

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

INTERIM CONSOLIDATED FINANCIAL
STATEMENTS FOR THE
PERIOD ENDED
30 SEPTEMBER 2017
TOGETHER WITH THE INDEPENDENT
AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

Opinion

We have audited the consolidated financial statements of Enerjisa Enerji A.Ş. (the “Company”) and its subsidiaries (together will be referred to as the “Group”), which comprise the consolidated statement of financial position as at September 30, 2017 and the interim consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the nine months periods ended September 30, 2017 and 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at September 30, 2017 and its financial performance and its cash flows for the nine months periods ended September 30, 2017 and 2016 in accordance with International Financial Reporting Standards (“IFRS”s).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (“IESBA Code”) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

The consolidated financial statements of the Group in accordance with IFRS's as of December 31, 2016, were audited by another audit firm whose independent auditor's report thereon dated November 10, 2017 expressed an unqualified opinion.

The consolidated financial statements as at and for the nine months period ended September 30, 2017, on which we have previously issued our independent auditor's report dated November 10, 2017 have been restated as the result of the corrections and reclassifications detailed in Note 2.4.

Responsibilities of management and Board of Directors for the consolidated financial statements

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

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

Board of Directors are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

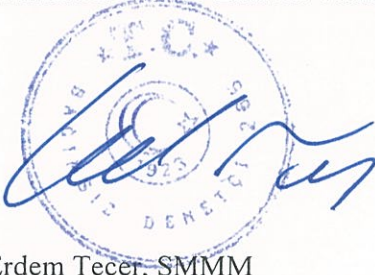
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of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

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

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

The partner in charge of the audit resulting in this independent auditor's report is Erdem Tecer.

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



Erdem Tecer, SMMM
Partner in charge

January 12, 2018
İstanbul, Turkey

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2017**

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

		Audited / current period 30 September 2017	Audited / prior period 31 December 2016
	Notes		
ASSETS			
Current Assets		3,491,079	2,939,550
Cash and Cash Equivalents	27	155,194	74,570
Financial Assets	10	660,192	653,754
Trade Receivables	6	2,166,983	1,720,529
<i>Due from related parties</i>	5	31,433	15,801
<i>Due from third parties</i>		2,135,550	1,704,728
Other Receivables	7	208,756	393,471
<i>Due from related parties</i>	5	-	2
<i>Due from third parties</i>		208,756	393,469
Derivative Financial Instruments	25	-	3,886
Inventory	8	101,226	74,459
Prepaid Expenses	9	197,386	14,156
Assets Related with Current Taxes	23	1,202	238
Other Current Assets	16	140	4,487
Non-Current Assets		13,506,806	12,191,898
Other Receivables	7	490,921	230,735
<i>Due from third parties</i>		490,921	230,735
Financial Assets	10	4,873,333	3,639,552
Property, Plant and Equipment	11	85,150	58,010
Intangible Assets	12	7,748,097	7,891,350
<i>Goodwill</i>		2,730,031	2,730,031
<i>Other intangible assets</i>		5,018,066	5,161,319
Prepaid Expenses	9	2,345	1,516
Deferred Tax Assets	23	177,878	247,703
Other Non-Current Assets	16	129,082	123,032
TOTAL ASSETS		16,997,885	15,131,448

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

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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LIABILITIES	Notes	Audited / current period 30 September 2017	Audited / prior period 31 December 2016
Current Liabilities		4,215,754	4,950,759
Short-Term Financial Liabilities	24	1,463,482	1,556,770
Short-Term Portion of Long Term Financial Liabilities	24	590,717	1,541,024
Other Financial Liabilities	24	29,097	25,087
Trade Payables	6	1,060,293	1,117,668
<i>Due to related parties</i>	5	104,453	126,061
<i>Due to third parties</i>		955,840	991,607
Payables for Employee Benefits	15	49,571	39,230
Other Payables		112,761	160,238
<i>Due to third parties</i>	7	112,761	160,238
Derivative Instruments	25	37,095	-
Deferred Income	9	449,713	165,733
Income Tax Liability	23	31,165	6,316
Short-Term Provisions		177,374	167,879
<i>Provisions for employment benefits</i>	15	22,085	29,462
<i>Other short-term provisions</i>	13	155,289	138,417
Other Short-Term Liabilities	16	214,486	170,814
Long-Term Liabilities		7,581,337	5,433,861
Long-Term Financial Liabilities	24	5,121,987	3,200,000
Other Financial Liabilities	24	262,631	245,134
Other Payables		1,068,335	880,004
<i>Due to third parties</i>	7	1,068,335	880,004
Deferred Income	9	4,835	25,617
Long-Term Provisions		73,106	56,442
<i>Provisions for employment benefits</i>	15	73,106	56,442
Deferred Tax Liabilities	23	1,050,443	1,026,664
Equity		5,200,794	4,746,828
Registered Share Capital	17	1,181,069	3,964,528
Adjustment to Share Capital	17	2,836,364	-
Total Share Capital		4,017,433	3,964,528
Other Funds		4,340	4,340
Accumulated other comprehensive expenses that will not be reclassified subsequently to profit or <i>Accumulated loss on remeasurement of defined benefit plans</i>		(7,209)	(7,209)
Restricted Profit Reserves	17	180,038	139,190
Retained Earnings		552,226	268,586
Profit for the Period		453,966	377,393
TOTAL LIABILITIES AND EQUITY		16,997,885	15,131,448

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

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2017

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

	Notes	Audited / current period 1 January- 30 September 2017	Audited / prior period 1 January- 30 September 2016
Revenue	18	8,591,508	6,919,414
Cost of Sales (-)	19	(6,137,141)	(4,986,163)
GROSS PROFIT		2,454,367	1,933,251
General Administrative Expenses (-)	20	(1,035,284)	(816,398)
Other Income from Operating Activities	21	115,712	105,120
Other Expenses from Operating Activities (-)	21	(248,632)	(150,228)
OPERATING PROFIT BEFORE FINANCE INCOME / (EXPENSE)		1,286,163	1,071,745
Finance Income	22	73,344	35,402
Finance Expense (-)	22	(755,404)	(557,378)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		604,103	549,769
Tax Expense from Continuing Operations		(150,137)	(127,956)
Current Tax Expense	23	(56,533)	(124,733)
Deferred Tax Expense	23	(93,604)	(3,223)
INCOME FOR THE PERIOD FROM CONTINUING OPERATIONS		453,966	421,813
PROFIT FOR THE PERIOD		453,966	421,813
OTHER COMPREHENSIVE EXPENSE			
Other Comprehensive Income or Expenses not to be Reclassified to Profit or Loss in Subsequent Periods		-	-
<i>Gain/loss on measurement of defined benefit obligation</i>		-	-
<i>Income Tax Relating to Other Comprehensive Income/ (Loss) Items that not to be Reclassified Profit or Loss in Subsequent Periods</i>		-	-
TOTAL COMPREHENSIVE INCOME		453,966	421,813
Earnings per share from continued operations			
Earnings per share (kr)	17	0.38	0.36

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

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 SEPTEMBER 2017

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

	Share Capital	Adjustment to Share Capital	Restricted Profit Reserves	Other Funds	Remeasurement of Defined Benefit Plans	(Accumulated Losses) / Retained Earnings	Profit for the Period	Total Equity
Balance as at 1 January 2016	4,389,585	-	53,303	4,340	(10,813)	(406,886)	336,302	4,365,831
Transfers	-	-	85,887	-	-	250,415	(336,302)	-
Total comprehensive income	-	-	-	-	-	-	421,813	421,813
Balance as at 30 September 2016	<u>4,389,585</u>	<u>-</u>	<u>139,190</u>	<u>4,340</u>	<u>(10,813)</u>	<u>(156,471)</u>	<u>421,813</u>	<u>4,787,644</u>
Balance as at 1 January 2017 (*)	3,964,528	-	139,190	4,340	(7,209)	268,586	377,393	4,746,828
Transfers	-	-	40,848	-	-	336,545	(377,393)	-
Restructuring effect of companies under common control (**)	(2,783,459)	2,836,364	-	-	-	(52,905)	-	-
Total comprehensive income	-	-	-	-	-	-	453,966	453,966
Balance as at 30 September 2017	<u>1,181,069</u>	<u>2,836,364</u>	<u>180,038</u>	<u>4,340</u>	<u>(7,209)</u>	<u>552,226</u>	<u>453,966</u>	<u>5,200,794</u>

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

(**) With the decision of the Board of Directors on April 20, 2017, Enerjisa Enerji A.Ş. merged with Enerjisa Elektrik Dağıtım A.Ş. ("EEDAŞ") and the subsidiaries of EEDAŞ together with all their assets and liabilities with the take over method. In addition, on August 25, 2017, the Group's electricity generation and wholesale business areas were separated and structured under another company. As a result of these transactions, necessary corrections are made in the registered share capital and the statutory capital after merger and split has been reached. Adjustment to share capital represents the portion of registered share capital which has been treated as a capital reserve in the statutory books after the merger and split process (Note 1), due to local regulations. Such amount has been classified as adjustment to share capital to comply with the International Financial Reporting Standards ("IFRS") requirements.

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

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 SEPTEMBER 2017

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

		Audited / current period 1 January- 30 September 2017	Audited / prior period 1 January- 30 September 2016
	Notes		
Cash Flows from Operating Activities		1,196,612	1,197,596
Profit for the period		453,966	421,813
Profit for the period from continued operations		453,966	421,813
Adjustments to reconcile net profit for the period		714,711	528,410
Adjustments related to the depreciation and amortization	11,12	171,939	161,633
Adjustments related to the depreciation of tangible assets	11	9,887	5,415
Adjustments related to the amortization of intangible assets	12	162,052	156,218
Adjustments related to impairment loss	6	245,713	151,678
Adjustments related to impairment loss recognised on receivables	6	245,713	151,678
Adjustments related to provisions		48,210	16,090
Adjustments related to provisions for employee benefits		31,338	23,146
Adjustments related to provision for employee termination benefits and unused vacation provision		27,864	21,268
Adjustments related to provision for bonus		3,474	1,878
Adjustments related to legal case provisions		16,872	(7,056)
Adjustments related to interest (income) and expenses, net		637,589	496,750
Adjustments related to interest income	22	(73,344)	(35,402)
Adjustments related to interest expense	22	710,933	532,152
Unrealized foreign exchange loss	22	33,169	18,130
Adjustments related to tax expense	23	150,137	127,956
Adjustments related to change in fair value (gain)		40,981	-
Adjustments related to change in fair value gain of derivative instruments		40,981	-
Other adjustments to reconcile profit/loss	27	(613,027)	(443,827)
Changes in operating assets and liabilities		(672,903)	(292,465)
Adjustments related to (increase) in trade receivables		(692,167)	(570,650)
Adjustments related to (increase) in trade receivables from related parties		(15,632)	(213,562)
Adjustments related to (increase) in trade receivables from third parties		(676,535)	(357,088)
Adjustments related to (increase) in inventories		(26,767)	(38,490)
Adjustments related to (increase) in other receivables and current assets		(290,818)	(66,099)
Adjustments related to (increase) in other receivables from third parties		(290,818)	(66,099)
Adjustments related to (increase) in trade payables		(57,375)	114,103
Adjustments related to (decrease) in trade payables to related parties		(21,608)	(67,269)
Adjustments related to increase in trade payables to third parties		(35,767)	181,372
Adjustments related to increase in other payables and expense accruals		394,224	268,671
Adjustments related to increase in other payables to third parties		394,224	268,671
Cash Generated From Operating Activities		495,774	657,758
Payments for employment benefits		(22,236)	(18,981)
Employee termination benefits paid		(22,236)	(18,981)
Tax payments		(33,818)	(61,562)
Tax payments		(33,818)	(61,562)
Other cash in-flows	27	756,892	620,381
Cash Flows from Investing Activities		(1,283,447)	(2,091,581)
Cash used for purchase of tangible and intangible assets	11,12	(54,894)	(12,752)
Cash used for property, plant and equipment purchases	11	(36,467)	(218)
Cash used for purchase of intangible assets	12	(18,427)	(12,534)
Interest received	22	73,344	35,402
Other cash out-flows	27	(1,301,897)	(2,114,231)
Cash Flows from Financing Activities		167,459	899,079
Cash in-flows from borrowings		27,321,241	10,209,579
Financial liabilities received		27,321,241	10,209,579
Cash out-flows from borrowings		(26,556,337)	(8,791,516)
Repayments of the financial liabilities		(26,556,337)	(8,791,516)
Interest paid		(597,445)	(518,984)
Increase in cash and cash equivalents		80,624	5,094
Cash and cash equivalents at the beginning of the period	27	74,570	152,103
Cash and cash equivalents at the end of the period	27	155,194	157,197

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT 30 SEPTEMBER 2017**

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

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS OF THE GROUP

Enerjisa Enerji A.Ş. (the "Company") and its subsidiaries will be referred as the "Group" for consolidated financial statements. The Company is established on 26 December 2011 as a joint venture between Hacı Ömer Sabancı Holding A.Ş. ("Sabancı") and Verbund International GmbH ("Verbund International"). On 4 December 2012, Verbund and DD Turkey Holdings S.A.R.L., E.ON SE ("E.ON") entered into a Share Purchase Agreement for the sales and transfer of all Verbund shares in the Company to E.ON and the transfer is finalized 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, Turkey.

The Company served as the parent company for generation, trading, sale, distribution and retail service of electricity business lines until 25 August 2017. On 28 April 2017 as the first stage of the restructuring, the Company merged with Enerjisa Elektrik Dağıtım A.Ş. ("EEDAŞ") by taking over its all assets and liabilities along with its subsidiaries (distribution and retail service companies). On 25 August 2017 as the second stage of the restructuring, the Company transferred three subsidiaries (electricity generation, wholesale trading and natural gas trading) by spin-off method with the carrying amounts to a newly established company called Enerjisa Üretim Santralleri A.Ş. ("EÜSAŞ"). On 25 September 2017, the Company has sold its subsidiary which operates in solar energy generation to the generation company that is owned by EÜSAŞ. As a result of these transactions, the Company's main activities under the new structure are customer-focused electricity distribution and retail service.

The interim consolidated financial statements of the Group have been prepared comparatively with consolidated financial statements of EEDAŞ as of 31 December 2016 and as of and for the nine months period ending 30 September 2016, considering the Company, as the successor of EEDAŞ which represents substantially the same business and assets of the Group.

Subsidiaries consolidated in the interim consolidated financial statements as of 30 September 2017 and their activities are as follows:

Başkent Elektrik Dağıtım A.Ş. ("BAŞKENT EDAŞ")	Distribution of electricity
İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş. ("AYEDAŞ")	Distribution of electricity
Toroslar Elektrik Dağıtım A.Ş. ("TOROSLAR EDAŞ")	Distribution of electricity
Enerjisa Başkent Elektrik Perakende Satış A.Ş. ("EPS")	Retail service of electricity
Enerjisa İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş. ("AEPSAŞ")	Retail service of electricity
Enerjisa Toroslar Elektrik Perakende Satış A.Ş. ("TOROSLAR EPSAŞ")	Retail service of electricity

Group's operations are substantially carried out only in Turkey.

The Group has 9,551 employees as of 30 September 2017 (31 December 2016: 9,085 employees).

The consolidated financial statements were authorized for issue by the Board of Directors of the Company on 10 November 2017. The General Assembly and certain regulatory bodies have the power to amend the consolidated financial statements after the issue.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT 30 SEPTEMBER 2017**

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

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

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS OF THE GROUP (Continued)

BAŞKENT EDAŞ and EPS:

BAŞKENT EDAŞ has been acquired by EEDAŞ as of 28 January 2009 by privatization bid for the consideration of USD 1,225 thousands. BAŞKENT EDAŞ currently operates in province including Ankara, Kırıkkale, Kastamonu, Zonguldak, Bartın, Çankırı and Karabük and holds the licence that gives the right for distribution of electricity in these provinces for 30 years starting from the date of Transfer of Operation Rights ("TOR") agreement signed with Türkiye Elektrik Dağıtım A.Ş. ("TEDAŞ") on 31 March 2006.

As of 1 January 2013, BAŞKENT EDAŞ. is obliged to carry out the distribution and the retail sales activities under separate legal entities in accordance with Electricity Market Law. On 12 September 2012, EPS was established with the same shareholder structure and as of 31 December 2012, BAŞKENT EDAŞ A.Ş. has transferred some of its assets and liabilities to EPS, due to the fact that, legal unbundling and the unbundling related transactions have been registered as of 31 December 2012. Starting from 1 January 2013, BAŞKENT EDAŞ has undertaken only the distribution activities. In addition, with the new regulation applied by Energy Market Regulatory Authority ("EMRA"), the Company started retail sales only for illumination customers starting from 1 April 2013.

AYEDAŞ and AEPSAŞ:

AYEDAŞ has been acquired by EEDAŞ as of 31 July 2013 by privatization bid for the consideration of USD 1,227 thousands. AYEDAŞ currently operates in Anatolian Side of İstanbul and holds the license 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.

Starting from 1 January 2013, AYEDAŞ is obliged to carry out the distribution and the retail sales activities under separate legal entities in accordance with Electricity Market Law. On 13 December 2012, AEPSAŞ was established with the same shareholder structure and as of 31 December 2012, AYEDAŞ has transferred some of its assets and liabilities to AEPSAŞ due to the legal unbundling. The aforementioned unbundling transactions have been registered as of 31 December 2012 and AEPSAŞ started retail sales operations on 1 January 2013 according to the Retail Sales License obtained due to unbundling. Starting from 1 January 2013, AYEDAŞ has undertaken only distribution activities. In addition, with the new regulation applied by EMRA, the Company started retail sales only for illumination customers starting from 1 April 2013.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT 30 SEPTEMBER 2017**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS OF THE GROUP (Continued)

TOROSLAR EDAŞ and TOROSLAR EPSAŞ:

TOROSLAR EDAŞ has been acquired by EEDAŞ as of 30 September 2013 by privatization bid for the consideration of USD 1,725 thousands. TOROSLAR EDAŞ currently operates in Adana, Gaziantep, Hatay, Kilis, Mersin and Osmaniye and holds the license 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.

Starting from 1 January 2013, TOROSLAR EDAŞ is obliged to carry out the distribution and the retail sales activities under separate legal entities in accordance with Electricity Market Law. On 13 December 2012, TOROSLAR EPSAŞ was established with the same shareholder structure and as of 31 December 2012, TOROSLAR EDAŞ has transferred some of its assets and liabilities to TOROSLAR EPSAŞ due to the legal unbundling. The aforementioned unbundling transactions have been registered as of 31 December 2012 and TOROSLAR EPSAŞ started retail sales operations on 1 January 2013 according to the Retail Sales License obtained due to unbundling. Starting from 1 January 2013, TOROSLAR EDAŞ has undertaken only distribution activities. In addition, with the new regulation applied by EMRA, TOROSLAR EDAŞ started retail sales only for illumination customers starting from 1 April 2013.

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

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

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

2.2 Statement of Compliance

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

2.3 Functional and Presentation of Currency

The individual financial statements of each Group entity are prepared in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Turkish Liras ("TL"), which is the functional currency of the Group, and the presentation currency for the consolidated financial statements. The effective functional currency of the subsidiaries of the Group is also defined as TL.

In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses arising on settlement and translation of foreign currency items are included in the consolidated statement of comprehensive income.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.4 Comparative Information and Reclassification of Prior Period Consolidated Financial Statements

The interim consolidated financial statements of the Group have been prepared comparatively with consolidated financial statements of EEDAŞ as of 31 December 2016 and as of for the nine months period ending 30 September 2016, considering the Company, as the successor of EEDAŞ which represents substantially the same business and assets of the Group 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 Group do not have any material reclassifications and corrections in current year.

The Group has reissued its consolidated financial statements as of September 30, 2017, which was issued on November 10, 2017, as the result of the corrections and reclassifications explained below:

In Note 5, the Group has previously reported the loans provided by its related parties as TL 1,165,679 as current liabilities and TL 1,530,000 as non-current liabilities. The related amounts have been corrected as TL 987,570 for current liabilities and TL 2,312,800 for non-current liabilities and the tables in Note 5 have been restated according to these corrections. The restatement does not have any effect on the statement of financial position, statement of profit or loss or statement of cash flows.

The Group has identified a reclassification error between short term financial liabilities account amounting to TL 1,285,764 and trade payables due to third parties account amounting to TL 1,133,558 in the previously issued statement of financial position as of September 30, 2017. The related amounts have been restated as TL 1,463,482 for short term financial liabilities and TL 955,840 for trade payables due to third parties and the statement of financial position and statement of cash flow have been restated according to this reclassification correction.

2.5 Changes in Accounting Policies

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

2.6 Changes and Misstatements in Accounting Estimates

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

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

2.7 Going Concern

The Group has prepared its consolidated financial statements in accordance with going concern principle.

2.8 Seasonality of the Group's operations

The results of Group's operations do not show a significant change by season.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.9 Basis of Consolidation

The details of the Company's subsidiaries at 30 September 2017 and 31 December 2016 are as follows (As of 31 December 2016 the subsidiaries of EEDAŞ):

Subsidiaries

	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group %		Principal activity
		30 September 2017	31 December 2016	
Başkent Elektrik Dağıtım A.Ş.	Ankara	100	100	Electricity distribution services
Enerjisa Elektrik Perakende Satış A.Ş.	Ankara	100	100	Electricity retail services
İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş.	İstanbul	100	100	Electricity distribution services
Enerjisa İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş.	İstanbul	100	100	Electricity retail services
Toroslar Elektrik Dağıtım A.Ş.	Adana	100	100	Electricity distribution services
Enerjisa Toroslar Elektrik Perakende Satış A.Ş.	Adana	100	100	Electricity retail services

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:

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.9 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.

In business combinations involving entities under common control, assets and liabilities subject to a business combination are recognised at their carrying amounts in the consolidated financial statements. In addition, statements of income are consolidated from the beginning of the financial year in which the business combination takes place. Similarly, comparative consolidated financial statements are restated retrospectively for comparison purposes. As a result of these transactions, no goodwill is recognised.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.10 New and Revised International Financial Reporting Standards

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at 30 September 2017 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and International Financial Reporting Interpretation Committee ("IFRIC") interpretations effective as of 1 January 2017. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

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

IAS 7 Statement of Cash Flows (Amendments)

The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ended 31 December 2017.

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

The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Group applies this relief, it shall disclose that fact. The amendments did not have an impact on the financial position or performance of the the Group.

Annual Improvements to IFRSs - 2014-2016 Cycle

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle, amending the following standards:

- **IFRS 12** Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. These amendments are to be applied for annual periods beginning on or after 1 January 2017.

The amendments did not have an impact on the financial position or performance of the Group.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.10 New and Revised International Financial Reporting Standards (Continued)

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

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

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

Amendments issued to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. An entity shall apply those amendments prospectively. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 effective date is 1 January 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Group does not expect that the standard have significant impact on the financial position or performance of the Group. Contracts with customer in which the sale of service is generally expected to be only performance obligation thus are not expected to have an impact on the performance of the Group. In addition to this, the Group is also assessing the net or gross presentation of pass through items which are included in expenses and also accounted as revenue by reflecting directly to the customers. Besides, currently discounts and bonuses can be reliably measured on a quarterly basis accordingly they are recognized at annual and interim financial statements.

Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Amendment)

IASB has published final clarifications to IFRS 15 in April 2016. The amendments address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.10 New and Revised International Financial Reporting Standards (Continued)

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

IFRS 16 Leases

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

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

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

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

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IFRS 4 Insurance Contracts (Amendments)

In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.10 New and Revised International Financial Reporting Standards (Continued)

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

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

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds. The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

Annual Improvements to IFRSs - 2014-2016 Cycle

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle, amending the following standards:

- **IFRS 1** First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.
- **IAS 28** Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

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

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.10 New and Revised International Financial Reporting Standards (Continued)

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

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

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

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

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

IFRS 17 - The new Standard for insurance contracts

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

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

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

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

The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.10 New and Revised International Financial Reporting Standards (Continued)

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

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

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

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

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

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.11 Summary of Significant Accounting Policies

Business Combinations

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

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

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured 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 re-measured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.11 Summary of Significant Accounting Policies (Continued)

Goodwill

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually (Note: 2.10), or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

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

Related Parties

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

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

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

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

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

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.11 Summary of Significant Accounting Policies (Continued)

Related Parties (Continued)

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

Revenue Recognition

Distribution part of the revenue is composed of distribution, meter reading services, transmission and theft and loss components. Distribution and meter reading service components are considered within the content of service concession arrangements due to the regulations of EMRA. Additionally, according to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations, the Group'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 Türkiye Elektrik İletim A.Ş. ("TEİAŞ"). These regulations guarantee revenue to the Group during the transition period regardless of the consumption level. The under billings 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 IFRIC 12 are as follows:

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

Gross profit to be gained from the regulatory portfolio of the Company is determined by EMRA and the revenue of the Company related to the regulated portfolio is computed in accordance with the provisions of "Regulation of Retail Energy Sales Prices" issued by EMRA on 30 December 2015 and "Amendments to Regulation of Retail Energy Sales Prices" published on 20 December 2016 by considering revenue requirements to cover the operational expenses and the doubtful receivable expenses are reflected in the consolidated financial statements in accordance with IAS 18.

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

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.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.11 Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Interest revenue

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

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

Service concession arrangements

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

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

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

Inventories

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

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.11 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

An item of property, plant and equipment is derecognized from statement of financial position (balance sheet) upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Customer contracts and relations and Transfer of Operational Rights

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

Computer software

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

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.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.11 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets

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

Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. There were no capitalized borrowing costs in 2016 and 2017.

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

Financial instruments

Financial assets

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

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss (FVTPL)', 'held-to-maturity investments', 'available-for-sale' financial assets and 'loans and receivables'.

Effective interest method

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

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

Loans and receivables

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

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.11 Summary of Significant Accounting Policies (Continued)

Financial Instruments (Continued)

Financial assets (Continued)

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.

Objective evidence of impairment for a portfolio of receivables include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days as well as observable changes in national or local economic conditions that correlate with default on receivables. Only the increase in the portfolio of payments exceeding the average of 365 days for irrigation and public receivables is taken into account.

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 recognized in profit or loss.

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

Cash and cash equivalents

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.11 Summary of Significant Accounting Policies (Continued)

Financial Instruments (Continued)

Financial liabilities (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.

Derivative financial instruments

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

The Group 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.

Offsetting

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

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.11 Summary of Significant Accounting Policies (Continued)

Provisions, contingent liabilities, contingent assets

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

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

Contingent liabilities are assessed continuously to determine probability of outflow of economically beneficial assets. For contingent liabilities, when an outflow of resources embodying economic benefits are probable, provision is recognized for this contingent liability in the period when the probability has changed, except for cases where a reliable estimate cannot be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

Earnings per share

Earnings per share disclosed in the consolidated statement of profit or loss and other comprehensive income are determined by dividing net earnings by the weighted average number of shares that have been outstanding during the related period.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings on equity items. Such kind of bonus shares are taken into consideration in the computation of earnings per share as issued share certificates. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the period has been adjusted in respect of bonus shares issues without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued and each earlier year.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.11 Summary of Significant Accounting Policies (Continued)

Segment reporting

Group has electricity distribution and retail operating segments, which includes the information used from management to evaluate performance and taking decision for resource allocation. These segments are managed separately because it is influenced by different economic situations and business positions in terms of risk and return.

Operating segments are reported in a manner consistent with the reporting provided to the chief operating decision- makers. The chief operating decision-makers are responsible for the decisions related to the allocation of resources to the segments and assessment of performance of segments.

Government grants

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

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.11 Summary of Significant Accounting Policies (Continued)

Taxation and deferred income taxes

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

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

Current tax expense

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the comprehensive income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

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

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.11 Summary of Significant Accounting Policies (Continued)

Subsequent events

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

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

Employment benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19").

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

Vacation rights

The liabilities related to unused vacation rights are accrued when they are entitled.

Defined contribution plans

The Group pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Statement of cash flow

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

Cash flows from operating activities represent the cash flows generated from the Group's activities.

Cash flows related to investing activities represent the cash flows that are used in or provided from the investing activities of the Group (tangible and intangible assets and financial assets).

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

Share capital and dividends

Common shares are classified as equity.

Dividends on common shares are recognized in equity in the period in which they are approved and declared. Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.12 Significant Accounting Estimates and Assumptions

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

Critical judgments in applying the Group's accounting policies

Use of Estimates

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

Impairment test of Goodwill

Pursuant to IAS 36 *Impairment of Assets*, the Group tested goodwill as of 30 September 2017 in accordance with the accounting policy stated at (Note: 2.11). The goodwill impairment test is carried out for Retail and Distribution Cash Generating Units ("CGUs").

As of 30 September 2017, the following assumptions were used to determine the recoverable amount of Retail CGU:

<u>CGU:</u>	<u>Retail</u>
Base used for the recoverable amount:	Value in use
Source:	Forecasted cash flows
WACC (TL):	15.5%
Annual weighted electricity demand increase rate:	4%
Annual average inflation rate:	10.7%

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.

As of 30 September 2017, the following assumptions were used to determine the recoverable amount of Distribution CGU:

<u>CGU:</u>	<u>Distribution</u>
Base used for the recoverable amount:	Value in use
Source:	Forecasted cash flows for the license period
WACC (TL):	14.3%
Annual weighted electricity demand increase rate:	4%
Annual average inflation rate:	10.7%

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

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.12 Significant Accounting Estimates and Assumptions (Continued)

Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty

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

Service concession arrangements

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

Revenue recognition

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

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 - SHARES IN OTHER PARTIES**Subsidiaries:**

Name of Subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership (%)	
			30 September 2017	31 December 2016
BEDAŞ	Electricity distribution services	Ankara	100	100
EPS	Electricity retail services	Ankara	100	100
AYEDAŞ	Electricity distribution services	İstanbul	100	100
AEPSAŞ	Electricity retail services	İstanbul	100	100
TOROSLAR EDAŞ	Electricity distribution services	Adana	100	100
TOROSLAR EPSAŞ	Electricity retail services	Adana	100	100

Group Structure:

Principal Activity	Place of incorporation and operation	Number of subsidiaries wholly owned by the Group	
		30 September 2017	31 December 2016
Electricity distribution services	Ankara, İstanbul, Adana	3	3
Electricity retail services	Ankara, İstanbul, Adana	3	3

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 4 - SEGMENT REPORTING

The business activities of the Group are managed and organized according to the services provided in the electricity market. The Group has two main operating segments; electricity distribution and retail. The principal activity of distribution segment is the transmission of electricity over lines to the end users through distribution networks, by also providing infrastructure investments due to the regulated tariffs announced by EMRA; whereas the retail segment conduct retail sales of electricity to the customers. The Group performs segment reporting according to IFRS 8 in order to provide unbiased and transparent information to the investor. The Group management follows the performance of the business segments with operating profit and net profit for the period, as well as financial and non-financial indicators. In addition to the requirements for segment reporting, Group management have included this information in their reporting footnotes, considering that some financial statement readers may use this information in their analyzes.

The following table contains information on the Group's sales and profit from its operations for the period ended 30 September 2017 and 30 September 2016.

1 January - 30 September 2017	Distribution	Retail	Unallocated (*)	Elimination	Total
Net sales	3,213,518	7,737,248	2,054	(2,361,312)	8,591,508
-Internal	2,361,312	-	-	(2,361,312)	-
-External	852,206	7,737,248	2,054	-	8,591,508
Cost of sales (-)	(1,042,898)	(7,443,205)	(12,350)	2,361,312	(6,137,141)
Gross profit / (loss)	2,170,620	294,043	(10,296)	-	2,454,367
Operating expenses (-)	(726,676)	(171,821)	(171,042)	34,255	(1,035,284)
Other income / (expense) from operating activities - net	(98,720)	(13,789)	13,844	(34,255)	(132,920)
Operating profit / (loss)	1,345,224	108,433	(167,494)	-	1,286,163
Financial income	13,569	149,602	83,388	(173,215)	73,344
Financial expenses (-)	(474,745)	(5,654)	(448,220)	173,215	(755,404)
Profit / (loss) before taxation on income	884,048	252,381	(532,326)	-	604,103
Current tax expense (-)	(42,980)	(13,553)	-	-	(56,533)
Deferred tax income / (expense)	(84,092)	(40,822)	31,310	-	(93,604)
Net profit / (loss) for the period	756,976	198,006	(501,016)	-	453,966

(*) Out of TL 171,939 depreciation and amortization expenses, TL 156,069 represents amortization expenses of intangible assets (Note 12), which is presented as unallocated under operating expenses. The majority of financial expenses under unallocated part mainly represent costs of loans utilized for the acquisitions of distribution and retail business.

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NOTE 4- SEGMENT REPORTING (Continued)

1 January - 30 September 2016	Distribution	Retail	Unallocated (*)	Elimination	Total
Net sales	2,579,297	6,506,909	1,302	(2,168,094)	6,919,414
-Internal	2,168,094	-	-	(2,168,094)	-
-External	411,203	6,506,909	1,302	-	6,919,414
Cost of sales (-)	(1,012,518)	(6,141,083)	(656)	2,168,094	(4,986,163)
Gross profit	1,566,779	365,826	646	-	1,933,251
Operating expenses (-)	(543,022)	(145,213)	(157,303)	29,140	(816,398)
Other income / (expense) from operating activities - net	(18,128)	2,158	2	(29,140)	(45,108)
Operating profit / (loss)	1,005,629	222,771	(156,655)	-	1,071,745
Financial income	16,065	88,041	(127)	(68,577)	35,402
Financial expenses (-)	(313,541)	(3,722)	(308,692)	68,577	(557,378)
Profit /(loss) before taxation on income	708,153	307,090	(465,474)	-	549,769
Current tax expense (-)	(59,388)	(65,345)	-	-	(124,733)
Deferred tax income / (expense)	(37,711)	3,274	31,214	-	(3,223)
Net profit / (loss) for the period	611,054	245,019	(434,260)	-	421,813

(*) Out of TL 161,633 depreciation and amortization expenses, TL 156,069 represents amortization expenses of intangible assets (Note 12), which is presented as unallocated under operating expenses. The majority of financial expenses under unallocated part mainly represent costs of loans utilized for the acquisitions of distribution and retail business.

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NOTE 4- SEGMENT REPORTING (Continued)

The information below includes information about the Group's financial status of its business segments related to the period ended 30 September 2017 and 31 December 2016.

As at 30 September 2017	Distribution	Retail	Unallocated (*)	Elimination	Total
Segment assets					
Cash and cash equivalents	7,001	82,538	65,655	-	155,194
Trade receivables	1,221,260	1,474,567	1,852	(530,696)	2,166,983
Inventories	101,226	-	-	-	101,226
Due from service concession arrangements	5,533,525	-	-	-	5,533,525
Property, plant and equipment	46,211	-	38,939	-	85,150
Intangible assets	2,351	38,394	7,707,352	-	7,748,097
Other receivables and assets	1,784,543	1,200,852	702,172	(2,479,857)	1,207,710
Total assets	8,696,117	2,796,351	8,515,970	(3,010,553)	16,997,885
Segment liabilities					
Bank borrowings	3,714,872	-	3,461,314	-	7,176,186
Other financial liabilities	291,728	-	-	-	291,728
Trade payables	600,588	985,594	4,808	(530,697)	1,060,293
Derivative financial instruments	18,148	7,218	11,729	-	37,095
Other payables and liabilities	1,609,010	954,861	3,147,774	(2,479,856)	3,231,789
Total liabilities	6,234,346	1,947,673	6,625,625	(3,010,553)	11,797,091

(*) The majority of intangible assets under unallocated part represent customer contracts, transfer of operating rights and goodwill (Note 12). The majority of bank borrowings under unallocated part represent loans utilized for the acquisitions of distribution and retail business. The related amounts were not distributed to the segments since the Group management follows the performances of the operating segments excluding this related assets and liabilities.

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NOTE 4- SEGMENT REPORTING (Continued)

As at 31 December 2016	Distribution	Retail	Unallocated (*)	Elimination	Total
Segment assets					
Cash and cash equivalents	22,351	52,219	-	-	74,570
Trade receivables	1,030,167	1,005,813	236	(315,687)	1,720,529
Inventories	74,059	-	400	-	74,459
Derivative financial instruments	-	3,886	-	-	3,886
Due from service concession arrangements	4,293,306	-	-	-	4,293,306
Property, plant and equipment	53,655	-	4,355	-	58,010
Intangible assets	3,106	25,376	7,862,868	-	7,891,350
Other receivables and assets	1,406,108	1,233,365	1,802	(1,625,937)	1,015,338
Total assets	6,882,752	2,320,659	7,869,661	(1,941,624)	15,131,448
Segment liabilities					
Bank borrowings	3,371,943	-	2,925,851	-	6,297,794
Other financial liabilities	270,221	-	-	-	270,221
Trade payables	774,461	657,193	1,701	(315,687)	1,117,668
Other payables and liabilities	590,057	1,085,460	2,649,357	(1,625,937)	2,698,937
Total liabilities	5,006,682	1,742,653	5,576,909	(1,941,624)	10,384,620

(*) The majority of intangible assets under unallocated part represent customer contracts, transfer of operating rights and goodwill (Note 12). The majority of bank borrowings under unallocated part represent loans utilized for the acquisitions of distribution and retail business. The related amounts were not distributed to the segments since the Group management follows the performances of the operating segments excluding this related assets and liabilities.

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NOTE 5 - RELATED PARTY TRANSACTIONS

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

Transactions with related parties are classified according to the following groups and include all related party disclosures:

- (1) Sabancı Holding and E.ON group companies
- (2) Shareholder

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

	30 September 2017	31 December 2016
Related Party Bank Balances- Akbank T.A.Ş. (1)		
Demand deposits	31,469	4,307
Time deposits	47,026	-
Repurchase agreements	3,300	8,614
	<u>81,795</u>	<u>12,921</u>

Loans provided by related parties	Original currency	Maturity	30 September 2017	
			Current liabilities	Non-current liabilities
Akbank T.A.Ş. (1)	TL	1 December 2017	156,665	-
Akbank T.A.Ş. (1)	TL	1 December 2017	167,341	-
Akbank T.A.Ş. (1)	TL	30 March 2018	250,179	-
Akbank T.A.Ş. (1)	USD	6 July 2018	359,508	-
Akbank T.A.Ş. (1)	TL	29 July 2019	7,116	297,000
Akbank T.A.Ş. (1)	USD	5 August 2019	5,311	225,000
Akbank T.A.Ş. (1)	TL	9 September 2019	1,557	200,000
Akbank T.A.Ş. (1)	USD	27 September 2019	434	357,800
Akbank T.A.Ş. (1)	TL	9 January 2020	15,106	480,000
Akbank T.A.Ş. (1)	TL	2 June 2020	16,199	300,000
Akbank T.A.Ş. (1)	TL	2 June 2020	7,924	150,000
Akbank T.A.Ş. (1)	TL	30 September 2020	230	303,000
			<u>987,570</u>	<u>2,312,800</u>

As of 30 September 2017, the interest rates of TL intercompany loans utilized are in the range of 12.86%-16.07% (31 December 2016: 10.20% - 14.53%). As of 30 September 2017, the interest rates of USD intercompany loans utilized are in the range of 4.88%- 4.99% (31 December 2016: None).

As of 30 September 2017 and 31 December 2016, the Group has not given any collateral for the loans.

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NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

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

(*)As of 31 December 2016, since the comparable financial statements of the Group are essentially EEDAŞ, which represents the asset and operations of the Group. As of 31 December 2016, as explained in Note 1, since the comparative financial statements represents EEDAŞ's financial statements, it represents the loan given to EEDAŞ by Enerjisa Enerji A.Ş..

Related party derivative instruments – Akbank T.A.Ş. (1)

	30 September 2017			
	Contract Amount (USD)	Contract Amount (TL)	Asset	Liability
Forward exchanges	15,683	55,708	-	(2,118)
Cross currency swap	163,595	581,106	-	(18,148)
Foreign exchange swap	100,000	355,210	-	(11,163)
	<u>279,278</u>	<u>992,024</u>	<u>-</u>	<u>(31,429)</u>

	31 December 2016			
	Contract Amount (USD)	Contract Amount (TL)	Asset	Liability
Forward exchanges	41,363	145,565	3,886	-
	<u>41,363</u>	<u>145,565</u>	<u>3,886</u>	<u>-</u>

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NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

	30 September 2017		
	Receivables		Payables
	Current		Current
Balances with Related Parties	Trade	Non-trading	Trade
Sabancı Üniversitesi (1)	275	-	-
Akbank T.A.Ş. (1)	3,259	-	-
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş. ("Bimsa") (***) (1)	-	-	140
Çimsa Çimento Sanayi A.Ş. (1)	10,539	-	-
Akçansa Çimento T.A.Ş. (1)	12,848	-	-
Carrefoursa A.Ş. (1)	125	-	-
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. (1)	244	-	104,225
Enerjisa Enerji Üretim A.Ş. (1)	814	-	-
AvivaSA Emeklilik ve Hayat A.Ş. (1) (**)	-	-	6
Aksigorta A.Ş. (**) (1)	22	-	48
Hacı Ömer Sabancı Holding A.Ş. (2) (*)	939	-	34
Tursa Sabancı Turizm ve Yatırım İşletmeleri A.Ş. (1)	2,199	-	-
Brisa Bridgestone Sabancı Lastik San. Tic. A.Ş. (1)	169	-	-
	<u>31,433</u>	<u>-</u>	<u>104,453</u>

	31 December 2016		
	Receivables		Payables
	Current		Current
Balances with Related Parties	Trade	Non-trading	Trade
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş. (***) (1)	-	-	7,164
Çimsa Çimento Sanayi A.Ş. (1)	13,518	-	-
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. (1)	2,242	-	111,738
Aksigorta A.Ş. (1) (**)	-	-	2,304
Enerjisa Enerji A.Ş. (2)	41	-	2,575
Other	-	2	2,280
	<u>15,801</u>	<u>2</u>	<u>126,061</u>

(*) Includes rent expenses that is invoiced to the group companies by shareholder, Sabancı.

(**) Includes premiums covered under the policies signed with Aksigorta A.Ş. and AvivasA Emeklilik ve Hayat A.Ş..

(***) Includes IT consulting and software fees that are billed to the group companies by Bimsa, one of the group companies.

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NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)**Key management compensation**

Key management includes Chairman and members of the Board of Directors, General Manager, Heads of Units and Directors. The compensation paid or payable to key management for employee services is shown below:

	1 January- 30 September 2017	1 January- 30 September 2016
Short-term employee benefits	15,841	8,143
Long-term employee benefits	202	91
Termination benefits	107	453
	<u>16,150</u>	<u>8,687</u>

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NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

Transactions with Related Parties	1 January - 30 September 2017				
	Electricity sales	Electricity purchases	Interest received	Interests paid	Other income and expenses
Akbank T.A.Ş. (1)	17,828	-	19,099	296,389	-
Hacı Ömer Sabancı Holding (2) (*)	3,364	-	-	-	263
Sabancı Üniversitesi (1)	2,054	-	-	-	-
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş. (1) (***)	-	-	-	-	5,206
Çimsa Çimento Sanayi A.Ş. (1)	57,934	-	-	-	-
Akçansa Çimento T.A.Ş. (1)	38,993	-	-	-	-
Carreforsa A.Ş. (1)	586	-	-	-	-
Enerjisa Enerji Üretim A.Ş. (1)	-	-	-	-	-
Temsa Global San. ve Tic. A.Ş. (1)	2,055	-	-	-	6,090
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. (1) (****)	237	507,190	-	-	975
Aksigorta A.Ş. (1) (**)	26	-	-	-	2,924
Brisa (1)	740	-	-	-	2,425
Enerjisa Doğalgaz Toptan Satış A.Ş. (1)	-	-	-	-	-
Avivasa Emeklilik ve Hayat A.Ş. (1) (**)	343	-	-	-	48
Tursa Sabancı Turizm ve Yatırım İşletmeleri A.Ş. (1)	2,168	-	-	-	228
Exsa Export San. Mamülleri Satış ve Araştırma A.Ş. (1)	2	-	-	-	-
Teknosa İç ve Dış Ticaret A.Ş.	2,618	-	-	-	-
	<u>128,948</u>	<u>507,190</u>	<u>19,099</u>	<u>296,389</u>	<u>7,113</u>
					<u>11,046</u>

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NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

Transactions with Related Parties	1 January - 30 September 2016				
	Electricity sales	Electricity purchases	Interest received	Interests paid	Other income / expenses
Akbank T.A.Ş. (1)	465	-	20,042	177,333	-
Sabancı Üniversitesi (1)	1,303	-	-	-	1,500
Hacı Ömer Sabancı Vakfı (1)	-	-	-	-	1,500
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş. (1) (***)	-	-	-	-	2,380
Çimsa Çimento Sanayi A.Ş. (1)	5,859	-	-	-	-
Brisa (1)	13	-	-	-	-
Carrefoursa A.Ş. (1)	104	-	-	-	-
Enerjisa Enerji Üretim A.Ş. (1)	-	-	-	-	-
Enerjisa Enerji A.Ş. (1) (****)	-	-	-	15,144	722
Temsa Global San. ve Tic. A.Ş. (1)	2,412	-	-	-	80
Enerjisa Elektrik Enerjisi Tüptan Satış A.Ş. (1) (****)	36,733	447,264	-	-	401
Philip Morrisa (1)	5	-	-	-	-
Kordisa (1)	3	-	-	-	-
Sasa Polyster Sanayi A.Ş. (1)	237	-	-	-	-
Exsa Export San. Mamülleri Satış ve Araştırma A.Ş. (1)	5	-	-	-	-
Aksigorta A.Ş. (1) (**)	6	-	-	-	-
Avivasa Emeklilik ve Hayat A.Ş. (1) (**)	-	-	-	-	1,387
Teknosa İç ve Dış Ticaret A.Ş.	31	-	-	-	240
	47,176	447,264	20,042	192,477	1,203
					21,751

(*) Includes rent expenses that is invoiced to the group companies by shareholder, Hacı Ömer Sabancı Holding A.Ş..

(**) Includes premiums covered under the policies signed with Aksigorta A.Ş. and Avivasa Emeklilik ve Hayat A.Ş..

(***) Includes IT consulting and software fees that are billed to the group companies by Bimsa, one of the group companies.

(****) Include consultancy fees invoiced to the group companies.

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NOTE 6 - TRADE RECEIVABLES AND PAYABLES

6.1 Trade Receivables:

	30 September 2017	31 December 2016
<u>Current Trade Receivables</u>		
Trade receivables	3.326.130	2.737.656
Due from related parties (Note 5)	31.433	15.801
Allowance for doubtful receivables (-)	(1.190.580)	(1.032.928)
	<u>2.166.983</u>	<u>1.720.529</u>

As of 30 September 2017, trade receivables amounting TL 1,521,772 (31 December 2016: TL 1,287,924) were neither past due nor impaired. Interest is charged at 1.40% (31 December 2016: 1.40%) per month on the outstanding receivable balances.

As of 30 September 2017, trade receivables amounting TL 645,211 (31 December 2016: TL 432,605) were past due but not impaired. The balance relates to many independent public and private subscribers. The aging analysis of these trade receivables as of 30 September 2017 and 31 December 2016 is as follows:

Aging of Receivables that are Due but not Impaired

	30 September 2017	31 December 2016
Up to 3 months	425,802	333,392
3 to 6 months	162,266	94,918
Over 6 months	57,143	4,295
	<u>645,211</u>	<u>432,605</u>

As of 30 September 2017, trade receivables of TL 1,190,580 (31 December 2016: TL 1,032,928) were considered as impaired and a provision was provided for these trade receivables. The provision for trade receivables is provided based on the aging analysis taken from the billing and collection system. Group management considers the receivables overdue by more than 180 days as impaired by taking the past default experience into consideration. In addition, Group management considers irrigation and government receivables overdue by more than 365 days as impaired.

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NOTE 6- TRADE RECEIVABLES AND PAYABLES (Continued)

6.1 Trade Receivables (Continued):

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

	1 January- 30 September 2017	1 January- 30 September 2016
Balance at beginning of the year	(1,032,928)	(894,662)
Charge for the period	(245,713)	(151,678)
Amounts collected during the year	88,061	79,879
Closing balance	<u>(1,190,580)</u>	<u>(966,461)</u>

The Group received guarantee letters amounting to TL 1,360,054 (31 December 2016: TL 477,204) and deposits and guarantees amounting to TL 1,068,332 (31 December 2016: TL 880,004) as collateral for its electricity receivables.

6.2 Trade Payables:

	30 September 2017	31 December 2016
<u>Current Trade Payables</u>		
Trade payables	955,840	991,607
Due to related parties (Note 5)	<u>104,453</u>	<u>126,061</u>
	<u>1,060,293</u>	<u>1,117,668</u>

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

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NOTE 7 - OTHER RECEIVABLES AND PAYABLES**7.1 Other Receivables:**

	30 September 2017	31 December 2016
Other Current Receivables		
Income accruals (*)	154,542	275,666
Due from related parties	-	2
Deposits paid	17,128	25,624
Receivables from personnel	765	176
Allowance for other doubtful receivables (-)	(3,123)	(3,123)
Sundry receivables	39,444	95,126
	<u>208,756</u>	<u>393,471</u>
Other Non-Current Receivables		
Deposits paid (**)	195,897	161,011
Income accruals (*)	253,789	33,879
Sundry receivables (***)	41,235	35,845
	<u>490,921</u>	<u>230,735</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 Türkiye Elektrik İletim A.Ş.. These regulations guarantee a revenue to the Group regardless of the consumption level of subscribers. The under billings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years. The effects of the under billings, which means the actual revenue is below the revenue cap set by EMRA, are accounted as income accruals at the Group's consolidated financial statements.

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

(***) The Group management has assessed that the severance payment provision can be taken with the revenue requirement according to the tariff structure changing with the third tariff period and has imposed an accrued income for the severance payment provision calculated.

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NOTE 7 - OTHER RECEIVABLES AND PAYABLES (Continued)

7.1 Other Receivables (Continued):

Movement of allowance for other doubtful receivables is as follows:

	1 January- 30 September 2017	1 January- 30 September 2016
Opening balance	(3,123)	(3,123)
Closing balance	(3,123)	(3,123)

7.2 Other Payables:

	30 September 2017	31 December 2016
Other Current Payables		
Other payable	101,672	123,510
Deposits received	11,089	8,492
Lighting payables	-	28,236
	<u>112,761</u>	<u>160,238</u>
Other Non-Current Payables		
Deposits received (*)	1,068,335	880,004
	<u>1,068,335</u>	<u>880,004</u>

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

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NOTE 8 - INVENTORIES

	30 September 2017	31 December 2016
Spare parts and equipments	97,406	72,531
Other inventories	3,820	1,928
	<u>101,226</u>	<u>74,459</u>

NOTE 9 - PREPAID EXPENSES AND DEFERRED INCOME

9.1 Prepaid Expenses:

	30 September 2017	31 December 2016
<u>Short-term Prepaid Expenses</u>		
Prepaid expenses	5,879	11,317
Inventory advances given	3,645	2,411
Personnel advances	1,136	345
Other advances given (*)	186,726	83
	<u>197,386</u>	<u>14,156</u>

(*) The majority of the amount consists of advances given to EPIAŞ for electricity purchases (31 December 2016: None).

	30 September 2017	31 December 2016
<u>Long-term Prepaid Expenses</u>		
Prepaid expenses	2,345	1,516
	<u>2,345</u>	<u>1,516</u>

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NOTE 9 - PREPAID EXPENSES AND DEFERRED INCOME (Continued)
9.2 Deferred Income

	30 September 2017	31 December 2016
Short Term Deferred Income		
Deferred income (*)	420,837	165,711
Advances received	28,876	22
	<u>449,713</u>	<u>165,733</u>
Long Term Deferred Income		
Deferred income (*)	4,835	25,617
	<u>4,835</u>	<u>25,617</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 Türkiye Elektrik İletim A.Ş.. These regulations guarantee revenue to the Group regardless of the consumption level of subscribers. The under billings 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.

NOTE 10 – FINANCIAL ASSETS

As explained in Note 2.12, 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 detail of the financial assets recognized under the service concession arrangement is as follows:

	Financial assets		Present value of financial assets	
	30 September 2017	31 December 2016	30 September 2017	31 December 2016
Within one year	1,714,739	1,341,573	660,192	653,754
1-3 years	8,875,811	5,998,298	548,279	439,837
3-5 years	11,836,130	8,055,606	1,019,777	584,614
More than 5 years	<u>38,129,824</u>	<u>33,556,570</u>	<u>3,305,277</u>	<u>2,615,101</u>
	60,556,504	48,952,047	5,533,525	4,293,306
Future financial income	<u>(55,022,979)</u>	<u>(44,658,741)</u>	-	-
	<u>5,533,525</u>	<u>4,293,306</u>	<u>5,533,525</u>	<u>4,293,306</u>
Current financial asset			660,192	653,754
Non - current financial asset			4,873,333	3,639,552
			<u>5,533,525</u>	<u>4,293,306</u>

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENTS

	Machinery and equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
Cost					
Opening balance as of 1 January 2017	15,061	36,946	25,670	-	77,677
Additions	280	-	5,132	31,055	36,467
Disposals	-	-	-	-	-
Assets transferred on merger with the shareholder	-	-	2,049	-	2,049
Closing balance as of 30 September 2017	15,341	36,946	32,851	31,055	116,193
Accumulated Depreciation					
Opening balance as of 1 January 2017	(1,052)	(15,775)	(2,840)	-	(19,667)
Charge for the period	(1,276)	(4,449)	(4,162)	-	(9,887)
Disposals	-	-	-	-	-
Accumulated depreciation transferred on merger with the shareholder	-	-	(1,489)	-	(1,489)
Closing balance as of 30 September 2017	(2,328)	(20,224)	(8,491)	-	(31,043)
Carrying value as of 30 September 2017	13,013	16,722	24,360	31,055	85,150

	Machinery and equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
Cost					
Opening balance as of 1 January 2016	4,806	36,946	213	-	41,965
Additions	-	208	-	10	218
Disposals	-	-	-	-	-
Closing balance as of 30 September 2016	4,806	37,154	213	10	42,183
Accumulated Depreciation					
Opening balance as of 1 January 2016	-	(10,974)	(141)	-	(11,115)
Charge for the period	(360)	(5,021)	(34)	-	(5,415)
Disposals	-	-	-	-	-
Closing balance as of 30 September 2016	(360)	(15,995)	(175)	-	(16,530)
Carrying value as of 30 September 2016	4,446	21,159	38	10	25,653

	Useful Life
Plant, machinery and equipment	5 years
Vehicles	3 years
Furniture and fixtures	5 years

Depreciation expense of TL 9,266 and TL 621 are accounted in administrative expenses and cost of sales, respectively (2016 administrative expenses: TL 5,415 and cost of sales: TL 0).

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NOTE 12 - INTANGIBLE ASSETS

	Customer contracts and related relationships	Transfer of operating rights	Goodwill	Computer software	Other intangible assets	Total
Cost						
Opening balance as of 1 January 2017	4,390,673	1,650,121	2,730,031	1,152	28,480	8,800,457
Additions	-	-	-	-	18,427	18,427
Disposals	-	-	-	-	-	-
Assets transferred on merger with the shareholder	-	-	-	-	1,679	1,679
Closing balance as of 30 September 2017	4,390,673	1,650,121	2,730,031	1,152	48,586	8,820,563
Accumulated Amortization						
Opening balance as of 1 January 2017	(699,371)	(208,586)	-	(1,150)	-	(909,107)
Charge for the period	(113,768)	(42,300)	-	-	(5,984)	(162,052)
Disposals	-	-	-	-	(343)	(343)
Accumulated amortization transferred on merger with the shareholder	-	-	-	-	(964)	(964)
Closing balance as of 30 September 2017	(813,139)	(250,886)	-	(1,150)	(7,291)	(1,072,466)
Carrying value as of 30 September 2017	3,577,534	1,399,235	2,730,031	2	41,295	7,748,097
	Customer contracts and related relationships	Transfer of operating rights	Goodwill	Computer software	Other intangible assets	Total
Cost						
Opening balance as of 1 January 2016	4,390,673	1,650,121	2,730,031	1,152	-	8,771,977
Additions	-	-	-	-	12,534	12,534
Closing balance as of 30 September 2016	4,390,673	1,650,121	2,730,031	1,152	12,534	8,784,511
Accumulated Amortization						
Opening balance as of 1 January 2016	(547,263)	(152,031)	-	(324)	-	(699,618)
Charge for the period	(113,768)	(42,300)	-	(77)	(73)	(156,218)
Closing balance as of 30 September 2016	(661,031)	(194,331)	-	(401)	(73)	(855,836)
Carrying value as of 30 September 2016	3,729,642	1,455,790	2,730,031	751	12,461	7,928,675

Amortization expense of TL 162,052 (30 September 2016: TL 156,218) is included in administrative expenses.

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

On 31 March 2006 BEDAŞ and on 24 July 2006, AYEDAŞ and TOROSLAR EDAŞ signed TOR Agreements with TEDAŞ. In accordance with the TOR agreement, TEDAŞ transferred the operating rights of the distribution system, the distribution facilities, and the other movables and immovable 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 IFRIC 12 (Note 10) is recognized as intangible asset based on IFRS 3.

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

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NOTE 12 - INTANGIBLE ASSETS (Continued)

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.

As of September 30, 2017, there is no impairment on goodwill (31 December 2016: None).

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NOTE 13 - PROVISIONS

	30 September 2017	31 December 2016
Current Provisions		
Legal claims (*)	155.289	138.417
	<u>155.289</u>	<u>138.417</u>

(*) Legal claims are set for the probable cash outflows related to the legal disputes. As of 30 September 2017, actual provision amount for the legal claims are determined according to the assessment made by the Group management in which there is high probability that the legal cases will be finalized against the Group.

The Group is charging the theft and loss costs to the subscribers in accordance with the tariff determined by 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 at local courts and consumer arbitration committees. In June of 2016, statement of "In applications filed in respect of the amounts determined by EMRA within the scope of income and tariff regulations, the authority of the consumer arbitration committees and the courts is limited to the control of compliance with the regulatory procedures of EMRA." has been added to article 17 of Law No. 6446. By this article, it has been determined that in the cases for the theft and loss amounts, the courts can only examine if the theft and loss amounts incurred in accordance with the regulations of the EMRA and it has been ruled that no judgement can be made whether the theft and loss amounts will be collected or not. As of reporting date, the total amount of ongoing cases against the Group is TL 136,208 (31 December 2016: TL 176,134).

Movements of provisions are as follows:

	Legal claims	Total
Balance at 1 January 2017	138.417	138.417
Additional provisions recognized	41.152	41.152
Reversal of provisions	(24.280)	(24.280)
Balance at 30 September 2017	<u>155.289</u>	<u>155.289</u>
	Legal claims	Total
Balance at 1 January 2016	145.220	145.220
Additional provisions recognized	31.726	31.726
Reversal of provisions	(38.529)	(38.529)
Balance at 31 December 2016	<u>138.417</u>	<u>138.417</u>

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NOTE 14 - COMMITMENT AND CONTINGENCIES

30 September 2017	TL Amount	TL
A. Total amount of Collateral Pledge Mortgage (CPM) given on behalf of the legal entity	36.627	36.627
-Collateral (*)	36.627	36.627
B. Total amount of CPM given against the subsidiaries included in full consolidation	1.412.883	1.412.883
-Collateral	1.412.883	1.412.883
Total	1.449.510	1.449.510
31 December 2016	TL Amount	TL
A. Total amount of Collateral Pledge Mortgage given on behalf of the legal entity	25.395	25.395
-Collateral (*)	25.395	25.395
B. Total amount of CPM given against the subsidiaries included in full consolidation	1.598.516	1.598.516
-Collateral	1.598.516	1.598.516
Total	1.623.911	1.623.911

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

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. As of 30 September 2017, Group has obligation to make investment.

Energy Sales Agreements

Distribution and retail companies signed Energy Sales Agreements ("ESA") with TETAŞ and Elektrik Üretim A.Ş. ("EÜAŞ") 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 Energy Sales Agreements.

Competition Board Investigation

Further to a preliminary inquiry in November 2016, The Competition Board resolved to commence an investigation in December 2016 to check if the Company's subsidiaries are in compliance with the 4054 numbered Competition Law. Company received the Competition Board's investigation report on January 5, 2018, which alleges that Company's subsidiaries have abused their dominant position and should be imposed administrative fines. As next step, Company will submit the second written defense statement against the allegations in the investigation report within the regulatory period. The investigation report is not binding on the Competition Board, which may or may not agree with the findings in the investigation report. Investigation process is expected to be finalized by the end of August 2018.

The submission of the investigation report to the Company's subsidiaries cannot be interpreted as the undertakings of the related subsidiaries have violated the Competition Law or the subsidiaries will be punished. The Company and its subsidiaries execute its transactions within the Competition Law and other regulations.

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NOTE 15 - EMPLOYMENT BENEFITS

Payables Related to Employee Benefits:

	30 September 2017	31 December 2016
Social security premiums payable	32,855	23,151
Payable to personnel	16,716	16,079
	<u>49,571</u>	<u>39,230</u>

Short-term Provisions Related to Employee Benefits:

	30 September 2017	31 December 2016
Bonus provisions	1,117	12,398
Provisions for unused vacation	20,968	17,064
	<u>22,085</u>	<u>29,462</u>

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

	Bonus provisions	Unused vacation provision	Total
Balance at 1 January 2017	12,398	17,064	29,462
Additional provisions recognized	-	3,474	3,474
Reversal / payments of provisions	(14,322)	-	(14,322)
Obligation transferred on merger with the shareholder	3,041	430	3,471
Balance at 30 September 2017	<u>1,117</u>	<u>20,968</u>	<u>22,085</u>

	Bonus provisions	Unused vacation provision	Total
Balance at 1 January 2016	9,536	14,104	23,640
Additional provisions recognized	-	1,878	1,878
Reversal / payments of provisions	(9,536)	(579)	(10,115)
Balance at 30 September 2016	<u>-</u>	<u>15,403</u>	<u>15,403</u>

Long-term Provisions Related to Employee Benefits:

	30 September 2017	31 December 2016
Provision for employment termination benefits	73,106	56,442
	<u>73,106</u>	<u>56,442</u>

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NOTE 15 - EMPLOYMENT BENEFITS (Continued)

Under Turkish Labor Law, the Group is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated without due cause, who is called up for military service, dies or retires after completing 25 years of service and reaches the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of TL 4,732.48 (full digit) (31 December 2016: TL 4,297.21 (full digit) for each period of service at 30 September 2017.

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

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 30 September 2017, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 6.50% and a discount rate of 10.30%, resulting in a real discount rate of approximately 3.57% (31 December 2016: inflation rate of 7.00% and discount rate of 11.30%, discount rate of approximately 4.02%) Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration as 3.28 % for employees with 0-15 years of service, and 0% for those with 16 or more years of service (31 December 2016: 5.44 % for employees with 0-15 years of service, and 0% for those with 16 or more years of service). Ceiling amount of TL 4,426.16 which is in effect since 1 January 2017 is used in the calculation of Groups' provision for retirement pay liability (1 January 2016: TL 4,092.53).

As of 30 September 2017 and 31 December 2016, the Company management has assessed that the severance payment provision can be taken with the revenue requirement according to the tariff structure changing with the "Third Tariff Period" and has imposed an allowance for the severance payment provision calculated.

The movement for retirement pay provisions is as follows:

	2017	2016
Provision at 1 January	56,442	58,825
Service cost	22,724	19,854
Interest cost	1,666	1,413
Retirement pay paid	(7,914)	(18,981)
Obligation transferred on merger with the shareholder	188	-
Provision at 30 September	<u>73,106</u>	<u>61,111</u>

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NOTE 16 - OTHER ASSETS AND LIABILITIES

16.1 Other Current Assets:

	30 September 2017	31 December 2016
Deferred VAT	63	3.587
Prepaid taxes and funds	-	181
Other	77	719
	<u>140</u>	<u>4.487</u>

16.2 Other Non-current Assets:

	30 September 2017	31 December 2016
Deferred VAT	129,082	123,032
	<u>129,082</u>	<u>123,032</u>

16.3 Other Current Liabilities:

	30 September 2017	31 December 2016
Taxes and funds payable	206,325	166,702
Other	8,161	4,112
	<u>214,486</u>	<u>170,814</u>

NOTE 17 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

17.1 Share Capital:

Shareholders	30 September 2017		31 December 2016	
	Share (%)	TL	Share (%)	TL
Hacı Ömer Sabancı Holding A.Ş.	50	590,534.5	50	1,982,264
DD Turkey Holdings S.A.R.L. (E.ON)	50	590,534.5	50	1,982,264
	100	1,181,069	100	3,964,528
Adjustment to share capital (*)		2,836,364		-
Total share capital		<u>4,017,433</u>		<u>3,964,528</u>

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NOTE 17 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

17.1 Share Capital (Continued):

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

With the decision of the Board of Directors on 20 April 2017, Enerjisa Enerji A.Ş. merged with Enerjisa Elektrik Dağıtım A.Ş. ("EEDAŞ") and the subsidiaries of EEDAŞ together with all their assets and liabilities with the take over method. In addition, on August 25, 2017, the Group's electricity generation and wholesale business areas were separated and structured under another company. As a result of these transactions, necessary corrections are made in the registered share capital and the statutory capital after merger and split has been reached.

Adjustment to share capital represents the portion of registered share capital which has been treated as a capital reserve in the statutory books after the merger and split process (Note 1), due to local regulations. Such amount has been classified as adjustment to share capital to comply with the IFRS requirements.

At 30 September 2017, the capital of the Company comprising 118,106,900 thousand (31 December 2016: 396,452,800 thousand) registered ordinary shares of TL 0.01 each (31 December 2016: TL 0.01 each).

17.2 Earnings per share:

Earnings per share for each class of share disclosed in the consolidated statements of profit or loss and other comprehensive income is determined by dividing the profit for the period attributable to ordinary equity holders of the parent entity by the weighted average number of shares that have been outstanding during the year.

	1 January 30 September 2017	1 January 30 September 2016
Profit for the period	453.966	421.813
Weighted average shares (*)	118.106.900.000	118.106.900.000
Earnings per share (kr)	0,38	0,36

(*) For the period ended 30 September 2017 and 2016, earnings per share are computed based on the current number of shares after the reduced capital pursuant to Article 474 of the Turkish Commercial Code in 2016, so as to be comparable with the current period.

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NOTE 17 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

17.3 Restricted Profit Reserves:

	30 September 2017	31 December 2016
Restricted Profit Reserves	180,038	139,190
	<u>180,038</u>	<u>139,190</u>

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

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NOTE 18 – REVENUE

	1 January- 30 September 2017	1 January- 30 September 2016
Revenue from electricity sales and services provided	7,924,061	6,458,878
<i>Retail sales revenue</i>	5,271,754	4,233,745
<i>Retail sales service revenue</i>	182,578	185,030
<i>Distribution revenue</i>	2,469,729	2,040,103
Finance income from service concession arrangements	665,392	459,233
Other sales	2,055	1,303
	<u>8,591,508</u>	<u>6,919,414</u>

NOTE 19 - COST OF SALES

	1 January- 30 September 2017	1 January- 30 September 2016
Energy purchases	(5.622.011)	(4.545.717)
System usage costs	(492.861)	(439.420)
Other	(22.269)	(1.026)
	<u>(6.137.141)</u>	<u>(4.986.163)</u>

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NOTE 20 - GENERAL ADMINISTRATIVE EXPENSES

	1 January- 30 September 2017	1 January- 30 September 2016
General administrative expenses (-)	(1,035,284)	(816,398)
	<u>(1,035,284)</u>	<u>(816,398)</u>

Details of general administrative expenses are as follows:

	1 January- 30 September 2017	1 January- 30 September 2016
Payroll and employee benefit expenses	(479,030)	(388,756)
Depreciation and amortization expenses	(171,939)	(161,633)
Material expenses	(117,607)	(71,496)
Outsourcing expenses	(57,199)	(24,659)
Rent expenses	(39,762)	(28,995)
Attorney expenses	(33,813)	(29,111)
Consulting expenses	(24,340)	(28,836)
Maintenance expenses	(18,233)	(12,154)
Tax and duties	(17,104)	(10,409)
Security expenses	(16,750)	(17,032)
Travel expenses	(9,955)	(8,094)
Insurance expenses	(9,158)	(7,385)
Communication and IT expenses	(7,328)	(2,039)
Other expenses	(33,066)	(25,799)
	<u>(1,035,284)</u>	<u>(816,398)</u>

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NOTE 21 - OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

21.1 Other Income From Operating Activities:

	1 January- 30 September 2017	1 January- 30 September 2016
Late payment interest from electricity receivables	67,749	56,268
Power theft penalties	28,536	8,768
Rent income	4,413	3,833
Interest income related to revenue cap regulation	1,426	14,528
Penalty income	151	128
Lawsuit income	-	15,523
Income from derivative financial instruments	-	225
Other income	13,437	5,847
	<u>115,712</u>	<u>105,120</u>

21.2 Other Expenses From Operating Activities:

	1 January- 30 September 2017	1 January- 30 September 2016
Provision for doubtful and other receivables	(157.652)	(71.799)
Valuation differences arising from deposits and guarantees	(53.791)	(29.934)
Loss from derivative financial instruments	(20.160)	-
Interest expense related to revenue cap regulation	(1.860)	-
Penalty expenses	(63)	(28.236)
Other expenses	(15.106)	(20.259)
	<u>(248.632)</u>	<u>(150.228)</u>

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NOTE 22 - FINANCE INCOME AND EXPENSES

22.1 Finance Income:

	1 January- 30 September 2017	1 January- 30 September 2016
Interest revenue from repurchase agreements	73,344	35,402
	<u>73,344</u>	<u>35,402</u>

22.2 Finance Expenses:

	1 January- 30 September 2017	1 January- 30 September 2016
Interest expense of borrowings (*)	(710,933)	(532,152)
Bank commission expenses	(11,302)	(7,096)
Foreign exchange gains / (losses) - net	(33,169)	(18,130)
	<u>(755,404)</u>	<u>(557,378)</u>

(*) As of 30 September 2017, there is no interest expense related to payables of Privatization Administration (30 September 2016: TL 41,780).

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NOTE 23 - TAXATION ON INCOME

	30 September 2017	31 December 2016
<u>Assets Related with Current Taxes</u>		
Prepaid taxes and funds	1,202	238
	<u>1,202</u>	<u>238</u>
	30 September 2017	31 December 2016
<u>Current Tax Liability</u>		
Current corporate tax provision	58,905	148,215
Less: prepaid taxes and funds	(27,740)	(141,899)
	<u>31,165</u>	<u>6,316</u>
	1 January- 30 September 2017	1 January- 30 September 2016
<u>Income Tax Recognized in Profit or Loss</u>		
Current tax expense	56,533	124,733
Deferred tax expense / (income) relating to the origination and reversal of temporary differences, net	93,604	3,223
Total tax expense	<u>150,137</u>	<u>127,956</u>

Corporate tax

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

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

Valid rate of corporate tax in 2017 is 20% (31 December 2016: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was applied as 20% in 2017 (2016: 20%). Losses are allowed to be carried 5 years maximum to be deducted from the taxable profit of the following years. Tax carry back is not allowed.

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

Income withholding tax

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

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NOTE 23 - TAXATION ON INCOME (Continued)
Deferred tax

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

For calculation of deferred tax assets and liabilities, the rate of 20% (2016: 20%) is used.

	30 September 2017	31 December 2016
<u>Deferred Tax (assets) / liabilities</u>		
Differences arising from customer contracts and transfer of operational rights	995,354	1,026,568
Carrying amount differences of property, plant and equipment, intangible assets and concession arrangement differences	(98,944)	(126,332)
Provision for employment termination benefits	(2,031)	(1,737)
Provision for doubtful receivables	8,965	(4,693)
Provision for lawsuits	(30,248)	(24,088)
Provision for unused vacation	(2,796)	(2,366)
Effect of revenue cap adjustments	8,578	21,879
Late penalty payments	(17,092)	(13,576)
Adjustments due to system migration	20,976	20,976
Carry forward tax loss	(96,019)	(112,936)
Other	85,822	(4,734)
	<u>872,565</u>	<u>778,961</u>
	30 September 2017	31 December 2016
Deferred tax (asset)	(177.878)	(247.703)
Deferred tax liability	1.050.443	1.026.664
Deferred tax (asset) / liability, net	<u>872.565</u>	<u>778.961</u>

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NOTE 23 - TAXATION ON INCOME (Continued)

Deferred tax (Continued)

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

	1 January- 30 September 2017	1 January- 30 September 2016
Opening balance	778,961	789,466
Charged to income statement	93,604	3,223
Charged to other comprehensive income/expense	-	-
Closing balance	872,565	792,689
<u>Tax Reconciliation:</u>		
Profit from operations before tax	604.103	549.769
	20%	20%
Tax at the domestic income tax rate of 20% (2016: 20%)	120.821	109.954
Tax effects of:		
- expenses that are not deductible in determining taxable profit	5.774	867
- unused tax losses	24.082	17.011
- other	(540)	124
Income tax expense recognised in profit or loss	150.137	127.956

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 30 September 2017, the Group recognized deferred tax assets amounting to TL 480,095 for unused carry forward tax losses amounting to TL 96,019 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 2016: TL 564,681 and TL 112,936 respectively).

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

	1 January- 30 September 2017	1 January- 31 December 2016
Expiring in 2018	66.111	90.338
Expiring in 2019	196.045	323.717
Expiring in 2020	140.857	71.963
Expiring in 2021	77.082	78.663
	480.095	564.681

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NOTE 23 - TAXATION ON INCOME (Continued)
Deferred tax (Continued)

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

	1 January- 30 September 2017	1 January- 31 December 2016
Expiring in 2017	51.636	44.911
Expiring in 2018	153.005	145.352
Expiring in 2019	378.350	371.246
Expiring in 2020	172.023	139.393
Expiring in 2021	119.063	113.443
Expiring in 2022	26.260	-
	<u>900.337</u>	<u>814.345</u>

NOTE 24 - FINANCIAL INSTRUMENTS
24.1 Financial Liabilities:

	30 September 2017	31 December 2016
Short-term liabilities	1,463,482	1,556,770
Short-term portion of bonds issued	5,866	14,382
Short-term portion of long-term liabilities	<u>584,851</u>	<u>1,526,642</u>
Total short term financial liabilities	2,054,199	3,097,794
Long-term liabilities	3,970,414	2,850,000
Bonds issued	<u>1,151,573</u>	<u>350,000</u>
Total long term financial liabilities	5,121,987	3,200,000
Total financial liabilities	<u>7,176,186</u>	<u>6,297,794</u>

The financial liabilities are repayable as follows:

	30 September 2017	31 December 2016
To be paid within 1 year	2,054,199	3,097,794
To be paid between 1-2 years	2,174,845	2,850,000
To be paid between 2-3 years	1,880,000	350,000
To be paid between 3-4 years	732,142	-
To be paid between 4-5 years	335,000	-
	<u>7,176,186</u>	<u>6,297,794</u>

As of 30 September 2017 and 31 December 2016, the Group has not given any collateral for above financial liabilities.

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NOTE 24 - FINANCIAL INSTRUMENTS (Continued)
24.1 Financial Liabilities (Continued):

As of 30 September 2017 and 31 December 2016, details of short and long term financial liabilities in terms of currencies are as follows:

Currency Type	Weighted average effective interest rate	30 September 2017	
		Current	Non-current
TL	12.98%	1,636,383	3,387,614
USD	4.78%	365,654	582,800
EUR	2.68%	46,296	-
		<u>2,048,333</u>	<u>3,970,414</u>

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

As of 30 September 2017 and 31 December 2016, details of bond are as follows:

Currency Type	Weighted average effective interest rate (*)	30 September 2017	
		Current	Non-current
TL	CPI + 4%-5%	5,866	1,151,573
		<u>5,866</u>	<u>1,151,573</u>
Currency Type	Weighted average effective interest rate (*)	31 December 2016	
		Current	Non-current
TL	CPI + 4%	14,382	350,000
		<u>14,382</u>	<u>350,000</u>

(*) As of 30 September 2017, the interest is CPI-indexed variable interest and the annual real coupon rates varies from 4% to 5% (31 December 2016: 4%).

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NOTE 24 - FINANCIAL INSTRUMENTS (Continued)
24.2 Other Financial Liabilities:

	30 September 2017	31 December 2016
Other current financial liabilities	29,097	25,087
Other non-current financial liabilities	262,631	245,134
	<u>291,728</u>	<u>270,221</u>

The other financial liabilities are repayable as follows:

	30 September 2017	31 December 2016
To be paid within 1 year	29,097	25,087
To be paid between 1-2 years	37,175	25,568
To be paid between 2-3 years	29,845	26,071
To be paid between 3-4 years	30,468	26,597
To be paid between 4-5 years	31,119	34,491
To be paid between 5+ years	134,024	132,407
	<u>291,728</u>	<u>270,221</u>

As of 30 September 2017 and 31 December 2016, details of short and long term other financial liabilities in terms of currencies are as follows:

Currency Type	Weighted average effective interest rate	30 September 2017	
		Current	Non-current
Euro	4,70%	29.097	262.631
		<u>29.097</u>	<u>262.631</u>
Currency Type	Weighted average effective interest rate	31 December 2016	
		Current	Non-current
Euro	4.70%	25.087	245.134
		<u>25.087</u>	<u>245.134</u>

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

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NOTE 25 – DERIVATIVE INSTRUMENTS

The Group utilizes forward exchange contracts in order to mitigate foreign exchange rate risk arising from feed-in-tariff cost. Furthermore, in order to mitigate the foreign exchange risk arising from foreign denominated bank loans, the Group entered into forward exchanges, cross currency and foreign exchange swap transactions. The details and fair values of the agreements as of 30 September 2017 and 31 December 2016 are as follows:

	Contract Amount (USD)	Contract Amount (TL)	Asset	Liability
Forward exchanges	118.470	420.817	-	(7.784)
Cross currency swap	163.595	581.106	-	(18.148)
Foreign exchange swap	100.000	355.210	-	(11.163)
	<u>382.065</u>	<u>1.357.133</u>	<u>-</u>	<u>(37.095)</u>

	31 December 2016			
	Contract Amount (USD)	Contract Amount (TL)	Asset	Liability
Forward exchanges	41.363	145.565	3.886	-
	<u>41.363</u>	<u>145.565</u>	<u>3.886</u>	<u>-</u>

As of 30 September 2017 and 31 December 2016, movements in fair value of derivative financial instruments can be analyzed as follows:

	30 September 2017	30 September 2016
Opening balance	(3.886)	-
Derivative financial instruments at fair value designated through income/expense	40.981	-
Derivative financial instruments at fair value designated through other comprehensive income/expense	-	-
Total derivative financial liabilities / (assets)	<u>37.095</u>	<u>-</u>

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NOTE 26 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
26.1 Capital risk management:

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

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

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

	30 September 2017 TL	31 December 2016 TL
Total borrowings (Note 24)	7,467,914	6,568,015
Less: cash and cash equivalents (Note 27)	(155,194)	(74,570)
Net debt	7,312,720	6,493,445
Total equity	5,200,794	4,746,828
Total capital	12,513,514	11,240,273
Net debt / Total capital ratio	58%	58%

26.2 Financial risk factors:

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

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

26.2.1 Credit risk management

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

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

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NOTE 26 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

26.2 Financial risk factors (Continued):

26.2.1 Credit risk management (Continued)

Credit risk exposure based on financial instrument categories

30 September 2017	Receivables							Financial assets excluding cash
	Trade receivables			Other receivables				
	<u>Related party</u>	<u>Third party</u>	<u>Current Related party</u>	<u>Third party</u>	<u>Non-current Related party</u>	<u>Third party</u>	<u>Bank deposits&repos</u>	
Maximum net credit risk as of the balance sheet date (*)	31,433	2,135,550	-	208,756	-	490,921	155,194	5,533,525
The part of maximum risk under guarantee	-	2,428,386	-	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	31,433	1,490,339	-	208,756	-	490,921	155,194	5,533,525
B. Net book value of financial assets that are due but not impaired	-	645,211	-	-	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-	-	-
-Past due	-	1,190,580	-	3,123	-	-	-	-
-Impairment	-	(1,190,580)	-	(3,123)	-	-	-	-

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

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NOTE 26 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

26.2 Financial risk factors (Continued):

26.2.1 Credit risk management (Continued)

Credit risk exposure based on financial instrument categories

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

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

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NOTE 26 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)
26.2 Financial risk factors (Continued):
26.2.2 Liquidity risk management

The Group aims to maintain an appropriate liquidity risk management framework for the Group's short, medium and long-term funding and liquidity management requirements.

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

The maturities of the financial liabilities determined with respect to the contracts including the expected interest payments as of 30 September 2017 and 31 December 2016 are as follows:

30 September 2017

<u>Maturity analysis of non- derivative financial liabilities</u>	<u>Carrying value</u>	<u>Total cash outflow according to contract</u>	<u>Less than 3</u>	<u>3-12 months</u>	<u>1-5 years (III)</u>	<u>Unallocated</u>
		<u>(I+II+III+IV)</u>	<u>months (I)</u>	<u>(II)</u>		<u>(IV)</u>
Non-derivative financial liabilities						
Borrowings	7,176,186	8,788,722	760,731	1,855,901	6,172,090	-
Trade payables	1,060,293	1,060,293	1,060,293	-	-	-
Deferred income	454,548	454,548	-	449,713	4,835	-
Other payables	1,181,096	1,387,420	319,085	-	-	1,068,335
Other financial liabilities	291,728	291,728	6,969	22,129	137,448	125,182
Total liabilities	10,163,851	11,982,711	2,147,078	2,327,743	6,314,373	1,193,517

31 December 2016

		<u>Total cash outflow</u> <u>according to</u> <u>contract</u>	<u>Less than 3</u>	<u>3-12 months</u>		<u>Unallocated</u>
<u>Maturity analysis of non-</u> <u>derivative financial liabilities</u>	<u>Carrying</u> <u>value</u>	<u>(I+II+III+IV)</u>	<u>months (I)</u>	<u>(II)</u>	<u>1-5 years (III)</u>	<u>(IV)</u>
Non-derivative financial liabilities						
Borrowings	6,297,794	7,867,019	677,672	2,686,931	4,502,416	-
Trade payables	1,117,668	1,117,668	1,117,668	-	-	-
Deferred income	191,350	195,293	-	165,733	29,560	-
Other payables	1,040,242	1,094,754	132,518	82,232	-	880,004
Other financial liabilities	270,221	285,751	8,912	17,480	118,288	141,071
Total liabilities	8,917,275	10,560,485	1,936,770	2,952,376	4,650,264	1,021,075

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NOTE 26 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)
26.2 Financial risk factors (Continued):
26.2.3 Market risk management
26.2.3.1 Foreign currency risk management

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

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

	30 September 2017		
	USD	EUR	TL equivalent
Cash and cash equivalents	5.039	12	17.953
Financial liabilities	(267.012)	(11.043)	(994.750)
Other financial liabilities	-	(69.585)	(291.728)
Derivative financial instruments	(10.443)	-	(37.095)
Trade payables	(29.129)	(3.207)	(116.914)
Net foreign currency position	(301.545)	(83.823)	(1.422.534)

	31 December 2016		
	USD	EUR	TL equivalent
Derivative financial instruments	1.104	-	3.886
Other financial liabilities	-	(72.838)	(270.221)
Trade payables	(6.216)	(6.655)	(46.565)
Other payables	-	(24.138)	(89.550)
Net foreign currency position	(5.112)	(103.631)	(402.450)

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NOTE 26 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)
26.2 Financial risk factors (Continued):
26.2.3 Market risk management (Continued)
26.2.3.1 Foreign currency risk management (Continued)

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

The following table details the Group's sensitivity to a 10% increase and decrease in the TL against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss before taxation on income where the TL strengthens against the relevant currency.

	<u>TL effect of USD</u>		<u>TL effect of EUR</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Profit and loss	(107,112)	(1,799)	(35,142)	(38,446)

26.2.3.2 Interest rate risk management

As of 30 September 2017 and 31 December 2016, the Group has no floating rate interest rate risk although the Group has CPI indexed bond obligation since the revenues under the concession agreement are also indexed to CPI.

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

Fair value of financial instruments

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

ENERJISA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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NOTE 26 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

26.2 Financial risk factors (Continued):

Categories of financial instruments and fair values

30 September 2017	Loans and receivables	Derivative instruments	Financial liabilities at amortized cost	Carrying value	Note
Financial assets					
Cash and cash equivalents	155,194	-	-	155,194	27
Trade receivables (including related parties)	2,166,983	-	-	2,166,983	5-6
Financial assets	5,533,525	-	-	5,533,525	10
Prepaid expenses	199,731	-	-	199,731	9
Other assets	129,222	-	-	129,222	16
Other receivables	699,677	-	-	699,677	7
Financial liabilities					
Borrowings	-	-	7,176,186	7,176,186	24
Trade payables (including related parties)	-	-	1,060,293	1,060,293	5-6
Deferred income	-	-	454,548	454,548	9
Derivatives	-	37,095	-	37,095	25
Other payables	-	-	1,181,096	1,181,096	7
Other financial liabilities	-	-	291,728	291,728	24
31 December 2016					
Financial assets					
Cash and cash equivalents	74,570	-	-	74,570	27
Trade receivables (including related parties)	1,720,529	-	-	1,720,529	5-6
Derivatives	-	3,886	-	3,886	25
Financial assets	4,293,306	-	-	4,293,306	10
Prepaid expenses	15,672	-	-	15,672	9
Other assets	127,519	-	-	127,519	16
Other receivables	624,206	-	-	624,206	7
Financial liabilities					
Borrowings	-	-	6,297,794	6,297,794	24
Trade payables (including related parties)	-	-	1,117,668	1,117,668	5-6
Deferred income	-	-	191,350	191,350	9
Other payables	-	-	1,040,242	1,040,242	7
Other financial liabilities	-	-	270,221	270,221	24

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

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NOTE 26 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)
26.2 Financial risk factors (Continued):
Assets and liabilities subject to valuation and fair value of financial instruments

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 recognized at fair value. The fair value of derivative financial instrument is determined by using valuation technique, which can be regarded as level 2.

The Company has also deposits and guarantees received and financial assets that are subject to inflation indexation.

The following table gives information about how the fair values of these financial assets, liabilities and assets subject to valuation are determined.

Financial assets/(financial liabilities)	Fair value / revalued amount		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	30 September 2017	31 December 2016				
Derivatives	(37,095)	3,886	Level 2	Market Value	-	-
Deposits paid	195,897	161,011	-	CPI	-	-
Deposits and guarantees received (Note :7)	1,068,335	880,004	-	CPI	-	-
Financial assets	5,533,525	4,293,306	-	CPI	-	-

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NOTE 27 - EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

	30 September 2017	31 December 2016
Cash at banks	102,347	55,956
<i>Demand deposits</i>	102,347	55,956
Repurchase agreements	52,847	18,614
	<u>155,194</u>	<u>74,570</u>

As at 30 September 2017, TL 77,983 of the Group's demand deposits are blocked at different banks (31 December 2016: TL 28,961). 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.

As of 30 September 2017 repurchase agreements consist of short term TL balances with original maturities between 1-3 days (31 December 2016: 1-3 days). The weighted average effective interest rate of TL repurchase agreements is 13.58% as at 30 September 2017 (31 December 2016: 11.80%).

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

	1 January 30 September 2017	1 January 30 September 2016
Adjustments related to finance (income) / cost based on revenue cap regulation	(1.426)	(14.528)
Adjustments related to investment revenue recognised relate to service concession arrangements	(665.392)	(459.233)
Adjustments related to valuation differences arising from deposits	53.791	29.934
	<u>(613.027)</u>	<u>(443.827)</u>

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

	1 January 30 September 2017	1 January 30 September 2016
Net collections from financial assets related to service concession arrangements	756,892	620,381
	<u>756,892</u>	<u>620,381</u>

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NOTE 27 - EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

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

	1 January 30 September 2017	1 January 30 September 2016
Capital expenditures related to service concession arrangements	(1,301,897)	(925,775)
Payment to Privatization Administration	-	(1,188,456)
	<u>(1,301,897)</u>	<u>(2,114,231)</u>

NOTE 28 - EVENTS AFTER THE REPORTING DATE

Following the approval of Capital Markets Board with decision numbered 28/961 on 21 July 2017; bonds with the nominal amount of TL 100,000 are issued by the Group on 20 October 2017 with 1,456 days maturity, CPI based variable interests, coupon payments at every six months and capital payment at the end of the maturity.

The application made by Başkent Elektrik Dağıtım A.Ş., a subsidiary of the Group, to the Capital Markets Board for the issuance of debt instruments amounting to TL 1,000,000 to be sold to qualified investors domestically without being offered to the public was approved with the decision dated 3 November 2017 and decision numbered 39/1314.

On 27 September 2017, the draft legislation change on corporate income tax is announced by the Minister of Finance have been sent to the Grand National Assembly of Turkey which an increase in corporate tax rate from 20% to 22% is proposed for companies for incomes related to the years 2018-2019 and 2020. As of date of the report, the legislation has been enacted.

The Company has established 100% subsidiary Enerjisa Müşteri Çözümleri A.Ş. with capital of TL 52.000 on 29 December 2017, in order to conduct its activities in customer solutions and distributed energy.

The following legislative amendments, which are expected to have impact on the Company's financial outlook, will be in place from 1 January 2018 onwards.

- For distribution companies, weighted average cost of capital (WACC) rate employed in revenue requirement calculations for the 3rd tariff period has increased from 11.91% to 13.61%, applicable for years between 2018 and 2020, as per EMRA's legislation dated 7 December 2017 numbered 7501-12.
- As per EMRA's legislation change dated 15 December 2017, 2.38% regulated gross margin applicable to regulated sales of retail companies will also be applied on feed-in-tariff costs regarding regulated sales.
- Upon the recent decision of EMRA dated 23 November 2017, distribution companies are granted an additional operating expenses allowance to cover for the costs of additional repair and maintenance personnel employed upon the requirement enacted by Ministry of Energy and Natural Resources. The additional operating expenses allowance per recruited repair and maintenance personnel per annum is TL 63.

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NOTE 28 - EVENTS AFTER THE REPORTING DATE (Continued)

d. Upon the detection of electricity theft, distribution companies are granted the right to record 20% of invoiced amounts as income regardless of collection of such invoices. Upon the recent legislation change of EMRA dated 16 December 2017, distribution companies are able to record 40% of such invoiced theft accruals in their profit and loss statements for the years between 2018 and 2020. In addition, 75% of the actual collections made after legal proceedings are also kept by the distribution companies.

e. Applicable for the first quarter of 2018, EMRA has announced that, distribution tariff has been increased by 12-13% and the reactive energy fee by 6.9-7.1% for the customer/tariff groups in national tariff.

f. The Quality Factor encouraging distribution companies to improve their call center performances, health and safety obligations, and customer satisfaction scores; and as well as to reduce outages and increase technical quality standards, have been revised to be maximum of 5% of the yearly revenue requirement.

g. Pursuant to the EMRA resolution dated 30 November 2017 and numbered 7474, the eligibility limit was further reduced to 2,000 kWh for 2018.