase (Note 22)	700	-	-	-	-	-	-	-	-	700
Transfer	-	-	-	-	-	-	-	(167)	167	-
Total comprehensive income / (expense)	-	-	-	-	-	39	(11)	-	284	312
Balances at 31 December 2015	9,590	(33)	282	58	4	(147)	(11)	(588)	284	9,439
Balances at 1 January 2016	9,590	(33)	282	58	4	(147)	(11)	(588)	284	9,439
Transfer	-	-	-	86	-	-	-	198	(284)	-
Total comprehensive (expense) / income	-	-	-	-	-	(248)	4	-	294	50
Balances at 31 December 2016	9,590	(33)	282	144	4	(395)	(7)	(390)	294	9,489

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

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira (TL), unless otherwise indicated.
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		1 January-	1 January-
	Notes	31 December 2016	31 December 2015
Cash flows from operating activities:		3,094	2,391
Profit for the period		294	284
Profit for the period from continued operations		294	284
Adjustments to reconcile profit for the period		2,261	1,335
Adjustments related to the depreciation and amortization		526	451
Adjustments related to the depreciation of tangible assets	15	298	226
Adjustments related to the amortization of intangible assets	16	228	225
Adjustments related to impairment loss		268	199
Adjustments related to impairment loss recognised on receivables, net	9	268	4
Adjustments related to impairment on inventories	11	-	4
Adjustments related to impairment on available-for-sale assets	29	-	191
Adjustments related to provisions		165	115
Adjustments related to provisions for employee benefits		47	23
Adjustments related to provisions for legal cases		37	23
Adjustments related to provisions for other provisions		81	69
Adjustments related to interest (income) and expenses		951	792
Adjustments related to interest income	30	(58)	(59)
Adjustments related to interest expense		1,009	851
Adjustments related to change in fair value (gain)		(325)	(190)
Adjustments related to change in fair value gain of derivative instruments	17	(325)	(190)
Adjustments related to tax expenses		240	148
Adjustments related to corporate tax expense	21	148	98
Adjustments related to deferred tax expense	21	92	50
Unrealized foreign exchange loss		945	210
Unrealized foreign exchange losses on borrowings		920	228
Unrealized foreign exchange losses /		25	(18)
Adjustments related to (gain) of sale of fixed assets		-	(3)
Adjustments related to gain of sale of tangible assets	29	-	(3)
Adjustments related to (gain) of sale of asset held-for sale or assets to be distributed to shareholders		-	(131)
Adjustments related to gain of sales of asset held-for sale	29	-	(131)
Adjustments related to change in other items from investing or financing activities	30	30	21
Other adjustments to reconcile profit/loss		(539)	(277)
Changes in operating assets and liabilities:		(89)	548
Adjustments related to increase in trade receivables		(6)	45
Adjustments related to decrease / (increase) in trade receivables from related parties		89	(59)
Adjustments related to increase in trade receivables from third parties		(95)	104
Adjustments related to increase in inventories		(48)	(8)
Adjustments related to decrease in other receivables and current assets		277	176
Adjustments related to decrease in other receivables from third parties		277	176
Adjustments related to increase derivative instruments assets		(4)	(145)
Adjustments related to decrease prepaid expenses		83	417
Adjustments related to decrease in trade payables		(380)	(148)
Adjustments related to (decrease) / increase in trade payables to related parties		(89)	8
Adjustments related to decrease in trade payables to third parties related to employee benefits		(291)	(156)
Adjustments related to (decrease) / increase in other payables and expense accruals		1	(5)
Adjustments related to (decrease) / increase in other payables to third parties		(14)	307
Adjustments related to increase / (decrease) derivative instruments liabilities		(14)	307
		2	(91)
Net cash generated from operating activities		2,466	2,167
Employee benefits paid		(39)	(13)
Provisions paid		(74)	(63)
Taxes paid	21	(111)	(99)
Other cash in flows		852	399

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

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in millions of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

	Notes	1 January- 31 December 2016	1 January- 31 December 2015
Cash flows from investing activities:		(3,426)	(3,491)
Purchases of tangible and intangible assets		(761)	(1,605)
Purchases of tangible assets		(724)	(1,587)
Purchases of intangible assets	16	(37)	(18)
Proceeds from sales on tangible and intangible assets		-	176
Proceeds from sales of tangible assets		-	176
Proceeds from sale of asset-held for sale		-	182
Purchases of asset-held for sale	31	(39)	-
Interest received		58	32
Other cash in out flows		(2,684)	(2,276)
Cash flows from financing activities:		184	1,149
Proceeds from issuance of share capital		-	700
Proceeds from borrowing		22,521	16,811
Proceed from bank borrowing		22,521	16,811
Repayments of borrowing		(21,484)	(15,360)
Repayment of bank borrowing		(21,454)	(15,339)
Commissions and fees paid		(30)	(21)
Interest received		22	27
Interest paid		(875)	(1,029)
Net change in cash and cash equivalents		(148)	49
Cash and cash equivalents at the beginning of the period	7	258	209
Cash and cash equivalents at the end of the period	7	110	258

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

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Enerjisa Enerji A.Ş. ("the Company") has been established on 26 December 2011 as a joint venture between Hacı Ömer Sabancı Holding A.Ş. ("Sabancı") and Verbund International GmbH ("Verbund International"). Verbund sold all its shares to E.ON SE ("E.ON") on 24 April 2013.

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

Sabancı Center Kule 2 Kat 5. 4. Levent 34330 Istanbul.

The Company, together with its subsidiaries (Group), is primarily engaged in electricity generation, trading, sale, and distribution and retail service of electricity, and trade of natural gas, via its consolidated entities listed below:

Enerjisa Enerji Üretim A.Ş. ("GenCo")	Generation of electricity and steam
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. ("TradeCo")	Trading of electricity
Enerjisa Doğal Gaz Toptan Satış A.Ş. ("GasCo")	Trading of natural gas
Enerjisa Elektrik Dağıtım A.Ş. ("EEDAŞ")	Distribution and retail service of electricity
Enerjist Solar Enerji Üretim A.Ş. ("Enerjist")	Generation of electricity

Group's operations are carried out in one geographical segment (Turkey).

The consolidated financial statements were authorized for issue by the Board of Directors of the Company on 23 February 2017. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issuance. The owners of the Group have the power to amend the consolidated financial statements after the issue.

GenCo:

GenCo was established in 1996 as a Turkish company by, among others, Sabancı. As of 31 May 2007, Österreichische Elektrizitätswirtschafts-Aktiengesellschaft ("Verbund") acquired the 49.99% shares of GenCo and GenCo became a joint venture between Sabancı and Verbund. According to the Board of Directors resolution dated 15 October 2008 and numbered 245, Verbund, one of the main shareholders of GenCo, Tursa Sabancı Turizm ve Yatırım İşletmeleri A.Ş., Exsa Export Sanayi Mamulleri Satış ve Araştırma A.Ş., Teknosa İç ve Dış Ticaret A.Ş., minority shareholders of GenCo, sold their shares to Verbund International. In December 2011; Sabancı and Verbund International transferred their shares to the Company.

GenCo was established for the primary purpose of engaging in the generation and selling of electricity and steam.

GenCo's power plants and their specifications are as follows:

- 1. Bandırma Combined Cycle Power Plant ("Bandırma CCPP"):** Bandırma CCPP is located in Balıkesir, Bandırma town. Electricity Generation License was obtained on 7 February 2008 and the construction of the plant was started on 1 June 2008. Its installed capacity is 936.2 MW.
- 2. Kentsa Natural Gas Power Plant ("Kentsa NGPP"):** The plant has been operating in Kocaeli, İzmit since 10 October 1997. The co-generation power plant has electricity capacity of 120 MW and steam production capacity of 275 tonnes /hour.
- 3. Adana Natural Gas Power Plant ("Adana NGPP"):** The co-generation power plant located in Adana, started to provide electricity since 28 September 2002 with electricity capacity of 131 MW. Considering its economic benefit, the Company has decided to stop the operations of the plant as of end of 2014.

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

GenCo (Continued):

4. **Çanakkale Natural Gas Power Plant ("Çanakkale NGPP"):** The co-generation power plant is located in Çanakkale and has been in operation since 3 August 2002. The plant has one gas turbine (GTG) with 43.5 MW capacity, one heat recovery steam generator (HRSG) with 75-tonnes/hour steam capacities and a steam turbine with 22.5 MW capacity. Considering its economic benefit, the Company has decided to stop the operations of the plant as of end of 2014.
5. **Mersin Natural Gas Power Plant ("Mersin NGPP"):** The co-generation power plant is located in Mersin and has been in operation since 5 October 2003. The plant has one gas turbine (GTG) with 43.5 MW capacity, one heat recovery steam generator (HRSG) with 75-tonnes/hour steam capacities and a steam turbine with 22.5 MW capacity. Considering its economic benefit, the Company has decided to stop the operations of the plant as of end of 2014.
6. **Hacınoğlu Hydroelectric Power Plant ("Hacınoğlu HPP"):** Hacınoğlu Power Plant, which is located in Kahramanmaraş and in operation since 3 February 2011, has an installed capacity of 142.2 MW. The generation licence was obtained on 9 March 2006 for 49 years. Annual electricity generation capacity is 382.6 GWh.
7. **Suçatı Hydroelectric Power Plant ("Suçatı HPP"):** Suçatı HPP is located, in Kahramanmaraş. The power plant was constructed with a Built-Operate-Transfer model; so the ownership of the dam and the power plant was transferred to the public sector in 2015. The installed capacity of the power plant is 7 MW and produces 28 GWh of electricity annually.
8. **Çanakkale Wind Power Plant ("Çanakkale WPP"):** Çanakkale Wind Power Plant, which is located in Çanakkale, Mahmudiye town, has an installed capacity of 29.9 MW with 13 turbines. The generation licence was obtained on 21 February 2008 for 49 years. Annual electricity generation capacity is 91.6 GWh.
9. **Menge Hydroelectric Power Plant ("Menge HPP"):** Menge Power Plant, which is located in Adana Province, has an installed capacity of 89.4 MW. The production License was obtained on 6 July 2006 for 49 years. Annual electricity generation capacity is 204 GWh.
10. **Dağpazarı Wind Power Plant ("Dağpazarı WPP"):** Dağpazarı Wind Power Plant, which is located in Mersin, Mut town, has an installed capacity of 39 MW with 13 turbines and is connected to Birkapılı HEPP. The generation licence was obtained on 24 July 2008 for 49 years. Annual electricity generation capacity is 129 GWh.
11. **Bares Wind Power Plant ("Bares WPP"):** Bares Wind Power Plant, which is located in Balıkesir Province, Center and Kepsut Sub-Province, has an installed capacity of 142.5 MW with 52 turbines. The generation licence was obtained on 18 April 2007 for 49 years. Annual electricity generation capacity is 524 GWh.
12. **Köprü Hydroelectric Power Plant ("Köprü HPP"):** Köprü Power Plant, which is located in Adana Province, has an installed capacity of 156 MW. The generation license was obtained on 6 July 2006 for 49 years. Annual electricity generation capacity is 384 GWh.
13. **Dağdelen Hydroelectric Power Plant ("Dağdelen HPP"):** Dağdelen Power Plant, which is located in Elbistan, Kahramanmaraş Province, has an installed capacity of 8 MW. The generation license was obtained on 9 March 2006 for 49 years. Annual electricity generation capacity is 28 GWh.
14. **Kandil Hydroelectric Power Plant ("Kandil HPP"):** Kandil Power Plant, which is located in Kahramanmaraş has an installed capacity of 208 MW. The project, which is concrete-face rock fill dam structure, has totally 207 MW installed capacity. Kandil Dam and HEPP project which has 539 GWh annual production capacities with 14.5 km2 reservoir was commissioned in the third quarter of 2013.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

GenCo (Continued):

15. **Sarıgül Hydroelectric Power Plant ("Sarıgül HPP"):** Sarıgül Power Plant, which is located in within the boundaries of Kahramanmaraş province, Sarıgül Dam and Hydroelectric Power Plant is a sand gravel concrete faced rock fill dam structured project. The construction of the project had been started in 2009 and was commissioned in the third quarter of 2013. With the total 103 MW installed capacity of the project, the annual production capacity is 312 GWh.
16. **Kuşaklı Hydroelectric Power Plant ("Kuşaklı HPP"):** Kuşaklı Power Plant which is located on Seyhan River, in the boundaries of Adana Province, was started in 2011. The project has been completed in the third quarter of 2013 within two pieces 10 MW tiger tribuness and total 20MW installed capacity.
17. **Çambaşı Hydroelectric Power Plant ("Çambaşı HPP"):** Çambaşı Regulator and Hydroelectric Power Plant is located in Çaykara, Trabzon. The construction of the project has been started in 2010 and completed in the December 2013. Çambaşı Regulator and HEPP has 45MW installed capacity.
18. **Arkun Dam and Hydroelectric Power Plant ("Arkun HPP"):** Arkun Dam, on the border with the province of Erzurum-Artvin Coruh River project located on the front face of the concrete is covered with sand, gravel fill dam. Construction of the plant started in 2010, has been commissioned in the second quarter of 2014. Arkun HPP has 245 MW installed capacity.
19. **Kavşakbendi Dam and Hydroelectric Power Plant ("Kavşakbendi HPP"):** With concrete face rock fill dam structure, Kavşakbendi project has 191 MW installed capacity. The construction of the project, located on Seyhan River, Adana, had been started in 2008. 186 MW installed capacity Kavşakbendi HEPP, has been put into operation in the first quarter of 2014 after the Ministry acceptance of the third unit of the project.
20. **Yamanlı II Dam and Hydroelectric Power Plant ("Yamanlı II HPP"):** Two-stage construction activities of Yamanlı project, located on Göksu arm of the Seyhan River in the boundary of Adana, started in May 2011. The plant is one of the two projects of Enerjisa in which TBM tunnel method used. The first stage of the project has 60 MW and the other has 22 MW installed capacity. Stage-2 has been put into operation in early 2015 and Stage-1 has been put into operation in first quarter of 2016.
21. **Bandırma II Combined Cycle Power Plant ("Bandırma II CCPP"):** Bandırma II Natural Gas Combined Cycled Power Plant's construction started in 2014 put into the operation in June 2016. It is located in province of Balıkesir, Bandırma district, Şirinçavuş village, Hacılibey site and its installed capacity is 607 MW.
22. **Tufanbeyli Lignite Power Plant ("Tufanbeyli"):** Tufanbeyli Lignite Power Plant, which is the largest domestic lignite power plant of Turkey commissioned by the private sector, works on the lignite resources and is located in between Yamanlı-Kayarcık-Taşpınar villages, in Tufanbeyli, Adana. The plant is comprised of 3 units. Tufanbeyli Power Plant generates approximately 2.5 billion kWh electricity annually by using 826.5 tons per hour of coal from the open quarries which are close to the plant and is expected to meet 2% of Turkey's electricity demand. Based on the coal reserves, Tufanbeyli LPP is planned to be operated for 30-35 years. The construction activities of the power plant have been kicked off in 2011 and as of September 15, 2016 three units (450 MW) were all put into the operation.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

The details and the status of the projects under GenCo as of 31 December 2016 are as follows:

Projects	Plant Type	Installed Capacity (MW)	Status
Doğançay	Hydroelectric Power Plant	62	Construction in Progress
İBA	Hydroelectric Power Plant	168	Licensed
Pervari	Hydroelectric Power Plant	400	Licensed
Murat Nehri (*)	Hydroelectric Power Plant	280	Licensed

(*) As part of Enerjisa Enerji Üretim A.Ş. spin-off plan, Murat Nehri (formerly known as "Alpaslan II") demerged from Enerjisa Enerji Üretim A.Ş. as of 31 December 2015 and presented in financial statements as assets held for sale (Note 31).

TradeCo:

TradeCo was established in 2004 by GenCo as a Turkish company. As of 14 December 2007, Verbund and Sabancı acquired the 99.99% shares of TradeCo and consequently TradeCo became a joint venture between Sabancı and Verbund. According to the Board of Directors resolution dated 16 October 2008 and numbered 29, Verbund, sold its shares to Verbund International. In December 2011; Sabancı and Verbund International transferred their shares to the Company. TradeCo assumes the role of the Group optimizer. It engages in wholesale activities in order to protect the value of Groups's generation output. It decides on make-or-buy strategies in the over-the-counter (OTC), spot and balancing markets. TradeCo optimizes the use of different market segments for Groups's portfolio and also engages in wholesale electricity trading activities in order to pursue commercial opportunities. In addition, TradeCo actively engages in electricity import/export transactions and produces value from carbon certificates. Also TradeCo engages in direct selling of electricity to customers including Enerjisa Companies. TradeCo also provides risk management solutions to external customers and counterparties.

GasCo:

GasCo was established in 2004 by GenCo as a Turkish company. In 2007, Verbund and Sabancı acquired the 99% shares of GasCo and consequently GasCo became a joint venture between Sabancı and Verbund. In 2008, Verbund, sold its shares to Verbund International. In December 2011; Sabancı and Verbund International transferred their shares to the Company. GasCo is engaged in optimizing the natural gas consumption of the Enerjisa Group and assessing the new business opportunities in the gas market. GasCo is acting as a hub for collecting gas and selling to end-users via distribution companies. GasCo has obtained Spot LNG License on 6 September 2010 which is effective for 10 years and effectively started its operations in 2011.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

EEDAŞ:

EEDAŞ is incorporated in İstanbul Turkey on 24 October 2008. Headquarter was moved to Ankara in 2014. EEDAŞ, which was a joint venture of Sabancı Holding and Verbund 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. 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 Operational Rights" ("TOR") agreement signed with TEDAŞ on 31 March 2006.

Following the privatization bid, shares of Verbund was transferred to Verbund International. In December 2011, Sabancı Holding and Verbund International transferred their shares to the Company. 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 the Company to E.ON and the transfer is finalized on 24 April 2013.

EEDAŞ, has officially acquired 100% of the shares of the İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş. ("AYEDAŞ") and 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 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 and USD 1,725, respectively.

As of 31 December 2016, all of Privatization Administration payables related to AYEDAŞ and AEPSAŞ's acquisitions and TOROSLAR EDAŞ and TOROSLAR EPSAŞ's acquisitions were paid.

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 2015. In December 2015, EMRA has announced new tariff for the period between 1 January 2016 and 31 December 2020.

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. ("EPS"), AEPSAŞ and TOROSLAR EPSAŞ) with the same shareholder structure and the distribution companies have transferred some of their assets and liabilities to retail companies due to the legal unbundling, registration of which have been completed as of 31 December 2012.

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

Enerjist:

Enerjist was established in 2015 by the Company as a Turkish company to develop and construct unlicensed solar energy projects.

NOTE 2 - APPLICATION OF NEW AND REVISED TURKISH ACCOUNTING STANDARDS (TASs)

2.1 Amendments to TASs affecting amounts reported and/or disclosures in the financial statements

None.

2.2 New and Revised TASs applied with no material effect on the consolidated financial statements

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

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

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

2.3 New and Revised TASs in issue but not yet effective

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

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

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

The Group evaluates the effects of these standards on the consolidated financial statements.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 3 - GROUP ACCOUNTING

3.1 Basis of consolidation

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

Subsidiaries	Direct and indirect ownership interest by the Group (%)		Proportion of effective interest (%)	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Genco	99,99	99,99	99,99	99,99
Tradeco	100,00	100,00	100,00	100,00
Gasco	100,00	100,00	100,00	100,00
EEDAŞ	100,00	100,00	100,00	100,00
BEDAŞ	100,00	100,00	100,00	100,00
AYEDAŞ	100,00	100,00	100,00	100,00
TOROSLAR EDAŞ	100,00	100,00	100,00	100,00
EPS	100,00	100,00	100,00	100,00
AEPSAŞ	100,00	100,00	100,00	100,00
TOROSLAR EPSAŞ	100,00	100,00	100,00	100,00
Enerjisa Suçatı Elektrik Üretim A.Ş.	99,99	99,99	99,99	99,99
İBA Elektrik Üretim Madencilik Sanayi ve Ticaret A.Ş.	99,99	99,99	99,99	99,99
Pervari Elektrik Üretim Madencilik Sanayi ve Ticaret A.Ş.	99,99	99,99	99,99	99,99
Murat Nehri Enerji Üretim A.Ş. ("Murat Nehri") (*)	99,99	99,99	99,99	99,99
Enerjist	100,00	100,00	100,00	100,00

(*) As a part of Genco spin-off plan, Murat Nehri demerged from Genco as of 31 December 2015 and presented in the consolidated financial statements as assets held for sale.

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.

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 3 - GROUP ACCOUNTING (Continued)

3.1 Basis of consolidation (Continued)

- 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.

3.2 Changes in the Group's ownership interests in existing subsidiaries

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

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

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies other than Group accounting which is described in Note 3, followed in the preparation of the consolidated financial statements are summarised below. These policies have been consistently applied to all years presented, unless otherwise stated.

4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with Turkish Accounting Standards ("TAS") and interpretations related with these standards which are published by Public Oversight Accounting and Auditing Authority of Turkey ("POA").

Consolidated financial statements have been prepared in accordance with the format of the financial statements and disclosures announced by POA on 20 May 2013.

Turkish Accounting Standards ("TAS") published by POA are direct translation of International Financial Reporting Standards issued by International Accounting Standards Board into Turkish.

4.2 Basis of preparation

Consolidated financial statements have been prepared on the historical cost basis except for the valuation of certain assets and liabilities. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

4.3 Changes in accounting policies

Significant changes in the accounting policies are applied retrospectively and prior period consolidated financial statements are restated. There has not been any change in accounting policies of the Group in 31 December 2016.

4.4 Changes in accounting estimates and errors

Changes in accounting estimates should be applied prospectively, if only for a period in which the change in the current period. If it relates to future periods they are recognized prospectively both in the current period and in the future period. There has not been any change in accounting estimates of the Group in 31 December 2016.

4.5 Comparative information

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 2015, the Group presented 'allowance for doubtful receivables' amounting to TL 3 under 'General administrative expenses' in the consolidated comprehensive profit and loss statement. In the current year, the Group management reclassified these amounts to "Other expense from operating activities".
- In 2015, the Group presented 'grants and donations' amounting to TL 15 under 'General administrative expenses' in the consolidated comprehensive profit and loss statement. In the current year, the Group management reclassified these amounts to "Other expense from operating activities".

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.6 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 recognition principles other than the assets classified as due from service concession arrangements under TFRS Interpretation 12 are as follows:

Revenue, excluding the distribution part, 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 have been transferred to the buyer as contractually agreed, compensation has been contractually established and collection of the resulting receivable is probable.

Revenue is recognised on an accrual basis at the time the electricity is distributed, at the invoiced values. Net sales represent the invoiced value of electricity distributed less TRT energy contribution share, sales commission and excluding sales taxes (Note 25).

System usage fees

Accounting policy regarding the accounting of system usage fees which are paid to the electricity distributor companies and collected from the customers is through adding system usage fee amounts on sales and cost of sales, respectively, without having any effect on gross and net profit. The amount of system usage fee included both in sales and cost of sales is TL 798 for the year ended 31 December 2016 (2015: TL 569).

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 ("TFRS Interpretation 12"). Interest income on receivable from concession arrangement is recognised on a time-proportion basis using the effective interest method.

4.7 Application of TFRS Interpretation 12 - Service concession arrangements

TFRS 12 interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements. Certain hydroelectric power plants under GenCo which are subject to Build-Operate-Transfer model and the electricity distribution business under EEDAŞ qualify for the application of TFRS Interpretation 12.

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Application of TFRS Interpretation 12 - Service concession arrangements (Continued)

GenCo:

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

GenCo recognises a financial asset to the extent that it has an unconditional contractual right to receive cash from or at the direction of the grantor for the construction services related to hydroelectric power plants in the context of Build-Operate-Transfer ("BOT") model (Note 13). The amount due from or at the direction of the grantor is accounted for as a receivable in accordance with TAS 39 "Financial Instruments: Recognition and Measurement". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income and the interest calculated using the effective interest method is recognised in the statement of profit or loss.

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

EEDAŞ:

Service concession arrangements are defined within scope of TFRS Interpretation 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. Group's electricity distribution business is in the scope of a service concession agreement (Note 13).

Considering EEDAŞ's terms in the service concession arrangement with the government, a financial asset model where EEDAŞ 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 retail sales services (starting from 1 January 2011) are constituted through actual billing to subscribers where the distribution and retail sales services (starting from 1 January 2011) components of the billing are already specified or determinable through the distribution tariffs regulated by the Energy Market Regulatory Authority ("EMRA").

EEDAŞ 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 EEDAŞ, through the expected life of the arrangement and set "Financial Asset" on the consolidated financial position and recognizes the revenue on an effective interest method as "Finance Income from Service Concession Arrangements".

4.8 Inventories

The Group's inventories mainly consist of raw materials and consumables, which are charged to statement of profit or loss as consumed. Inventories are valued at the lower of cost or net realizable value (Note 11). Net realizable value is the estimated selling price in ordinary course of business, less selling expenses. Cost elements included in inventories comprise all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is determined on weighted average basis.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.9 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).

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.

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.10 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment, if any (Note 15). Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The depreciation periods for property, plant and equipment, which approximate the economic useful lives of such assets, are as follows:

	Years
Buildings	10-50
Land improvements	5-50
Machinery and equipment	6-20
Spare parts	5
Motor vehicles	5
Furniture and fixtures	5-10
Leasehold improvements	4

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 and, for qualifying assets, borrowing costs capitalized. Sales proceeds obtained during testing the equipment while bringing the asset to the desired location and condition are deducted from the cost of property, plant and equipment. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is 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.

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.

Liquidated damages represent contractual payments to a buyer of property, plant and equipment for the non-delivery or non-completion of a construction of property, plant and equipment by a stated completion date. Liquidated damages relating to amounts receivable from contractors in respect of the late commissioning of new power plants are recorded as income when they represent compensation for lost earnings to the extent that the basis of the calculation is clearly related to the earnings lost, otherwise they are recorded as a reduction in the cost of the asset.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.11 Intangible assets

Intangible assets include rights, licences for electricity production, software and other identifiable rights. Intangible assets are carried at cost less accumulated amortisation (Note 16). Amortisation is calculated using the straight-line method based on the estimated useful lives of the assets. The amortisation periods for intangible assets, which approximate the economic useful lives of such assets, are as follows:

	Years
Licences (*)	20-49
Rights	5-15
Other intangibles	3-8

(*) Useful lives of licences are between commercial acceptance and end of licence period.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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.

Customer contracts and relations and 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.

4.12 Impairment of tangible and intangible assets other than goodwill

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

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

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.12 Impairment of tangible and intangible assets other than goodwill (Continued)

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

4.13 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.

4.14 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, "CGU"). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

4.15 Available-for-sale financial assets

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All investment securities are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associates with the investment. After initial recognition, investment securities that are classified as available-for-sale are measured at fair value unless fair value cannot be reliably measured.

Other financial assets in which the Group has interest below 20%, that do not have a quoted market price in active markets and whose fair value cannot be measured reliably are carried at cost, if applicable, less any provision for diminution in value. Available-for-sale investments that have a quoted market price in active markets and whose fair values can be measured reliably are carried at fair value.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.15 Available-for-sale financial assets (Continued)

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are deferred in the equity until the financial asset is sold, collected or otherwise disposed of. When available-for-sale securities are sold, collected or otherwise disposed of, related deferred gains and losses in equity are released to the statement of profit or loss. For the period presented in these consolidated financial statements there is no fair value reserve.

4.16 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' ("AFS") 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.

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 180-365 days based on different customer segments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.16 Financial assets (Continued)

Impairment of financial assets (Continued)

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.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, 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.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

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.

4.17 Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any 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 and is included in 'other gains/losses' line in the consolidated statement of profit or loss.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.17 Financial liabilities and equity (Continued)

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.

4.18 Foreign currency transactions

Transactions in foreign currencies during the period have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated at the exchange rates prevailing at period-end. Exchange gains or losses arising on the settlement and translation of foreign currency items has either been included in the consolidated statement of profit or loss or been capitalized where appropriate.

4.19 Provisions, contingent assets and liabilities

Provisions are recognised in the consolidated financial statements, when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate, used to calculate the present value of the provision should be pre-tax rate reflecting the current market assessments of the time value of money and the risks specific to the liability. The discount rate shall not reflect risks for which future cash flow estimates have been adjusted.

A possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group have not been recognised in these consolidated financial statements and treated as contingent liabilities and contingent assets.

4.20 Provisions for employee benefits

Provision for employment termination benefits represents the present value of the estimated total provision of the future probable obligation of the Group arising from the retirement of the employees calculated in accordance with the Turkish Labour Law. In accordance with existing social legislation and Turkish Labour Law in Turkey, the Group is required to make lump-sum termination indemnities to each employee whose employment is terminated due to retirement or for reasons other than resignation or misconduct and who has completed at least one year of service. Provision is made for the present value of the defined benefit obligation calculated using the projected unit credit method.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.20 Provisions for employee benefits (Continued)

Provision for unused vacation and provision for personnel premium have been reclassified to provision for employee benefits and have been applied consistently with previous years (Note 20).

4.21 Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise cash and amounts due from banks with maturity periods of less than three months.

4.22 Trade receivables

Trade receivables that are created by the Group by way of providing goods or services directly to a debtor are carried at amortised cost. Short duration receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant.

A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to operating expenses.

4.23 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

When the Group borrows funds specifically for the purpose of the qualifying assets, the amount of borrowing costs eligible for capitalization is the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

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

4.24 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.

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.25 Taxation

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

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

Current tax

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

Deferred tax

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.25 Taxation (Continued)

Current and deferred tax for the period

Current and deferred tax are recognized as in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

4.26 Share capital, share premium and dividends

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared. Share premium represents the difference between the nominal value of Group shares and the net proceeds from the capital contributions of the shareholders of the Group.

4.27 Goodwill

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

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

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

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

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.28 Business combinations and legal mergers

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

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

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.28 Business combinations and legal mergers (Continued)

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

Legal mergers arising between companies controlled by the Group are not within the scope of business combinations. Consequently, no goodwill is recognised in such transactions. Similarly the effects of all transactions between the legally merged enterprises, whether occurring before or after the legal merger, are eliminated in the preparation of consolidated financial statements.

4.29 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value. Short duration payables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant.

4.30 Derivative financial instruments, cash flow hedges and hedge accounting

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Company designs certain derivatives as hedges of the fair value of the recognized assets or liabilities or firm commitments (fair value hedges). Fair value is generally determined by using the quoted prices in an active market. A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized and settled within 12 months. Other derivatives are presented as current assets or current liabilities.

The changes in the fair value of derivatives that do not meet the criteria for hedge accounting are recognized in the statement of profit or loss.

When the derivative is designated as a hedge instrument and qualifies for cash flow hedge, the effective portion of changes in the fair value of derivatives is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.30 Derivative financial instruments, cash flow hedges and hedge accounting (Continued)

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedge instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss.

The derivative financial instruments of the Group consist of interest rate swap transactions, cross currency swaps and foreign exchange forwards. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. Until 30 June 2009, the difference between the fair value and the initial cost of the interest rate swap transactions is recognised as fair value gain/loss on interest rate swap transaction contracts in the consolidated statement of profit or loss. After 1 July 2009, the Group has designated the interest rate swap transactions as a hedge instrument and applied hedge accounting.

4.31 Statement of cash flows

Cash flows during the year are classified and reported by operating, investing and financing activities in the cash flow statements.

Cash flows from operating activities represent the cash flows of the Company generated from the ordinary course of business.

Cash flows related to investing activities represent the cash flows that are used in or provided by investing activities of the Company.

Cash flows from financing activities represent the cash proceeds from financing activities of the Company and repayments of these funds.

Cash and cash equivalents comprise cash on hand, due from banks and highly liquid investments with original maturity periods of less than three months.

4.32 Earnings per share

Earnings per share are determined by dividing net profit by the weighted average number of shares that have been outstanding during the periods concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings and revaluation surplus. For the purpose of earnings per share computations, such Bonus Share issuances are regarded as issued shares. Accordingly the weighted average number of shares used in earnings per share computations is derived by giving retroactive effect to the issuances of the shares without consideration.

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue.

There was no difference between basic and diluted earnings per share for any class of shares for any of the periods.

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.32 Earnings per share (continued)

	1 January 31 December 2016	1 January 31 December 2015
Net income for the year	294	284
Nnumber of ordinary shares in issue	959,068,542,000	959,068,542,000
Basic earnings per share (Kır)	0.03	0.03

4.33 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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 realise the asset and settle the liability simultaneously.

4.34 Events after the reporting period

In the case of the occurrence of subsequent events after the date of the statement of financial position which require the statement of financial position to be adjusted, the Group corrects its consolidated financial statements in consideration of the new events. Events which do not require adjustments are explained in the notes to the consolidated financial statements if they are material as they could affect investors' decisions.

NOTE 5 - FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Group's risk management systems are in accordance with the accepted risk management best practices (COSO framework and ISO 31000:2009). The Board (via the Board Risk Committee) is responsible for the evaluation of the different types of risks including financial, strategic and operational risks to which Group is exposed to. Furthermore the Board assesses Group's organization, guidelines, policies and processes for monitoring, managing and mitigating such risks.

Market Risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk through the impact of rate changes in the translation of foreign currency denominated assets and liabilities to local currency. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. These risks are monitored and limited by the analysis of the foreign currency position.

	31 December 2016	31 December 2015
Assets	5,431	2,779
Liabilities	(10,467)	(7,202)
Net foreign currency position	(5,036)	(4,423)

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Market Risk (Continued)

(i) Foreign exchange risk (Continued)

Turkish Lira equivalent of assets and liabilities denominated in foreign currency held by the Group at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016			31 December 2015		
	USD	Euro	Other (*)	USD	Euro	Other
Assets:						
Cash and cash equivalents	3	1	-	-	2	-
Trade receivables	-	11	-	-	-	-
Other receivables from third parties	1	101	-	1	6	-
Total assets	4	113	-	1	8	-
Liabilities:						
Bank borrowings	-	(6,861)	-	-	(6,403)	-
Other financial liabilities	-	(270)	-	-	(253)	-
Trade payables	(25)	(127)	(1)	(10)	(318)	(1)
Other payables to third parties	-	(95)	-	-	(9)	-
Total liabilities	(25)	(7,353)	(1)	(10)	(6,983)	(1)
Net foreign currency position	(21)	(7,240)	(1)	(9)	(6,975)	(1)
Off-balance sheet derivative assets denominated in foreign currencies	2,820	2,484	10	-	2,770	-
Off-balance sheet derivative liabilities denominated in foreign currencies	(2,816)	(164)	(108)	(2)	(206)	-
Net foreign currency position off balance-sheet items	4	2,320	(98)	(2)	2,564	-
Net foreign currency asset/liability position	(17)	(4,920)	(99)	(11)	(4,411)	(1)

(*) Items include EUR/USD derivative instruments.

The Group is mainly exposed to foreign exchange risk through the impact of rate changes in the translation of USD and Euro denominated assets and liabilities to local currency except Euro denominated derivative financial instruments. Since the effective portion of changes in the fair value of Euro denominated derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income, foreign exchange gains or losses arising from the valuation of these instruments are also recognised in other comprehensive income.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Market Risk (Continued)

(i) Foreign exchange risk (Continued)

At 31 December 2016, if the USD had strengthened / weakened by 10% against the TL with all other variables held constant, profit before taxation on income would have been TL 2 lower / higher (31 December 2015: TL 1 lower / higher).

At 31 December 2016, if the Euro had strengthened / weakened by 10% against the TL with all other variables held constant, profit before taxation on income would have been TL 197 lower / higher (31 December 2015: TL 66 lower and TL 71 higher).

At 31 December 2016, if the USD had strengthened / weakened by 10% against the TL with all other variables held constant, hedge reserves before taxation would have been TL 282 lower / higher (31 December 2015: - lower / higher).

At 31 December 2016, if the Euro had strengthened / weakened by 10% against the TL with all other variables held constant, hedge reserves before taxation would have been TL 12 lower / higher (31 December 2015: 19 lower / higher).

(ii) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. As the Group has significant interest-bearing assets, the Group's income and operating cash flows are substantially dependent to changes in market interest rates. The Group has interest rate risk arising from long-term borrowings. Borrowings and derivative instruments at variable rates expose the Group to interest rate risk.

Interest rate positions of the Group at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Euro denominated financial liabilities / (assets)		
Financial liabilities with floating interest rates	4,193	3,633
Fair value of interest rate swap agreement (Note 17)	164	206
Fair value of foreign exchange forwards	(72)	(131)
Fair value of cross currency swap agreement (Note 17)	(40)	(15)

The effect of a hypothetical 100 basis point (1%) increase / decrease in interest rates of Euro denominated financial liabilities without interest rate swap agreement with floating interest rates would increase / decrease the interest expense by TL 43 (2015: TL 35).

The effect of a hypothetical 100 basis point (1%) increase / decrease in interest rates of Euro denominated financial liabilities with interest rate swap agreement would decrease / increase the fair value of interest rate swap agreement by TL 22 (2015: TL 22).

Liquidity Risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

Liquidity risk of the Group arising from financial liabilities at 31 December 2016 and 2015 are as follows:

31 December 2016	Carrying value	Total cash outflows	Less than 3 months	3-12 months	1-5 years	More than 5 years
Bank borrowings	13,673	15,933	678	4,261	9,564	1,430
Other financial liabilities	270	285	9	17	118	141
Trade payables	1,407	1,407	1,407	-	-	-
Other payables	1,087	1,087	-	206	881	-
	16,437	18,712	2,094	4,484	10,563	1,571
31 December 2015	Carrying value	Total cash outflows	Less than 3 months	3-12 months	1-5 years	More than 5 years
Bank borrowings	11,414	13,707	988	2,052	8,885	1,782
Other financial liabilities	253	267	4	19	94	150
Trade payables	1,407	1,407	1,407	-	-	-
Payable to Privatization Administration	1,188	1,304	-	1,304	-	-
Other payables	907	907	-	170	737	-
	15,169	17,592	2,399	3,545	9,716	1,932

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures to customers, including outstanding receivables. If counterparties fail on the fulfilment of the agreement, the Group is exposed to the risk upon holding the financial instruments. Management covers the risk by limiting the average risk of counterparties (except for related parties) on agreements and by obtaining guarantees if necessary. 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.

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.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

The gearing ratios at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	31 December 2015
Total borrowings	13,943	12,855
Cash and cash equivalents	(110)	(258)
Net debt	13,833	12,597
Total equity	9,489	9,439
Total capital	23,322	22,036
Gearing ratio	59%	57%

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Categories of financial instruments

31 December 2016	Loans and receivables (Cash and cash equivalents included) (*)	Derivative instruments accounted through profit and loss	Derivative instruments accounted for hedging purposes	Available for sale investments	Financial liabilities at amortized cost	Carrying value	Fair value	Note
<u>Financial assets</u>								
Cash and cash equivalents (*)	110	-	-	-	-	110	110	7
Trade receivables	2,020	-	-	-	-	2,020	2,020	8, 9
Other receivables	431	-	-	-	-	431	431	10
Available-for-sale financial assets	-	-	-	1	-	1	1	
Derivative financial instruments	-	577	3	-	-	580	580	17
Due from service concession arrangements	4,294	-	-	-	-	4,294	4,294	13
<u>Financial liabilities</u>								
Borrowings	-	-	-	-	13,673	13,673	13,673	18
Other financial liabilities	-	-	-	-	270	270	270	18
Trade payables	-	-	-	-	1,407	1,407	1,407	8, 9
Other payables	-	-	-	-	1,073	1,073	1,073	10
Derivative financial instruments	-	108	520	-	-	628	628	17

(*) Cash and cash equivalents are classified as loans and receivables.

The Group believes that the carrying values of its financial instruments reflect their fair values.

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Categories of financial instruments (Continued)

31 December 2015	Loans and receivables (Cash and cash equivalents included) (*)	Derivative instruments accounted through profit and loss	Derivative instruments accounted for hedging purposes	Available for sale investments	Financial liabilities at amortized cost	Carrying value	Fair value	Note
Financial assets								
Cash and cash equivalents (*)	258	-	-	-	-	258	258	7
Trade receivables	1,926	-	-	-	-	1,926	1,926	8, 9
Other receivables	348	-	-	-	-	348	348	10
Available-for-sale financial assets	-	-	-	1	-	1	1	
Derivative financial instruments	-	146	-	-	-	146	146	17
Due from service concession arrangements	3,021	-	-	-	-	3,021	3,021	13
Financial liabilities								
Borrowings	-	-	-	-	11,414	11,414	11,414	18
Other financial liabilities	-	-	-	-	253	253	253	18
Trade payables	-	-	-	-	1,407	1,407	1,407	8, 9
Other payables	-	-	-	-	889	889	889	10
Derivative financial instruments	-	3	206	-	-	209	209	17
Payable to Privatization Administration	-	-	-	-	1,188	1,188	1,188	10

(*) Cash and cash equivalents are classified as loans and receivables.

The Group believes that the carrying values of its financial instruments reflect their fair values.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Fair value estimation

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The classification of the Group's financial assets and liabilities at fair value is as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

In the consolidated balance sheet, derivative financial instrument is recognised at fair value. The fair value of derivative financial instrument is determined by using valuation technique, which can be regarded as level 2. Apart from that, for disclosure purposes, the borrowings carried at the amortised cost at the balance sheet are presented with their values in Note 18. The fair value of borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments that can be classified as level 2. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables and payables.

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 liabilities are determined.

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Fair value estimation (Continued)

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				
Foreign currency forward contracts	432	131	Level 2	Discounted cash flow model; Forward exchange rates (observable forward exchange rates at the end of the reporting period) and the estimated future cash flows determined by using the contract rates are discounted by using a rate that reflects the credit risk of the various parties.	-	-
FX forward transactions for USD indexed sales	356	-	Level 2	Discounted cash flow model; Forward exchange rates (observable forward exchange rates at the end of the reporting period) and the estimated future cash flows determined by using the contract rates are discounted by using the market interest rate.	-	-
Interest rate swaps	(164)	(206)	Level 2	Discounted cash flow model; Forward interest rate (the interest rate that is derived from the observable yield curve at the end of the reporting period) and the estimated future cash flows determined by using the contract interest rates and forward exchange rates are discounted by using a rate that reflects the credit risk of the various parties.	-	-
Cross currency swaps	40	15	Level 2	Discounted cash flow model; Forward interest rate (the interest rate that is derived from the observable yield curve at the end of the reporting period) and the estimated future cash flows determined by using the contract interest rates and forward exchange rates are discounted by using a rate that reflects the credit risk of the various parties.	-	-
Commodity swap	-	(3)	Level 2	Discounted cash flow model; Forward commodity prices (observable forward commodity prices at the end of the reporting period) and the estimated future cash flows determined by using the contract commodity prices are discounted by using the market interest rate.	-	-
Deposits given	163	133	Level 2	Consumer Price Index ("CPI")	-	-
Deposits and guarantees received	(881)	(736)	Level 2	CPI	-	-
Due from service concession arrangements	4,294	3,021	Level 2	CPI	-	-

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 6 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

6.1 Impairment of property and equipment and intangible assets

The carrying amounts of the Group's property and equipment and intangible assets are reviewed at each balance sheet date to determine whether there are any indicators of impairment as described in Note 4.12. In connection with the audit of the consolidated financial statements of the Group as of 31 December 2016, the Group have performed certain procedures regarding the annual assessment of enterprise values with respect to impairment of assets under the context of Turkish Accounting Standard No. 36 Impairment of Assets ("TAS 36"). The Group recognised an impairment of TL 191 in 2015, for Murat Nehri power plant in accordance with Turkish Financial Reporting Standards No. 5 Current Asset Held For Sale and Discontinued Operations ("TFRS 5") (Note 31). The basis for the impairment loss is mainly driven by Group management's estimate of the range of economic conditions that will exist over the remaining useful life of the asset. The carrying value of these assets is written down to the total of the estimated value of the "land" and "scrap" value.

6.2 Impairment test of goodwill for EEDAŞ

Pursuant to TAS 36, Impairment of Assets, the Group tested goodwill as of 31 December 2016 in accordance with the accounting policy stated at (Note: 4.14). 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):	Between 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 licence period
WACC (TL):	Between 13.0%

The net present value of Distribution CGU was calculated by discounting the post-tax free cash flows for the discrete period from 2015 to 2036 for BEDAŞ and from 2015 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.

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 6 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

6.3 Provisions

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

The Group is subject to various legal proceedings, claims and regulatory discussions, the outcomes of which are subject to uncertainty. The Group evaluates, among other factors, the degree of probability of an unfavourable outcome and the ability to make a reasonable estimate of the amount of loss. Unforeseeable events or changes in these factors may require an increase or a decrease of the amount that the Group has accounted for any matter or provision for a matter that has not been previously provided for as it was either not considered probable or a reasonable estimate could not be made.

6.4 Deferred income tax assets for the carry forward unused tax losses and investment incentives

Deferred tax assets may only be recognised to the extent it is probable that sufficient taxable profit will be available in the future. In case of a probable tax advantage, deferred income tax asset is calculated for unused carry forward tax losses and investment incentives.

6.5 Service concession arrangements in EEDAŞ

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 - 2015) and third tariff periods (2016 - 2020) was determined by EMRA considering the projected expenses and related tariffs which were published in 2010 and 2015. 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 Company management made expectations related to the CPI and WACC rates.

6.6 Revenue recognition (EEDAŞ)

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 ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 6 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

6.7 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. For each of the financial instrument, valuation techniques and assumptions are used.

Fair value of non-derivative financial instruments, which is determined for disclosure purposes, is determined based on the present value of future principal and interest cash flows. These cash flows are calculated based on discount rate prevailing at the reporting date.

NOTE 7 - CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash at banks		
- time deposits	21	80
- demand deposits	70	99
- repurchase agreements	19	79
	<u>110</u>	<u>258</u>

According to the Security and Accounts Agreement that was signed between the Group and the Creditors (Note 18), the Group is obliged to maintain the deposits in restricted accounts and permitted non-restricted accounts. Establishment, maintenance and transfer into and out of these accounts are defined in the Security and Accounts Agreement. Restricted accounts are mainly for equity disbursement, loan disbursement, revenue payments, insurance and compensations, sponsor support disbursement and additional expenditures. Permitted non-restricted accounts are for dividend distribution ("Distribution Account"), payment of operating and maintenance costs (including payment of personnel costs, social security premium, utilities, taxes, royalty fees and general management expenditures), payments related to trade instruments provided by any bank ("Trade Instrument Accounts") and general corporate purposes within the ordinary course of its business. The Group at no time shall maintain any accounts other than restricted accounts and permitted nonrestricted accounts, and shall grant first ranking perfected security over each account other than the Distribution Account and the Trade Instrument Accounts.

At 31 December 2016, time deposits are all short term with periods of less than three months, where the average interest rates for TL 21 time deposits were 11.1% p.a. (31 December 2015: TL 80 time deposits was 12.3% p.a.).

As at 31 December 2016, TL 26 of the Group's demand deposits is blocked at different banks (31 December 2015: TL 24). 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.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 7 - CASH AND CASH EQUIVALENTS (Continued)

As of 31 December 2016 repurchase agreements consist of short term TL balances with original maturities between 1-3 days (31 December 2015: 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%).

NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Amounts due from and due to related parties at 31 December 2016 and 31 December 2015 and a summary of major transactions with related parties during the period are as follows:

8.1 Deposits and repurchase agreements at banks

	<u>31 December 2016</u>	<u>31 December 2015</u>
Akbank T.A.Ş.	25	185

8.2 Loans from related party banks

	<u>31 December 2016</u>	<u>31 December 2015</u>
Akbank T.A.Ş.	3,537	2,682

8.3 Derivative financial instruments

Akbank T.A.Ş.

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
FX forward transactions for USD indexed sales	144	(182)	-	-
Foreign exchange forwards	13	-	33	-
Interest rate swap	-	(74)	-	(93)
Commodity swap	-	-	-	(3)
	<u>157</u>	<u>(256)</u>	<u>33</u>	<u>(96)</u>

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

8.4 Due from related parties

Trade receivables:

	31 December 2016	31 December 2015
Çimsa Çimento Sanayi ve Ticaret A.Ş. ("Çimsa")	29	30
Akçansa Çimento Sanayi ve Ticaret A.Ş. ("Akçansa")	27	32
Kordsa Global End. İplik ve Kord Bezi San. ve Tic. A.Ş. ("Kordsa Global")	6	4
Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş. ("Brisa")	6	6
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş. ("Carrefoursa")	5	4
Akbank T.A.Ş.	2	2
Other	2	4
	<u>77</u>	<u>82</u>

As of 31 December 2016 and 31 December 2015, due from related parties have maturities of less than one month.

8.5 Due to related parties

	31 December 2016	31 December 2015
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş. ("Bimsa")	7	13
Other	1	1
	<u>8</u>	<u>14</u>

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)**8.6 Sales**

	1 January- 31 December 2016	1 January- 31 December 2015
Çimsa	117	56
Akçansa	101	56
Carrefoursa	57	43
Kordsa Global	53	38
Brisa	47	47
Akbank T.A.Ş.	31	25
Philsa Philip Morris Sabancı Sigara ve Tütüncülük A.Ş.	16	15
Teknosa İç ve Dış Tic. A.Ş.	4	5
Temsa Global Sanayi ve Ticaret A.Ş.	4	3
Hacı Ömer Sabancı Holding A.Ş.	3	1
Other	-	1
	433	290

8.7 Purchases and services received

	1 January- 31 December 2016	1 January- 31 December 2015
Hacı Ömer Sabancı Holding A.Ş.	3	2
Aksigorta A.Ş.	-	1
	3	3

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)**8.8 Financial income/(expense)**

	1 January- 31 December 2016	1 January- 31 December 2015
Interest income		
Akbank T.A.Ş.	28	30
Interest expense		
Akbank T.A.Ş.	(318)	(212)
	(290)	(182)
Foreign currency loss		
Akbank T.A.Ş.	(146)	(72)
	(436)	(254)

8.9 Other income

	1 January- 31 December 2016	1 January- 31 December 2015
Kordsa Global	3	-
Brisa	3	-
	6	-

8.10 Other expense

	1 January- 31 December 2016	1 January- 31 December 2015
Bimsa	23	4
	23	4

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

8.11 Key management compensation

Key management includes Chief Executive Officer, Chief Financial Officer, Directors and above. The compensation paid or payable to key management for employee services is shown below:

	1 January- 31 December 2016	1 January- 31 December 2015
Short-term benefits	17	13
Other long-term benefits	9	7
	26	20

NOTE 9 – TRADE RECEIVABLES AND PAYABLES

Trade receivables

	31 December 2016	31 December 2015
Customer current accounts	2,983	2,742
Due from related parties (Note 8)	77	82
Allowance for doubtful receivables (-)	(1,040)	(898)
	2,020	1,926

As of 31 December 2016, trade receivables amounting to TL 1,498 (31 December 2015: TL 1,481) were neither past due nor impaired. The average credit period on sale of electricity is less than one month.

As of 31 December 2016, trade receivables amounting to TL 522 (31 December 2015: TL 445) were past due but not impaired. The balance mainly relates to many independent public and private subscribers of EEDAŞ. The aging analysis of these trade receivables is as follows as of 31 December 2016 and 31 December 2015:

	31 December 2016	31 December 2015
Up to 3 months	416	321
3 to 6 months	95	120
More than 6 months	11	4
	522	445

As of 31 December 2016, trade receivables of TL 1,040 (31 December 2015: TL 898) 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. 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 ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 9 – TRADE RECEIVABLES AND PAYABLES (Continued)

Trade receivables (Continued)

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

	1 January - 31 December 2016	1 January - 31 December 2015
<u>Movement of allowance for doubtful receivables:</u>		
Balance at the beginning of the year	(898)	(894)
Additions	(271)	(182)
Amounts recovered during the year	126	178
Write-off amount	3	-
Closing balance	(1,040)	(898)

The Group received guarantee letters amounting to TL 861 (31 December 2015: TL 745) and deposits and guarantees amounting to TL 881 (31 December 2015: TL 737) as collateral for its electricity receivables.

Trade payables

	31 December 2016	31 December 2015
Payables to suppliers (*)	1,345	1,311
Due to related parties (Note 8)	8	14
Boru Hatları ile Petrol Taşıma A.Ş. ("BOTAŞ")	54	82
	1,407	1,407

(*) 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. (EPİAŞ), natural gas purchases from Botaş and payables to suppliers related to construction of power plants. At 31 December 2016 and 31 December 2015, trade payables have maturities less than one month.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 10 – OTHER RECEIVABLES AND PAYABLES

Other current receivables

	31 December 2016	31 December 2015
Income accruals (*)	275	215
Deposits and guarantees given	26	24
Receivables subject to arbitration	15	15
Transmission line receivables (**)	13	19
Receivables due from late payment	5	-
Receivables from liquidated damages	-	35
Other	100	43
	<u>434</u>	<u>351</u>
Less: Provision for impairment of other receivables	(3)	(3)
	<u>431</u>	<u>348</u>

Other non-current receivables

	31 December 2016	31 December 2015
Deposits and guarantees given (***)	163	133
Transmission line receivables (**)	80	88
Income accruals (*)	34	251
Other	36	-
	<u>313</u>	<u>472</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 Group constructs energy transmission lines on behalf of TEİAŞ and reflects the cost to TEİAŞ. As of 31 December 2016, receivables from TEİAŞ regarding the construction of transmission lines are mainly related with the Tufanbeyli, Hacınoğlu, Menge, Arkun, Yamanlı, Kavşakbendi, Çambaşı and Kandil projects. The Group will collect the related amount in equal monthly instalments in maximum of ten years.

(***) 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 when they leave the system. The balances were paid to the subscribers based on their adjusted amounts by inflation rate 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.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 10 – OTHER RECEIVABLES AND PAYABLES (Continued)**Other current payables**

	31 December 2016	31 December 2015
Deposits and guarantees received	39	47
Taxes and dues payable	14	17
Other	153	106
	206	170

Other non-current payables

	31 December 2016	31 December 2015
Deposits and guarantees received (*)	881	737
	881	737

(*) The Group received deposits from the customers subscribed after 31 March 2006 for EPS and 24 July 2006 for AEPSAŞ and TOROSLAR EPSAŞ 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.

NOTE 11 – INVENTORIES

	31 December 2016	31 December 2015
Consumables	173	131
Materials	12	5
Other inventory	1	2
	186	138
Less: Provision for impairment of inventories	(4)	(4)
	182	134
	1 January- 31 December 2016	1 January- 31 December 2015
1 January	(4)	-
Charged to statement of profit or loss	-	(4)
31 December	(4)	(4)

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 12 – PREPAID EXPENSES AND DEFERRED REVENUE**Short - term prepaid expenses**

	31 December 2016	31 December 2015
Prepaid expenses	13	13
Business advances given	5	2
Inventory advances given	4	6
	22	21

Long - term prepaid expenses

	31 December 2016	31 December 2015
Advances given for property, plant and equipment	167	248
Other	-	1
	167	249

Short - term deferred revenue

	31 December 2016	31 December 2015
Deferred income (*)	166	173
	166	173

Long - term deferred revenue

	31 December 2016	31 December 2015
Deferred income (*)	26	102
	26	102

(*) 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 ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 13 – DUE FROM SERVICE CONCESSION ARRANGEMENTS

Considering the terms in the service concession arrangement, the Group has recognized the discounted estimated future cash receipts through the expected life of the arrangement, as financial asset. The details of the financial assets recognized under the service concession arrangement are as follows:

	Financial assets		PV of financial assets	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Within one year	1,342	965	654	456
More than one year	47,611	47,464	3,640	2,565
	48,953	48,429	4,294	3,021
Future financial income	(44,659)	(45,408)	-	-
	<u>4,294</u>	<u>3,021</u>	<u>4,294</u>	<u>3,021</u>
Current financial asset			654	456
Non - current financial asset			3,640	2,565
			<u>4,294</u>	<u>3,021</u>

NOTE 14 - OTHER ASSETS

Other current assets

	31 December 2016	31 December 2015
VAT receivables	3	22
Other	1	3
	<u>4</u>	<u>25</u>

Other non - current assets

	31 December 2016	31 December 2015
VAT receivables (*)	488	547
	<u>488</u>	<u>547</u>

(*) VAT receivables are mainly related to generation investments. These VAT receivables will be offset against VAT payables arising from revenues generated in the future.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 14 - OTHER ASSETS (Continued)

Other current liabilities

	31 December 2016	31 December 2015
Taxes and funds payable	166	142
Other	5	4
	171	146

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 15 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2016	Additions	Disposals	Transfers	Impairment	Reclassified as assets held for sale	Reclassification	31 December 2016
Cost:								
Land	88	-	-	-	-	-	-	88
Land improvements	3,235	2	-	454	-	-	-	3,691
Buildings	428	-	-	550	-	-	-	978
Machinery and equipment	2,939	19	-	3,446	-	-	-	6,404
Spare parts	20	14	-	-	-	-	-	34
Motor vehicles	41	1	-	-	-	-	-	42
Furniture and fixtures	25	28	-	-	-	-	-	53
Leasehold improvements	2	-	-	-	-	-	-	2
Construction in progress	4,222	703	-	(4,450)	-	-	-	475
	11,000	767	-	-	-	-	-	11,767
Accumulated depreciation:								
Land improvements	177	87	-	-	-	-	-	264
Buildings	47	14	-	-	-	-	-	61
Machinery and equipment	967	186	-	-	-	-	-	1,153
Motor vehicles	14	6	-	-	-	-	-	20
Furniture and fixtures	16	5	-	-	-	-	-	21
Leasehold improvements	1	-	-	-	-	-	-	1
	1,222	298	-	-	-	-	-	1,520
Net book value:								
Land	88							88
Land improvements	3,058							3,427
Buildings	381							917
Machinery and equipment	1,972							5,251
Spare Parts	20							34
Motor vehicles	27							22
Furniture and fixtures	9							32
Leasehold improvements	1							1
Construction in progress	4,222							475
	9,778							10,247

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 15 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2015	Additions	Disposals	Transfers	Impairment (*)	Reclassified as assets held for sale	Reclassification (**)	31 December 2015
Cost:								
Land	112	-	-	-	-	(23)	(1)	88
Land improvements	3,117	1	(6)	137	-	-	(14)	3,235
Buildings	437	10	(28)	9	-	-	-	428
Machinery and equipment	3,076	11	(18)	42	-	-	(172)	2,939
Spare parts	26	-	(6)	-	-	-	-	20
Motor vehicles	4	37	-	-	-	-	-	41
Furniture and fixtures	22	3	-	-	-	-	-	25
Leasehold improvements	2	-	-	-	-	-	-	2
Construction in progress	3,048	1,976	(145)	(199)	(140)	(293)	(25)	4,222
	<u>9,844</u>	<u>2,038</u>	<u>(203)</u>	<u>(11)</u>	<u>(140)</u>	<u>(316)</u>	<u>(212)</u>	<u>11,000</u>
Accumulated depreciation:								
Land improvements	129	76	(5)	-	-	-	(23)	177
Buildings	44	11	(10)	-	-	-	2	47
Machinery and equipment	1,048	125	(15)	-	-	-	(191)	967
Motor vehicles	3	11	-	-	-	-	-	14
Furniture and fixtures	13	3	-	-	-	-	-	16
Leasehold improvements	1	-	-	-	-	-	-	1
	<u>1,238</u>	<u>226</u>	<u>(30)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(212)</u>	<u>1,222</u>
Net book value:								
Land	112							88
Land improvements	2,988							3,058
Buildings	393							381
Machinery and equipment	2,028							1,972
Spare Parts	26							20
Motor vehicles	1							27
Furniture and fixtures	9							9
Leasehold improvements	1							1
Construction in progress	<u>3,048</u>							<u>4,222</u>
	<u>8,606</u>							<u>9,778</u>

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 15 - PROPERTY, PLANT AND EQUIPMENT (Continued)

(*) Under the context of Turkish Accounting Standard Impairment of Assets ("TAS 36"), the Group has identified an impairment loss of TL 191 in 2015 for Murat Nehri power plant which is classified as asset held for sale. TL 51 of the amount has been recorded under intangible assets (Note 16)

(**) During the transfer of all adjustments and reclassifications in accordance with TFRS to SAP software system, the transitions between cost and accumulated depreciation amounts are corrected without affecting net book values.

TL 285 of current year depreciation expenses is included in cost of sales and TL 13 of it is included in operating expenses (31 December 2015: TL 210 and TL 16 respectively).

Based on the provisions of the finance package signed at 13 June 2008, the property, plant and equipment are secured by the lenders.

Total borrowing costs capitalised in 31 December 2016 and 31 December 2015 are TL (218) (interest expense: TL (55), foreign exchange loss: TL (163)) and TL (451) (interest expense: TL (90), foreign exchange loss: TL (361)), respectively (Note 30).

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 16- INTANGIBLE ASSETS

	1 January 2016	Additions	Disposals	Transfers	Impairment	Reclassification	31 December 2016
Cost:							
Licences	800	1	-	-	-	-	801
Rights	1,656	1	-	-	-	-	1,657
Customer contracts	4,391	-	-	-	-	-	4,391
Goodwill	2,730	-	-	-	-	-	2,730
Other intangibles	25	35	-	-	-	-	60
	<u>9,602</u>	<u>37</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,639</u>
Accumulated amortisation:							
Licences	34	15	-	-	-	-	49
Rights	168	57	-	-	-	-	225
Customer contracts	547	152	-	-	-	-	699
Other intangibles	8	4	-	-	-	-	12
	<u>757</u>	<u>228</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>985</u>
Net book value:							
Licences	766						752
Rights	1,488						1,432
and related relationships	3,844						3,692
Goodwill	2,730						2,730
Other intangibles	17						48
	<u>8,845</u>						<u>8,654</u>

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 16 - INTANGIBLE ASSETS (Continued)

	1 January 2015	Additions	Disposals	Transfers	Impairment (*)	Reclassification (**)	31 December 2015
Cost:							
Licences	817	12	(2)	-	(51)	24	800
Rights	1,681	1	(15)	-	-	(11)	1,656
and related relationships	4,391	-	-	-	-	-	4,391
Goodwill	2,730	-	-	-	-	-	2,730
Other intangibles	8	5	-	11	-	1	25
	<u>9,627</u>	<u>18</u>	<u>(17)</u>	<u>11</u>	<u>(51)</u>	<u>14</u>	<u>9,602</u>
Accumulated amortisation:							
Licences	16	14	(2)	-	-	6	34
Rights	118	57	(14)	-	-	7	168
and related relationships	395	152	-	-	-	-	547
Other intangibles	5	2	-	-	-	1	8
	<u>534</u>	<u>225</u>	<u>(16)</u>	<u>-</u>	<u>-</u>	<u>14</u>	<u>757</u>
Net book value:							
Licences	801						766
Rights	1,563						1,488
and related relationships	3,996						3,844
Goodwill	2,730						2,730
Other intangibles	3						17
	<u>9,093</u>						<u>8,845</u>

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 16 - INTANGIBLE ASSETS (Continued)

(*) Under the context of Turkish Accounting Standard Impairment of Assets ("TAS 36"), the Group has identified an impairment loss of TL 191 in 2015 for Murat Nehri power plant which is classified as asset held for sale. TL 140 of the amount has been recorded under property, plant and equipment (Note 15).

(**) During the transfer of all adjustments and reclassifications in accordance with TFRS to SAP software system, the transitions between cost and accumulated depreciation amounts are corrected without affecting net book values.

TL 15 of current year amortisation expenses is included in cost of sales and TL 213 of it is included in operating expenses (31 December 2015: TL 14 and TL 211 respectively).

Customer contracts and related relationships and transfer of operating rights are separately recognised during the business combination according to TFRS 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 TFRS Interpretation 12 (Note 13) is recognized as intangible asset based on TFRS 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.

Goodwill is allocated to the Group's cash-generating units (CGUs) through distribution region privatizations. A region level summary of the goodwill allocation is presented below:

	31 December 2016	31 December 2015
Toroslar Region	1,104	1,104
Ayedaş Region	893	893
Başkent Region	733	733
	2,730	2,730

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 17 - DERIVATIVE FINANCIAL INSTRUMENTS

The Group entered into the following forward contracts with banks in order to hedge its interest rate risk and to reduce its exchange rate risk associated with the bank borrowings, highly probable USD indexed sales and raw material purchases. Their fair values at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
FX forward transactions for USD indexed sales	356	(464)	-	-
Foreign exchange forwards	184	-	131	-
Cross currency swap	40	-	15	-
Interest rate swap	-	(164)	-	(206)
Commodity swap	-	-	-	(3)
	580	(628)	146	(209)
Short-term	184	-	131	(3)
Long-term	396	(628)	15	(206)
	580	(628)	146	(209)

According to the contract, 45% portion of the swap transaction is made with the related party bank of the Group, Akbank T.A.Ş..

Movements in fair value of derivative financial instruments can be analysed as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
1 January	(63)	(301)
Recognized in / (charged to) statement of profit or loss	325	190
(Charged to) / recognized in other comprehensive income	(310)	48
31 December	(48)	(63)

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 18 - BANK BORROWINGS

	Weighted average effective interest rate p.a.		Original currency		TL	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Short-term bank borrowings:						
- TRY borrowings	12.03%	11.76%	1,875	903	1,875	903
					<u>1,875</u>	<u>903</u>
Short-term portion of long-term bank borrowings:						
- Euro borrowings	4.35%	4.64%	336	275	1,247	874
- TRY borrowings	12.40%	11.84%	1,566	1,026	1,566	1,026
					<u>2,813</u>	<u>1,900</u>
Long-term bank borrowings:						
- Euro borrowings	3.83%	4.03%	1,513	1,740	5,614	5,529
- TRY borrowings	12.47%	11.96%	3,371	3,082	3,371	3,082
					<u>8,985</u>	<u>8,611</u>

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 18 - BANK BORROWINGS (Continued)

Redemption schedules of long-term bank borrowings at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
To be paid between 1-2 years	4,054	3,969
To be paid between 2-3 years	1,607	1,035
To be paid between 3-4 years	1,029	1,080
To be paid between 4-5 years	933	886
To be paid between +5 years	1,362	1,641
	8,985	8,611

The management believes that the carrying value approximates its fair value.

Other financial liabilities:

	31 December 2016	31 December 2015
Other current financial liabilities	25	21
Other non-current financial liabilities	245	232
	270	253

The other financial liabilities are repayable as follows:

	31 December 2016	31 December 2015
To be paid within 1 year	25	21
To be paid between 1-2 years	26	21
To be paid between 2-3 years	26	22
To be paid between 3-4 years	27	22
To be paid between 4-5 years	33	23
To be paid more than 5 years	133	144
	270	253

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 18 - BANK BORROWINGS (Continued)

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

<u>Currency Type</u>	<u>Weighted average effective interest rate</u>	<u>31 December 2016</u>	
		<u>Current</u>	<u>Non-current</u>
EUR	4.70%	25	245
		<u>25</u>	<u>245</u>

<u>Currency Type</u>	<u>Weighted average effective interest rate</u>	<u>31 December 2015</u>	
		<u>Current</u>	<u>Non-current</u>
EUR	4.70%	21	232
		<u>21</u>	<u>232</u>

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

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 19 – PROVISIONS

	31 December 2016	31 December 2015
Provision for legal cases ⁽¹⁾	189	152
Provision for water usage right	78	72
Provision for performance fee ⁽²⁾	6	4
Other provisions	1	2
	<u>274</u>	<u>230</u>

⁽¹⁾ 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 assesment made by the Group management in which the probability, that the legal cases will be finalized against the Group, is more than 50%.

⁽²⁾ Consists of the performance fee to be paid in the context of the loan agreement signed on 13 June 2008.

The Group is charging the theft and loss costs to the subscribers in accordance with 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 favor of the Group. Cancellation of the decisions taken by EMRA within the empowerment law and the applications for the stay of execution of these decisions have been dismissed by the 13th Chamber of Council of State. During this period, EMRA has communicated the current legislations and its instructions regarding the theft and loss applications with the distribution companies. Distribution companies hold the application right to the Constitutional Court for the lost cases.

The law proposed by the Ministry of Energy and Natural Resources, which is draft as of the reporting date, defines EMRA as the ultimate authority for the regulation of electricity tariffs. Therefore, "dismissal of action" is expected for the ongoing theft and loss cases upon the enactment of the aforementioned law as it is proposed. As of reporting date, the total amount of ongoing cases against the Group is TL 176. Moreover, there are ongoing cases against wholesale companies within the distribution regions of the Group which can be revoked to the related distribution companies in case of adverse ruling. Although there is an uncertainty on the judicial process on aforementioned issue, it is expected that possible losses for such cases will be compensated through the tariff mechanism. Therefore, the Group has not provided a provision regarding this issue on the accompanying consolidated financial statements.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 19 – PROVISIONS (Continued)

Movements in the provisions can be analysed as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
1 January	230	201
Provision paid in the current year	(74)	(63)
Charged to statement of profit or loss	118	92
31 December	274	230

NOTE 20 - PROVISIONS FOR EMPLOYEE BENEFITS AND OBLIGATIONS RELATED TO EMPLOYEE BENEFITS

<u>Short term provisions for employee benefits</u>	31 December 2016	31 December 2015
Provision for personnel premium	21	17
Provision for unused vacation	19	17
Provision for expat employee expenses	1	1
	41	35

<u>Long term provisions for employee benefits</u>	31 December 2016	31 December 2015
Provisions for employee termination benefit	60	63
	60	63

Under Turkish Labour Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002 there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TL 4,297.21 (full TL) for each year of service as of 31 December 2016 (2015: TL 3,828.37 (full TL)).

The liability is not funded, as there is no funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees.

TAS 19 "Employee Benefits" 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:

	2016	2015
Discount rate (%)	4.02	3.26
Turnover rate to estimate the probability of retirement (%)	94.56	92.53

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 20 - PROVISIONS FOR EMPLOYEE BENEFITS AND OBLIGATIONS RELATED TO EMPLOYEE BENEFITS (Continued)

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. On-demand dropout rates were also taken into account as 5,44 % for employees only those social security beginning date is before the year 2000 who work between 0-15 years and 0% for employees who work over 16 years. As the maximum liability is revised annually, the maximum amount of TL 4,426.16 (full TL) which is effective from 1 January 2017 (1 January 2016: TL 4,092.53 (full TL)) has been taken into consideration in calculating the reserve for employee termination benefit of the Group.

Movements in the provision for employee termination benefits during the year are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
At the beginning of the year	63	42
Service cost	20	15
Interest cost	2	2
Actuarial (gain) / loss	(5)	14
Paid during the year	(20)	(10)
At the end of the year	60	63

Movements in the provision for personnel bonus, unused vacation and expat employee expenses during the year are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
1 January	35	30
Provision paid in the current year	(19)	(3)
Capitalised over property, plant and equipment	-	2
Charged to statement of profit or loss	25	6
31 December	41	35

Obligations related to employee benefits:

	31 December 2016	31 December 2015
Social security premiums payable	28	14
Payable to personnel	16	5
	44	19

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 21 – TAXATION

Assets related to current tax

	31 December 2016	31 December 2015
Prepaid taxes and funds	7	9
	<u>7</u>	<u>9</u>

Current tax liability

	31 December 2016	31 December 2015
Current corporate tax provision	107	99
Less: Prepaid taxes	(101)	(90)
	<u>6</u>	<u>9</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 years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2016 is 20% (31 December 2015: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

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

Statutory corporate income tax rate in Turkey is 20 %. However, Turkish Corporate Income Tax Law, provides reduced corporate income tax rate for the investments made within the scope of the Investment Incentive Certificate (IIC).

According to Turkish Corporate Tax Law and the Decree, there are two things that are important to calculate reduced corporate income tax rate. One of them is the rate of contribution to investment and second is the rate of tax reduction. All rates of contribution to investment and all rates of reduced corporate income tax are determined by the Decree according to incentive schemes and regions.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 21 – TAXATION (Continued)

Corporate Tax (Continued)

The rate of reduced corporate income tax is %80 and the rate of contribution to investment of Tufanbeyli Thermal Power Plant is 50%, which means the reduced tax rate is calculated as 4% $[0,20 - (0,20 \times 0,80)]$ and this will be applied until the contribution to investment amount (50% of the total investment) is reached.

This application allows the profit generated from Tufanbeyli Thermal Power Plant to be taxed from 4%. However, the condition to benefit from this incentive is to gain profit from the investment. In the case of making loss from the investment, the application will not be able to be used.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding is 15% as of 31 December 2016 (31 December 2015: 15%). Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Investment Allowance Exemption

The exemption for investment incentive, which was completely abolished in 2006, continues for companies with rights carried forward from previous years.

Within this scope, there are two different investment incentive applications that are regulated in the income tax law.

- a) Companies that qualify for investment incentive within the scope of Article 19 of the Income Tax Law are exempt from 20% the corporate income tax but withholding tax at a rate of 19.8% over the amount of the investment discount (covering the investments under incentive until April 2003).
- b) Companies that are entitled to investment incentive within the temporary Article 69 of the Income Tax Law are exempt from 20% corporate tax and at the same time no withholding tax liability arises (covering the investments under incentive between May 2003 – March 2006).

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 21 – TAXATION (Continued)

Investment Allowance for Tufanbeyli Power Plant

The Group received investment incentive certificate dated 24 February 2012 and finally revised in 25 February 2015 due to additional incentives provided by the Government.

According to the regulation, there are various benefits provided due to use of mines as an input in the electricity generation. Such benefits can be summarised as follows:

- 1-50% of allowed investment amount are paid back through applying reduced tax rate to Tufanbeyli plant's annual profit (4%)
- 2- Employer's national insurance contribution support
- 3- Interest support
- 4- VAT exemption
- 5- Customs Duty exemption

Total tax benefit mentioned in the item 1 above is TL 900 as of 31 December 2016. However, during 2017, the Group is planning to apply to the related Government Authority to extend the total benefit to approximately TL 1,300 by adding financial expenditures to its total spending. Total benefit is expected to be recovered within 25 - 30 years and any outstanding amount is subject to indexation at year end by applying annual inflation rate. As of 31 December 2016, the Group recognized TL 96.6 as deferred tax asset corresponding to amount which can be recovered in the foreseeable future (31 December 2015: TL 124).

The taxation on income for the Group is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
- Corporate tax	(148)	(98)
- Deferred tax	(92)	(50)
	(240)	(148)

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 21 – TAXATION (Continued)

The reconciliation of taxation on income is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Income before income taxes on income (20%)	845	432
Loss before income taxes on income (4%)	(311)	-
Income before income taxes on income total	534	432
Tax calculated at enacted income tax rate (20%)	(169)	(86)
Tax calculated at enacted income tax rate (4%)	12	-
Adjustment for prior year subject to 4% rate	(13)	-
Non-deductible expenses (20%)	(15)	(4)
Tax losses not recognized as deferred tax asset	(23)	(33)
Investment incentive	(28)	(15)
Tax incentive on capital injection	4	-
Other	(8)	(10)
Taxation on income	(240)	(148)

Deferred taxes

The Group recognises deferred tax assets and liabilities based upon temporary differences arising between their financial statements as reported for TAS purposes and their statutory tax financial statements.

Deferred taxes will be calculated on temporary differences that are expected to be realised or settled based on the taxable income in coming years under the liability method using enacted tax rate of 20% at 31 December 2016, excluding temporary differences related to Tufanbeyli power plant, which is enacted tax rate of 4% (31 December 2015: 20%).

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 21 – TAXATION (Continued)

Deferred taxes (Continued)

The breakdown of cumulative temporary differences and the resulting deferred tax assets/(liabilities) provided, at 31 December 2016 and 31 December 2015 using the enacted tax rates, are as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
subject to 20% deferred tax rate				
Property, plant and equipment and intangible assets	4,698	3,493	940	699
Differences arising from customer contracts and transfer of operational rights	(5,135)	(5,342)	(1,027)	(1,068)
Due from service concession arrangements	(4,103)	(2,825)	(821)	(565)
Unused carry forward tax losses	566	778	113	156
Derivative financial instruments	48	63	10	13
Provision for employee termination benefits	60	63	12	13
Provision for doubtful receivables	32	32	6	6
Impairment loss on inventories	4	4	1	1
Impairment of natural gas power plants	195	195	39	39
Investment incentive	577	707	115	141
Provisions for legal cases	190	153	38	31
Other differences	(123)	(92)	(24)	(18)
Deferred income tax liabilities-net	(2,991)	(2,771)	(598)	(552)
subject to 4% deferred tax rate				
Property, plant and equipment and intangible assets	386	-	15	-
Provisions for employee termination benefits	2	-	-	-
Deferred tax liabilities-net	(2,603)	(2,771)	(583)	(552)
Deferred tax asset			444	516
Deferred tax liability			(1,027)	(1,068)
Deferred tax liabilities-net			(583)	(552)

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 21 – TAXATION (Continued)

Deferred taxes (Continued)

Deferred tax assets may only be recognised to the extent it is probable that sufficient taxable profit will be available in the future. In case of a probable tax advantage, deferred income tax asset is calculated for unused carry forward tax losses and unused investment incentive.

At 31 December 2016, the Group recognized deferred tax assets amounting to TL 113 for unused carry forward tax losses amounting to TL 566 since it was considered as probable that there would be sufficient taxable income in the subsequent periods to utilise such assets based on the forecasts made (31 December 2015: TL 156). The Group also recognized deferred tax assets amounting to TL 115 for investment incentive amounting to TL 577 (31 December 2015: 141) and recognized no deferred tax assets for reclassifying of assets as AHFS. (31 December 2015: TL 32 for reclassifying of assets as Murat Nehri amounting to TL 162).

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

	31 December 2016	31 December 2015
Expiring in 2 years	90	178
Expiring in 3 years	324	368
Expiring in 4 years	72	160
Expiring in 5 years	80	72
	566	778

Movements in deferred income taxes can be analysed as follows:

	31 December 2016	31 December 2015
Deferred income tax liabilities, net		
1 January	(552)	(496)
Recognized in statement of profit or loss	(92)	(50)
Charged to other comprehensive income	61	(6)
31 December	(583)	(552)

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 22 - SHARE CAPITAL

Total authorised number of ordinary shares of par value Kr 1 each at 31 December 2016 is 959,068,542,000 (31 December 2015 : 959,068,542,000).

The shareholders of the Enerjisa and their historical shareholdings at 31 December 2016 and 31 December 2015 are stated below:

Shareholders	31 December 2016		31 December 2015	
	Share (%)	TL	Share (%)	TL
Hacı Ömer Sabancı Holding A.Ş.	50.00	4,795	50.00	4,795
DD Turkey Holdings S.A.R.L. (E.ON)	50.00	4,795	50.00	4,795
		9,590		9,590
Adjustment to share capital		(33)		(33)
Total paid-in capital		9,557		9,557

Share premium

Share premium presented in the consolidated financial statements represents the proceeds obtained by issuing shares above the nominal values during the capital increases following the establishment of the Group.

NOTE 23 - RETAINED EARNINGS AND LEGAL RESERVES

Retained earnings as per the statutory financial statements, other than legal reserve requirements, are available for distribution subject to the legal reserve requirement referred to below.

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

Special reserves and accumulated losses as per the statutory financial statements of the Company are as below:

	31 December 2016	31 December 2015
Special reserves	94	94
Accumulated losses	(52)	(49)

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 24 - TAX EFFECTS OF COMPONENTS OF COMPREHENSIVE INCOME

	31 December 2016			31 December 2015		
	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Derivative financial instruments	(310)	62	(248)	48	(9)	39
Actuarial gain / (loss)	5	(1)	4	(14)	3	(11)
			<u>(244)</u>			<u>28</u>

NOTE 25 - NET SALES

	1 January - 31 December 2016	1 January - 31 December 2015
Revenue from electricity sales and services provided	9,276	10,481
Distribution revenue	2,704	938
Finance income from service concession arrangements	610	311
Gas sales	30	-
Steam sales	23	25
Other sales	3	110
	<u>12,646</u>	<u>11,865</u>
Electricity sales during trial period deducted from the cost of property, plant and equipment	(81)	-
	<u>12,565</u>	<u>11,865</u>

NOTE 26 - COST OF SALES

	1 January - 31 December 2016	1 January - 31 December 2015
Cost of trade goods sold	(7,184)	(7,649)
Raw materials usage	(807)	(607)
System usage fees	(798)	(569)
Depreciation and amortisation (Note 15-16)	(300)	(225)
Other	(243)	(215)
	<u>(9,332)</u>	<u>(9,265)</u>

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 27 – OPERATING EXPENSES

	1 January- 31 December 2016	1 January- 31 December 2015
Personnel expenses	(411)	(351)
Consultancy expenses	(318)	(253)
Depreciation and amortisation (Note 15-16)	(226)	(226)
Material expenses	(94)	(76)
Rent expenses	(31)	(22)
Duties and taxes	(28)	(27)
Communication expenses	(23)	(19)
Security expenses	(22)	(21)
Insurance expenses	(15)	(20)
Maintenance expenses	(14)	(20)
Transportation and travel expenses	(12)	(10)
Other	(100)	(87)
	(1.294)	(1.132)

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 28 - OTHER (EXPENSE) / INCOME FROM OPERATING ACTIVITIES

	1 January- 31 December 2016	1 January- 31 December 2015
Other income from operating activities:		
Income from compensation and penalty	361	-
Late payment interest from electricity receivables	78	92
Income from released provision for legal cases	39	-
Foreign exchange gain from other than borrowings	32	46
Interest income related to revenue cap regulation - net	19	2
Power theft penalties	15	18
Income from derivative transactions (*)	3	3
Income from released provision	3	5
Income from insurance reimbursements	2	1
Other	14	15
	566	182
Less: LD Income deducted from the cost of property, plant and equipment	(94)	-
	472	182
Other expenses from operating activities:		
Provision for doubtful and other receivables	(145)	(4)
Litigation expenses	(76)	(7)
Foreign exchange loss from other than borrowings	(59)	(28)
Compensation and penalty	(44)	(6)
Fair value differences	(40)	(36)
Reversal of receivables due from liquidated damages	(35)	-
Loss from derivative transactions (*)	(1)	(6)
Grants and donations	(12)	(15)
Change in fair value of commodity swap	-	(3)
Other	-	(14)
	(412)	(119)

(*) Income / (expense) from derivative transactions consist of the income/expense received from or paid to electricity trading deals executed on Future and Options Exchange ("FOE") and over-the-counter market on the behalf of GenCo and itself.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 29 – INCOME / (EXPENSE) FROM INVESTING ACTIVITIES

	1 January- 31 December 2016	1 January- 31 December 2015
Income from investing activities:		
Gain on sale of subsidiaries (Note 32)	-	131
Gain on sale of fixed assets	-	3
	-	134
Expense from investing activities:		
Impairment on asset-held-for-sale (Note 31)	-	(191)
	-	(191)

NOTE 30 - FINANCIAL INCOME / (EXPENSE), NET

	1 January- 31 December 2016	1 January- 31 December 2015
Financial income:		
Interest income	58	59
	58	59
Financial expenses:		
Interest expense	(1,064)	(941)
Foreign exchange loss	(636)	(590)
Bank commission expenses	(30)	(21)
	(1,730)	(1,552)
Less: Capitalized over property, plant and equipment	218	451
	(1,512)	(1,101)

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 31 – ASSETS CLASSIFIED AS HELD FOR SALE

On 31 December 2015, the directors resolved to dispose the subsidiary (Murat Nehri). Negotiations with several interested parties have subsequently taken place. The assets and liabilities, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position.

The proceeds of disposal are expected to be below the net carrying amount of the relevant assets and liabilities and, accordingly, an impairment loss of TL 191 has been recognized in 2015 on the classification of these operations as held for sale.

The major classes of assets and liabilities comprising the disposal group classified as held for sale are as follows:

	31 December 2016	31 December 2015
Property, plant, equipment and intangible assets	347	316
Other assets	1	1
Other non-current assets	61	51
Total assets classified as held for sale	409	368
Trade payables	4	2
Total liabilities associated with assets classified as held for sale	4	2
Net assets of disposal group	405	366

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 32 - DISPOSAL OF SUBSIDIARY

As a part of the Group's spin off plan, 2 subsidiaries (Birkapılı and Gazipaşa) demerged from the Group as of 10 December 2014 and had presented in previous year's financial statements as assets held for sale. The above mentioned subsidiaries have been sold on 13 February 2015.

The major classes of assets and liabilities and gain on disposals of these subsidiaries have been presented as follows:

a) Birkapılı

	13 February 2015
Book value of net assets sold	
Current assets	1
Trade receivables	1
Non-current assets	13
Property, plant and equipment	13
Net assets disposed of	14
Consideration:	
Consideration paid in cash and cash equivalents	95
Total amount of cash acquired	95
Gain on disposal of subsidiary	81

b) Gazipaşa

	13 February 2015
Book value of net assets sold	
Current assets	2
Trade receivables	1
Inventories	1
Non-current assets	37
Property, plant and equipment	35
Intangible assets	1
Other non-current assets	1
Non-current liabilities	2
Deferred tax liabilities	2
Net assets disposed of	37
Consideration:	
Consideration paid in cash and cash equivalents	87
Total amount of cash acquired	87
Gain on disposal of subsidiary	50

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 33 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

31 December 2016			
Currency	Original currency amount	Amount TL	
Letter of guarantees received	EUR	89	330
	TL	572	572
	USD	3	11
	SEK	2	1
			914
Letter of guarantees given	TL	2,245	2,245
	USD	123	433
	EUR	1	4
			2,682
31 December 2015			
Currency	Original currency amount	Amount TL	
Letter of guarantees received	EUR	224	712
	TL	567	567
	USD	4	11
			1,290
Letter of guarantees given	TL	3,668	3,668
	USD	120	348
			4,016

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 33 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (Continued)

GenCo:

The Group entered several loan agreements for bank borrowings (Note 18) and those financial packages require compliance with the following financial covenants:

- Total Debt to Equity ratio should not be more than 60:40 at all times
- The Net Debt to EBITDA ratio should not be more than 4.0:1 following the Sponsor Support release date (*)
- The Historic Total Debt Service Cover ratio to be not less than 1.1:1 following the Sponsor Support release date on any two consecutive interest payment dates (*)

(*) Sponsor Support release date refers to at earliest 3 years after the completion of all of the projects financed, on each Financial Statement delivery date.

At 31 December 2016 the abovementioned ratios are as follows:

Total Debt to Equity ratio: 60:40

Net Debt to EBITDA ratio: 6.89:1 (not yet effective as of 31 December 2016)

Historic Total Debt Service Cover ratio: 1.17:1 (not yet effective as of 31 December 2016)

Moreover, following the execution of the Common Terms Agreement ("CTA") and security agreements regarding on the finance package, Group's following assets are subject to the security regime set forth in the CTA in favour of the Lenders;

- Immoveable Property; all the real property, land sites and buildings and fixtures (excluding furniture) to the land,
- Moveable Property with book value of more than TL 0.1; Commercial Enterprise Pledge is perfected in favour of the Lenders,
- Receivables under the licences and authorizations,
- Contractual Rights, Claims and interests are assigned to the Lenders (any rights claims and interests under Project Documents, Insurances, electricity sale agreements, Reinsurance, Sponsor Support and Share Retention Agreement, letters of credit provided by the construction contractor in favour of the Group.
- Pledge is perfected over the bank accounts of the Group.

The Group further entered in security arrangements in favour of the Lenders with respect to the inter-company loans and hedging documents. Any asset included to the Group's portfolio ("New Assets") will also be subject to the aforementioned security regime. The relevant security over the New Assets will be created periodically.

The Group as lessee

Leasing arrangements

Operating leases relate to forest land, road and mining rights with lease terms of between 3 to 49 years, without an extension option. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 33 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (Continued)

GenCo (Continued):

The Group as lessee (Continued)

Leasing arrangements (Continued)

The nominal amount of the commitments is as follows:

	31 December 2016	31 December 2015
Non-cancellable operating lease commitments		
No longer than 1 year	2	2
Longer than 1 year and no longer than 5 years	33	8
Longer than 5 years	466	64
	501	74

EEDAS:

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 ESA's.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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

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NOTE 33 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (Continued)

EEDAŞ (Continued):

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 and certain companies of the Group titled Toroslar EDAŞ, Toroslar EPSAŞ, BEDAŞ, EPS, AYEDAŞ and AEPSAŞ ("related Group Companies") 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 and the related Group Companies and the announcement to the Public cannot be interpreted as the undertakings of the Company and the related Group Companies have violated the Competition Law or the Company and the related Group Companies will be punished. The Group executes its transactions within the Competition Law and other regulations.

NOTE 34 - EVENTS AFTER THE REPORTING PERIOD

Debt to Equity (D:E) Ratio Covenant (GenCo)

Starting from November 2016, due to certain political and economic developments both locally and globally, Turkish Lira continued to devalue against US Dollar and Euro. Devaluation of the Turkish Lira against Euro reached to 20.5 % for the three month period starting November 2016 till the end of January 2017 (10.5 % during January 2017). Despite such strong devaluation, GenCo was still below D:E ratio threshold as of 31 December 2016 (Note 33). However, subsequent to year end, such developments negatively affected GenCo to comply with the D:E ratio covenant.

In order to reassure compliance with the D:E ratio, GenCo initiated a waiver process and received positive feedback from its lenders on 10 February 2017. Accordingly, the Company is compliant again with this requirement at the time of signing the accounts.