ENERJİSA ENERJİ A.Ş. &
ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL
STATEMENTS FOR THE
YEAR ENDED
31 DECEMBER 2017
TOGETHER WITH THE INDEPENDENT
AUDITOR'S REPORT

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Enerjisa Enerji A.Ş.

A) Report on the Audit of the Consolidated Financial Statements

1) Opinion

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

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

2) Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"s). 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.

3) Key Audit Matters

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

Key Audit Matter	How key audit matter addressed in the audit
Rotation of auditors including audit of opening balances	
Initial audit engagements involve a number of considerations not associated with recurring audits. Additional planning activities and considerations necessary to establish an appropriate audit strategy and audit plan include: - Gaining an initial understanding of the Group and its business including its control environment and information systems sufficient to make audit risk assessments and develop the audit plan. - Obtaining sufficient appropriate audit evidence regarding the opening balances including the selection and application of accounting principles. - Communicating with the previous auditors.	A transition plan was implemented for the review of interim consolidated financial statements of the Group dated June 30, 2017, at the beginning of May 2017 before starting our limited scope audit work, and this transition plan has been implemented until the audit report sign off date. Our transition plan includes the followings: - Close interaction with the previous auditor, including a process of file reviews and formal hand over procedures as prescribed by our professional standards. - Communicating with the previous auditor including reviews of audit working papers for previous periods. - Interaction with the previous auditor and evaluation of key accounting and audit matters and the uncorrected audit differences of the Group. - Providing information about transition plan to those charged with governance. - Conducting various meetings with the management to have a better understanding of the risks, internal controls and key audit findings. - Evaluation of comparative presentation of the consolidated financial statements of EEDAŞ as of 31 December 2016, as a result of restructuring explained in consolidated financial statements footnote 1 in detail, considering the Company as the successor of EEDAŞ which represents substantially the same business and assets of the Group.

IFRIC Interpretation 12- Service Concession Arrangements	
In accordance with the terms of the service concession agreement with the government, the Group has applied the IFRIC Interpretation 12 financial asset model and identified it in a financial asset financial statements. Revenue calculated according to the effective interest method is accounted as "financial income from service concession agreement" by the Group. As of 31 December 2017, the Group has financial assets amounting to 6.438.431 thousands TL and accounted interest income amounting to 1.013.557 thousands TL in the statement of profit or loss between 1 January and 31 December 2017. Given the complexity of such transactions and application of the assumptions (basically includes inflation rate assumptions), we determined this significant to our audit and therefore considered as key audit matter.	- The Service Concession Agreement was obtained and the contract conditions have been read. - Compatibility of the related calculation model has been evaluated. - Since the interest income is calculated based on the internal rate of return, calculation of internal rate of return has been checked. - The payments which were committed by the Republic of Turkey Energy Market Regulatory Authority ("EMRA") as a consequence of the investments made were checked by the communiques of income requirements. - The rate of return has been checked from the communiques published in the Official Gazette. - The year-end financial asset amount in the financial statements was reconciled with the economic model of service concession contracts. - Furthermore, within the scope of the above mentioned specific accounting, the adequacy and sufficiency of the information included in the financial statements and explanatory notes for the users of the financial statements were evaluated.

Recoverability of deferred tax assets recognized over tax losses carried forward	
As disclosed in footnote 23 to the consolidated financial statements as of 31 December 2017, the Group recognized deferred tax assets over the tax losses carried forward amounting to 144.143 thousands TL. Partially or fully recoverable amount of recognized deferred tax asset was estimated based on the Group Management's assumptions under current conditions. Business plans for the future, the loss amounts incurred in the last 5 years and the expiration dates of unused losses are taken into the consideration during the assessment. Given that the extent to which these assets are recognized is dependent on Group Management's assumptions, these assets are considered as key audit matter.	During our audit, we challenged the management's assumptions on the recoverability of tax assets by controlling the expiration dates of carry forward tax losses with the projected budgets approved by the management. To examine the management's assumptions about the subject, we involved tax experts to our audit team from another entity that is a part of the same audit network. Calculation of related deferred tax assets is presented for the examination and evaluation to tax experts. In addition, the conformity of the disclosures in the financial statements to IFRS has been evaluated.
Revenue recognition of incumbent suppliers	
Incumbent suppliers are obliged supply electricity on retail sales tariff regulated by the EMRA to the ineligible customers (regulated customers) in their respective distribution regions, eligible customers who have not used their eligibility right to become a free customer and to eligible customers as the last resource supplier. Along with that, the Company supplies electricity to eligible customers in the distribution regions through bilateral agreement based on free market conditions. Incumbent suppliers' revenue from the consumers subject to tariff regulation, is determined by the cost of carrying out their activities related to energy sales. In this context, the gross margin is taken into the consideration which is determined based on the depreciation expenses related to the investment expenditures required to carry out the activities, billing and customer services, operating expenses such as retail sales services, active energy costs and the costs to cover all the costs and services incurred to sustain the activity and the risks exposed. Therefore, the Group calculates and accounts for the revenue amount on consolidated financial statements prepared in accordance with IFRS on the basis of costs by considering gross profit margin determined by regulations.	We examined the customer classification, EMRA communiques and the correctness of calculations mentioned in these communiques, calculations and seasonality of invoicing that are used in the calculation of Group's revenue. We also performed sample tests of key controls over information technology systems where the information used in these calculations is provided. The overall consistency of the inputs and parameters used in the calculations are evaluated. To evaluate conformity of applied calculations to communiques and IAS, we especially focused on the accounting adjustments related to revenue recognition. The sources used for these adjustments and consistency of these adjustments with prior years are controlled. In addition, the adequacy of the disclosures in Note 18 of the financial statements and conformity with IFRS were also assessed.

Furthermore, invoices of the subscribers other than eligible 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. 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. Given the complexity of such transactions, we determined this significant to our audit and therefore considered as key audit matter.	
Goodwill Impairment Test	
As at 31 December 2017, there is a goodwill amounting to 2.730.031 thousands TL on the consolidated statement of financial position as a result of previous acquisitions. In accordance with IFRS, the Group performs an impairment test per each cash generating unit to assess whether there is an impairment in the goodwill amount.	The assumptions, sensitivities and results of the tests performed are disclosed in note 2 to the financial statements. These tests are assessed as key audit matter due to the complexity, the required estimates of management and the dependency on future market circumstances. We involved the valuation specialists from another entity that is a part of the same audit network to support our assessment about the assumptions and methods used by the Group in testing the discount rates per cash generating unit and assessing the model that calculates future cash flows. Furthermore, we tested the expected growth rates and related expected future cash flows. We assessed whether these future cash flows, amongst others, were based on the strategic plan as prepared by the management. In addition, within the scope of the above-mentioned special accounting, the appropriateness and sensitivity of the disclosures contained in the financial statements and the importance of these information for the users of the financial statement were questioned by us.

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4) Other Matter

The consolidated financial statements of the Group for the year ended December 31, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on November 10, 2017.

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

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

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

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

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

In an independent audit, our responsibilities as the auditors are:

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.

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

The name of the engagement partner who supervised and concluded this audit 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

February 21, 2018
İstanbul, Türkiye

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 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 31 December 2017	Audited / prior period 31 December 2016
ASSETS			
Current Assets		**4,101,617**	**2,939,550**
Cash and Cash Equivalents	27	172,750	74,570
Financial Assets	10	691,860	653,754
Trade Receivables	6	2,382,440	1,720,529
Due from related parties	*5*	*40,859*	*15,801*
Due from third parties		*2,341,581*	*1,704,728*
Other Receivables	7	439,967	393,471
Due from related parties	5	*598*	*2*
Due from third parties		*439,369*	*393,469*
Derivative Financial Instruments	25	44,054	3,886
Inventory	8	101,754	74,459
Prepaid Expenses	9	199,638	14,156
Assets Related with Current Taxes	23	11,215	238
Other Current Assets	16	57,939	4,487
Non-Current Assets		**14,484,361**	**12,191,898**
Other Receivables	7	473,505	230,735
Due from third parties		*473,505*	*230,735*
Financial Assets	10	5,746,571	3,639,552
Property, Plant and Equipment	11	137,925	58,010
Intangible Assets	12	7,703,430	7,891,350
Goodwill		*2,730,031*	*2,730,031*
Other intangible assets		*4,973,399*	*5,161,319*
Prepaid Expenses	9	4,840	1,516
Deferred Tax Assets	23	209,957	247,703
Other Non-Current Assets	16	208,133	123,032
TOTAL ASSETS		**18,585,978**	**15,131,448**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

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

LIABILITIES	Notes	Audited / current period 31 December 2017	Audited / prior period 31 December 2016
Current Liabilities		**4,855,222**	**4,950,759**
Short-Term Financial Liabilities	24	795,658	1,556,770
Short-Term Portion of Long Term Financial Liabilities	24	1,143,282	1,541,024
Other Financial Liabilities	24	30,009	25,087
Trade Payables	6	1,512,499	1,117,668
Due to related parties	*5*	*145,093*	*126,061*
Due to third parties		*1,367,406*	*991,607*
Payables for Employee Benefits	15	49,983	39,230
Other Payables		185,990	160,238
Due to third parties	*7*	*185,990*	*160,238*
Derivative Instruments	25	1,797	-
Deferred Income	9	605,658	165,733
Income Tax Liability	23	3,725	6,316
Short-Term Provisions		203,150	167,879
Provisions for employment benefits	*15*	*45,912*	*29,462*
Other short-term provisions	*13*	*157,238*	*138,417*
Other Short-Term Liabilities	16	323,471	170,814
Long-Term Liabilities		**7,850,353**	**5,433,861**
Long-Term Financial Liabilities	24	5,269,080	3,200,000
Other Financial Liabilities	24	279,657	245,134
Other Payables		1,140,458	880,004
Due to third parties	*7*	*1,140,458*	*880,004*
Deferred Income	9	1,161	25,617
Long-Term Provisions		69,544	56,442
Provisions for employment benefits	*15*	*69,544*	*56,442*
Deferred Tax Liabilities	23	1,090,453	1,026,664
Equity		**5,880,403**	**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 not to be reclassified to profit or loss in subsequent periods		(5,241)	(7,209)
Accumulated loss on remeasurement of defined benefit plans		*(5,241)*	*(7,209)*
Restricted Profit Reserves	17	185,265	139,190
Retained Earnings		690,597	268,586
Profit for the Period		988,009	377,393
TOTAL LIABILITIES AND EQUITY		**18,585,978**	**15,131,448**

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 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- 31 December 2017	Audited / prior period 1 January- 31 December 2016
Revenue	18	12,344,818	9,103,380
Cost of Sales (-)	19	(8,412,327)	(6,500,956)
GROSS PROFIT		**3,932,491**	**2,602,424**
General Administrative Expenses (-)	20	(1,518,648)	(1,227,836)
Other Income from Operating Activities	21	187,056	144,651
Other Expenses from Operating Activities (-)	21	(360,189)	(246,929)
OPERATING PROFIT BEFORE FINANCE INCOME / (EXPENSE)		**2,240,710**	**1,272,310**
Finance Income	22	88,491	39,729
Finance Expense (-)	22	(1,045,483)	(797,837)
PROFIT BEFORE TAX		**1,283,718**	**514,202**
Tax Expense		(295,709)	(136,809)
Current Tax Expense	23	(51,342)	(148,215)
Deferred Tax Income / (Expense)	23	(244,367)	11,406
PROFIT FOR THE PERIOD		**988,009**	**377,393**
OTHER COMPREHENSIVE INCOME AND EXPENSE			
Other Comprehensive Income or Expenses not to be reclassified to Profit or Loss in subsequent periods		**1,968**	**3,604**
Gain on measurement of defined benefit obligation	*15*	*2,460*	*4,505*
Income Tax Relating to Other Comprehensive Income	*23*	*(492)*	*(901)*
TOTAL COMPREHENSIVE INCOME		**989,977**	**380,997**
Earnings per share			
Earnings per share (kr)	17	0.84	0.10

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

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

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

					Accumulated other comprehensive expenses not to be reclassified to profit or loss in subsequent periods			
	Share Capital	**Adjustment to Share Capital**	**Restricted Profit Reserves**	**Other Funds**	**Accumulated Loss on Remeasurement of Defined Benefit Plans**	**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	(425,057)	-	85,887	-	-	675,472	(336,302)	-
Total comprehensive income	-	-	-	-	3,604	-	377,393	380,997
Balance as at 31 December 2016	**3,964,528**	**-**	**139,190**	**4,340**	**(7,209)**	**268,586**	**377,393**	**4,746,828**
Balance as at 1 January 2017 (*)	**3,964,528**	**-**	**139,190**	**4,340**	**(7,209)**	**268,586**	**377,393**	**4,746,828**
Transfers	-	-	46,075	-	-	331,318	(377,393)	-
Restructing effect of companies under common control	(2,783,459)	2,836,364	-	-	-	90,693	-	143,598
Restructing effect of companies under common control (**)	*(2,783,459)*	*2,836,364*	-	-	-	*(52,905)*	-	-
Merging effect of companies under common control (**)	-	-	-	-	-	*143,598*	-	*143,598*
Total comprehensive income	-	-	-	-	1,968	-	988,009	989,977
Balance as at 31 December 2017	**1,181,069**	**2,836,364**	**185,265**	**4,340**	**(5,241)**	**690,597**	**988,009**	**5,880,403**

(*) 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 takeover 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 due to local regulations (Note 1). Such amount has been classified as adjustment to share capital to comply with the International Financial Reporting Standards (“IFRS”) requirements.

(***) As of 31 December 2017 work force operating for distribution services, previously as a separate business line under Enerjisa Enerji A.Ş. has been transferred to distribution companies. Since the restructuring is a transaction between companies under common control, TL 143,598 deferred tax asset is accounted for under equity.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 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- 31 December 2017	Audited / current period 1 January- 31 December 2016
Cash Flows from Operating Activities		**1,859,021**	**1,859,439**
Profit for the period		**988,009**	**377,393**
Profit for the period		988,009	377,393
Adjustments to reconcile net profit for the period		**960,029**	**800,945**
Adjustments related to the depreciation and amortization	11,12	235,331	217,938
Adjustments related to the depreciation of property, plant and equipment	11	18,674	8,552
Adjustments related to the amortization of intangible assets	12	216,657	209,386
Adjustments related to impairment loss	6	399,382	264,351
Adjustments related to doubtful provision expenses	6	399,382	264,351
Adjustments related to provisions		59,561	20,999
Adjustments related to provisions for employee benefits		40,740	27,802
Adjustments related to provision for employee termination benefits and unused vacation provision		33,455	23,198
Adjustments related to provision for bonus		7,285	4,604
Adjustments related to legal case provisions / collections		18,821	(6,803)
Adjustments related to interest (income) and expenses, net		880,120	695,445
Adjustments related to interest income	22	(88,491)	(39,729)
Adjustments related to interest expense	22	968,611	735,174
Unrealized foreign exchange loss	22	62,406	54,114
Adjustments related to tax expense	23	295,709	136,809
Adjustments related to change in fair value		(38,371)	-
Adjustments related to change in fair value gain of derivative instruments		(38,371)	-
Other adjustments to reconcile profit (loss)	27	(934,109)	(588,711)
Adjustments related to interest (income) / expense based on revenue cap regulation	21	934	(19,370)
Adjustments related to financial income from service concession arrangements	18	(1,013,557)	(609,628)
Adjustments related to revaluation differences arising from deposits and guarantees	21	78,514	40,287
Changes in operating assets and liabilities		**(978,525)**	**(7,081)**
Adjustments related to (increase) in trade receivables		(1,061,293)	(439,549)
Adjustments related to (increase) in trade receivables from related parties		(25,058)	(9,677)
Adjustments related to (increase) in trade receivables from third parties		(1,036,235)	(429,872)
Adjustments related to (increase) in inventories		(27,295)	(10,988)
Adjustments related to (increase) in other receivables and current assets		(1,106,123)	62,507
Adjustments related to decrease in other receivables from related parties		(596)	-
Adjustments related to (increase) in other receivables from third parties		(1,105,527)	62,507
Adjustments related to (increase) in trade payables		394,831	290,678
Adjustments related to (decrease) / increase in trade payables to related parties		19,032	(3,938)
Adjustments related to increase in trade payables to third parties		375,799	294,616
Adjustments related to increase in other payables and expense accruals		821,355	90,271
Adjustments related to increase in other payables to third parties		821,355	90,271
Cash Generated From Operating Activities		**969,513**	**1,171,257**
Payments for employment benefits	15	(24,821)	(18,332)
Tax payments	23	(64,910)	(145,032)
Tax payments		(64,910)	(145,032)
Other cash in-flows	27	979,239	851,546
CAPEX reimbursements related to service concession arrangements	10	591,706	443,235
WACC reimbursements related to service concession arrangements	10	437,167	344,804
Prior tariff adjustments related to service concession arrangements	10	(49,634)	63,507
Cash Flows from Investing Activities		**(1,682,425)**	**(2,709,132)**
Cash used for purchase of tangible and intangible assets	11,12	(126,611)	(64,192)
Cash used for property, plant and equipment purchases	11	(98,589)	(35,712)
Cash used for purchase of intangible assets	12	(28,022)	(28,480)
Interest received		65,445	39,729
Other cash out-flows	27	(1,621,259)	(2,684,669)
Capital expenditures related to service concession arrangements		(1,621,259)	(1,496,213)
Payment to Privatization Administration		-	(1,188,456)
Cash Flows from Financing Activities		**(78,416)**	**772,160**
Cash in-flows from borrowings		32,064,342	21,337,887
Financial liabilities received		32,064,342	21,337,887
Cash out-flows from borrowings		(31,191,933)	(19,924,143)
Repayments of the financial liabilities		(31,191,933)	(19,924,143)
Interest paid		(950,825)	(641,584)
Increase in cash and cash equivalents		98,180	(77,533)
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**	**172,750**	**74,570**

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

(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 to the Capital Markets Board ("CMB") and its shares are publicly traded in Borsa Istanbul A.Ş. ("BIST") with ticker "ENJSA.E" since 8 February 2018. 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 reorganization, 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 reorganization, 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 consolidated financial statements of the Group have been prepared comparatively with consolidated financial statements of EEDAŞ as of and for the year ended 31 December 2016, considering the Company, as the successor of EEDAŞ which represents substantially the same business and assets of the Group.

Subsidiaries consolidated in the consolidated financial statements as of 31 December 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
Enerjisa Müşteri Çözümleri A.Ş.	Customer solutions and distributed generation services

Group's operations are carried out only in Turkey.

The Group has 9,712 employees as of 31 December 2017 (31 December 2016: 9,085 employees).

The consolidated financial statements were authorized for issue by the Board of Directors of the Company on 21 February 2018. The General Assembly and certain regulatory bodies have the power to amend the consolidated financial statements after the issue.

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 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"), BAŞKENT EDAŞ 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.

As of 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.

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.

As of 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 a new tariff for the period between 1 January 2011 and 31 December 2015; and also in December 2015, EMRA has announced a new tariff for the period between 1 January 2016 and 31 December 2020.

Enerjisa Müşteri Çözümleri A.Ş.:

Enerjisa Müşteri Çözümleri A.Ş. was established on 29 December 2017, in order to conduct activities in customer solutions and distributed generation.

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

The accompanying 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 foreign currencies (currencies other than TL) 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.

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

2.4 Comparative Information and Reclassification of Prior Period Consolidated Financial Statements

The consolidated financial statements of the Group have been prepared comparatively with consolidated financial statements of EEDAŞ as of for the year ended 31 December 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 current period consolidated financial statements is changed, in order to maintain consistency, comparative information are also adjusted or reclassified in line with the related changes. The Group does not have any material reclassifications and adjustments in current year.

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.

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

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

2.9 Basis of Consolidation

The details of the Company's subsidiaries at 31 December 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
		31 December 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
Enerjisa Müşteri Çözümleri A.Ş. (*)	İstanbul	100	-	Customer solutions and distributed generation services

(*) The Company has established its wholly owned subsidiary Enerjisa Müşteri Çözümleri A.Ş. with capital of TL 52,000 on 29 December 2017, in order to conduct activities in customer solutions and distributed energy.

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:

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.

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 31 December 2017 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and 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.

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 retrospectively applied for annual periods beginning on or after 1 January 2017. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

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

2.10 New and Revised International Financial Reporting Standards (Continued)

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

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.

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

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

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

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. In addition to this, the Group is also assessing the net presentation of pass through items which are included in expenses and also accounted as revenue by reflecting directly to the customers and presented as gross. 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. 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.

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)

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 has performed an impact assessment of TFRS 9. This assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional supportable information being made available to the Group in the future. The impact of standard on all three aspects of TFRS 9 is as follows:

Classification and Measurement of Financial Assets:

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. The application of IFRS 9 will not have a significant impact.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

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)

IFRS 9 Financial Instruments (Continued)

Impairment:

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group does not expect any significant impact on financial statements.

Hedge accounting:

The Group does not have any transaction subject to hedge accounting.

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. The amended Standard will:

a. give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 Financial instruments is applied before the new insurance contracts Standard is issued; and

b. give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 Financial instruments until 2021. The entities that defer the application of IFRS 9 Financial instruments will continue to apply the existing financial instruments Standard-IAS 39.

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.

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.

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)

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

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.

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

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)

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

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.

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.

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)

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.

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 amendments on financial position or performance of the Group.

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

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

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)

IFRS 17 - The new Standard for insurance contracts

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

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

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

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

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

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

Annual Improvements – 2015–2017 Cycle

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

- IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements* — The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- IAS 12 *Income Taxes* — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

- IAS 23 *Borrowing Costs* — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows *generally* when calculating the capitalisation rate on general borrowings.

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

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 *Financial Instruments: Recognition and measurement*, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

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: 2.12), 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).

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 Group is determined by EMRA and the revenue of the companies 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 accordingly.

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.

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 recognizes the revenue on an effective interest method as "Financial Income from Service Concession Arrangements" in profit or loss and other comprehensive income and "Financial Asset" on the consolidated statement of financial position and.

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.

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 TOR 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.

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.

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.

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.

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.

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 Group 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.

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.

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

2.11 Summary of Significant Accounting Policies (Continued)

Taxation and deferred income taxes (Continued)

Deferred tax (Continued)

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.

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 date of statement of financial position, the Group makes the necessary corrections on the consolidated financial statements.

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

2.11 Summary of Significant Accounting Policies (Continued)

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).

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

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

Impairment test of Goodwill

Pursuant to IAS 36 *Impairment of Assets*, the Group tested goodwill as of 31 December 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 31 December 2017, the following assumptions were used to determine the recoverable amount of Retail CGU:

CGU:	**Retail**
Base used for the recoverable amount:	Value in use
Source:	Forecasted cash flows
WACC (TL):	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 31 December 2017, the following assumptions were used to determine the recoverable amount of Distribution CGU:

CGU:	**Distribution**
Base used for the recoverable amount:	Value in use
Source:	Forecasted cash flows during 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 2015 to 2036 for BEDAŞ and from 2015 to 2042 for AYEDAŞ and TOROSLAR EDAŞ. This calculation includes the discounted values of the TL cash flows of Distribution CGU which is the functional currency of the Group. The Group compared the recoverable amount calculated based on the aforementioned assumptions to the total value of Distribution CGU and no impairment was identified.

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.

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

NOTE 3 - SHARES IN OTHER PARTIES

Subsidiaries

			Proportion of ownership (%)	
Name of Subsidiary	Principal activity	Place of incorporation and operation	31 December 2017	31 December 2016
BAŞKENT EDAŞ	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
Enerjisa Müşteri Çözümleri A.Ş.	Customer Solutions and Distributed Generation Services	İstanbul	100	-

Group Structure:

		Number of subsidiaries wholly owned by the Group	
Principal Activity	Place of incorporation and operation	31 December 2017	31 December 2016
Electricity Distribution Services	Ankara, İstanbul, Adana	3	3
Electricity Retail Services	Ankara, İstanbul, Adana	3	3
Customer Solutions and Distributed Generation Services	İstanbul	1	-

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

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 year ended 31 December 2017 and 31 December 2016.

1 January - 31 December 2017	**Distribution**	**Retail**	**Unallocated (*)**	**Elimination**	**Total**
Net sales	4,933,635	10,520,293	7,059	(3,116,169)	12,344,818
Cost of sales (-)	(1,402,091)	(10,109,475)	(16,930)	3,116,169	(8,412,327)
Gross profit / (loss)	**3,531,544**	**410,818**	**(9,871)**	**-**	**3,932,491**
Operating expenses (-)	(1,071,516)	(253,205)	(243,191)	49,264	(1,518,648)
Other income / (expense) from operating activities - net	(142,898)	3,732	15,297	(49,264)	(173,133)
Operating profit / (loss)	**2,317,130**	**161,345**	**(237,765)**	**-**	**2,240,710**
Financial income	5,692	208,936	127,431	(253,568)	88,491
Financial expenses (-)	(654,537)	(8,632)	(635,882)	253,568	(1,045,483)
Profit / (loss) before taxation on income	**1,668,285**	**361,649**	**(746,216)**	**-**	**1,283,718**
Current tax expense (-)	(34,227)	(17,115)	-	-	(51,342)
Deferred tax income / (expense)	(218,770)	(67,426)	41,829	-	(244,367)
Net profit / (loss) for the period	**1,415,288**	**277,108**	**(704,387)**	**-**	**988,009**

(*) Out of TL 235,331 depreciation and amortization expenses, TL 208,663 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. The Group management follows the performances of the operating segments excluding acquisitions related loans, therefore the amounts have not been distributed to the segments.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 4- SEGMENT REPORTING (Continued)

1 January - 31 December 2016	**Distribution**	**Retail**	**Unallocated (*)**	**Elimination**	**Total**
Net sales	3,477,328	8,494,889	1,867	(2,870,704)	9,103,380
Cost of sales (-)	(1,336,748)	(8,029,900)	(1,012)	2,866,704	(6,500,956)
Gross profit	**2,140,580**	**464,989**	**855**	**(4,000)**	**2,602,424**
Operating expenses (-)	(837,095)	(222,787)	(211,333)	43,379	(1,227,836)
Other income / (expense) from operating activities - net	(86,792)	23,706	187	(39,379)	(102,278)
Operating profit / (loss)	**1,216,693**	**265,908**	**(210,291)**	**-**	**1,272,310**
Financial income	17,692	119,281	45	(97,289)	39,729
Financial expenses (-)	(460,802)	(5,255)	(429,069)	97,289	(797,837)
Profit / (loss) before taxation on income	**773,583**	**379,934**	**(639,315)**	**-**	**514,202**
Current tax expense (-)	(65,025)	(83,190)	-	-	(148,215)
Deferred tax income / (expense)	(33,378)	3,051	41,733	-	11,406
Net profit / (loss) for the period	**675,180**	**299,795**	**(597,582)**	**-**	**377,393**

(*) Out of TL 217,938 depreciation and amortization expenses, TL 208,663 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. The Group management follows the performances of the operating segments excluding acquisitions related loans, therefore the amounts have not been distributed to the segments.

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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 year ended 31 December 2017 and 31 December 2016.

As at 31 December 2017	Distribution	Retail	Unallocated (*)	Elimination	Total
Segment assets					
Cash and cash equivalents	16,948	92,250	63,552	-	172,750
Trade receivables	1,261,083	1,443,198	38,993	(360,834)	2,382,440
Inventories	101,754	-	-	-	101,754
Derivative instruments	27,232	10,042	6,780	-	44,054
Due from service concession arrangements	6,438,431	-	-	-	6,438,431
Property, plant and equipment	105,519	-	32,406	-	137,925
Intangible assets	2,242	46,403	7,654,785	-	7,703,430
Other receivables and assets	2,168,984	1,371,448	1,624,770	(3,560,008)	1,605,194
Total assets	**10,122,193**	**2,963,341**	**9,421,286**	**(3,920,842)**	**18,585,978**
Segment liabilities					
Bank borrowings	3,619,530	-	3,588,490	-	7,208,020
Other financial liabilities	309,666	-	-	-	309,666
Trade payables	862,860	1,002,664	7,809	(360,834)	1,512,499
Derivative instruments	-	1,797	-	-	1,797
Other payables and liabilities	2,739,623	1,396,687	3,097,291	(3,560,008)	3,673,593
Total liabilities	**7,531,679**	**2,401,148**	**6,693,590**	**(3,920,842)**	**12,705,575**

(*) The majority of intangible assets under unallocated part represents 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 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 represents 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)

31 December 2017	Distribution	Retail	Unallocated	Elimination	Total
Cash Flows from Operating Activities	**1,596,860**	**314,205**	**(52,044)**	**-**	**1,859,021**
Profit for the period	1,415,288	277,108	(704,387)	-	988,009
Adjustments to reconcile net profit for the period	138,674	47,604	773,751	-	960,029
Changes in operating assets and liabilities	(896,016)	11,169	(93,678)	-	(978,525)
Cash generated from operating activities	657,946	335,881	(24,314)	-	969,513
Tax payments	(48,912)	(14,763)	(1,235)	-	(64,910)
Other cash inflows	987,826	(6,913)	(26,495)	-	954,418
Cash Flows from Investing Activities	**(1,705,002)**	**156,105**	**75,002**	**(208,530)**	**(1,682,425)**
Cash used for purchase of property, plant and equipment and intangible assets	(83,743)	(29,882)	(12,986)	-	(126,611)
Interest received	-	185,987	87,988	(208,530)	65,445
Other cash out-flows	(1,621,259)	-	-	-	(1,621,259)
Cash Flows from Financing Activities	**102,739**	**(430,279)**	**40,594**	**208,530**	**(78,416)**
Increase in cash and cash equivalents	(5,403)	40,031	63,552	-	98,180
Cash and cash equivalents at the beginning of the period	22,351	52,219	-	-	74,570
Cash and cash equivalents at the end of the period	**16,948**	**92,250**	**63,552**	**-**	**172,750**

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NOTE 4- SEGMENT REPORTING (Continued)

31 December 2016	Distribution	Retail	Unallocated	Elimination	Total
Cash Flows from Operating Activities	**1,566,407**	**279,666**	**13,366**	**-**	**1,859,439**
Profit for the period	675,180	299,795	(597,582)	-	377,393
Adjustments to reconcile net profit for the period	64,195	60,521	676,229	-	800,945
Changes in operating assets and liabilities	123,625	(92,271)	(38,435)	-	(7,081)
Cash generated from operating activities	863,000	268,045	40,212	-	1,171,257
Tax payments	(66,794)	(78,238)	-	-	(145,032)
Other cash inflows	770,201	89,859	(26,846)	-	833,214
Cash Flows from Investing Activities	**(1,512,001)**	**84,132**	**(1,187,470)**	**(93,793)**	**(2,709,132)**
Cash used for purchase of property, plant and equipment and intangible assets	(33,172)	(17,709)	(13,311)	-	(64,192)
Interest received	-	119,225	14,297	(93,793)	39,729
Other cash out-flows	(1,478,829)	(17,384)	(1,188,456)	-	(2,684,669)
Cash Flows from Financing Activities	**(32,907)**	**(462,830)**	**1,174,104**	**93,793**	**772,160**
Increase in cash and cash equivalents	21,499	(99,032)	-	-	(77,533)
Cash and cash equivalents at the beginning of the period	852	151,251	-	-	152,103
Cash and cash equivalents at the end of the period	**22,351**	**52,219**	**-**	**-**	**74,570**

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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:

Related Party Bank Balances- Akbank T.A.Ş. (1)	31 December 2017	31 December 2016
Demand deposits	13,943	4,307
Time deposits	11,407	-
Repurchase agreements	2,000	8,614
	27,350	12,921

Loans provided by related parties	Original currency	Maturity	31 December 2017 Current liabilities	31 December 2017 Non-current liabilities
Akbank T.A.Ş. (1)	TL	30 March 2018	258,396	-
Akbank T.A.Ş. (1)	USD	6 July 2018	386,544	-
Akbank T.A.Ş. (1)	TL	29 July 2019	17,676	297,000
Akbank T.A.Ş. (1)	USD	5 August 2019	14,344	239,875
Akbank T.A.Ş. (1)	TL	9 September 2019	1,727	200,000
Akbank T.A.Ş. (1)	USD	27 September 2019	14,407	377,190
Akbank T.A.Ş. (1)	TL	9 January 2020	31,850	480,000
Akbank T.A.Ş. (1)	TL	2 June 2020	3,882	300,000
Akbank T.A.Ş. (1)	TL	2 June 2020	1,807	150,000
Akbank T.A.Ş. (1)	TL	30 September 2020	10,799	303,000
			741,432	2,347,065

As of 31 December 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 31 December 2017, the interest rates of USD intercompany loans utilized are in the range of 4.88%- 4.99% (31 December 2016: None).

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

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

			31 December 2016	
Loans provided by related parties	Original currency	Maturity	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	-
			1,569,952	1,050,000

(*) 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 by Enerjisa Enerji A.Ş. to EEDAŞ.

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

	31 December 2017			
	Contract Amount (USD)	Contract Amount (TL)	Assets	Liabilities
Forward exchanges	58,145	34,213	-	(240)
Cross currency swap	163,595	617,065	24,187	-
Foreign exchange swap	100,000	377,190	6,780	-
	321,740	1,028,468	30,967	(240)

	31 December 2016			
	Contract Amount (USD)	Contract Amount (TL)	Assets	Liabilities
Forward exchanges	35,343	124,380	4,324	-
	35,343	124,380	4,324	-

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NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

	31 December 2017		
	Receivables		Payables
	Current		Current
Balances with Related Parties	Trade	Other	Trade
Akbank T.A.Ş. (1)	2,489	-	-
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş. ("Bimsa") (***) (1)	-	-	1,978
Çimsa Çimento Sanayi A.Ş. (1)	11,954	-	-
Akçansa Çimento T.A.Ş. (1)	18,464	-	-
Carrefoursa A.Ş. (1)	6,164	-	-
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. (1)	12	-	-
Enerjisa Üretim Santralleri A.Ş. (1)	872	598	141,130
Teknosa İç ve Dış Ticaret A.Ş. (1)	-	-	61
Temsa Global San. ve Tic. A.Ş. (1)	327	-	-
Aksigorta A.Ş. (**) (1)	9	-	1,890
Hacı Ömer Sabancı Holding A.Ş. (2) (*)	325	-	34
Brisa Bridgestone Sabancı Lastik San. Tic. A.Ş. (1)	243	-	-
	40,859	598	145,093

	31 December 2016		
	Receivables		Payables
	Current		Current
Balances with Related Parties	Trade	Other	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
	15,801	2	126,061

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

(**) Includes premiums covered under the policies signed with Aksigorta A.Ş. and Avivasa Emeklilik ve Hayat A.Ş. which are operating as insurance companies.

(***) 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- 31 December 2017	1 January- 31 December 2016
Short-term employee benefits	22,039	9,985
Long-term employee benefits	293	55
Termination benefits	181	741
	22,513	10,781

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

	1 January - 31 December 2017					
Transactions with Related Parties	Electricity sales	Electricity purchases	Interest received	Interests paid	Other income	Other expenses
Akbank T.A.Ş. (1)	27,523	-	16,512	411,983	-	1,377
Hacı Ömer Sabancı Holding (2) (*)	5,188	-	-	-	-	1,720
Hacı Ömer Sabancı Vakfı (1)	-	-	-	-	-	3,550
Sabancı Üniversitesi (1)	3,914	-	-	-	-	2,450
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş. (1) (***)	-	-	-	-	-	5,264
Çimsa Çimento Sanayi A.Ş. (1)	72,520	-	-	-	-	-
Akçansa Çimento T.A.Ş. (1)	66,896	-	-	-	-	-
Carrefoursa A.Ş. (1)	63,663	-	-	-	-	22
Enerjisa Üretim Santralleri A.Ş. (1)	318	-	-	-	7,416	1,312
Temsa Global San. ve Tic. A.Ş. (1)	3,074	-	-	-	-	-
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. (1)	-	828,799	-	-	1,082	1,796
Aksigorta A.Ş. (1) (**)	41	-	-	-	-	2,275
Brisa (1)	1,421	-	-	-	-	-
Enerjisa Doğalgaz Toptan Satış A.Ş. (1)	-	-	-	-	48	-
Avivasa Emeklilik ve Hayat A.Ş. (1) (**)	469	-	-	-	-	-
Exsa Export San. Mamülleri Satış ve Araştırma A.Ş. (1)	4	-	-	-	-	-
Teknosa İç ve Dış Ticaret A.Ş.	3,572	-	-	-	-	3
	248,603	828,799	16,512	411,983	8,546	19,769

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NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

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

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

(**) Includes premiums covered under the policies signed with Aksigorta A.Ş. and Avivasa Emeklilik ve Hayat A.Ş. which are operating as insurance companies.

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

(****) Includes consultancy fees invoiced by the group companies.

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NOTE 6 - TRADE RECEIVABLES AND PAYABLES

6.1 Trade Receivables:

Current Trade Receivables	31 December 2017	31 December 2016
Trade receivables	3,617,454	2,737,656
Due from related parties (Note 5)	40,859	15,801
Allowance for doubtful receivables (-)	(1,275,873)	(1,032,928)
	2,382,440	1,720,529

As of 31 December 2017, trade receivables amounting TL 1,773,684 (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 overdue receivable balances.

As of 31 December 2017, trade receivables amounting TL 608,756 (31 December 2016: TL 432,605) were past due but not impaired. The aging analysis of these trade receivables as of 31 December 2017 and 31 December 2016 is as follows:

Aging of Receivables that are Due but not Impaired

	31 December 2017	31 December 2016
Up to 3 months	415,290	333,392
3 to 6 months	122,816	94,918
Over 6 months	70,650	4,295
	608,756	432,605

As of 31 December 2017, trade receivables of TL 1,275,873 were considered as impaired and a provision was provided for these trade receivables (31 December 2016: TL 1,032,928). The provision amount corresponding to the impaired trade receivable is determined based on the aging analysis retrieved 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. Group management books a provision for the overdue agricultural irrigation related receivables by more than 365 days.

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NOTE 6- TRADE RECEIVABLES AND PAYABLES (Continued)

6.1 Trade Receivables (Continued):

Movement of allowance for the doubtful trade receivables are as follows:

	1 January- 31 December 2017	1 January- 31 December 2016
Balance at beginning of the year	(1,032,928)	(894,662)
Charge for the period	(406,764)	(264,351)
Amounts collected during the year	156,437	126,085
Other	7,382	-
Closing balance	(1,275,873)	(1,032,928)

The Group received guarantee letters amounting to TL 1,044,473 (31 December 2016: TL 477,204) and deposits and guarantees amounting to TL 1,140,458 (31 December 2016: TL 880,004) as collateral for its electricity receivables.

6.2 Trade Payables:

Current Trade Payables	31 December 2017	31 December 2016
Trade payables	1,367,406	991,607
Due to related parties (Note 5)	145,093	126,061
	1,512,499	1,117,668

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

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 7 - OTHER RECEIVABLES AND PAYABLES

7.1 Other Receivables:

Other Current Receivables	31 December 2017	31 December 2016
Income accruals (*)	403,916	275,666
Due from related parties	598	2
Deposits and guarantees given	20,706	25,624
Receivables from personnel	213	176
Allowance for other doubtful receivables (-)	(3,123)	(3,123)
Other sundry receivables	17,657	95,126
	439,967	393,471

Other Non-Current Receivables	31 December 2017	31 December 2016
Deposits and guarantees given (**)	205,134	161,011
Income accruals (*)	204,379	33,879
Other sundry receivables (***)	63,992	35,845
	473,505	230,735

(*) 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 accompanying 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.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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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- 31 December 2017	1 January- 31 December 2016
Opening balance	(3,123)	(3,123)
Closing balance	(3,123)	(3,123)

7.2 Other Payables:

Other Current Payables	31 December 2017	31 December 2016
Other payables	150,035	123,510
Deposits received	13,778	8,492
Lighting payables	-	28,236
New connection payables	22,177	-
	185,990	160,238

Other Non-Current Payables	31 December 2017	31 December 2016
Deposits received (*)	1,140,458	880,004
	1,140,458	880,004

(*) 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

	31 December 2017	31 December 2016
Spare parts and equipments	100,772	72,531
Other inventories	982	1,928
	101,754	74,459

NOTE 9 - PREPAID EXPENSES AND DEFERRED INCOME

9.1 Prepaid Expenses:

Short-term Prepaid Expenses	31 December 2017	31 December 2016
Prepaid expenses	63,667	11,317
Inventory advances given	135,035	2,411
Personnel advances	857	345
Other advances given	79	83
	199,638	14,156

Long-term Prepaid Expenses	31 December 2017	31 December 2016
Prepaid expenses	4,840	1,516
	4,840	1,516

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 9 - PREPAID EXPENSES AND DEFERRED INCOME (Continued)

9.2 Deferred Income

Short Term Deferred Income	31 December 2017	31 December 2016
Deferred income (*)	460,324	165,711
Advances received (**)	145,334	22
	605,658	165,733

Long Term Deferred Income	31 December 2017	31 December 2016
Deferred income (*)	1,161	25,617
	1,161	25,617

(*) 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 accompanying consolidated financial statements.

(**) Advances received are due to selling electricity back to EPİAŞ. These advances are netted off with invoices amounts issued at the end of the month.

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NOTE 10 – FINANCIAL ASSETS

	Financial asset	
	31 December 2017	31 December 2016
Within one year	691,860	653,754
1-3 years	789,525	789,272
3-5 years	889,680	953,774
More than 5 years	4,067,366	1,896,506
	6,438,431	4,293,306
Current financial assets	691,860	653,754
Non - current financial assets	5,746,571	3,639,552
	6,438,431	4,293,306

	31 December 2017	31 December 2016
Financial assets at 1 January 2017	4,293,306	3,021,041
Investments	1,573,484	1,555,546
Collections	(979,239)	(851,546)
CAPEX reimbursements	*(591,706)*	*(443,235)*
WACC reimbursements	*(437,167)*	*(344,804)*
Prior tariff adjustments	*49,634*	*(63,507)*
Financial income	1,013,557	609,628
Fair value difference and other	537,323	(41,363)
Financial assets at 31 December 2017	6,438,431	4,293,306

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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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	82,630	3,492	9,872	2,035	98,029
Disposals	-	-	-	-	-
Assets transferred on merger with the shareholder	-	-	2,049	-	2,049
Closing balance as of 31 December 2017	97,691	40,438	37,591	2,035	177,755
Accumulated Depreciation					
Opening balance as of 1 January 2017	(1,052)	(15,775)	(2,840)	-	(19,667)
Charge for the period	(4,851)	(10,713)	(3,110)	-	(18,674)
Accumulated depreciation transferred on merger with the shareholder	-	-	(1,489)	-	(1,489)
Closing balance as of 31 December 2017	(5,903)	(26,488)	(7,439)	-	(39,830)
Carrying value as of 31 December 2017	91,788	13,950	30,152	2,035	137,925

	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	10,255	-	25,457	-	35,712
Closing balance as of 31 December 2016	15,061	36,946	25,670	-	77,677
Accumulated Depreciation					
Opening balance as of 1 January 2016	-	(10,974)	(141)	-	(11,115)
Charge for the period	(1,052)	(4,801)	(2,699)	-	(8,552)
Closing balance as of 31 December 2016	(1,052)	(15,775)	(2,840)	-	(19,667)
Carrying value as of 31 December 2016	14,009	21,171	22,830	-	58,010

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

Depreciation expense of TL 18,127 and TL 547 are accounted in general administrative expenses and cost of sales, respectively (2016 general administrative expenses: TL 8,552 and cost of sales: Null).

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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	-	-	-	-	28,022	28,022
Assets transferred on merger with the shareholder	-	-	-	-	1,679	1,679
Closing balance as of 31 December 2017	4,390,673	1,650,121	2,730,031	1,152	58,181	8,830,158
Accumulated Amortization						
Opening balance as of 1 January 2017	(699,371)	(208,586)	-	(1,150)	-	(909,107)
Charge for the period	(152,108)	(56,555)	-	-	(7,994)	(216,657)
Accumulated amortization transferred on merger with the shareholder	-	-	-	-	(964)	(964)
Closing balance as of 31 December 2017	(851,479)	(265,141)	-	(1,150)	(8,958)	(1,126,728)
Carrying value as of 31 December 2017	3,539,194	1,384,980	2,730,031	2	49,223	7,703,430

	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	-	-	-	-	28,480	28,480
Closing balance as of 31 December 2016	4,390,673	1,650,121	2,730,031	1,152	28,480	8,800,457
Accumulated Amortization						
Opening balance as of 1 January 2016	(547,263)	(152,031)	-	(427)	-	(699,721)
Charge for the period	(152,108)	(56,555)	-	(723)	-	(209,386)
Closing balance as of 31 December 2016	(699,371)	(208,586)	-	(1,150)	-	(909,107)
Carrying value as of 31 December 2016	3,691,302	1,441,535	2,730,031	2	28,480	7,891,350

Amortization expense of TL 216,657 is included in general administrative expenses (31 December 2016: TL 209,386).

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.

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NOTE 12 - INTANGIBLE ASSETS (Continued)

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.

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

NOTE 13 - PROVISIONS

Current Provisions	31 December 2017	31 December 2016
Legal claims (*)	157,238	138,417
	157,238	138,417

(*) Legal claims are set for the probable cash outflows related to the legal disputes. As of 31 December 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 arbitrage 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 126,397 (31 December 2016: TL 176,134).

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NOTE 13 – PROVISIONS (Continued)

Movements of provisions are as follows:

	Legal claims	Total
Balance at 1 January 2017	138,417	138,417
Additional provisions recognized	48,278	48,278
Reversal of provisions	(29,457)	(29,457)
Balance at 31 December 2017	157,238	157,238

	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	138,417	138,417

NOTE 14 - COMMITMENT AND CONTINGENCIES

31 December 2017	TL Amount	TL
A. Total amount of Collateral Pledge Mortgage (CPM) given on behalf of the legal entity	37,454	37,454
-Collateral (*)	*37,454*	*37,454*
B. Total amount of CPM given against the subsidiaries included in full consolidation	1,714,899	1,714,899
-Collateral	*1,714,899*	*1,714,899*
Total	1,752,353	1,752,353

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 as announced by EMRA. According to the regulations, the Group is allowed to make transfers between the years. As of 31 December 2017, Group has an obligation to make further investments.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 14 - COMMITMENT AND CONTINGENCIES (Continued)

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 EPİAŞ. 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.

NOTE 15 - EMPLOYMENT BENEFITS

Payables Related to Employee Benefits:

	31 December 2017	31 December 2016
Social security premiums payable	30,647	23,151
Payable to personnel	19,336	16,079
	49,983	39,230

Short-term Provisions Related to Employee Benefits:

	31 December 2017	31 December 2016
Bonus provisions	22,724	12,398
Provisions for unused vacation	23,188	17,064
	45,912	29,462

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NOTE 15 - EMPLOYMENT BENEFITS (Continued)

The movement of 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	19,719	5,694	25,413
Reversal / payments of provisions	(12,434)	-	(12,434)
Obligation transferred on merger with the shareholder	3,041	430	3,471
Balance at 31 December 2017	22,724	23,188	45,912

	Bonus provisions	Unused vacation provision	Total
Balance at 1 January 2016	7,794	14,320	22,114
Additional provisions recognized	13,736	3,179	16,915
Reversal of provisions	(9,132)	(435)	(9,567)
Balance at 31 December 2016	12,398	17,064	29,462

<u>Long-term Provisions Related to Employee Benefits:</u>

	31 December 2017	31 December 2016
Provision for employment termination benefits	69,544	56,442
	69,544	56,442

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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 31 December 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. IAS 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 31 December 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 6.00% and a discount rate of 11.00%, resulting in a real discount rate of approximately 4.72% (31 December 2016: inflation rate of 7.00% and discount rate of 11.30%, discount rate of approximately 4.02%) Ceiling amount of TL 5,001.07 (full digit) which is in effect since 1 January 2018 is used in the calculation of Groups' provision for retirement pay liability (1 January 2017: TL 4,426.16 (full digit)).

As of 31 December 2017 and 31 December 2016, 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 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	25,445	18,897
Interest cost	2,316	1,557
Retirement payment	(12,387)	(18,332)
Actuarial loss / (gain)	(2,460)	(4,505)
Obligation transferred on merger with the shareholder	188	-
Provision at 31 December	69,544	56,442

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NOTE 16 - OTHER ASSETS AND LIABILITIES

16.1 Other Current Assets:

	31 December 2017	31 December 2016
Deferred VAT	57,903	3,587
Other prepaid taxes and funds	25	181
Other	11	719
	57,939	4,487

16.2 Other Non-current Assets:

	31 December 2017	31 December 2016
Deferred VAT	208,133	123,032
	208,133	123,032

16.3 Other Current Liabilities:

	31 December 2017	31 December 2016
Taxes and funds payable	321,363	166,702
Other	2,108	4,112
	323,471	170,814

NOTE 17 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

17.1 Share Capital:

	31 December 2017		31 December 2016	
Shareholders	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		4,017,433		3,964,528

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NOTE 17 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

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 takeover 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 31 December 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- 31 December 2017	1 January- 31 December 2016
Profit for the period	988,009	377,393
Weighted average shares (*)	118,106,900,000	396,452,800,000
Earnings per share (kr)	0.84	0.10

(*) For the year ended 31 December 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.

17.3 Restricted Profit Reserves:

	31 December 2017	31 December 2016
Restricted Profit Reserves	185,265	139,190
	185,265	139,190

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

17.3 Restricted Profit Reserves (Continued):

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, if they do not exceed the capital or issued capital general legal reserves can be used to offset prior year losses or recapitalize the business in case of distress.

NOTE 18 – REVENUE

	1 January- 31 December 2017	1 January- 31 December 2016
Revenue from electricity sales and services provided	11,324,199	8,491,244
Retail sales revenue	*7,076,392*	*5,399,751*
Retail sales service revenue	*254,541*	*243,962*
Distribution lighting sales revenue	*176,855*	*143,289*
Distribution service revenue	*3,146,508*	*2,156,927*
Transmission revenue	*596,713*	*547,314*
Other regions distribution revenue	*73,190*	-
Financial income from service concession arrangements	1,013,557	609,628
Other sales	7,062	2,508
	12,344,818	9,103,380

NOTE 19 - COST OF SALES

	1 January- 31 December 2017	1 January- 31 December 2016
Electricity purchases	(7,715,550)	(5,953,189)
Retail energy purchases	*(6,920,117)*	*(5,173,866)*
Distribution related energy purchases (*)	*(795,433)*	*(779,323)*
System usage fee (**)	(669,903)	(547,314)
Other	(26,874)	(453)
	(8,412,327)	(6,500,956)

(*) Includes theft/loss and lightining related electricty purchases.
(**) Includes pass-through of transmission and other regions distribution revenue.

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NOTE 20 - GENERAL ADMINISTRATIVE EXPENSES

	1 January-31 December 2017	1 January-31 December 2016
General administrative expenses (-)	(1,518,648)	(1,227,836)
	(1,518,648)	(1,227,836)

Details of general administrative expenses are as follows:

	1 January-31 December 2017	1 January-31 December 2016
Payroll and employee benefit expenses	(670,614)	(539,642)
Depreciation and amortization expenses	(234,784)	(217,938)
Material expenses	(183,058)	(125,768)
Outsourcing expenses	(74,002)	(35,443)
Rent expenses	(53,928)	(39,535)
Attorney expenses	(45,880)	(35,152)
Consulting expenses	(33,296)	(43,432)
Maintenance expenses	(45,634)	(32,511)
Tax and duties	(27,122)	(23,282)
Security expenses	(22,305)	(22,357)
Travel expenses	(14,662)	(10,793)
Insurance expenses	(10,514)	(9,931)
Communication and IT expenses	(14,950)	(23,435)
Other expenses	(87,899)	(68,617)
	(1,518,648)	(1,227,836)

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

NOTE 21 - OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

21.1 Other Income From Operating Activities:

	1 January- 31 December 2017	1 January- 31 December 2016
Power theft penalties	90,257	15,398
Late payment interest from electricity receivables	87,489	77,949
Rent income	6,144	6,303
Interest income related to revenue cap regulation	-	19,370
Penalty income	151	-
Lawsuit income	-	14,174
Income from derivative financial instruments	-	3,886
Other income	3,015	7,571
	187,056	144,651

21.2 Other Expenses From Operating Activities:

	1 January- 31 December 2017	1 January- 31 December 2016
Provision for doubtful receivables	(250,327)	(138,266)
Valuation differences arising from deposits and guarantees	(78,514)	(40,287)
Loss from derivative financial instruments	(1,846)	-
Interest expense related to revenue cap regulation	(934)	-
Penalty expenses	(275)	(38,393)
Other expenses	(28,293)	(29,983)
	(360,189)	(246,929)

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 22 - FINANCE INCOME AND EXPENSES

22.1 Finance Income:

	1 January- 31 December 2017	1 January- 31 December 2016
Interest income from repurchase agreements	88,491	39,729
	88,491	39,729

22.2 Finance Expenses:

	1 January- 31 December 2017	1 January- 31 December 2016
Interest expense of borrowings (*)	(968,611)	(735,174)
Bank commission expenses	(14,466)	(8,549)
Foreign exchange gains / (losses) - net	(62,406)	(54,114)
	(1,045,483)	(797,837)

(*) As of 31 December 2017, there is no interest expense related to payables of Privatization Administration (31 December 2016: TL 41,780).

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 23 - TAXATION ON INCOME

Assets Related with Current Taxes	31 December 2017	31 December 2016
Prepaid taxes and funds	11,215	238
	11,215	238

	31 December 2017	31 December 2016
Current Tax Asset/Liability		
Current corporate tax provision	51,342	148,215
Less: prepaid taxes and funds	(47,617)	(141,899)
	3,725	6,316

Tax Expense/(Income) Recognized in Profit or Loss	1 January- 31 December 2017	1 January- 31 December 2016
Current tax expense	51,342	148,215
Deferred tax expense / (income) relating to the origination and reversal of temporary differences, net	244,367	(11,406)
Total tax expense	295,709	136,809

Corporate tax

The Group is subject to Turkish corporate taxes. A 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%). However, in accordance with the addition of temporary 10th article to the Corporate Tax Law, 22% corporate tax rate will be applied to the profits of the entities related to their to 2018, 2019 and 2020 tax periods (for the entities with special accounting period, tax periods commenced in the related year) rather than 20%. The companies apply 20% (will be applied as 22% for 2018, 2019 and 2020 tax periods) tax rate over their quarterly profits when calculating their temporary tax payables; which they are obliged to declare via Advance Corporate Tax Declaration by the end of the 14th, and pay by the end of the 17th of the 2 month following the related period. Quarterly Advance Corporate Tax payments made within a year are deducted from the Corporate Income Tax calculated for the same fiscal year. Following the netting-off, if there is still remaining Advance Corporate Tax balance, it can be deducted from any other financial debt owed to the State or can be received in the form of a cash refund.

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.

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NOTE 23 - TAXATION ON INCOME (Continued)

Corporate tax (Continued)

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.

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 as of 31 December 2017, the rate of 22% is used (2016: 20%).

As of 31 December 2017, the tax rate of 22% is used for the temporary differences expected to be realized / settled within 3 years (2018, 2019 and 2020) for deferred tax calculation since the tax rate applicable to 3 years as of 1 January 2018 has been changed to 22%. However, 20% tax rate is used for the current differences expected / expected to be incurred after 2020 since the tax rate applicable for post-2020 corporations is 20%.

Deferred Tax (assets) / liabilities	31 December 2017	31 December 2016
Differences arising from customer contracts and transfer of operational rights	984,835	1,026,568
Carrying amount differences of property,plant and equipment, intangible assets and concession arrangement differences	82,766	(126,332)
Provision for employment termination benefits	(4,604)	(1,737)
Provision for doubtful receivables	19,790	(4,693)
Provision for lawsuits	(32,063)	(24,088)
Provision for unused vacation	(4,962)	(2,366)
Effect of revenue cap adjustments	50,018	21,879
Late penalty payments	(17,244)	(13,576)
Adjustments due to system migration	(39,090)	(39,090)
Carry forward tax loss	(144,143)	(112,936)
Other	(14,807)	55,332
	880,496	778,961

	31 December 2017	31 December 2016
Deferred tax (asset)	(209,957)	(247,703)
Deferred tax liability	1,090,453	1,026,664
Deferred tax (asset) / liability, net	880,496	778,961

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 23 - TAXATION ON INCOME (Continued)

Deferred tax (Continued)

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

	1 January- 31 December 2017	1 January- 31 December 2016
Opening balance	778,961	789,466
Charged to statement of profit or loss	244,367	(11,406)
Charged to other comprehensive income/expense	492	901
Sale of business line accounted for under equity	(143,598)	-
Closing balance	880,496	778,961

Tax Reconciliation:	1 January- 31 December 2017	1 January- 31 December 2016
Profit from operations before tax	1,283,718	514,202
	20%	20%
Tax at the domestic income tax rate of 20% (2016: 20%)	256,744	102,840
Tax effects of:		
- expenses that are not deductible in determining taxable profit	7,259	10,765
- unused tax losses	33,337	23,204
- other	(1,631)	-
Income tax expense recognised in profit or loss	295,709	136,809

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

At 31 December 2017, the Group recognized deferred tax assets amounting to TL 655,196 for unused carry forward tax losses amounting to TL 144,143 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).

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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 recognized are as follows:

	1 January-31 December 2017	1 January-31 December 2016
Expiring in 2018	66,110	90,338
Expiring in 2019	196,045	323,717
Expiring in 2020	46,370	71,963
Expiring in 2021	75,964	78,663
Expiring in 2022	270,707	-
	655,196	564,681

The expiration dates of previous years' losses on which deferred tax asset was not recognized are as follows:

	1 January-31 December 2017	1 January-31 December 2016
Expiring in 2017	-	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	19,886	-
	842,327	814,345

NOTE 24 - FINANCIAL INSTRUMENTS

24.1 Financial Liabilities:

	31 December 2017	31 December 2016
Short-term liabilities	795,658	1,556,770
Short-term portion of long term bonds issued	20,876	14,382
Short-term portion of long-term liabilities	1,122,406	1,526,642
Total short term financial liabilities	1,938,940	3,097,794
Long-term liabilities	3,978,065	2,850,000
Bonds issued	1,291,015	350,000
Total long term financial liabilities	5,269,080	3,200,000
Total financial liabilities	7,208,020	6,297,794

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NOTE 24 - FINANCIAL INSTRUMENTS (Continued)

24.1 Financial Liabilities (Continued):

The financial liabilities are repayable as follows:

	31 December 2017	31 December 2016
To be paid within 1 year	1,938,940	3,097,794
To be paid between 1-2 years	2,044,941	2,850,000
To be paid between 2-3 years	2,183,000	350,000
To be paid between 3-4 years	695,807	-
To be paid between 4-5 years	345,332	-
	7,208,020	6,297,794

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

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

Currency	Weighted average effective interest rate	31 December 2017 Current	31 December 2017 Non-current
TL	13.43%	1,452,245	3,361,000
USD (*)	4.92%	415,347	617,065
EUR (*)	2.68%	50,472	-
		1,918,064	3,978,065

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

(*) Foreign currency risks associated with the USD and EUR denominated loans of the Group are fully hedged through foreign exchange swap and cross currency swap instruments.

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NOTE 24 - FINANCIAL INSTRUMENTS (Continued)

24.1 Financial Liabilities (Continued):

As of 31 December 2017 and 31 December 2016, details of bonds issued are as follows:

Currency Type	Weighted average effective interest rate (*)	31 December 2017 Current	31 December 2017 Non-current
TL	CPI + 4%-5%	20,876	1,291,015
		20,876	1,291,015

Currency Type	Weighted average effective interest rate (*)	31 December 2016 Current	31 December 2016 Non-current
TL	CPI + 4%	14,382	350,000
		14,382	350,000

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

As of 31 December 2017, the principal valuation of bonds is TL 101,015 (31 December 2016: TL 7,426).

24.2 Other Financial Liabilities:

	31 December 2017	31 December 2016
Other current financial liabilities	30,009	25,087
Other non-current financial liabilities	279,657	245,134
	309,666	270,221

The other financial liabilities are repayable as follows:

	31 December 2017	31 December 2016
To be paid within 1 year	30,009	25,087
To be paid between 1-2 years	27,663	25,568
To be paid between 2-3 years	27,349	26,071
To be paid between 3-4 years	27,020	26,597
To be paid between 4-5 years	26,677	34,491
To be paid between 5+ years	170,948	132,407
	309,666	270,221

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NOTE 24 - FINANCIAL INSTRUMENTS (Continued)

24.2 Other Financial Liabilities (Continued):

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

	Weighted average	31 December 2017	
Currency	effective interest rate	Current	Non-current
EUR	4.70%	30,009	279,657
		30,009	279,657

	Weighted average	31 December 2016	
Currency	effective interest rate	Current	Non-current
EUR	4.70%	25,087	245,134
		25,087	245,134

After the acquisition of distribution regions, payment obligations of TEDAŞ denominated in EUR, which are in scope of loan agreements with European Investment Bank and World Bank have been transferred to the Group. Other financial liabilities are composed of EUR payment obligations of distribution companies to TEDAŞ in this scope.

NOTE 25 – DERIVATIVE INSTRUMENTS

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

	31 December 2017				
	Contract Amount (USD)	Contract Amount (EUR)	Contract Amount (TL)	Assets	Liabilities
Forward exchanges	112,246	34,043	577,102	13,087	(1,797)
Cross currency swap	163,595	-	617,064	24,187	-
Foreign exchange swap	105,071	-	396,317	6,780	-
	380,912	34,043	1,590,483	44,054	(1,797)

	31 December 2016				
	Contract Amount (USD)	Contract Amount (EUR)	Contract Amount (TL)	Assets	Liabilities
Forward exchanges	41,363		145,565	3,886	-
	41,363	-	145,565	3,886	-

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NOTE 25 – DERIVATIVE INSTRUMENTS (Continued)

As of 31 December 2017 and 31 December 2016, movements of fair value of derivative financial instruments are as follows:

	31 December 2017	31 December 2016
Opening balance	3,886	-
Derivative financial (liabilities) / assets at fair value designated through income / expense	38,371	3,886
Total derivative financial (liabilities) / assets	42,257	3,886

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.

	31 December 2017 TL	31 December 2016 TL
Total borrowings (Note 24)	7,517,686	6,568,015
Less: cash and cash equivalents (Note 27)	(172,750)	(74,570)
Net debt	7,344,936	6,493,445
Total equity	5,880,403	4,746,828
Total capital	13,225,339	11,240,273
Net debt / Total capital ratio (%)	56	58

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

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 the finance department. The 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 a 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

	Receivables							
	Trade receivables		Other receivables					
			Current		Non-current			
31 December 2017	**Related party**	**Other**	**Related party**	**Other**	**Other**	**Bank deposits&repos**	**Financial assets excluding cash**	**Derivatives**
Maximum net credit risk as of the balance sheet date (*)	40,859	2,341,581	598	439,369	473,505	172,750	6,438,431	44,054
The part of maximum risk under guarantee	-	2,228,751	-	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	40,859	1,732,825	598	439,369	473,505	172,750	6,438,431	44,054
B. Net book value of financial assets that are due but not impaired	-	608,756	-	-	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-	-	-
-Past due	-	1,275,873	-	3,123	-	-	-	-
-Impairment	-	(1,275,873)	-	(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					
			Current		Non-current			
	Related party	Other	Related party	Other	Other	Bank deposits&repos	Financial assets excluding cash	Derivatives
Maximum net credit risk as of the balance sheet date (*)	15,801	1,704,728	2	393,469	230,735	74,570	4,293,306	3,886
The part of maximum risk under guarantee	-	1,357,208	-	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	15,801	1,272,123	2	393,469	230,735	74,570	4,293,306	3,886
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 31 December 2017 and 31 December 2016 are as follows:

31 December 2017

Maturity analysis of non-derivative financial liabilities	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Borrowings	7,208,020	8,593,963	653,754	1,742,125	6,198,084	-
Trade payables	1,512,499	1,512,499	1,512,499	-	-	-
Deferred income	606,819	606,819	-	605,658	1,161	-
Other payables	1,326,448	1,449,658	309,200	-	-	1,140,458
Other financial liabilities	309,666	309,666	12,465	17,544	108,709	170,948
Total liabilities	10,963,452	12,472,605	2,487,918	2,365,327	6,307,954	1,311,406

31 December 2016

Maturity analysis of non-derivative financial liabilities	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
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.

	31 December 2017		
	USD	**EUR**	**TL equivalent**
Cash and cash equivalents	1,483	17	5,672
Financial liabilities (*)	(273,711)	(11,177)	(1,082,884)
Other financial liabilities	-	(68,579)	(309,666)
Derivative financial instruments	11,680	(398)	42,257
Trade payables	(28,526)	(3,613)	(123,912)
Net foreign currency position	(289,074)	(83,750)	(1,468,533)

	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)

(*) Foreign currency risks associated with the USD and EUR denominated loans of the Group are fully hedged through foreign exchange swap and cross currency swap instruments.

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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. Below sensitivities do not include related swap instruments that would largely offset any foreign currency risk.

	TL effect of USD		**TL effect of EUR**	
	2017	**2016**	**2017**	**2016**
Profit or (loss)	(109,036)	(1,799)	(37,818)	(38,446)

26.2.3.2 Interest rate risk management

As of 31 December 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.

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

26.2 Financial risk factors (Continued):

Categories of financial instruments and fair values

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 carrying amounts of foreign currency denominated monetary assets which are translated at year end exchange rates are considered to approximate their fair values.

The carrying values of cash and cash equivalents are estimated to be at their fair values since they have short term maturities and have little impairment risk.

The carrying value of trade receivables and other receivables which are both discounted and provided provision for doubtful receivables are estimated to be at their fair values.

The fair values of short and long-term bank borrowings are assumed to approximate their book values which are calculated by adding the accrued interest as of the balance sheet date (calculated by effective interest rate method) on the principle.

Discounted values of trade payables are assumed to approximate their respective carrying values.

In the balance sheet, derivate instruments are the only item that is recognized at fair value. The fair value of derivate instrument is determined by using valuation technique, which can be regarded as Level 2.

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

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
	31 December 2017	31 December 2016				
Derivatives	42,257	3,886	Level 2	Market Value	-	-
Deposits paid	205,134	161,011	-	CPI	-	-
Deposits and gurantees received (Note 7)	(1,140,458)	(880,004)	-	CPI	-	-
Financial assets	6,438,431	4,293,306	-	CPI	-	-

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NOTE 27 - EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

	31 December 2017	31 December 2016
Cash at banks	137,580	55,956
Demand deposits	*137,580*	*55,956*
Repurchase agreements	35,170	18,614
	172,750	74,570

As at 31 December 2017, TL 72,111 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 31 December 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 13.44% as at 31 December 2017 (31 December 2016: 11.80%).

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

	1 January 31 December 2017	1 January 31 December 2016
Adjustments related to finance (income) / cost based on revenue cap regulation	934	(19,370)
Adjustments related to financial income recognised relate to service concession arrangements	(1,013,557)	(609,628)
Adjustments related to valuation differences arising from deposits	78,514	40,287
	(934,109)	(588,711)

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

	1 January 31 December 2017	1 January 31 December 2016
Net collections from financial assets related to service concession arrangements	979,239	851,546
CAPEX reimbursements	*591,706*	*443,235*
WACC reimbursements	*437,167*	*344,804*
Prior period tariff adjustments	*(49,634)*	*63,507*
	979,239	851,546

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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 31 December 2017	1 January 31 December 2016
Capital expenditures related to service concession arrangements	(1,621,259)	(1,496,213)
Payment to Privatization Administration	-	(1,188,456)
	(1,621,259)	(2,684,669)

NOTE 28 - EVENTS AFTER THE REPORTING DATE

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:

a. 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.

b. 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.

c. 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.

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.

NOTE 28 - EVENTS AFTER THE REPORTING DATE (Continued)

The application for Public offering of our company was made to the Prime Ministry Capital Markets Board ("the Board") on 15 November 2017; and the draft Prospectus was submitted to the approval of the Board. Within the framework of the relevant legislations, the draft Prospectus had been approved by the Board on 25 January 2018 in accordance with the Board decision 29833736-105.01.01.01-E.890. On the same date, approved Prospectus and Annexes were announced to the public on our website and on the Public Disclosure Platform.

Upon approval of initial public offering (IPO) prospectus by Capital Market Board, the shares of Enerjisa Enerji A.Ş., which were offered to public on 1-2 February 2018 started on 8 February 2018 in BIST Stars Market, at TL 6.25 base price, with ticker "ENJSA.E".