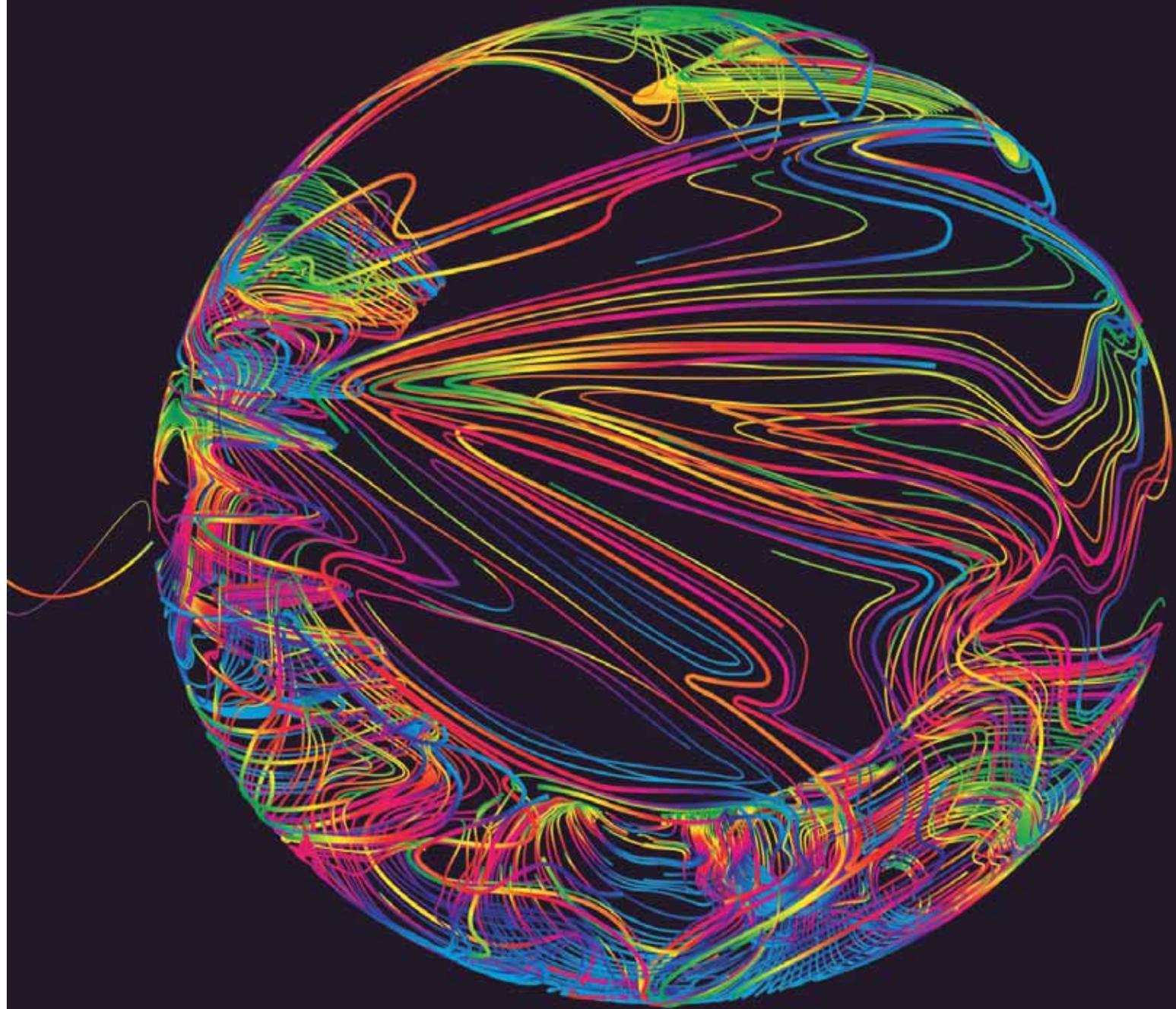


Respects
THE GLOBE
Respected
GLOBALLY



Arçelik A.Ş.
2016
ANNUAL REPORT



Honesty, integrity, and superior business ethics are the foundations of our business conduct.

We conduct our business based on good intentions, mutual benefit, and fair treatment in all our relationships. We are committed to conforming at all times to the highest ethical and legal standards. We are a leader in serving our society and safeguarding the interests of future generations. Protection of the environment and promotion of a higher level of environmental awareness are our duty to both our country and our planet.

Vehbi KOÇ

Respects
THE GLOBE
Respected
GLOBALLY

Arçelik Group's vision of "Respects The Globe, Respected Globally" aims to achieve profitable and sustainable growth; to increase market share in its target market; the globe; to reach more consumers in a fast-changing world with innovative products and services; to safeguard the future with corporate responsibility; and to integrate and optimize the components of the global organization while becoming a global group.

Sustainable Growth	<ul style="list-style-type: none"> ● Vision 2 Almanac 2016 4 Report of the Board of Directors and Message from the Chairman 6 Message from the General Manager 8 Auditor's Report on Annual Report 11 Financial Statement Summary 2016 12 Financial Indicators 13 Five-Year Consolidated Financial Review 14 Shareholders 15 Dividends Paid 16 Share Performance 17 Risk Management 18
The Target Market; the Globe	<ul style="list-style-type: none"> ● Brands 22 Global Operational Network 23 International Markets 24
Innovation	<ul style="list-style-type: none"> ● White Goods 25 ● Consumer Electronics 25
Corporate Governance	<ul style="list-style-type: none"> ● Turkish Market 31 ● White Goods 31 ● Consumer Electronics 31 Plants 35
Corporate Responsibility	<ul style="list-style-type: none"> ● Innovative and Superior Technology 36 Innovative Products 40 Innovative Applications 46
Global Organization	<ul style="list-style-type: none"> ● Corporate Governance Principles Compliance Report 52 Statement of Compliance with Corporate Governance Principles 52
Consolidated Financial Statements and Independent Auditors' Report	<ul style="list-style-type: none"> ● Environmental Approach to Products and Production 72 Environment-Friendly Products 77 Environment-Friendly Applications 79 Social Responsibility 81 Awards and Achievements in 2016 90 ● Global Organization 92 Business Excellence 99 ● Board of Directors 2016 100 Management 2016 102 Agenda 105 Profit Distribution Proposal 106 Amendments to the Articles of Association 107 Independency Statements of Candidates for Independent Members of Board of Directors 108 Dependent Company Report 110 Independent Auditor's Report 111 Consolidated Financial Statements 113



JANUARY

FEBRUARY

MARCH

APRIL

MAY

JUNE

- Arçelik A.Ş. Refrigerator Plant in Thailand started manufacturing.
- Beko launched its global Official Partner of Play campaign.
- Arçelik Creative Industries Application and Research Center (KUAR) was founded with the collaboration of Arçelik A.Ş. and Koç University.
- Arçelik and Beko launched www.arceliksensizolmaz.com and www.bekodunyam.com web sites to provide detailed information on "Special Customer Programs" for its partners and special customers.

- Arçelik A.Ş. manufactured Turkey's first and slimmest 4K Android Ultraslim TV.
- Arçelik manufactured Selamlıque Capsule Turkish Coffee Machine.
- Grundig collaborated with "Food for Soul" founded by Massimo Bottura to create awareness of waste food.
- Grundig presented the home technologies of the future at Eurocucina, world's most prestigious design fair.
- Arçelik A.Ş. attended the World Bank's "Dialogue For Climate Action" event and signed the "Principles of Dialogue For Climate Action".
- Beko LLC Washing Machine and Refrigerator Plant celebrated its 10th anniversary.
- Arçelik A.Ş. hosted a grandiose opening ceremony for the new global purchasing center in China.
- Arçelik A.Ş. held the Global Purchasing Summit in Istanbul with the attendance of one thousand people.
- Arçelik A.Ş. introduced HomeWhiz which allows communication of smart devices with white goods and home appliances.
- Arçelik A.Ş. introduced "Unimpaired Products" project which includes products and solutions for visually impaired.
- Arçelik A.Ş. 2015 Sustainability Report was issued in compliance with Global Sustainability Initiative's G+ basic application level.
- Arçelik A.Ş. was listed in Borsa Istanbul Sustainability Index.



JULY

AUGUST

SEPTEMBER

OCTOBER

NOVEMBER

DECEMBER

- Arçelik launched the Collaborative Robot project, a first implementation of human - robot interaction which is an important element of Industry 4.0.
- Arçelik manufactured and launched Turkey's first OLED TV.
- Arçelik A.Ş. attended the IFA Fair in Germany with Beko and Grundig brands and introduced innovative products and technologies.
- Arçelik Dealers Meeting was held in Antalya with the attendance of more than a thousand dealers from all around Turkey.
- "Professional Grout" and "Coffee & Spice Grinder" designed by Arçelik for hotels, restaurants and cafés were introduced at Istanbul Coffee Festival.

- Arçelik A.Ş. extended the partnership agreement with LG until 2023 and announced that commercial A/Cs would be manufactured in addition to home A/Cs.
- Arçelik A.Ş. incorporated "Arçelik Pazarlama A.Ş. (ARPAŞ)" to manage the operations in Turkey more efficiently.
- Arçelik A.Ş. acquired Dawlance, Pakistan's leading white goods and home appliances manufacturer, with the company's three production plants.
- Arçelik A.Ş. was a strategic partner of Turkey Design Week organized by the Ministry of Economy and Turkish Exporters Association.
- Retail Academy was established by Retail Development Directorate to strengthen the position of Arçelik A.Ş. brands at sales points in Turkey.
- Arçelik A.Ş. introduced Turkey's first "Smart Home Assistance".
- Arçelik A.Ş. was granted with incentives by the Government of Romania for the new Arctic Washing Machine Production Plant.
- Arçelik A.Ş. held an official opening ceremony for the R&D Center in Cambridge.
- Beko became the Turkey sponsor of FCBEscuela, the official football school of Barcelona Football Club.
- Arçelik A.Ş. was listed in "The A List: The CDP Climate Performance Leadership Index". Arçelik A.Ş. is the first Turkish industrial company to enter this list twice.
- Arçelik A.Ş. was the only industry company representing Turkey at 2 events organized by the Ministry of Environment & Urban Planning and UNEP in COP 22.

Report of the Board of Directors and Message from the Chairman

“ Arçelik A.Ş. offers products and services in more than 145 countries with 30,000 employees and manufacturing plants in Turkey, Romania, Russia, China, South Africa, Thailand and Pakistan.

”



Dear Shareholders,

I offer you my warmest greetings and hope our meeting to share the results of the previous year will be productive for all of us.

As you know, 2016 was a challenging year in Turkey and all around the world. Political and economic developments deeply affected each area of the business world in different ways and as a result of these developments businesses suffered and continue to suffer commercially.

Due to the policies adopted after the crisis, the economic outlook of the USA was better than for other developed countries. While the interest rate increase by the FED is considered a positive move for the US economy, it is also seen as a threat in terms of capital flow to developing countries. The US presidential election and the new president have put the US in the world spotlight more than ever before.

Indications of recovery in the European economies in 2015 continued into 2016. The chief factors influencing Europe's growth in 2017 are elections in Germany, the Netherlands and France, political instabilities in other large markets such as Italy and Spain, and Brexit.

In Japan, growth is still fragile despite the measures taken. With the end of stagnation in developing countries, especially in Russia and Brazil, the growth rate is expected to increase in the period ahead. Currently China is working on growing local demand to balance its growth model based on exports and investments. The sheer magnitude of its market will ensure that China's performance will continue to be a significant factor in the global economy.

In terms of our domestic economy, it was a year of markedly different phases. In the first half, inflation was low, partly due to food prices, and growth was moderate; but in the second half, security concerns, geopolitical issues and the events on July 15th created a completely different scenario. Following the US elections, the dollar started to increase in value and funds were diverted from developing countries. Unfortunately, the Turkish lira was among the most depreciated currencies in this term, resulting in credit rating institutions degrading Turkey's rating to below 'suitable for investment'. In the light of these developments, the government and official institutions took direct and indirect measures to trigger economic growth, increase foreign currency liquidity and maintain the credit cycle. Overall, I think 2017 will be a tough year, but one which also offers opportunities. Turkey has great potential and I believe that we can have a productive year if we correctly manage economic and political risks.

Dear Shareholders,

As a leader in the Turkish consumer durables industry and a major global company, Arçelik's success has a significant effect on the overall achievement of the Group's objectives. Looking at the Company's performance in 2016, all the signs indicate a steady and healthy growth.

The Company increased its revenue to more than TRY 16 billion and profits rose to TRY 1,304 million after tax. This healthy balance sheet enabled us to maintain our score at credit rating institutions. In 2016, due to its global growth strategy and a solid operational and financial performance, Arçelik A.Ş. held its position as one of the most valuable assets traded at Borsa Istanbul.

Arçelik A.Ş. offers products and services in more than 145 countries with 30,000 employees and manufacturing plants in Turkey, Romania, Russia, China, South Africa, Thailand and Pakistan. Last year, the Group took a significant step, in line with its objective of increasing its presence in international markets, by acquiring Dawlance, the leading white goods manufacturer in Pakistan, one of the most highly populated countries in the world. Another important move was the establishment of Arçelik Pazarlama A.Ş. to manage marketing activities in Turkey more effectively.

In our opinion, the most valuable asset of Arçelik A.Ş. is the capability to develop technology and innovation. We were happy to see the Company taking significant steps in this area during 2016. Within Turkey, there were two new R&D centers and one Design Hub, bringing the total to 10 R&D centers and enabling the Company to maintain its leading position. The Company also expanded its international R&D network by opening an R&D Center in Cambridge UK, while also working towards the opening of an office in Chicago.

Dear Shareholders,

I am glad to see that Arçelik is leading on sustainability issues, not only by signing up to the Principles for Dialogue on Climate Action, but also due to adopting policies which are compliant with the new United Nations Sustainable Development Goals, and engaging in numerous international projects in this area.

Dear Shareholders,

Arçelik A.Ş. is one of the flagship enterprises of the 90-year old Koç Group. We will always remember the contribution made to Arçelik and the whole Group by our founder, the deceased Vehbi Koç, and my own son Mustafa V. Koç, whose untimely death brought us great sadness. I am fully confident that clever strategies will enable the Company to grow as in the past.

I would like to take the opportunity to extend my thanks to our current and former employees, labor and employer unions, dealers, service outlets and suppliers for their contribution to the Company, as well as to our customers and to you, our valuable shareholders, for your continued support.

I would like to express my respect and offer my best wishes to you all.



Rahmi M. Koç
Chairman of the Board
Arçelik A.Ş.

Message from the General Manager

“ In 2016, our consolidated revenue increased by 13.6% to TRY 16.1 billion, while net profits increased by 46% to TRY 1.3 billion. ”



Dear Shareholders, Business Partners and Employees,

The year we have left behind was a year of significant worldwide changes. Britain's decision to leave the European Union, the USA presidential election and the policies expected from the new president caused fluctuations throughout global markets. Slow growth in the eurozone and the stable recovery trend of the US economy continued. In these conditions, the FED increased interest rates for the second time since 2008. As the Chinese economy continued to slow down, Japan struggled with diminished domestic demand. Meanwhile, OPEC's decision to reduce production in November increased the price of gas as well as commodities. The global economy is expected to grow by 3.4% in 2017 after growth of 3.1% in 2016.

Global economic stagnation, global terrorism, the coup attempt in Turkey, a stronger USD and the increase in raw material prices are among the factors creating pressure on the business world. In the fast-changing and unpredictable conditions of 2016, we maintained a stable pace of growth by focusing on operational excellence.

Limited growth in the global white goods industry

It is estimated that the global white goods industry in 2016 increased by 1.2% to 508 million in terms of units and by 0.5% to USD 184,5 billion in revenue.

The TV market grew by 2.5% to 233.9 million units and revenues rose 0.2% to USD 109,4 billion.

In Europe, our primary market, the white goods market grew by 3.6% compared to the previous year. In Western Europe, we saw a growth of 3.2%, supported by expansion in the Spanish, Italian and British markets, with the latter showing the fastest growth. In Eastern Europe, acceleration in the Polish, Russian, Ukrainian and Romanian markets resulted in 4.8% growth, while in South Africa the white goods market shrunk by 5.3%.

In Turkey, Europe's largest center of production for the white goods industry, exports rose by 8% to 19.54 million units in six main products. The domestic market also grew by 5% to 7.46 million units. 2017 growth estimations for the white goods industry are 3% for the local market and 2% for the global market.

Strong position in Europe and restructuring operations in Turkey

In 2016, we maintained our leading position with our strong brands in Turkey, England, Romania, Poland, South Africa and Pakistan. At the same time, we have a solid position in Europe, the Middle East and Africa with our global brand Beko. We strengthened our position with Beko as the leading brand in the European standalone white goods market, while increasing our market share and price index. We also performed better in large markets, including France, Italy and Spain and strengthened our leading position in the British built-in products market.

In Turkey, our growth performance was better than average in all main product segments including white goods, air conditioning and TVs. We increased our market share in the shrinking South African market with Defy. We entered new markets and channels with Grundig, our global premium segment brand, and sales revenues from Grundig white goods increased by 50%.

We decided to extend the scope of operations in Romania and invest in a new plant. The Romanian government awarded Arctic, our leading company, with an incentive grant of 36.1 million Euro for a new washing machine plant. It is envisaged that the plant, whose construction will start this year, will be operational in two years. It will be the first Arçelik A.Ş. plant in full compliance with Industry 4.0 standards.

2016 was also a year in which we reached our objectives in Asia-Pacific, a region with a huge growth potential for us. Our plant in Thailand started mass production in the first quarter, manufacturing a total of 100,000 refrigerators. We increased our market penetration in the region through our sales organization in Malaysia and Vietnam. To secure a stronger presence in the region, we acquired Dawlance, Pakistan's leading white goods manufacturer, giving us a strategic position in a market with huge potential. With this acquisition, we now have 18 manufacturing facilities in seven countries and 30,000 employees. We continue to search out new opportunities in the region, aiming to build a Beko Road from Turkey to Asia-Pacific, just like the Silk Road which developed trade from East to West.

We also seek to grow in the Americas. Following in the steps of our Blomberg brand, we also launched Beko into the highly-competitive USA market, and one of our top priorities in 2017 will be stronger growth and entering new sales channels in this market.

We took a strategic step towards managing our operations in Turkey more efficiently, restructuring our local operations with a more lean and focused approach in line with our international operations. Like the other companies in our global organization, our new company Arçelik Pazarlama A.Ş. also has subsidiary status. Through this, we are aiming for a more efficient, flexible and functional organization delivering increased operational efficiency with strategies focused on growth and improvement. The air conditioning manufacturing partnership agreement with LG has been extended until 2023. With new investments, Arçelik and LG will expand the current production of home air-conditioning to commercial air-conditioning, a segment which is predicted to grow.

Strong financial returns despite challenging market conditions

Strong operational performance was reflected by our financial returns. As revenues and profitability improved, the need for operational capital steadily decreased. Despite market fluctuations, our credit rating was maintained thanks to our healthy balance sheets.

Consolidated revenues increased by 13.6% to TRY 16.1 billion, while net profits increased by 46% to TRY 1.3 billion. Our EBITDA (Earnings Before Interest Taxes Depreciation and Amortization) margin was 11%. In 2017, we expect 20% growth in consolidated revenues and an EBITDA margin of 11%.

Integrating new technologies into our business model

In this era of huge global transformation, we are shaping our growth strategies based on global trends. The shift in economic power, increasing rate of urbanization, aging population, growing middle class, limited resources and digitalization have transformed our sector. We will continue to invest with a focus on R&D, innovation, quality, design, branding and consumer strategies.

We are witnessing a fast-paced technology revolution, in which artificial intelligence, smart robots, the Internet of Things, big data and cloud computing continue to transform our world. Integrating this technological transformation into our business model is one of our top strategic priorities. We continue to invest in R&D and cooperate with global stakeholders to secure a leading position in Turkey and the world. Our commitment to innovation gives us a competitive advantage.

With 14 R&D and Innovation Centers in Turkey, Taiwan, England and Portugal, and an R&D personnel of 1000, we develop products which add value to the lives of consumers all around the world. We strengthened our international partnerships by extending our R&D ecosystem to Boston, home to some of the USA's leading universities, including MIT and Harvard.

With this vision, in 2016 we maintained our leading position in Turkish R&D and patents. We were granted with the award for "Turkey's Best R&D Center" at the Private Sector R&D Centers Summit and maintained our top position in the Turkish Patent Awards. Additionally, we were ranked 78th in the list of global patent applications to the WIPO (World Intellectual Property Organization).

In the area of digital transformation, we implemented Workshop 4.0, Garage and Tech Pro Academy projects. We set up Workshop 4.0 to integrate the production technologies of the future, and created an environment to enable the swift realization of original ideas using Arçelik Garage as a platform. With the Academy, we will create improvement maps for our engineers and assist them with their career plans.

Message from the General Manager

We continued to apply advanced technology to manufacture the world's most efficient and silent products. In 2016, we introduced the advanced features of HomeWhiz, our smart white goods and home appliances platform, and extended our TV portfolio with OLED technology and Android TV. We launched white goods technologies which improve the lives of consumers and also took a step into the digital world of tomorrow with new concept products; the remotely controlled Cooler Oven which allows cooking and cooling, FreshMeter which detects food freshness levels with smart sensors, and HerbGarden which enables herbs to be grown in the home are among the achievements of our R&D work.

We introduced Arçelik Smart Home Assistant, our new artificial intelligence technology, to the Turkish market. The Home Assistant supports Turkish language communication and can respond to consumer questions in seconds. The product launch is planned for 2017.

Awards from Red Dot, IF Design, Good Design and other prestigious contests confirmed the success of our designs. Our Capsule Turkish Coffee Machine was granted with a Gold Award from IF Design - a first in Turkey.

We continued to make our mark in Turkey, and with our strong retail organization we extended our network of shops all around the country, trying out our new concepts. We will soon be introducing customers to the new designs that reflect a vision of the future.

Our vision of sustainability creates value for the globe
Sustainability is at the core of our business model and all our operations. We manufacture energy-efficient products and lead global initiatives towards a sustainable world. At the same time, our work in contribution to the United Nations 2030 Sustainable Development Goals is ongoing. Knowing it is part of the solution, we took significant steps in 2016 regarding energy efficiency, climate change and global food wastage.

We implemented a total of 265 energy efficiency projects. These projects ensured an annual energy efficiency saving of 133,217 GJ and an annual decrease of 11,594 tons in greenhouse gas emissions. This amount of saving is equivalent to the annual electricity consumption of 12,500 houses. The amount of water saved, recycled, recovered and reused at Arçelik plants in the last 5 years is approximately 870,000 m³. This amount is equivalent to the daily water consumption of 1,1 million houses.

In our WEEE recycling plants operating in Bolu and Eskişehir, we saved 52,3 GWh and contributed to Turkish economy by recycling of high energy and water consuming old products in 2016. This is equivalent to daily electricity consumption of 7 million houses. We prevented 26,000 tons of carbon dioxide emissions.

In the 2016 United Nations Climate Change Conference (COP 22), we were the only industrial company representing Turkey at both events organized by the Turkish Ministry of Environment and Urban Planning and UNEP.

Thanks to these efforts, for the second time we were listed in "The A List: CDP Climate Performance Leadership Index 2016". This list includes the world's best performing companies as determined by the CDP (Carbon Disclosure Project), the world's leading climate change initiative. We are the first Turkish industrial company to enter this list twice. As well as this, we were ranked among the leading companies in the Borsa Istanbul Sustainability Index.

We cooperated with world-famous chef Massimo Bottura for the 'Respect for Food' campaign, which is aimed at tackling food wastage, while also engaging in projects to create awareness and decrease the level of global food wastage.

The Beko brand has been supporting sports activities and the development of young people for many years. With this brand, we sponsored Beşiktaş and FC Barcelona, invested in football education and sponsored FCB Escola Turkey, the official football academy of FC Barcelona.

Going forward, we will accelerate organic growth in current markets with a focus on products and management, while maintaining our global growth. In new markets, we will invest in production plants, mergers and acquisitions. Our vision is to be among the most popular brands in all the countries where we operate. We will focus on understanding the expectations of consumers and delivering the most effective solutions to make their lives easier.

As we respectfully remember our deceased founder, Vehbi Koç, and Mustafa V. Koç, former Board Chairman of Koç Holding who passed away in 2016, we reiterate our strong commitment to their values and legacy.

We will continue to create value and maintain Arçelik's global growth in cooperation with our shareholders, employees, dealers, service outlets, suppliers and business partners. I extend my sincerest thanks and respect to our stakeholders and customers, as well as our shareholders, whose support is always with us.

Hakan BULGURLU
General Manager
Arçelik A.Ş.



Güney Bağımsız Denetim ve
SMMM AŞ
Eski Büyükdere Cad,
Orjin Maslak No:27
Maslak, Sarıyer 34398
İstanbul - Turkey
Tel : +90 212 315 30 00
Fax: +90 212 230 82 91
ey.com
Ticaret Sicil No: 479920-427502

(Convenience translation of a report originally issued in Turkish)

INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

To the Board of Directors of Arçelik A.Ş.,

Report on the Audit of the Annual Report of the Board of Directors in accordance with the Independent Auditing Standards

We have audited the annual report of Arçelik Anonim Şirketi and its subsidiaries (together referred to as "the Group") for the year ended December 31, 2016.

The responsibility of the Board of Directors on the Annual Report

In accordance with Article 514 of the Turkish Commercial Code 6102 ("TCC") and the provisions of the Communiqué II-14.1 on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") of the Capital Markets Board ("CMB"), the management of the Group is responsible for the preparation and fair presentation of the annual report consistent with the financial statements and for the internal controls considered for the preparation of a report of such quality.

Responsibility of the Independent Auditor

Our responsibility is to express an opinion, based on the independent audit we have performed on the Group's annual report in accordance with article 397 of the TCC and the Communiqué, on whether the financial information provided in this annual report is presented fairly and consistent with the Group's financial statements thereon which auditor's report dated February 6, 2017 has been issued.

Our independent audit has been performed in accordance with the Independence Auditing Standards as endorsed by CMB and Independent Auditing Standards which are a part of Turkish Auditing Standards promulgated by the Public Oversight, Accounting and Auditing Standards Authority of Turkey. These standards require compliance with ethical provisions and the independent audit to be planned and performed to obtain reasonable assurance on whether the financial information provided in the annual report is free from material misstatement and consistent with the financial statements. This independent audit involves the application of auditing procedures in order to obtain audit evidence on the historical financial information. The selection of these procedures is based in the professional judgment of the independent auditor. We believe that the audit evidence we have obtained during our independent audit is sufficient and appropriate to provide a basis for our opinion.

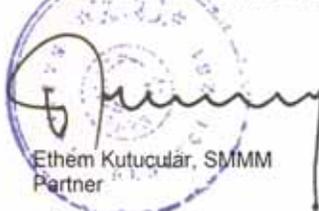
Opinion

In our opinion, the financial information provided in the annual report of the Board of Directors is presented fairly and consistent with the audited financial statements, in all material respects.

Independent auditor's responsibilities arising from other regulatory requirements

In accordance with paragraph 3 of Article 402 of the Turkish Commercial Code ("TCC") 6102, within the framework of the Independent Auditing Standards 570 "Going Concern", no material uncertainty has come to our attention which causes us to believe that the Group will not be able to continue as a going concern in the foreseeable future.

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



Ethem Kutucular, SMMM
Partner

February 28, 2017
Istanbul, Turkey

- Consolidated net sales revenue of 2016 has reached TRY 16,096 million, corresponding to an increase of 13.6% as compared to 2015.

- Consolidated operating profit margin in 2016 reached TRY 1,331 million and net profit reached TRY 1,304 million.
- 60% of consolidated sales in 2016 were generated by international sales.

Operating Profit

1,331
TRY million

Net Profit

1,304
TRY million

Net Sales

2016
16,096
TRY million

Net Sales

(TRY Million)



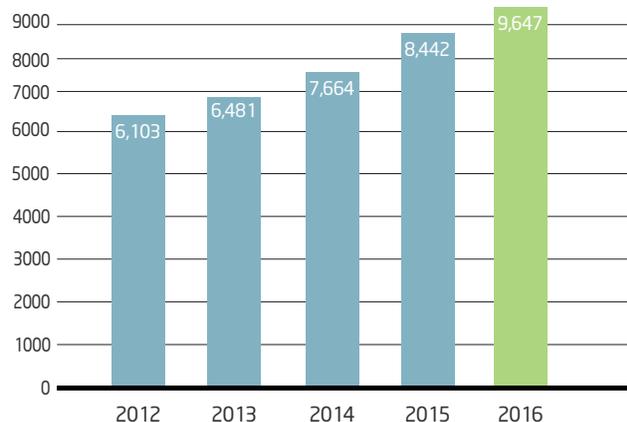
Net sales - Turkey

(TRY Million)



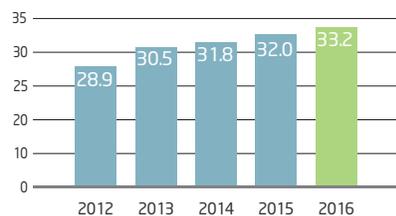
Net sales - International

(TRY Million)



Gross Profit Margin

(%)



Earnings before interest, tax, depreciation and amortization (*)

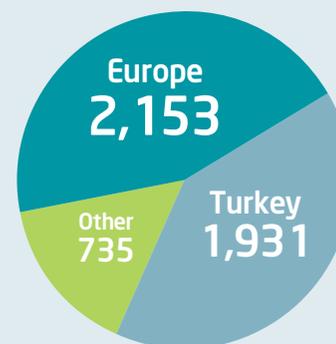
(%)



Regional Distribution of Net Sales

EUR Million

2016



Operating Profit Margin (*)

(%)



Net Profit Margin

(%)



Net Sales by Product Group

EUR Million

2016



Return on Equity

(%)



Return on Assets

(%)



(*) Operating profit margin and EBITDA margin were calculated by deducting the impact of foreign exchange rate gains and losses from trade receivables and payables, credit finance income and charges, and cash discount expense and adding incomes and expenses from fixed asset sales in order to maintain consistency with the presentation of the previous term.

Five - Year Consolidated Financial Review

EUR Million	2016	2015	2014	2013	2012
INCOME STATEMENT					
Net sales	4,819	4,692	4,307	4,395	4,581
Gross profit	1,599	1,502	1,369	1,342	1,323
Operating profit	398	383	352	338	326
Profit before tax	360	260	252	295	270
Net profit	390	296	220	247	237
Depreciation and redemption	131	122	119	120	113
BALANCE SHEET					
Year-end cash and cash equivalent	658	682	575	431	740
Inventory	744	673	753	677	680
Current assets	2,961	2,960	3,003	2,608	2,865
Tangible assets	741	647	643	626	682
Total assets	4,558	4,324	4,394	3,886	4,349
Total short-term liabilities	1,781	1,648	1,571	1,393	1,676
Total liabilities	2,939	2,852	2,835	2,476	2,679
Minority interest	7	6	15	26	36
Equity	1,619	1,471	1,559	1,409	1,670
CASH FLOW					
Net cash flow from operating activities	619	571	345	152	293
Net cash flow from investment activities	-299	-198	-145	-188	-178
Net cash flow before financial activities	320	372	200	-36	115
Dividends paid	78	116	122	160	150
Capital expenditures	251	217	159	207	209
SHARE-BASED DATA					
Dividends (Euro)	0.188	0.128	0.178	0.176	0.228
Year-end share price (Euro)	5.74	4.40	5.32	4.14	4.98
Price-earning ratio	11.02	10.59	16.43	13.73	15.06
Dividends/net profit (%)	32.7	29.4	56.7	50.2	67.6
Year-end market value	3,878	2,971	3,593	2,796	3,362
PERSONNEL INFORMATION					
Number of employees	29,551	26,337	24,876	23,392	22,552
Blue collar	24,048	21,760	20,517	19,222	18,598
White collar	5,503	4,577	4,359	4,170	3,954

(*) Operating profit was calculated by deducting the impact of foreign exchange rate gains and losses from trade receivables and payables, credit finance income and charges, and cash discount expense, and adding incomes and expenses from fixed asset sales in order to maintain consistency with the presentation of previous term.

According to our financial statements for the term 01.01.2015 – 31.12.2015, dividend distribution started as of 01.04.2016 pursuant to decision of the Ordinary General Assembly of Shareholders convened on 25.03.2016. The cash dividends totaling to TRY 262,000,000 were allocated from current year earnings.

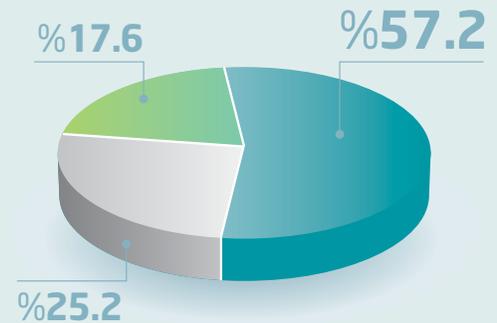
As of 2016, the fully paid-up issued capital of the company was TRY 675,728,205, which is divided into 67,572,820,500 registered shares, each with a nominal value of 1 Kurus. The registered capital of the company is TRY 1,500,000,000.

There are no preference shares. Each share with a nominal value of 1 Kurus is entitled to one vote in the General Assembly.

Shareholders	Amount of Shares (TRY)	Share Percentage (%)
Koç Holding A.Ş.	273,742,027	40.5
Koç Group, Other	113,026,127	16.7
Koç Group, Total	386,768,154	57.2
Teknosan Büro Makina ve Levazımı Tic. ve San. A.Ş.	81,428,337	12.0
Burla Ticaret ve Yatırım A.Ş.	37,571,663	5.6
Other Shareholders	169,960,051	25.2
TOTAL	675,728,205	100.0

Koç Group Burla Group Other

Shareholders have not made any transactions through non-public shares in 2016.



Dividends Paid

The amount of dividends paid over the revenues from 2011 to 2015, the distributable profit as of the concerning years and their ratio to the capital are as follows.

Dividend Payment Year	Issued Capital (Thousand TRY)	Dividends (Thousand TRY)	Gross Dividend of per Nominal Share of TRY 1	Dividend Payout Ratio (%)	Earnings (TRY) Per Nominal Share of TRY 1
2011	675,728	300,000	0.44397	44.4	0.75
2012	675,728	355,000	0.52536	52.5	0.777
2013	675,728	300,000	0.44396	44.4	0.885
2014	675,728	350,000	0.51796	51.8	0.913
2015	675,728	262,000	0.38773	38.8	1.319

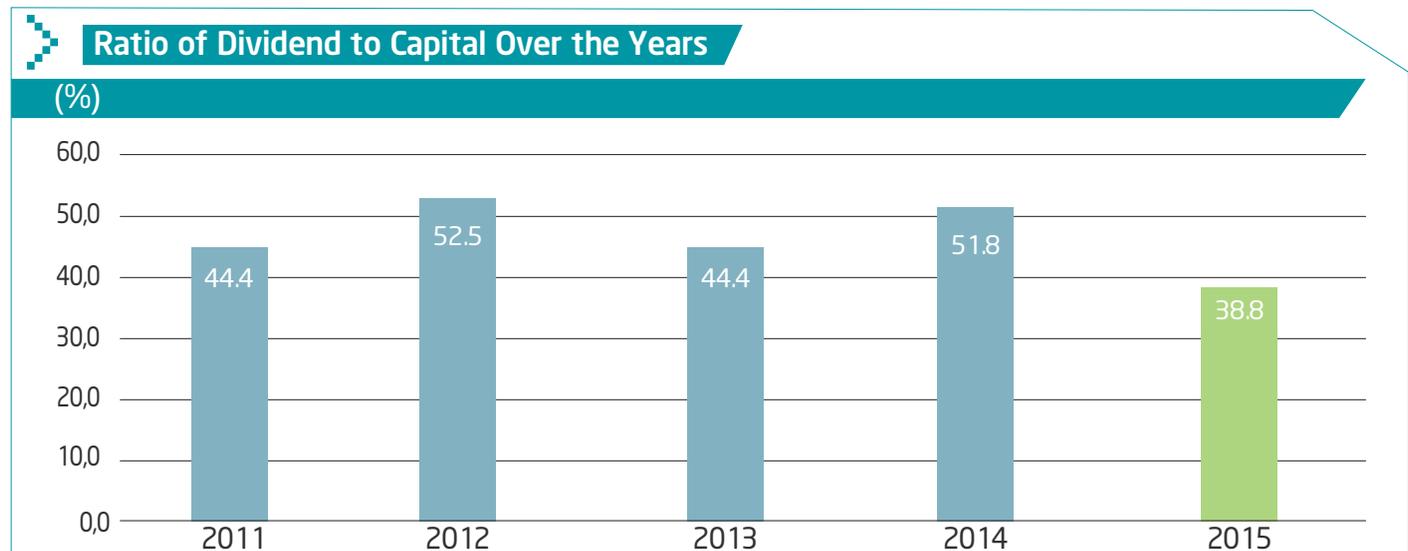
Ratio of Dividend to Capital Over the Years

Our Dividend Distribution Policy for 2013 and following years: "Our Company exercises dividend distribution pursuant to the provisions of Turkish Commercial Code, Capital Market Regulations, Tax Regulations and other relevant regulations as well as the provisions of our Articles of Association related to distribution of dividends. The distribution of dividends is based on a balanced and consistent policy between shareholders and corporate interests in accordance with Corporate Governance Principles.

As a principle, 50% of the distributable term profit (calculated as per the Capital Market Regulations) is distributed in the form of cash and/or bonus shares to the extent allowed by the relevant regulations and financial facilities as long as they have provisions in the existing resources specified in our legal records on the basis of market expectations, long-term corporate strategy, investment and finance policies, profitability and cash position.

The purpose is to distribute dividends within maximum one month after the General Assembly meeting, which also decides on the date of distribution of dividends. General Assembly or Board of Directors (if authorized) may decide on distribution of dividends in installments in accordance with the Capital Market Regulations.

The Articles of Association of the Company states that 'The Board of Directors may distribute dividend advance provided that it is authorized by the General Assembly, and that it complies with the Capital Market Regulations.'

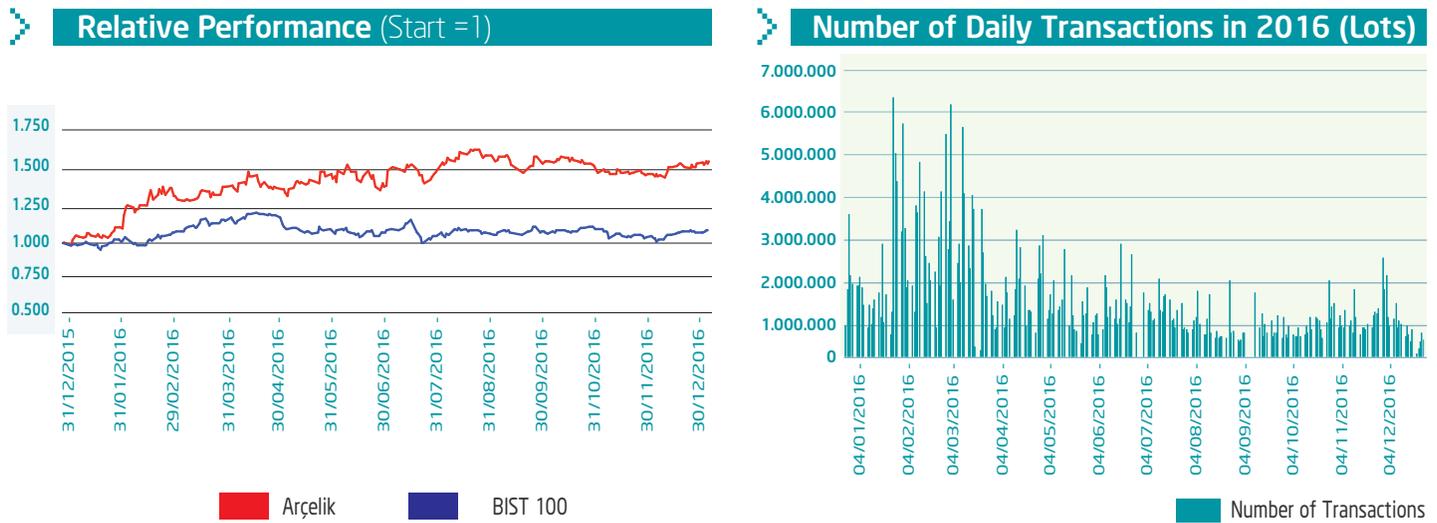


Company shares are traded at IMKB and Borsa Istanbul since January 1986. The last 5-year performance of shares in the stock exchange is summarized in the following table

Share Data	2016	2015	2014	2013	2012
Lowest price (TRY) (*)	13.42	12.98	9.88	8.50	5.05
Highest price (TRY) (*)	22.26	16.36	14.70	13.15	10.34
End-of-year price (TRY) (*)	21.20	13.69	14.18	11.06	10.21
End-of-year price (TRY)	21.20	13.97	15.00	12.15	11.70
Issued capital (TRY Thousand)	675,728	675,728	675,728	675,728	675,728
Market Value (TRY Thousand)	14,325,438	9,439,923	10,135,923	8,210,098	7,906,020
Market Value (USD Thousand)	4,056,129	3,246,637	4,371,005	3,846,740	4,435,106

(*) Corrected to capital.

The following graphic shows the share performance from 01.01.2016 to 31.12.2016. Accordingly, share price of the Company increased by 54.9% and BIST 100 index by 8.9%.



The daily average transaction volume of company shares in 2016 was 1,396,000 lots. As of the end of 2016, approximately 89.2% of the shares of the Company that are traded at Borsa Istanbul are retained by foreign investors.

Following is the list of Borsa Istanbul indexes that feature the Company as of the end of 2016. For the purposes of index calculations, the retainment rate is 25% and share weight in BIST 100 is 2.1596%.

Arçelik A.Ş. is listed in BIST Star, BIST 30, BIST 50, BIST 100, BIST All, BIST Corporate Governance, BIST Sustainability, BIST Dividends, BIST Dividends 25, BIST Industrial, BIST Metal Goods, Machinery, BIST Istanbul Indexes.

As a result of the revision made by Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş., the first corporate

governance rating of Arçelik A.Ş., which was made public through the disclosure of material events as of 30.07.2009, the note was increased from 8.21 out of 10 (82.09%); to 8.55 out of 10 (85.53%) on 30.07.2010; to 8.59 out of 10 (85.91%) on 01.08.2011; to 9.11 out of 10 (91.07%) on 30.07.2012; to 9.28 out of 10 (92.80%) on 29.07.2013; to 9.41 out of 10 (94.11%) on 23.07.2014; to 9.48 out of 10 (94.80%) on 22.07.2015; and to 9.52 out of 10 (95.23%) on 22.07.2016.

The Company has been included in BIST Corporate Governance Index since 31.07.2009.

"BIST Sustainability Index" features companies that are traded at Borsa Istanbul and that demonstrate top performance in terms of corporate sustainability. The index has been calculated since 04.11.2014 and now includes our Company.

Risk Management and Risk Management Committee Activities

Arçelik A.Ş. Board of Directors conducts its business in a transparent, accountable, fair and responsible manner. Chairman and a Vice Chairman are elected by and among the Board Members. Also, Chairman and Members of Board committees are elected. General Manager is also an executive member of the Board.

Board of Directors creates internal control systems involving risk management and information systems and processes that may minimize the effects of risks which may affect the stakeholders (especially the shareholders) of the company by taking the opinion of Board of Directors committees into account.

With the decision taken by Arçelik A.Ş. Board of Directors at the meeting on 16.07.2010 for the purpose of ensuring efficient operation of committees within the body of Board of Directors in accordance with Article 378 of Turkish Trade Law number 6102 ad Corporate Governance Communique of Capital Market Board; a Risk Management Committee was formed in order to carry out activities with the aim of early identification of risks that may jeopardize the existence, development and continuity of the company, application of relevant actions concerning identified risks and managing risks. Mr. K. Kaynak Küçükpınar, independent member of the Board of Directors, is the chairman of this committee. Other member of the committee is Mr. Fatih K. Ebiçlioğlu, a member of the Board of Directors.

The Risk Management Committee convened 6 meetings in 2016. The Risk Management Committee's task is offering proposals and recommendations to the Board of Directors on early detection and evaluation of risks which may affect the company, determination of their impacts and possibility, managing the risks in accordance with the company's risk taking policy, risk reporting, taking the measures against detected risks, considering the decision making process, creating and integrating effective internal control systems.

An Enterprise Risk Management Directorate was formed under the Assistant General Manager of Finance and Accounting for enterprise risk management. Enterprise Risk Management Directorate reports to the Risk Management Committee and manages strategic, financial, operational, compliance and external risks; and ensure risk coordination and supervision through the risk management system.

Internal Control and Internal Auditing

Internal Audit Department, which is formed under the Assistant General Manager of Finance and Accounting for the purpose of performing internal audit function, reports to the Auditing Committee during the year. Committee supervises the execution and effectiveness of system and presents to Board of Directors the issues and suggested solutions regarding the risk management and internal control mechanism when required.

Enterprise Risk Management

Arçelik A.Ş. Enterprise Risk Management ensures business continuity and creates a global competitive edge by means of risk management, which is implemented in line with processes, human resources, corporate knowledge and technology. Arçelik A.Ş. aims at establishing a risk management structure in all its activities, also covering the group companies and becoming one of the best global practices.

Arçelik A.Ş. identifies the significant risks to be focused and ensures these risks are considered in all operations. Company increases risk awareness level of the employees, encourages them to bring up risk indicators and provides business units to manage their own risk. It enhances the company image by ensuring better customer experience, and extends risk management over all stages of functions and operations.

Arçelik A.Ş. has performed gap analysis in order to reach targeted risk management maturity level taking into consideration risk management principles, international standards and best practices and set its short, mid and long-term roadmap as an output of the analysis.

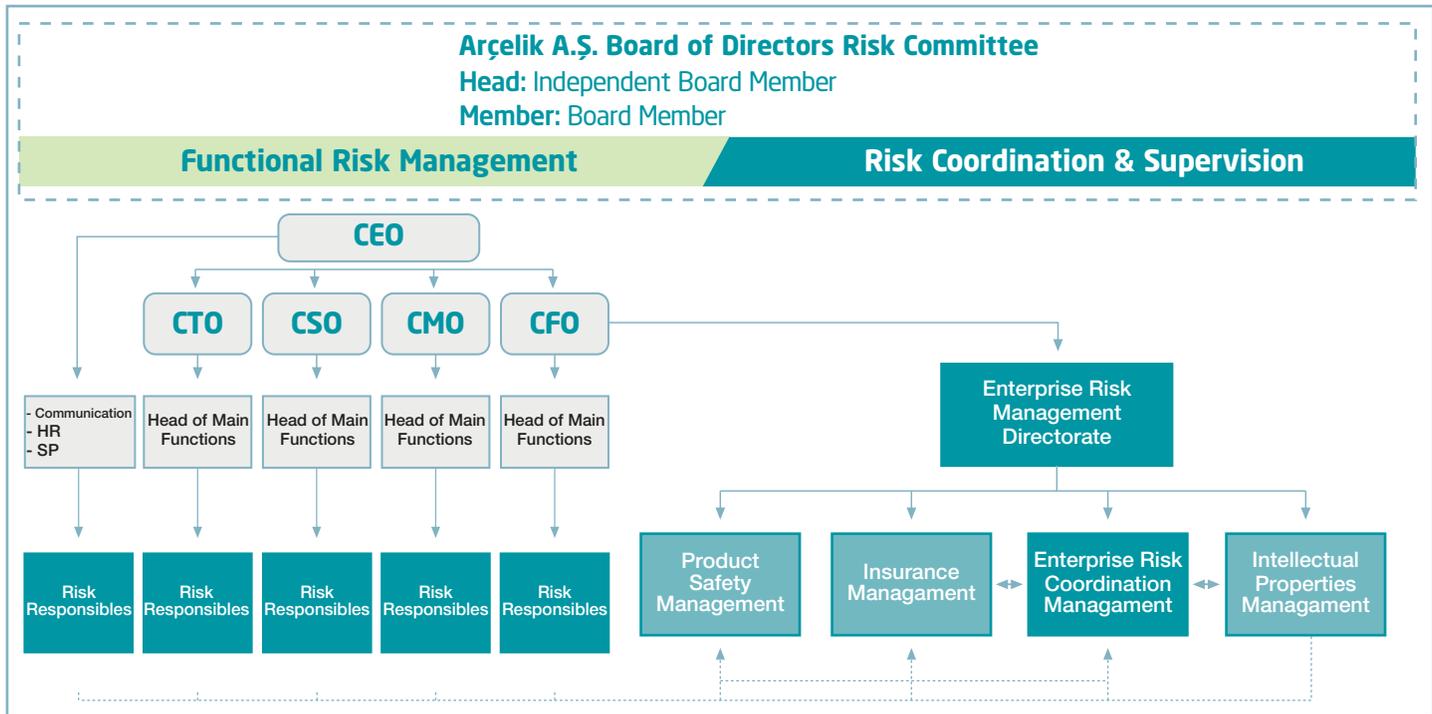
Enterprise Risk Management process is developed to preserve the corporate values, create new values for stakeholders, manage opportunities and ensure communication among processes for risks defined in all functions in accordance with the risk appetite of the Board of Directors and senior management.

Enterprise Risk Management process is implemented in integration with all business processes in all production facilities, headquarters units and foreign subsidiaries of the company under guidance of the road map. Activities carried out within the scope of Enterprise Risk Management process in 2016 are summarized below:

Risk Coordination and Supervision

Global risk coordination and supervision of Arçelik A.Ş. and Group Companies are carried out by Enterprise Risk Management Directorate under the Assistant General Manager of Finance and Accounting.

Arçelik A.Ş. Risk management organization is displayed in the table below:



Functional Risk Management

Directors that form the senior management of Arçelik A.Ş. and country managers of group companies are responsible for the management of risks associated with their organizations or execution of tasks assigned to their organizations for the mitigation of risks associated with other organizations. Risk managers assigned in these organizations are responsible for the communication between the functions they represent and Enterprise Risk Management Directorate.

Training

Directors that form the senior management organization of Arçelik A.Ş., country managers of group companies and risk responsible assigned in all organizations are trained in terms of enterprise risk management. Regular trainings on implementing the process aims at increasing risk awareness and culture throughout the organization and include new employees into the process.

Enterprise Risk Management Systems

Systems are in place to ensure risk management is executed company-wide in line with the strategies and goals. Enterprise Risk Management Manual describes how the process will be implemented so as to define, understand and manage risks, and maintain continuity; ensures that employees understand their roles and responsibilities; and provides the compatibility of communications with partners, suppliers, customers and 3rd parties with risk management approach.

Risks at Arçelik A.Ş. are defined in 5 main categories, which are strategic, compliance-related, external, financial and operational. Significant risks that may affect the company's strategy are prioritized and followed up in consolidated risk inventory. Data on consolidated Enterprise Risks and business unit risks are followed up and managed under different categories via risk management software.

Risk Management

Evaluations on priority risks and follow up of important actions are carried out by Arçelik A.Ş. senior management under leadership and guidance of the Board of Directors. Risk management and all activities related to risks are regularly reported to Risk Management Committee and the Committee continuously follows up them.

Special management processes are established for certain risks:

Risks on Receivables

In terms of International Receivables Risk Management, risks on Consolidated receivables of Arçelik A.Ş. and group companies are reported to "Local Credit Risk Management Committee" and "Central Credit Risk Management Committee" (which consists of the senior management), and are approved upon checking and analyzing in accordance with the methodology determined by risk assessment.

There are Consolidated Credit Insurance Policies that cover the group including all affiliates for the purpose of compensating the losses arising from actualization of risks on receivables. It is possible to determine the credit rating of customers (which is the basis of their risk assessment) and consolidated risks on receivables can be monitored in ERP environment in line with the rules determined in Global Risk Management Procedure for the purpose of minimizing the risks on receivables.

Domestic receivables are evaluated in terms of payment terms and guarantee structure through periodic risk monitoring reports. Credit Insurance Policies started to be used as a security for local receivables.

In addition to global and local policies, the entire process is managed for financial assets such as letter of credit and performance bond, and customer risks are checked in the system on an individual order basis.

Product Safety

Product Safety Department was established to ensure the safety of manufactured and supplied product more efficiently and minimize the risks.

Product Safety Department regularly reviews the products to prevent any possible risks during the product life cycle before they are launched. It evaluates and audits the design, quality, manufacturing and supply processes in terms of product safety.

Insurance Management

Insurance Management is responsible for the evaluation and management of operational risks the Group is and/or may be exposed to.

In principle, Insurance Management mechanism covers evaluation, assessment, monitoring of operational risks as well as implementation of loss prevention/loss retention programs and reporting of the same.

The Group's all insurance programs are designed and governed by predefined set of rules. All necessary studies and actions for the transfer of transferable risks to global insurance carriers are being taken. The Group, including its subsidiaries, have numerous insurance policies in various insurance lines to cover losses.

Modelling studies are being done in order to adopt the best risk transfer method and to develop best insurance programs providing coverages against operational risks in accordance with national and international law. Accordingly, coverages are revised in conformity with the changing condition of the Group. Hence the sources of the Group are being used more efficiently.

This function also reviews commercial agreements (e.g. sales & distributorship, purchasing) entered by the Group to assess contractual liabilities & indemnity conditions and ensure necessary insurance coverage as part of the operational risk management.

Within the scope above, various courses and trainings on "risk and insurance processes" are organized within the Group.

Financial Risks

These risks are divided into three categories; namely Liquidity Risk, Interest Rate Risk and Foreign Exchange Risk and managed in accordance with the following implementation principles.

Liquidity Risk

Balance sheet and cash flow are coherently managed, it is striven to ensure the deadlines of receivables and payables are coherent, operating capital management goals are set clearly in order to preserve short-term liquidity and balance sheet rates are kept at certain levels.

For mid- and long-term liquidity management, the company's cash flow estimations are based on markets and sector dynamics; and the cash flow cycle is monitored and tested according to various scenarios.

A certain amount of excessive cash is kept in order to be prepared against shocks due to financial market fluctuations, and a foreign cash pool is used as a reserve to meet the needs of affiliates.

Interest Rate Risk

Fluctuations in interest rates create important risk on financial results due to their impact on interest rate-sensitive assets and liabilities. This risk is managed by using internal methods such as balancing the quantities and terms of interest rate-sensitive items or using derivative financial tools when necessary.

In this context, we attach importance to ensuring coherence between not only the terms of receivables and payables but also cycle of interest rate periods.

Foreign Exchange Risk

Since Arçelik A.Ş. carries business in a wide geography, the currency diversification becomes one of the main financial risks of the company. As of 2016 yearend, the company has 27 currencies in its basket.

Commercial relationship between the parent company and its affiliates is managed on the basis of functional currency of affiliates pursuant to relevant regulations. This minimizes foreign exchange risks on the affiliate side and the risks are managed at the parent company level. Foreign exchange risk is monitored on the basis of functional currency for each subsidiary. It is aimed at keeping the ratio of the said position amounts over the equity at a certain range.

The main principle of managing foreign currency risk is to maintain a near-zero foreign exchange position so as to receive the minimal impact from variations in foreign exchange rates.

As in other risk items, the management of foreign exchange risk is preferably based on internal balance sheet methods as much as possible. However, the foreign exchange position is maintained at targeted levels by using derivative financial instruments when necessary.

Crisis Management Program and Crisis Management Tools

Crisis management program and tools are developed for Arçelik A.Ş. and all its foreign affiliates on a country basis with the purposes of managing unexpected situations arising from actualization of possible risks without causing any damages to the company and stakeholders.

Crisis Management program is established in order to effectively manage unexpected potential situations and crises; eliminate the impacts of actual crises on company's premises, operations, finances, reputation and stakeholders; and sustain the business continuity. The program is aimed at ensuring that internal and stakeholder communications take place effectively, and resources are distributed and coordinated effectively and timely in the event of crisis.

The program defines the structures, roles and responsibilities, reporting and action timing, coordination and communication, and decision-making processes for crisis management teams, emergency response teams and corrective action teams established for Arçelik A.Ş. and foreign affiliates.

There are guides issued for the purpose of coordinating the actions of teams as planned in the event of a crisis or emergency; help them easily access all the required information; and improve the performance of operations. These documents describe various tools to help finish the actions completely such as checklists, meeting work flows, reporting guides, contact information and training programs that keep the crisis management team ready at all times.

Our globally experienced project consultants have delivered field trainings and online interactive trainings in order to ensure that all methods and resources developed are embraced and kept updated within Arçelik A.Ş. and all foreign affiliates. The procedures and tools developed are introduced, and trainings are given on how to use these materials during and before possible crises within the scope of these activities. It was ensured that foreign affiliates participate in the online trainings simultaneously.



Arçelik, widely recognized as Turkey's Lovemark, is a leading brand of Turkey's durable consumer goods market with a green and innovative approach, design and technology excellence. Arçelik offers a wide product range of white goods, built-in products, electronic products, small home appliances, fitted kitchens, combi, air conditioners and system air-conditioners with the strongest and most common service and sales network in Turkey.



Beko, preferred by 440 million consumers in more than 130 countries, is the number one brand in Europe's white goods market and leader of solo white goods market. Beko is a global brand facilitating daily life in Turkey with white goods, solo products, built-in products, small home appliances, air-conditioners and electronic products.



A 133 year-old long-established German brand that has a range of solo products and built-in white goods. Bringing technology, ease of use and environment friendly features with aesthetic design; the brand offers its products to its consumers with the slogan of 'In Harmony with You'.



Arctic is the long-established domestic brand of Romania and the leader of white goods market.



Since 1945, Grundig offers high-quality and modern products designed to make the lives of consumers more comfortable. The brand completed its transition from the position of manufacturer of consumer electronics to household electrical appliances by offering products for all rooms in a house with the introduction of its white goods category to the product range.



The brand of people that desire to meet their durable consuming requirements in an economic way.



Flavel, one of the best-known white goods brand of Britain and Ireland, has a low-cost portfolio of solo and built-in products.



Elektrabregenz is a well-established brand of Austria with a history dating back to 124 years.



Leisure, a traditional brand of the British freestanding cookers market, offers gas and/or electrical range cookers and built-in appliances with traditional and contemporary designs.



It is the leader brand of home appliances market in South Africa.



Most trusted and leading brand of Pakistan home appliances brand.



18 PRODUCTION FACILITIES IN 7 COUNTRIES, SALES AND MARKETING ORGANIZATION OF 34 OFFICES IN 32 COUNTRIES, PRODUCTS AND SERVICES IN OVER 145 COUNTRIES

- **Headquarters**
Turkey/Istanbul

- **Production Plants - R&D Centers**

- Refrigerator Plant
- Washing Machine Plant
- Electronics Plant
- Cooking Appliances Plant
- Dishwasher Plant
- Electric Motors Plant
- Compressor Plant
- Tumble Dryer Plant
- Refrigerator Plant
- Refrigerator and Washing Machine Plant
- Washing Machine Plant
- Cooking Appliances and Tumble Dryer Plant
- Cooling Appliances Plant
- Refrigerator Plant
- Refrigerator Plant
- Refrigerator Plant
- Refrigerator, Washing Machine Plant
- Cooking Appliances, A/C Plant

- **International Sales and Marketing - R&D Offices**

- Ardutch B.V. Taiwan Branch
- Beko A and NZ Pty Ltd.
- Beko Appliances Malaysia Sdn. Bhd
- Beko Balkans D.O.O
- Beko Deutschland GmbH
- Beko Egypt Trading LLC
- Beko Electronics Espafia S.L.

- Turkey, Eskişehir
- Turkey, Istanbul - Tuzla
- Turkey, Istanbul - Beylikdüzü
- Turkey, Bolu
- Turkey, Ankara
- Turkey, Tekirdağ - Çerkezköy
- Turkey, Eskişehir
- Turkey, Tekirdağ - Çerkezköy
- Romania, Gaești
- Rusia, Kirzhach
- China, Changzhou
- S. Africa, Jacobs
- S. Africa, Ezakheni, Ladysmith
- S. Africa, East London
- Thailand, Rayong
- Pakistan, Hyderabad
- Pakistan, Karachi
- Pakistan, Karachi

- Taiwan
- Australia, New Zealand
- Malaysia
- Serbia
- Germany
- Egypt
- Spain

- Beko France S.A.S.
- Beko Hong Kong Ltd.
- Beko Italy SRL
- Beko LLC.
- Beko Plc.
- Beko Slovakia S.R.O.
- Beko S.A.
- Beko Shanghai Trading Company Ltd.
- Beko Thai Co., Ltd.
- Beko Ukraine LLC.
- Beko US Inc.
- Changzhou Beko Electrical Appliances Co. Ltd.
- Computer Vision Interaction S.A
- Dawlance Electronics (Pvt.) Ltd.
- Defy Appliances Ltd.
- Defy (Botswana)(Proprietary) Ltd.
- Defy (Namibia)(Proprietary)Ltd.
- Defy (Swaziland) (Proprietary)Ltd.
- Elektra Bregenz AG
- Grundig Multimedia A.G.
- Grundig Intermedia GmbH
- Grundig Nordic No AS
- Grundig Nordic AB.
- SC Arctic SA
- Vietbeko Limited Liability Company
- Beko R&D Office
- Beko Plc. R&D Center
- METU Technopolis R&D Center

- France
- Hong Kong, China
- Italy
- Russia
- UK, Republic of Ireland
- Slovakia
- Poland, Czech Republic
- China
- Thailand
- Ukraine
- USA
- China
- Portugal
- Pakistan
- Republic of South Africa
- Botswana
- Namibia
- Swaziland
- Austria
- Switzerland
- Germany, Croatia
- Norway
- Sweden
- Romania
- Vietnam
- Taiwan
- UK
- Ankara, Turkey



Arçelik A.Ş.,

- Industry leader with a market share exceeding 50% in Turkish white goods, built-in appliances and air-conditioners markets and fastest growing brand with a market share of 28% in TV market,
- Europe's number three white goods brand in terms of total sales,
- Market leader with Arctic and Defy in Romania and South Africa respectively,
- Market leader with the acquisition of Dawlance, Pakistan's leading white goods manufacturer.

Global brand Beko:

- Number 2 brand in total European white goods market and leader in solo white goods market
- Number 1 brand in the British white goods market
- Number 1 brand in the Polish white goods market
- Number 1 brand in French solo white goods market.

White Goods

As of 2016, global white goods market is estimated to have reached 508 million units with a growth of 1.2% and USD 184,5 billion with a growth of 0.5%.

Arçelik A.Ş. was the number-three white goods manufacturer in Europe, maintained its leading position in Turkey as well as an undisputed market leadership with Arctic in Romania and Defy in South Africa. Arçelik A.Ş. acquired Dawlance, Pakistan's leading white goods manufacturer, in line with the strategy of global growth.

Beko, the Company's global brand and leader of Europe's solo white goods market, maintains its strong position in the Middle East and Africa as well as major markets including Britain, Germany, France, Italy, Spain, Russia and Poland.

Arçelik A.Ş. increased its exports to Southeastern Asia in line with the objective of market diversification. In 2016, mass production started at the plant in Thailand and organization of the sales networks in Malaysia and Vietnam continued.



Consumer Electronics

Global TV market reached 233,9 million units with a growth of 2.5% and USD 109,4 billion with a growth of 0.2%.

Arçelik A.Ş.'s global brand Grundig, the only European manufacturer to offer products in all categories of home electronics, continued to grow in the white goods markets of Germany, Scandinavia and England. The white goods ranges were introduced to the markets in Spain, Italy, Belgium, Croatia, France, Austria and South Africa.



Beko

Since we were established in 1955, one leading principle has guided us: being a partner of our consumers in their daily life needs. Consequently, we kept improving the relationship with our consumers in more than 130 countries. Our desire to innovate—for the good of our customers and our environment—has already brought us a long way. Today we are the number 1 freestanding home appliances brand in Europe (27 countries including TR).

Beko is a truly consumer-centric brand who supports real people's needs every single day. Because we understand real people's lives and needs we offer a wide range of fast and smart solutions that are flexible to the real needs of people at every stage of life. It is this deep understanding of real needs that makes us "official partner of the everyday".

2016 was a year full of marketing activities to strengthen the Beko brand equity by 360 degree global communication of this new platform "Official partner of the everyday". These marketing activities included mass media, instore, PR and events and FC Barcelona partnership. "Official partner of the everyday" has been activated in over 50 countries with almost 120 campaigns. The image campaign of the new communication platform was introduced to 25 countries at the same day. On Youtube, campaign videos reached approximately 100 million views.

International Markets

We also partnered with one of the greatest teams, FC Barcelona, to support the new communication campaign. Fun and engaging campaigns are targeted at the leisure time of the day and bringing the playful spirit of FC Barcelona to the everyday. The campaign featured some of the world's most famous football stars, including Lionel Messi, Luis Suárez and Neymar Jr, both in person and also as unique, playful animations that will appear throughout the activity to help land the 'play' message. Through the partnership with FC Barcelona, it is estimated that Beko has reached 1 billion viewers and 350 million fans globally.

Beko showed a strong presence at IFA, the biggest technology fair of Europe organized in Berlin in September 2016. With the new young and playful brand character, the booth has been differentiated from the competitors and Beko introduced real-time solutions by its smart, flexible and environmentally friendly products designed to make consumers' daily lives easier. Beko has doubled the number of visitors in 2016 as compared to the previous fair.

Beko intends to be one of the top three brands in every country we operate in – both in market share and brand preference– and to be a truly loved global brand. In line with this objective, we make use of global partnerships in our marketing efforts, long-term young, dynamic and playful communication platform, and a wide range of smart, flexible and fast home appliance solutions.



Arctic

Arctic, a domestic brand of Arçelik A.Ş. in Romania, offers family-oriented and value-added benefits and services to its customers. It is one of the most well-known brands in Romania for over 45 years, both by older and younger generations, with a strong heritage and approximately 3,000 employees all around the world. Arctic is a story of success, evolution, trust and expertise. As of 2016, it is the leader of the Romanian white goods market with a market share of 35%.

Arctic Cooling Devices Plant is Europe's largest refrigerator manufacturing plant. 58 main products and 430 derivatives are manufactured at the plant. Arctic offers a full range of home appliances, from refrigerators, freezers, washing machines, dishwashers, to cooking appliances, hoods and built-in products.

Arctic has strengthened its market position with a total investment of more than Euro 130 million on new technologies since 2002. These investments have allowed Arctic to export 82% of its production in recent years and put the company in a trend of growth. The final investment was on a new production line at Gaesti plant in 2013 and

Arctic increased its production capacity by 25% to be the largest refrigerator manufacturer of Continental Europe. Furthermore, during the last years investments were allocated for logistics, service network and additional services and the daily production reached 10,000 units. In 2017, Arctic will start constructions of a new washing machine plant in Ulmi, Dambovita. It will be Arçelik's first manufacturing plant based on Industry 4.0 digital concept.

In 2016, Arctic launched the campaign "We know the Romanian families." The campaign focused on each family's being special and unique.



International Markets



Elektabregenz

Elektabregenz, a well-established Austrian brand with a history of 124 years, was acquired by Arçelik A.Ş. in 2002.

Elektabregenz is perceived by consumers as an aesthetic, creative, technologically developed, environmentally friendly brand. The company's "innovation" tagline started with the "Surf" oven and later on was updated with the Steam-Assisted "Surf" technology. Having introduced Surf technology to Austria, Elektabregenz continues to be one of the most sought-after brands in the market, especially with its cooking appliances. Elektabregenz also offers highly energy efficient refrigerators and new built-in products to Austrian consumers. Elektabregenz launched built-in ovens and dryers with new designs in 2016.

The company launched its new built-in refrigerators featuring easy installation, higher energy efficiency and new design at the Futura Fair in Salzburg. Entering into the oven category of furniture market with its new induction hobs, the brand also continued to promote tumble dryers and washing machines with higher energy efficiency. Thanks to the environment-focused technologies, Elektabregenz was granted "Green Brand" award for the second time in 2014/2015, being the only home appliances brand in Austria.

For the end-user and dealership communication campaign, the company has put emphasis on its pure steam I-Cook oven, dishwashers with six liter water consumption, SBS refrigerator with four doors, the hybrid dryers and also the 11 zone induction hob.



Blomberg

Blomberg, having celebrated its 133th anniversary in 2016, uniquely combines technology, ease of use and eco-friendliness with aesthetics. Blomberg offers nature friendly products that provide power and water savings with 'In Harmony With Nature' slogan, aesthetic and stylish products with 'In Harmony With Home' slogan, practical products with 'In Harmony With You' slogan and prudential products with 'In Harmony With Future' slogan for its consumers. Blomberg continues to receive appreciation of its customers for its environmentally friendly products in its product portfolio including its A+++ -30% washing machines, A+++ refrigerators, A+++ -10% dishwashers, A+++ dryer and A-40% built-in ovens.



Defy

Defy Appliances (Pty) Ltd, South Africa's largest manufacturer and distributor of home appliances with a market share of 43% in 2016. The company has a wide product portfolio and markets, its products under the Defy brand.

Established in 1905, Defy made its debut by manufacturing the first electric stove in South Africa. In 112 years, the company added air-conditioners, gas ovens, dishwashers, washing machines, dryers, ovens and small home appliances to its product portfolio and reached the leading position of South African home appliances market. Defy was acquired by Arçelik A.Ş. in 2011. Following the acquisition of Defy, Arçelik A.Ş. invested more than 1,000,000 Rand for innovation, brand development and employees.

Defy has three plants located at Jacobs, Ezakheni (Ladysmith) and East London and is certified with ISO 9001-2009 accreditation. Jacobs Cooking Appliances and Dryers Plant was built in 1905. The plant is built on a production space of 87,500 m², 50,000 m² of which is indoor space. The plant currently manufactures freestanding ovens, built-in ovens, grills and dryers. Defy's Ezakheni (Ladysmith) Cooling Appliances Plant was built in 1989 with a total manufacturing space of 75,271 m², 31,617 m² of which is indoor space. The plant manufactures electric freezers and refrigerators. In 2012, new freezer production lines were added with extensive works. East London Plant was built in 1985 with a total manufacturing space of 83,226 m², 10,000 m² of which is indoor space. The plant manufactures refrigerators.

Cooking Appliances Portfolio, the basis of Defy's product range, makes home-cooking experience a joyful ritual. Gemini Collection, a product range with a sleek and sophisticated design by Defy, allows cooking in huge amounts with the Feast Master feature. Defy's special Thermofan Technology ensures cooking multiple dishes without any smell or aroma transfer. Defy recently added a sleek small home appliances range to its product portfolio including blenders, juice extractors and coffee machines. The brand also offers a wide range of cooling products. Defy cooling products portfolio, including a wide range of No-Frost refrigerators, offer better energy efficiency, better smell control and Dual Cooling technology which keeps the food fresh for longer times. DFF420 also keeps the food fresh longer with the advanced Blue Light Technology. Defy offers the largest storage capacity in the market with a width of 1 meter. "Auto Defrost" cooling option offered with all Defy products allows discharge of excessive liquids from the rear side through static units. Defy's well-known chillers range and its multi-mode function ensures that the units can be used as a refrigerator, chiller or freezer.

Defy washing machines maximize washing efficiency with front loaders and are equipped with Aquafusion technology to ensure the best use of detergents. Upper and front loaders ensure an easy and efficient washing with Defy Aquawave tumble technology.

Defy is the first choice of many consumers with its wide and strong product range and uniquely supports the positioning of the brand with its sales, storage, distribution and post-sales services and an extensive service network.



Dawlance

Dawlance, established in 1980 with the vision of thriving as a global brand, is currently the leading home appliances brand in Pakistan. Dawlance has a rich product portfolio ranging from chillers, microwave ovens and small home appliances to washing machines and air conditioners. Dawlance has a large manufacturing capacity with three plants. The first plant built in Hyderabad in 1980 currently manufactures refrigerators and deep freezers. Other two Dawlance plants located in Karachi manufacture refrigerators, washing machines, microwave ovens and air conditioners. Dawlance has the most extensive dealer and service network in Pakistan and reaches its customers all around the country.

Dawlance is the most trusted brand in Pakistan offering innovative products to the market, meeting varying needs of consumers and enriching lifestyles.

Grundig

Grundig, an Arçelik A.Ş. brand since 2007, enjoys a 98% brand awareness in the German market with high-quality products and a customer-focused approach.

Upon entering the German white goods market in 2013, Grundig has been “one of the leading manufacturers in Europe offering the widest product range in home electronics category”. Grundig builds its growth strategy without compromising from product and brand values and defines the core of the brand with the slogan “Makes your home best place to be”.

Grundig perfectly combines its extensive market experience with its German heritage and has an approach which puts consumer needs and expectations at the focus of all business processes. In addition, modern designs accented by high quality and details, and an environment-friendly and responsible manufacturer image are the basics of Grundig’s brand identity and positioning. Grundig’s wide product portfolio ranges from audio devices and 65” OLED TVs to hair styling devices, vacuum cleaners and kitchen appliances up to the range of white goods including ovens, dishwashers and washing machines. Grundig products are sold in 65 countries as part of Arçelik A.Ş.’s global distribution network.

In 2016, Grundig concentrated on widening its product range, innovation, and new investments. In line with the smart home concept being more and more popular in the industry, Grundig developed its white goods range making use of its experience in technology infrastructure and offered the HomeWhiz range to its consumers. With the extension of HomeWhiz platform to cover the TV products in addition to the white goods and creation of a smart-home concept to cover all products, Grundig now has a unique position in its industry.

At a 3,500 m² booth at IFA 2016, Grundig presented more than 500 white goods and home electronics products. VUX, HomeWhiz, OLED, Quantum Dot, Herb Garden and other new technologies, SmartTV applications and “Herb Garden” concept designed by Arçelik A.Ş. have been appreciated by consumers.

Grundig continued launching white goods in 2016 in the Netherlands and China. Grundig has been operating in Scandinavian region in electronic products category for many years. White goods product category was launched in Norway in 2014 and thus, Grundig shortly became the single brand to meet the needs of Norwegian people for all home appliances.

The brand also continued to support the improvement of future generations and sponsored Norwegian Men’s and Women’s Handball Leagues in 2014, and Royal Nordic Yatch Club J/70 regatta in 2016.

Grundig sponsored “Food for Soul”, a non-profit initiative founded by Massimo Bottura to create awareness of waste food.

White Goods

Turkish white goods industry maintained its position as Europe's largest manufacturing center in 2016. According to data provided by White Goods Industrialists Association, exports as of the end of the year were 8% more than the last year with 19,54 million units in six main product groups and internal market grew by 5% to 7,46 million units.



Consumer Electronics

TV

Arçelik A.Ş. continued to invest in innovative TV products with many "firsts" and "bests" in 2016. Arçelik's investments in innovative products include the launch of Super Curved TV in the first quarter, launch of Ultima 4K TV during the European Championship and launch of Turkey's first OLED TV in September. Beko brand launched Turkey's "first" and "slimmest" Android Ultraslim TV and Quatro 4K TV during the European Championship. In 2016, TV market shrunk by 7% in terms of units. However, Arçelik A.Ş. completed the year with a growth of 12%. The company's market share increased by 8.2 percent to 29% and Arçelik A.Ş. was the best in terms of market share growth. In terms of revenues, the market growth was 4% but Arçelik A.Ş. secured a growth of 6.2 percent to reach a share of 25%. In this sense, the product mix was also extended. TV product group profits secured the highest growth with 8.9 percent among all product groups. The company launched Turkey's first Ultraslim 4K Android TV under the Beko brand, Turkey's first OLED TV under the Arçelik brand, and reached a record number of manufactured units as a result of communication activities and campaigns in 2016.

Corporate Displays

The fast pace and penetration of digitalization requires new approaches to sales, marketing and communication channels. Arçelik A.Ş. continues to invest in portable and interactive screens and products as a growing trend in Turkey and in the world. The company also manufactures products and solutions for varying business models including Videowall, corporate display screens, kiosks and Hotel TV. Arçelik A.Ş. ensures a fast, effective and interactive communication with corporate consumers through corporate screens at Vodafone Arena and Trabzon Akyazı Stadium. A unique ability of Arçelik A.Ş. regarding the corporate solutions is the widespread dealer and service network providing on-site and remote services.



Payment Systems

Regarding the Payment Systems industry, the effective date of the regulation on new-generation cash registers was delayed until January 1, 2018. Despite this delay; thanks to the discounts, renewal campaigns and bank gift vouchers by the company, the revenues on device sales increased by 8% and consolidated sales revenues increased by 29.3% in 2016. Arçelik maintained its market leader position in 2016 with a market share of 53.9%.



Arçelik

Arçelik, the leading home technologies in Turkey, continued to strengthen its brand image in 2016 by investing in its core brand values of innovation, environment-friendly, technology and design superiority. Arçelik, the best-known and most-preferred brand in white goods category, was selected as Turkey's "Lovemark" brand in 2016, as it was in the last nine years.

Arçelik launched a well-appreciated advertisement campaign in 2016 with the slogan "We set out from this land and made the whole world our homeland". The advertisement focused on the global activities and achievements of Arçelik A.Ş. by showing the global R&D, manufacturing, sales and employment power. With this campaign, the achievements of Arçelik A.Ş. were proudly shared with Turkey. In 2016, Arçelik added a new campaign to its long lasting "Kraliçe" Mother's Day advertisement series. With this new campaign "Mucize Lezzetler-Mother's food" Arçelik has celebrated Mother's Day together with Turkey.

In 2016, Arçelik strengthened its claim in technology and design with its innovative product launches and campaigns. Arçelik, starting the age of smart home technologies in Turkey, launched "HomeWhiz" technology to control white goods and home appliances from smart phones, tablets and TVs on an integrated platform. Arçelik gave continuous communication support to the TV category throughout the

year and with the launch of Curved, Ultima and Oled TV products, Arçelik emphasized its technology expertise in the consumer electronics category. VUX (Virtual User eXperience), the technology of the future, was communicated in 2016. A new era started in Turkish coffee with the collaboration of Arçelik and Selamlıque. Capsule Turkish Coffee Machine was launched with the innovation power of Arçelik and the coffee expertise of Selamlıque. In 2016 Arçelik gave strong communication support for its innovative products such as the energy-efficient Inverter A/C, refrigerators with express cooling technology, In Love irons and many other, strengthening its "brand worth paying more" value. In 2016, Arçelik's retailer expertise was highlighted with communication campaigns focusing on the availability of various brands at Arçelik stores and brand collaboration activities.

Arçelik launched a special project in 2016 and brought recycling and art together for the first time in Turkey. In the "Cycles" exhibition, materials obtained from Arçelik's recycling facilities were turned into art by Turkey's well known artists and designers. With this exhibition, Arçelik raised awareness on recycling within the vision of "Respects the Globe, Respected Globally" and expressed the company's expertise on design.

In 2016, Arçelik was also active in social media and digital channels ensuring a high level of visibility with communication campaigns targeting young audiences.



Beko

Beko is inspired by different needs and lifestyles and offers high-quality and advantageous solutions with new products. Beko is focused on constant improvement and innovative, environment-friendly products and bases its manufacturing approach on making life easier.

Beko operates in global white goods and built-in markets as well as the Turkish small home appliances, electronics and air conditioning markets in addition to white goods and built-in markets.

In 2016, sponsorship agreement with FC Barcelona and Beşiktaş Football Clubs continued.

Beko maintained its leading position in solo white goods markets in 27 countries in the period from January to June 2016 and was marked as the fastest growing brand in Europe.

Beko currently operates in five continents including Europe, America, Africa, Asia and Australia and is preferred by 440 million people in more than 130 countries. This is what makes it possible for Beko to gain market share from its competitors in Europe in the last five years and become Europe's number one white goods brand.



Grundig

After the reorganization of operations in Turkey in 2015, Grundig Turkey is managed as a separate business unit and Grundig brand claimed its position in the market with a new vision compliant with the global brand identity, channel strategy, brand positioning and product ranges.

Grundig reaches its customers through traditional, organized retail channels and online sales channels and offers TVs, white goods and sound systems. The brand added vacuum cleaners, personal care and built-in products to its product range in 2017 and strengthened its innovative and competitive position with a wider product portfolio. Grundig is the company's sole brand to offer sound system and personal care products in the Turkish market and is expected to make contributions also to the small home appliances market share.

Grundig has upscaled its brand perception before the consumers and business partners in line with the company's vision, made a difference in its operating channels with services and leading business models, and reached the 2016 target market shares and brand positioning. Grundig creates value for its partners with projects, business models and in-store investments and aims at strengthening its competitive position and be among Turkey's leading brands in the future.



Arçelik A.Ş. Plants continue to carry out projects for reducing water and energy consumption, and waste under the "Efficiency in Manufacturing".

- Refrigerator Plant - Eskisehir, Turkey
- Cooking Appliances Plant - Bolu, Turkey
- Dishwasher Plant - Ankara, Turkey
- Washing Machine Plant - Çayırova/Istanbul, Turkey
- Tumble Dryer Plant - Cerkezkoy / Tekirdag, Turkey
- Electronics Plant - Beylikduzu/Istanbul, Turkey
- Compressor Plant - Eskisehir, Turkey
- Electric Motor Plant - Cerkezkoy / Tekirdag, Turkey
- Arctic Refrigerating Appliances Plant - Gaesti, Romania
- Washing Machine Plant - Changzou, China
- Refrigerator and Washing Machine Plant - Kirzhach, Russia
- Cooking Appliances and Tumble Dryer Plant - Jacobs, S. Africa
- Refrigerating Appliances Plant - Ezakheni, Ladysmith, S. Africa
- Refrigerator Plant - East London, S. Africa
- Refrigerator Plant Thailand, Rayong
- Refrigerator Plant - Hyderabad, Pakistan
- Washing Machine and Refrigerator Plant - Karachi, Pakistan
- Cooking Appliances and A/C Plant - Karachi, Pakistan

Arçelik A.Ş. concluded a year of many achievements by creating a difference in its industry and securing a global leadership with its products and technologies. Arçelik A.Ş. R&D, marking the 25th anniversary of establishment in 2016, has a significant role in these achievements with many national and international efforts.

14 R&D Centers Around the World Turkey, Taiwan, Portugal and UK + USA

In 2016, Arçelik A.Ş. added 2 R&D Centers and 1 Design Center to the 7 R&D Centers registered within the scope of Law No. 5746 on Support of R&D and Design Centers and reached the leading position in Turkey with 10 R&D and Design Centers. Studies are carried out in 2016 to open a new R&D office in Boston, USA, which will be added to current international R&D network. The objectives of the company are the extension of international R&D offices leveraging the global R&D ecosystem of Arçelik A.Ş., ensuring access to the skills at world's leading universities following the technologies developed all around the world and using them to design innovative products and gain a competitive edge.

Arçelik Garage started its operations at Çayirova Campus in an effort to encourage the employees and create a collaborative platform focused on design thinking, shorten the idea - product process and time to market with an advanced digital prototype infrastructure.

The Technical Academy Program was initiated as a training program for R&D and manufacturing technologies employees in an effort to keep up with the fast pace of globally changing rules. The trainings are planned by analyzing the contemporary global needs and creating a road map covering all aspects of business life. They are provided by academicians from prominent universities in Turkey.

R&D efforts in 2016 were focused on reducing the environmental effects of products including energy and water consumption as well as noise levels in line with Arçelik A.Ş.'s vision of "Respects the Globe, Respected Globally". As a result of its efforts in R&D, Arçelik A.Ş. continued to offer the most and firsts to its consumers in Turkish and global markets.

Fast pace of global digitalization has triggered a process of change and transformation of the industry. In this sense, one of the priorities of Arçelik A.Ş.'s R&D agenda is to enable the communication of all devices to ease the daily lives of our consumers. First generation of smart home technologies is launched in 2016, under the concept of HomeWhiz. At IFA, the most important fair of the industry, Grundig presented white goods which meet new generation communication requirements, "HerbGarden™", cooling oven and other concept products for various lifestyles under the smart home concept as well as integration solutions developed with external ecosystems.

R&D efforts carried out in digitalization and internet of things (IoT) includes extending expertise in communication protocols, cloud security, data analytics, robotics, artificial intelligence as well as establishing the required ecosystems for increasing the added value of the systems.



Innovation

Innovation is an essential and integral element of Arçelik A.Ş. corporate culture and way of doing business as well as one of the building blocks of its global vision marked by a sustainable, profitable growth strategy, brand-and customer-focused business model. Arçelik A.Ş. acts with an innovation-focused culture in all its business processes and this is what lies beneath the achievements in global markets. Arçelik A.Ş. keeps a close eye on demographic, technological and environmental developments for digital future investments and focuses developing on superior and fast products with energy and water efficiency, attractive design, outstanding user interfaces, high sound quality and healthy life style.

Arçelik A.Ş. attaches great importance to innovation in its agenda and creates the tools required to ensure systematic assessment of innovative ideas and faster results. The company has a versatile course of action and achieves faster results by technology development activities, collaborations with universities and research institutions. Furthermore, the company participates in many important local and international events related with innovation.

Arçelik A.Ş. continues its efforts on new business areas and business models. The Company organizes “Ecosystem” meeting with its software and technology partners in the banking industry. In this sense, “Venture Home” activities were stepped up in collaboration with Türk Ekonomi Bankası (TEB). The efforts are focused on long-term stable growth of companies incorporated on the basis of business ideas with added technological value and developing solutions in collaboration with Arçelik. This ensures support to an “Open Innovation” culture among potential business partners.

Another major entrepreneurship platform is the “Internal Entrepreneurship - Turning Technology into Business (TTIB)” program which brings together Arçelik employees from various disciplines. This program fuels interdisciplinary communication and innovative ideas of employees. This program supports a culture of innovation within the company and funding of projects on innovative business models and innovative products by the top-level management.

Intellectual Property Rights

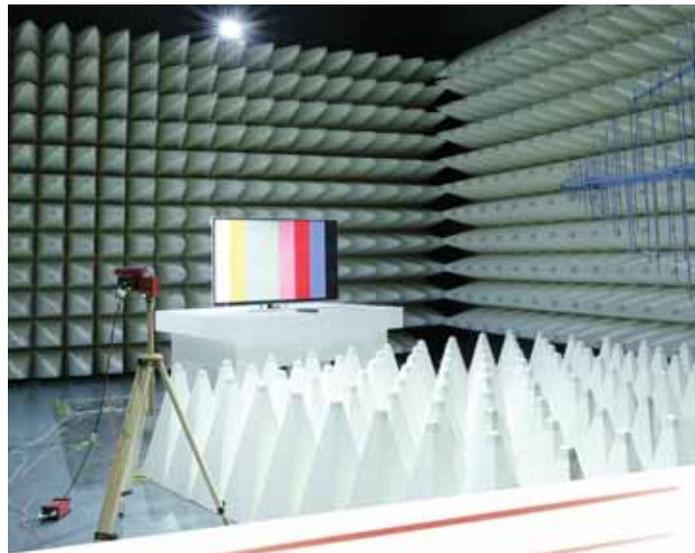
Arçelik A.Ş., Turkey's R&D leader and patent champion, places great importance on protection of developed technologies as well as developing them. The company was listed at the 78th place of the list of companies applying for international patents to World Intellectual Property Organization (WIPO). This is the best score for Arçelik A.Ş. and Turkey until now. Arçelik A.Ş. is the only company from Turkey to be in the top 200 list of International Patent applications to the World Intellectual Property Organization in the last 10 years.

Annual Reports issued by the European Patent Office (EPO) in the last five years indicate that half of the application from Turkey and registered by EPO are by Arçelik A.Ş.

Based on the patent applications in 2015, Arçelik A.Ş. was granted with “Patent League Champion” and “Highest Number of International Patent Applications” awards by Turkish Patent Office.

Turkish Patent League Champion

The Only Turkish Company Listed in WIPO 100



Collaborations

Arçelik A.Ş. collaborated with public, academic and private institutions on a global scale to develop technologies in an effort to secure its leading position in R&D and innovation.

Arçelik A.Ş. continued its efforts to extend its international R&D collaboration network in 2016. Projects initiated in close collaboration with ITRI (Industrial Technology Research Institute of Taiwan) are in progress within the scope of the activities of Arçelik R&D office in Taiwan. The R&D Center at Cambridge Science Park, UK started working on developing innovative white goods and continues to focus on software design, innovative material technologies, and advanced manufacturing technologies. 2 project applications including the Imperial College London and Cambridge University were granted support by UK's Innovate-UK funds. Arçelik A.Ş. also became a member of Cambridge University's Strategic Technology and Innovation Management (STIM) Consortium and strengthened its network of collaboration with Britain's prominent universities including Cambridge, Oxford and Imperial College. The efforts to add a new R&D office to the international R&D network in Boston, USA are almost complete.

With 8 projects in progress, Arçelik A.Ş. is the largest private industry contributor to the Horizon 2020 program in Turkey. Within the scope of this program, the Company manages projects in varying areas including nano-technology, innovative material technologies, home entertainment systems, plants of the future, cold food chain and logistics. Collaborations are ongoing with more than 450 universities, research institutions and companies from more than 20 countries including Turkey.

Arçelik A.Ş. also works on Internet of Things, estimated to be among the concepts which will shape the future, and is a Diamond Member of OCF (the Open Communication Foundation) working for safe and integrated operation of billions of devices, services and applications from many industries. The Foundation has more than 300 members consisting of global technology companies.

Collaboration with MIT Media Lab organized by MIT (Massachusetts Institute of Technology), a prominent US university, triggered projects on products which will create a difference through multidisciplinary, human-focused, radical innovation.

15 globally-known academicians and entrepreneurs from USA, UK, Germany, South Korea, Taiwan and Turkey attended the fourth Arçelik R&D consultancy committee workshop in April 2016.

Turkey's first Android TV was designed and launched in cooperation with Google to extend the Smart TV platforms by supporting the Android operating system which offers a rich portfolio of contents, applications and Internet services. This is the first product of Arçelik A.Ş. to support Google Video, Google Music, Google Game and Google Play applications on TVs and was launched with 4K UFID support.

Arçelik A.Ş. has created a role model for the Turkish industry in terms of collaborations with universities and placed great importance on this issue with innovative and leading collaboration strategies developed over the years. The Company has extended this culture of collaboration to its employees and continues uninterrupted achievements for twenty five years.



Koç University - Arçelik Creative Industries Application and Research Center (KUAR), founded in 2015 by Koç University and Arçelik A.Ş., works on concept development, feasibility and technology transfer in cooperation with other units of the university. The significant projects include: Development of user test researches and new applications on Virtual User Experience - Spatial Augmented Reality (SAR), User Acceptance Model and Scale for an Online Design Guide for User Demand High-Connectivity Home Products within the scope of TUBITAK 3501 Career Development Program and 2 HAND-TOUCH Gesture and Detector Control Device within the scope of TUBITAK 1005 program.

Events

5th Turkish Innovation Week - Istanbul Turkey

Arçelik A.Ş. supports many national and international events in an effort to improve the culture of R&D and innovation.

In this respect, the Company was among the strategic partners of the fifth Turkey Innovation Week organized by Turkish Exporters' Association from December 8th to 10th, 2016.

IFA - Berlin Germany

Arçelik A.Ş. showcased Beko and Grundig products with the latest technologies at IFA organized in Berlin from September 2nd to 7th, 2016. The most appreciated products at the fair included the "HerbGarden™" which allows growing fresh herbs at home from seeds and without using pesticides; "AutoDoor" mechanism which detects contact or approach by the customer and automatically opens the door of the refrigerator; "VUX" system which offers a unique kitchen experience through a virtual oven, hood and dishwasher interface; "Cooling Oven" which allows cooking and cooling in the same oven; "IonGuard™" Technology which eliminates smell in the washer-dryer tumble using negative ions; the new high-capacity Dishwasher platform offering many new features ensuring ease of use; "AutoDose System" which allows user-independent detergent dosing in the dishwasher; and the OLED TV which takes the experience to a new level with its ultra thin design, 4K technology, unique black levels, perfect colors, sharp contrast and maximum detail level.





Consumer Electronics

Arçelik A.Ş. continued to launch high-end products equipped with the latest technologies in the TV product group. In 2016, UHD TV product group consisting of slim, sleek and high-tech TVs with the latest technologies and 4K screen resolution was added to the portfolio. Ultra HD technology and latest software and hardware technologies increase the display performance with multi-zone light control, increased black and white intensity and higher contrast rates. Local Dimming (LD) technology significantly broadens the color spectrum displayed on the screen and Wide Color Gamut (WCG) was designed and enabled by Arçelik for real-life colors. Works on Quantum-Dot technology which will further broaden the color spectrum have been started. High Dynamic Range (HDR) is also among the features used by Arçelik for the first time. This technology allows TVs with higher contrast, wider color scale and consequently better display performance.

First OLED TV manufactured in Turkey

Arçelik A.Ş. has led the way in introducing new generation OLED TVs, the ultimate display technology. OLED screens with high contrast and advanced color spectrum combine a perfect industrial design with an exceptional feature set. These TVs were manufactured and launched for the first time in Turkey. These products were manufactured by the R&D capacity and technologies of Arçelik AŞ and appreciated by customers for superior display performance.



First Android Smart TV Manufactured in Turkey with an Ultra Slim Design

Turkey's first Android TV was developed to extend the Smart TV platforms by supporting the Android operating system which offers a rich portfolio of contents, applications and Internet services. Turkey's first Android TV was designed and launched in cooperation with Google. The product supports Google Play Movies, Google Play Music, Google Play Games and Google Play Store as well as UHD resolution.



Smart Home Appliances

Arçelik home appliances can be controlled via smart devices thanks to the specially-developed application. The application can be downloaded to smart TVs/tablets or smart phones and used to connect to home appliances which support Homewhiz through wireless network connection. The application can also be used to monitor status updates and receive device alerts. Multiple devices can be securely added to the network and named through local wireless connection. Refrigerators, washing machines, dryers, dishwashers and built-in ovens make your lives easier with in-house remote control feature.



8862 X WF REFRIGERATOR

- Device settings including freezer and cooler sections can be adjusted, functions can be selected.
- Refrigerator operating settings including temperature and mode display can be monitored.
- Ice machine settings can be adjusted.
- Warnings including "door-open warning" are available.
- Functions including fast cooling, fast freezing, holiday mode, Eco Fuzzy mode can be activated.



10143 CNT WASHING MACHINE

- Temperature, programs and functions can be selected.
- Time remaining and other programs can be monitored.
- Warnings including "water off" can be issued.
- Device settings can be selected, adjusted.
- Washing program info can be sent to the dryer.

9783 SHI BUILT-IN OVEN

- Program options are available.
- Program progress can be monitored.
- Warnings including "door open", "requested temperature reached" can be monitored.
- Device settings can be selected, adjusted.
- Oven settings can be automatically loaded by automatic dish selection.
- Date and time can be set or automatically synchronized with actual smart device settings.



3886 CNT DRYER

- Program settings can be adjusted. Additional functions like temperature can be selected.
- Time remaining and other program stages can be monitored.
- Warnings including "close the door", "tank empty" can be issued.
- Device settings can be selected, adjusted.
- Drying program proposed based on the machine's washing program.



63102 1 WF DISHWASHER

- Programs can be selected. Additional functions can be selected.
- Remaining program time can be displayed and program stages can be monitored.
- Program-end indicator and warnings including "door open", "water off", "no rinse aid / salt" can be issued.
- Device settings including "water hardness" can be adjusted, selected.

Innovative Products

White Goods

Arçelik A.Ş. develops products which meet market requirements thanks to its R&D accumulation and skills and offers services and products which fully meet consumer expectations thanks to years of experience.



Refrigerator Capable of Cooling 1.5-liter Bottles in 15 Minutes

- 84 cm combi refrigerator
- Large capacity of 630 liters
- A++ energy performance
- Faster cooling and freezing, longer storage periods for foods thanks to higher humidity in coolant section
- Odour filter system preventing bad odour
- Elimination of smells inside the refrigerator with the lonizer technology providing negative ions
- Preventing the mixture of smells in coolant and freezing sections and ensuring the protection of the foods in the coolant section against freezing

4-Door Refrigerator with Glass Door and Cooler Section

- 5-20 °C temperature adjustment
- A+ energy performance
- Fresh vegetables and fruits up to 30 days with special crisper design
- Faster cooling and freezing, longer storage periods for foods thanks to higher humidity in coolant section
- Storage capacity of 28 bottles
- Odour filter system preventing bad odour
- Elimination of smells inside the refrigerator with the lonizer technology providing negative ions
- Preventing the mixture of smells in coolant and freezing sections and ensuring the protection of the foods in the coolant section against freezing



Dishwasher with Automatic Liquid Detergent Dosing Feature

- Automatic Liquid Detergent Dosing; Automatic detergent dosing system ensures automatic optimum dosing of detergent at each cycle and eliminates the need of detergent supply at each washing cycle
- The problem of detergent residue at short programs is eliminated



45 cm Washing Machine with 7 kg Washing Capacity for Narrow Spaces

- 7kg washing capacity with enlarged tumbler technology
- Manufactured at Çayırova and Russia plants
30 cm and 34 cm loading hatch options for 6 kg and 7 kg washing machines
- Tumbler pattern

Washing Machine/Dryer with 10 kg Washing Capacity and 6 kg Drying Capacity

- Air-condensing drying technology
- Brushless motor technology
- 10, kg washing and 6, kg drying capacity

54 cm Dryer with 8 kg Capacity for Limited Spaces

- Heat pump A+, A++ energy efficiency options
- Dryer with condenser, B energy efficiency

Dryer with smell capsules and heat pumps

- Solid smell molecules with a special capsule
- Can be used up to 20 cycles
- 3 odor options; fresh, flowers, ocean



ExpertChef - Tablet-Controlled Smart Built-In Oven

- Remote control of the oven with the tablet application
- Multi-level cooking with SURF cooking technology
- Multifunction built-in oven with 13 cooking functions
- Ease of use with 4.3" color touch-display
- 82 step-by-step cooking menus with photographs
- Saving your own recipes with the tablet application
- 6-level wire rack and 2-level telescopic rail system for ease of use
- Halogen lighting inside the oven
- "Oleophobic Nano Clean Zone" full glass inner door that repels dirt and stain
- A energy class for minimum energy consumption
- Large internal capacity of 82 liters

Free-Standing Oven for US Market

- Double cooking technology, gas and electricity
- LED lighting with blue-red LED lights around the button
- Digital screen with a professional appearance
- Large internal capacity of 155 L
- Special turkey cooking program
- Strong 5.9 kW wok burner in gas stove models
- Pyrolytic cleaning feature, internal oven accessories suitable for pyrolytic cleaning



Capsule Turkish Coffee Machine

Capsule Turkish Coffee Machine cooks coffee directly in the cup and is equipped with Cooksense technology and single-key hygienic cleaning feature.



Products Accessible by All

Arçelik A.Ş. developed smart solutions and applications to make home appliances accessible by visually-impaired consumers. "Accessible Products Project" ensured that visually-impaired individuals can use home appliances by themselves. Arçelik A.Ş. collaborated with public institutions and NGOs during the product development phase to create a lasting benefit. The collaboration with Turkish Six Dots Association of the Visually-impaired is a perfect example of social innovation.

Home appliances managed by smart TVs, phones and tablets

Arçelik A.Ş. developed the innovative HomeWhiz technology with visually-impaired individuals in mind. HomeWhiz application is compatible with the smart device accessibility options and ensures full control of products with audio guidance. The application generates audio notifications of the function name and setting when a certain field is tapped. The products also generate audio notifications when a program is finished. Fabric, program, cycles, water temperature, forward-time washing and other detailed user options of washing machines can also be controlled over smart phones. The application also allows control of temperature settings, function selections and icebox functions and generates door-open and temperature alerts on refrigerators.

Easy use with Audio User Guides and Braille Alphabet indicator displays

Arçelik A.Ş. developed transparent stickers using Braille Alphabet for product buttons, indicator panels and controls within the scope of "Accessible Products" project. These stickers can be requested by the consumers during installation or later provided through the call center. Panel solution with Braille Alphabet made setting the temperature easier on washing machines, dishwashers, ovens and gas stoves. The refrigerator control button for temperature settings, holiday mode and fast cooling option was redesigned with the Braille Alphabet and the products were equipped with audio feedback feature. Vacuum cleaners generate audio warnings when the dust bag is full. The iron does not require any settings for safe and easy use with all fabrics. A special component was added to prevent access to the base and lower the risk of harm to the hands. Product user guides were added with visuals for the visually-impaired and audio depictions. Audio contents are easily accessible by users with the QR codes at the back cover of the product packaging. The smart control application for TVs allow volume and channel settings.

Supply Chain

Ensuring safer international transportation processes and taking measures against illegal intervention play a key role in positioning Arçelik A.Ş. as a preferred company. Arçelik A.Ş. protects its employees, products and brands to create a sustainable supply chain. Creating a secure supply chain is a key component of the Company's management systems. In this sense, as a result of external audits in 2014, Arçelik A.Ş. Supply Chain was certified with ISO 28000 Supply Chain Security Management Systems Certificate for storage and transport processes of finished goods which are subjected to export. Arçelik A.Ş. is the first Turkish company to be certified with ISO 28000 accreditation. In 2016, follow-up audits at Çayırova Supply Chain Center and Ankara, Beylikdüzü, Bolu, Çayırova, Çerkezköy, Eskişehir and Pelitli warehouses and the campuses were completed with success and the certification was maintained by Arçelik A.Ş.

In cooperation with the Ministry of Customs and Trade, Arçelik A.Ş. completed its efforts to adapt the customs BILGE system and make the "Local Clearance Export Permission" system operational in 2016. The first operation after the integration of the customs systems as required by the legislation and receipt of the IYG permit was performed at Arçelik Çayırova Campus using the Beylikdüzü Secure area on 20.01.2016 with success by coordination of Supply Chain Directorate and officers from the Ministry of Customs and Trade. Arçelik A.Ş. has been in first in Turkey to complete an export procedure in line with "Inward Processing Regime" with an LCE permission.

In addition, the integration of Evrim application used by Customs Operations Management for generating customs statement forms and conducting the statement process and the Company corporate resource planning software SAP was completed and these two platforms now are able to share data including the import customs statements data. This project is also a first in Turkey in terms of covering customs statements by direct and indirect representation and the volume of operations subject to integration. In addition, this has ensured that:

- Many processes were simplified, improved and accelerated,
- Duplicate jobs were prevented, the need for thirdparty software was eliminated, efficiency was increased with a number of improvements including automatic filling of certain data required for customs declarations,

- As a bearer of Authorized Economic Operator Certificate (AEO), improvement of competence to acquire traceable and conjugate data within the scope of the applicable legislation,
- Transactions of all suppliers responsible for the process are traced in a shared format and reports and notifications are automatically generated by the system,
- Information technologies are used more effectively for all processes and the base infrastructure is provided for new projects and activities.

Arçelik, a global company, uses the "Export Logistics Control Tower (ELCT)" portal to concurrently monitor its international affiliates and scheduled and dispatched vehicles and products. With the transportation companies integrated with the system, containers can now be easily tracked.

In 2016, Arçelik A.Ş. Supply Chain Directorate with Supply Product Directorate started working on the China Hub Consolidation Center Project to support the fast-growing Small Home Appliances product portfolio. The project was commissioned to go into service in 2017. China Hub will collect external source products manufactured by more than 10 suppliers in a single warehouse in line with the requirements of the supply chain. This solution will eliminate the limitations on production time, mixed loading and minimum production portfolio for the selected product portfolios. Customers which cannot reach minimum production numbers in direct purchases from the manufacturer will be allowed to order multiple products from multiple manufacturers for full containers in the new system. This will ensure more sales and a more efficient inventory management. The warehouse will also ensure global accessibility and allow product orders without waiting for production. The warehouse is at Yantian Free Zone and will be managed by a Third Party Logistics Services Provider selected after a tender process.

In 2016, the 13th Dealer Shared Warehouse was taken into service in Konya to provide services to Dealers in the Turkish Market. At "Dealer Shared Warehouses", we provide faster, more flexible and better services for the consumers.

“Automatic Loading-Unloading” systems established by Arçelik A.Ş. between operation and distribution warehouses shortened the loading, unloading and dispatch times. In 2016, Automatic Loading & Unloading system was commissioned to reduce the product transfer cycle time between Çerkezköy Plant Manufacturing Warehouse and Distribution Warehouse and ensure cost savings. Shorter cycle time secured significant savings in transportation and man/day costs. With the system integrated at Çerkezköy Warehouse, product loading and unloading automation system is in use at all operating warehouses.

Within the scope of Central Distribution Warehouse Project, 90,000 m² storage space all around Istanbul were consolidated at a single location. This ensures;

- Increased equipment and labor efficiency,
- Mixed product loading optimization in product dispatches to international customers,
- Minimizing the supply time for improved customer satisfaction,
- Optimization of vehicle capacity use,
- Efficiency from the synergy created by shared use of utilities inside the campus,
- Consolidation of warehouse maintenance, technical support and revaluation operations at a single location for faster services and cost savings.

Raw Materials

Reduced raw material prices in the first half of 2016 showed a trend of increase in the second half of the year. Changes in commodity prices were closely monitored and a purchasing strategy was developed to ensure minimum impact of price increases with flexible and long-term connections. In addition, competitiveness of total purchasing costs was maintained by increasing purchases from low-cost regions, adding alternative sources of supply to the system and implementing additional consignee procedures.

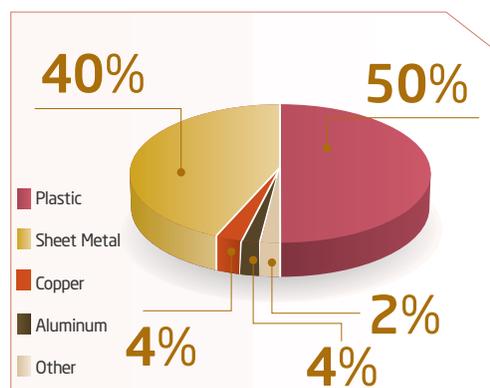
Central Distribution Warehouse was consolidated at a single campus as of March 2016 and the synergy effect has helped minimization of the number of staff members, optimization of mixed product loading, optimization of use of auxiliary facilities, optimization of capacity use and savings in warehouse operating costs.

Global Purchasing

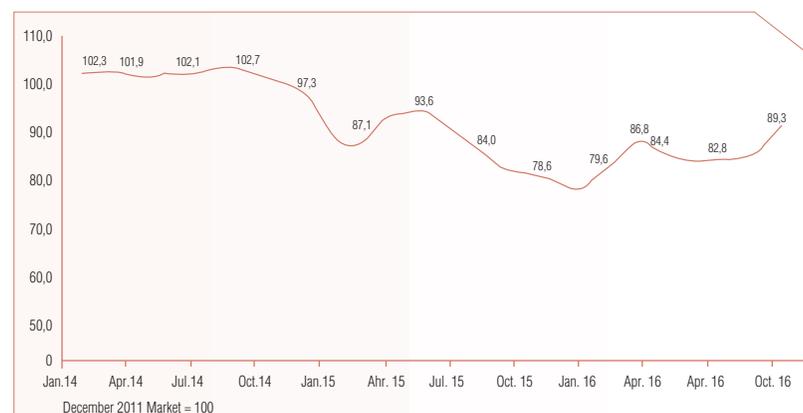
Arçelik A.Ş. Purchasing, reorganized for the changing global needs and expansion of Arçelik’s manufacturing network, is a dynamic organization with 180 personnel at purchasing offices in seven countries. Arçelik A.Ş. Purchasing procures 17,000 types of product from 1,700 sources in 51 countries and the total purchasing volume reached EUR 2,7 billion with the indirect and investment purchases in 2016.

A category-based purchasing organization was established to make use of scale economy and expertise. Category managers specialize in their relevant categories and conduct improvement projects as well as projects which create value for the customers. The purchasing organization effectively monitors all factors with a possible impact on costs including the fluctuations in commodity prices, local and global economic developments and changes in customs regulations.

Distribution of Raw Material Purchases 2016



Market Raw Material Index



Responsible Purchasing

Arçelik A.Ş. became a member of European Committee of Domestic Equipment Manufacturers (CECED) platform in 2005. The Company is one of the first companies to sign the Corporate Social Responsibility Code of Conduct issued by the European Committee of Domestic Equipment Manufacturers (CECED). Arçelik A.Ş. is a part of Koç Group which has signed the United Nations Global Compact and has certain expectations from its supplier within the frame of its responsible purchasing policy. These are:

- Unconditional compliance with business ethics rules in line with its working conditions,
- Declaring the business ethics rules to the employees and ensuring that they duly care about these rules,
- Business Ethics rules are readily available for all employees.

Arçelik A.Ş. Responsible Purchasing Policy issued in 2016 is available for the suppliers on Arçelik Supplier Portal (www.supplier.arcelik.com) and the corporate web site of Arçelik A.Ş. (www.arcelikas.com/sayfa/866/ls_Etigi)

Arçelik A.Ş. audited 38 suppliers, 21 local and 17 international, in 2016 through an independent audit company on business ethics and occupational safety. Following the audits in 2015, 16 suppliers were subject to follow-up audits in 2016 and a 73% improvement was observed regarding the non-conformances. Business ethics and occupational safety audits will continue in 2017.

Supplier BTP (Business Transparency Project) Program

A sustainability report provides many benefits for the companies in terms of communication and management as well as reputation. GRI (Global Reporting Initiative) is one of the most prestigious global organizations which provide assistance in this field. BTP project (Business Transparency Project) initiated in 2015 with the support of GRI (Global Reporting Initiative) was completed in 2016 and sustainability reports were drafted by 12 suppliers. The objectives of this project are to increase the corporate sustainability performance of suppliers, ensure that they are capable of drafting sustainability reports and ensure that they are recognized on an international scale.

BTP project (Business Transparency Project) initiated in 2015 with the support of GRI (Global Reporting Initiative) was completed in 2016 and sustainability reports were drafted by 12 suppliers. The objectives of this project are to increase the corporate sustainability performance of suppliers, ensure that they are capable of drafting sustainability reports and ensure that they are recognized on an international scale.

Supplier Summit

Suppliers from all around the world shared their strategies at the "Global Supplier Summit" organized by Arçelik A.Ş. in May 2016.

Approximately 1,000 suppliers attended the event organized for the first time on a global scale with the theme "Lead the Change", "Look Further", "Learn Together", "Connect & Grow."

The discussions focused on objectives and strategies of Arçelik A.Ş. as well as innovation and the suppliers were encouraged to play a more effective role in design and innovation.

At the summit, 20 suppliers were awarded for their achievements regarding the concept of "Lead the Change", "Look Further", "Learn Together", "Connect & Grow."





Supplier Innovation

A joined team was formed by Purchasing and R&D to encourage the suppliers to make contributions to innovation and closely monitor their innovation efforts. Innovation and technology days were organized to allow the suppliers share their proposals, ideas and product roadmaps with the Company. University collaborations were instrumental in training the suppliers on innovation and helping them benefit from incentives. Creating value and making use of the outputs of collaboration projects within this frame is a top priority.

Purchasing Academy

Purchasing Academy program which started in 2013 and continued in 2016 aims at equipping Arçelik Purchasing employees with the knowledge and skills they need and increasing their level of awareness. The program is implemented with the collaboration of Koç University and CIPS (Chartered Institute of Procurement and Supply), an international accredited company specialized in purchasing. The program is for local and international purchasing staff. In 2016, 101 people were trained and 25 people were graduated from the program.

Supplier Improvement Activities

The priority of Arçelik A.Ş. Purchasing department is to create a portfolio of effective and synergistic suppliers

focused on the basic elements of competition, making high-quality manufacturing and continually improving to reduce the manufacturing time and operational cycle. Arçelik A.Ş. Purchasing is also focused on cooperating with the suppliers based on mutual trust and an approach of shared objectives. In line with this vision, Supporting Industry Development Department continued its efforts to improve the infrastructure and technical competences of suppliers in 2016 and visited 1020 suppliers to provide assistance.

Arçelik A.Ş. believes that an important aspect of supplier improvement is the training provided to the suppliers. In line with this approach, Arçelik A.Ş. has provided 41 sessions of training for 210 attendees from the suppliers on Gage R&R, SMED, process competency, time analysis, government incentives, energy efficiency, quality, manufacturing technologies and manufacturing efficiency in 2016, totaling to 1213 man/hour.

Furthermore, efficiency projects organized with the suppliers provide shared benefits and improve the quality performance of the suppliers. In 2016, 136 projects were implemented with 106 suppliers. 51 of the projects were for increasing the automation and labor efficiency and 40 of them provided savings in labor costs.

The most important element of Arçelik A.Ş.'s Performance-Focused Supporting Industry Management is the supplier awards system. In this frame, 11 suppliers were granted with performance awards and one with a special award in 2016.

Consumer Services

Arçelik Call Center offers customized and high-added-value solutions with enthusiastic and highly-qualified staff members and advanced technologies in an effort to provide a flawless experience for its customers.

Call Center Management contributes to the Omnichannel Digital Transformation and Interaction Project initiated by the Company in 2016 with its own projects and continues its operational processes with new business models.

The requests and expectation of local customers who reach the Call Center through various channels are met 24/7 with advanced technologies and a high-quality service approach. Arçelik Call Center offers pre-sales and post-sales call center services for Arçelik A.Ş. brands in Germany and Austria since 2009. Most up-to-date communication channels and applications were commissioned in 2016 to provide better interactive services for the customers.

The basic objective of Arçelik Call Center Management is to flawlessly respond to all customer requests and expectations under all circumstances. In 2016, Arçelik Call Center Management continued to offer customized one-on-one solutions for VIP customers and provide a unique customer experience.

Satisfaction surveys were conducted with local and international customers to learn their expectations and receive feedback in an effort to improve the quality of services. Within the year, consumers of various Arçelik A.Ş. brands in Cyprus, Tunisia and Jordan were contacted and their opinions were taken on brands and services.

Furthermore, a system was established to evaluate each and every interaction of Arçelik customers with the brand. This system evaluates the customer's experience with the brand in a wide range spanning the process from purchasing to post-sales services. With the scoring, the customers' probability of giving up the brand was measured and feedback was provided to relevant units for taking the necessary measures and taking corrective action.

Arçelik A.Ş., a global brand and local industry leader, initiated "Net Promoter Score System" in 2016. The system allows the Company to receive customer opinions and feedbacks on the brand and services.

Arçelik A.Ş. confirms that the processes and technology investments for a unique customer experience have paid off with the increase in NPS results. These processes have a positive impact on customer and employee satisfaction surveys and Call Center employee loyalty survey results are higher than 60.60% which is the Consumer Services average.

Having assumed responsibility for the management of online sales and social media communication operations, "Arçelik Call Center Management" has continued to implement its strategy of being with its customers at all times.

With the tele marketing operations conducted in cooperation with CRM Management, customized campaigns were offered to the customers and TL 40,000,000 was added to total revenues.

An important opportunity for management to expand its know-how in different industries was that Arçelik Call Center started to provide technical assistance for cash register POS devices that entered the market as a new product merging bank POS devices with cash register devices as per the Communiqué No. 69 and No. 70 on "Payment Recording Devices" of Law No. 3100 of Ministry of Finance in 2013.

In 2016, Arçelik Call Center supported the Koç Finans Support Line for Dealers and IT Helpdesk operations for local and international staff members for outsource services and increased its operational portfolio with new business models.

In 2016, Consumer Services Directorate provided field service with 11,700 personnel, about 5,560 of which were technicians and 5,500 vehicles at about 543 authorized service locations operating under the authority of 12 regional managements throughout Turkey. Authorized services provide over 13 million services annually for all the brands of Arçelik A.Ş. The ability to handle both the delivery and installation of a product with a single service call is one of the competitive advantages of the technical service.

Authorized dealers are sufficiently trained, experienced, technically competent and regularly audited as per the required clothing, hygiene and courtesy rules. Post-service surveys are used to regularly measure customer satisfaction and corrective and preventive actions are taken based on feedbacks.

Quality and availability of post-sales services positively effect the market recognition of Arçelik A.Ş. brands and their market share. Many applications related with consumers basically target keeping the customer satisfaction level as high as possible.

Post-sales service processes are certified with "ISO 10002 Customer Satisfaction Quality Management System Certificate".

Last year, a mobile automation system was developed and activated for post-sales services on site to support the innovative and tech-savvy image of the Company. This application allows uninterrupted and instant access for authorized service technicians to information on the consumer's home.

In 2016, dealers have started to offer additional guarantee with various alternatives as required by the customers. The technician views the "Additional Guarantee Products Available for Sale" data on the tablet screen for a single or multiple products while offering a service among the product groups available for additional guarantee.

Now each house we visit is a service office and point of sale and each service technician is a point of communication capable of instantly accessing and sharing information.

The technical staff is certified by the Technical Services and Training Division, which operates under the Consumer Services. In 2016, a total of 320,000 man/hour training was provided in Turkey and abroad. Training modules that are based and focused on measurement in education have been put into practice and distance education activities have been accelerated as an innovative implementation. Technical support and training activities in all countries of sale throughout the world are conducted under Consumer Services and thus, a new organization has been established. Technical support activity has been conducted for 20,000 domestic model products and 40,000 foreign model products that are sold by years. "International Academy" was established to provide international trainings and organized technical training events in 45 countries in 2016. On the other hand, academy formation process is still on

progress in foreign countries. Thailand Academy was established under the Central Academy. Investments for Defy Academy in South Africa were finalized. Technical feedbacks on products are now collected on an international platform with the "business desk" interface program taken online within the scope of international technical support process.

Devices and tools providing troubleshooting solutions for products and reducing the warranty costs have been designed within Technical Services. Cooling system unblocking and gas leakage test devices are at patent levels. The company also works with technological innovation companies for troubleshooting solutions and in this sense, the collaboration for LCD-LED panel repairs which started in 2014 was expanded in 2016 to include Samsung and Elazığ and cover Turkey as a whole. In addition of IoT efforts by Arçelik, Consumer Services has completed the design of "Service Informant" device developed in collaboration with TH-Central R&D for failure monitoring and the prototype stage is in progress.

Arçelik A.Ş. Spare Parts Management provides services for our customers with 368,000 different spare parts in total. Each year, spare parts range is increased by about 17,500 units. Web Ambar Software commissioned to better manage the increasing diversity and provide the right service instantly for the customer is now more widely used by Dealers.



Corporate Social Responsibility Approach

Sustainable use of the earth's limited resources is not only the responsibility of individuals, governments and nongovernmental organizations (NGOs), but companies as well. The company carries out its activities with a view to create a more livable world for next generations.

Responsibilities towards "Sustainable Development", environmental awareness and social sensitivity and operating in full compliance with laws, ethical standards and human rights constitute the "Corporate Social Responsibility" of the Company.

Drawing its strength from the corporation values and the principle of "I exist only if my country exists" determined by dear deceased Vehbi Koç, the founder, the Company strives to fulfill its responsibilities together with its employees and all of its business partners.

Corporate Governance Approach

The Company's corporate values, ethical approach, good governance philosophy and business ethics principles guide the employees to fulfill their responsibilities.

In line with international business standards, for long-term productivity and success of the Company, it is inevitable to convey four principles of corporate governance: accountability, responsibility, openness and transparency and equality, which build trust between stakeholders and corporations, to its activities.

Arçelik A.Ş. is conscious of the fact that the methodology for fulfilling the promises on trust and stabilization against the Company's stakeholders, especially investors can be achieved by sound corporate governance. The positive impacts of Company's performance on "Corporate Governance Principles" are clearly observed in especially meetings conducted with corporate investors. The company not only depends on its business results and robust capital structure to achieve its profitability targets, but also on its "Corporate Reputation", an important asset that has been established over many years.

Corporate Governance Principles Compliance Report

SECTION 1: Statement of Compliance with Corporate Governance Principles

Implementation and actualization of Corporate Governance Principles, which were issued by Capital Markets Board (CMB) under decision number 35/835 on 04.07.2003 and shared with the public on July 2003, is important especially for the creditworthiness and financial opportunities of publicly traded corporations. The said principles that reveal the quality of corporate governance have been adopted by the Company. As per CMB resolution No. 48/1588 on 10.12.2004, it has been decided that the companies traded at Istanbul Stock Exchange (ISE) shall include their statements related to their conformance with mentioned Corporate Governance Principles in their annual reports and on their websites (if any), beginning from their 2004 annual reports. In accordance with the above mentioned resolution, Arçelik A.Ş. has set up an in-house team to examine the compliance with these principles, and in consequence of these studies as of 2004, information on Compliance with Corporate Governance has been included in its annual reports and on its website. Corporate Governance Principles have been revised with the Corporate Governance Communiqué of CMB no. No: 11-17.1, which was published in the Official Gazette dated 03.01.2014.

While fully complying with the obligatory principles, which are in effect in 2016, within the scope of Corporate Governance Communiqué No: 11-17.1, the Company has also complied with the majority of nonobligatory principles. Although also the full compliance with nonobligatory principles is aimed, full compliance is not yet achieved due to reasons such as challenges encountered in the implementation of some principles, on-going discussions both in our country and international platform about compliance with some principles and some principles that not well-suit to current structures of market and company. Studies on the principles which are not yet put into practice still carries on and it is planned to carry into practice upon the finalization of administrative, legal and technical infrastructure works that will contribute to the efficient governance of our company. Comprehensive works performed within the frame of corporate governance principles within the structure of our company and in the related sections principles which have not been complied yet and if any, conflicts of interest arisen due to this have been explained below.

Primary studies in the field of Corporate Governance within 2016 are the studies of compliance with corporate governance principles of CMB and Capital Market Law containing new regulations and communiqués prepared based in this Law. Amendments in articles of association required to comply with New Turkish Commercial Code and Capital Market Law have been accepted in our Ordinary General Assembly dated 28.03.2013. Our Board of Directors and committees of the Board of Directors are established in compliance with the regulations in Corporate Governance Communique. Established Board of Directors' Committees efficiently conduct their operations. Compliance opinion was obtained from CMB for nominees of independent board members and announcement to the public was performed. Remuneration Policy for Board of Directors and Top Managers was determined again and approved by the Ordinary General Assembly. Prepared general assembly information document and general assembly information such as privileged shares, voting rights, organizational changes which are obligatory to be explained as per the principles, resumes of nominees for Board Members, remuneration policy for Board of Directors and Top Managers, associated party transactions and other information that needs to be explained have been submitted for our investor's information 3 weeks before the General Assembly dated 25.03.2016. All of our related party transactions have been submitted for the information of Board of Directors and with the approvals of our independent board members; the continuity of the said transactions has been decided. Furthermore necessary revisions have been made in terms of full compliance with principles by revising our company's website and annual report.

Also in the forthcoming period, necessary works are going to be performed by considering the improvements and implementations in legislation for compliance with the principles.

Our Company's corporate governance rating was 9.48 on a 10 point scale (94.80%) as publicly announced under our disclosure of material events on 22.07.2015 and given by Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (SAHA) and it was increased to 9.52 on a 10 points scale (95.23%) after the revision performed by SAHA on 22.07.2015. Our Corporate Governance Rating has been determined as a result of an evaluation made under four main topics (Shareholders, Public Disclosure and Transparency, Stakeholders, Board of Directors) weighted based on CMB's Corporate Governance Principles and current distribution based on main topics are provided below:

Main Sections	2015 Rating	2016 Rating
Shareholders	9.51	9.52
Public Disclosure and Transparency	9.64	9.72
Stakeholders	9.88	9.91
Board of Directors	9.18	9.22
Total	9.48	9.52

The report issued by SAHA on the corporate governance rating is available on our Company's website at www.arcelikas.com. In the report dated 22.07.2016, SAHA has made the following assessment:

"Corporate governance grade of Arçelik A.Ş. was revised as specified above considering the importance attached by Arçelik to the corporate governance principles, willingness to execute this as a continuous and dynamic process."

Our Company has been included in ISE (BIST) Corporate Governance Index since 31.07.2009.

Corporate Governance Principles Not Yet Implemented

Arçelik A.Ş. believes in the importance of fully complying with the Corporate Governance Principles. However, full compliance with some principles has not yet been achieved due to reasons such as challenges which may be encountered in the implementation and may cause delay of company activities, on-going discussions both in our country and on international platforms about compliance and not well-suited to current structures of market and company. For example,

- Concerning the principle no. 1.5.2; minority rights were not entitled to the ones having lower than one out of twenty of the capital with articles of association, the rights were provided within the frame of general regulations in the legislation.
- Concerning the principle no. 4.3.9; no target ratio or target time is determined for woman member ratio in the Board of Directors and evaluation studies are still ongoing regarding the issue. Detailed information regarding the issue is provided in part 5.1.
- Concerning the principle no. 4.4.7, as explained in part 5.1 below, there isn't any restriction for the members of the board of directors to handle other tasks apart from the company.

Full compliance with nonobligatory principles is not secured and the Company is not subject to any conflict of interests.

Efforts for full compliance with the Corporate Governance Principles have been continued by preparing a corporate governance action plan concerning the areas that still need improvement in corporate governance implementations as determined in the Corporate Governance Rating Report for Arçelik A.Ş. prepared by SAHA.

SECTION II: SHAREHOLDERS

2.1. Investor Relations Department

The tasks of the Investor Relations Department regarding the communication between the Company and investors are carried out by Hande Sarıdal, Finance Director; Faik Bülent Alagöz, Capital Markets Regulation Compliance Manager and Orkun İnanbil, Investor Relations Manager; under the coordination of Polat Şen, Assistant General Manager of Finance and Accounting. With the Board Decision dated 05.04.2016, Polat Şen was assigned as a member of the Corporate Governance Committee.

Licenses of the persons within Investor Relations Department as of 2016 are provided below:

Name-Surname	Title	Type of License Certificate	License Certificate No.
Polat Şen	Assistant General Manager - Finance and Accounting	-	-
Hande Sarıdal	Finance Director	Capital Markets Activities High Level /	202801
Faik Bülent Alagöz	Capital Markets Regulation Compliance Manager	Capital Markets Activities High Level / Corporate Governance Rating Specialty	203781/700495
Orkun İnanbil	Investor Relations Manager	-	-

Contact information of Investor Relations Department staff in 2016 are below:

Polat Şen

Assistant General Manager- Finance and Accounting
0212 314 31 00
polat.sen@arcelik.com

Faik Bülent Alagöz

Manager- Capital Markets Regulation Compliance
0212 314 31 03
bulent.alagoz@arcelik.com

Hande Sarıdal

Finance Director 0 212 314 31 85
hande.saridal@arcelik.com

Orkun İnanbil

Manager-Investor Relations 0212 314 31 14
orkun.inanbil@arcelik.com

Fax: 0212 314 34 90

**E-mail: yatirimciiliskileri@arcelik.com -
investorrelations@arcelik.com**

Activities carried out in 2016 in order to provide detailed information to investors about the Company's operations is summarized in the following table:

• Number of investor conferences held in Turkey and abroad	10
• Number of investors interviewed	335
• Number of teleconferences organized for the disclosure of financial results as of the end of 2015 and the first 9 months of 2016	4
• Number of press meetings organized in Turkey and abroad	13

Major activities executed in Investor Relations Department are as follows:

- Keeping the records of shareholders in a proper, secure and up-to-date manner,
- Responding to shareholders' oral or written queries for information regarding the company, excluding undisclosed information that is considered confidential and trade secret,
- Ensuring that the General Assembly is conducted in accordance with the applicable legislation, articles of association and other internal regulations,
- Preparing documents to be used by shareholders during the General Assembly,
- Keeping records of voting results and ensuring that all reports related to resolutions are delivered to shareholders,
- Observing and monitoring all issues regarding public disclosures, including applicable legislation and the company's disclosure policy,
- Attending meetings held at company headquarters as well as other local and international meetings organized by various organizations and informing investors of these meetings,
- Providing information to analysts who make assessments about the company,
- Responding to information requests made by academicians who carry out research about the company and industry,
- Preparing the content, both in Turkish and English, to be posted on the investor relations section of the company's corporate website (www.arcelikas.com), updating the page as frequently as possible, and ensuring that shareholders are able to access company information easily and quickly via Internet,
- Making available up-to-date information on statements which may affect the use of shareholders' rights on the corporate web site,
- Filing material events disclosures through the Public Disclosure Platform (PDP), in accordance with the CMB Communiqué no. II-15.1,
- Monitoring changes in the applicable legislation related to the Capital Market Law and bring these to the attention of concerned units in the company,
- Representing the company at the Capital Markets Board, Istanbul Stock Exchange, and Central Registry Agency (CRA).

The report prepared regarding the activities conducted by Investor Relations Department in 2016 was first submitted to the Corporate Governance Committee to review on 14.02.2017.

2.2. Use of Shareholders' Rights to Obtain Information

In the use of rights of shareholders, the legislation, articles of association and other internal regulations are applied, and necessary precautions are taken to ensure the use of these rights and all shareholders receive equal treatment. In Arçelik A.Ş., Investor Relations Unit operates under the authority of Deputy General Manager of Finance and Accounting. The primary objective of the company is to ensure that shareholders exercise their right to obtain information in a fair and complete process. Furthermore, the Company enables its shareholders to exercise their rights, which they are entitled to as partners, fully and as soon as possible. In the Company no discrimination is applied among shareholders in the use of their right to obtain and evaluate information. Each shareholder has right to obtain and evaluate information. The queries directed to Investor Relations Unit, excluding undisclosed information that is considered confidential and trade secret, are responded either via phone or in written by obtaining information from the highest authority of related subject. As explained in Part 3.1 of this report, every kind of information and statement, which may affect the use of shareholders' rights are included on the website. With the intent of extending the shareholders' rights to obtain information and enable them to exercise their rights in an accurate way, up-to-date financial statements as well as necessary information and documents are provided on the Company's website (www.arcelikas.com) both in English and in Turkish. During this period, oral or written information requests addressed by the shareholders have been responded orally or in written without discrimination among shareholders within the frame of Capital Markets Regulation. Material event disclosures required to be submitted to the PDP along with financial statements and other company information are submitted digitally with electronic signatures. Notwithstanding that the Company Articles of Association do not include any provisions regarding the right to demand special auditor as an individual right, as per Article 438 of Turkish Commercial Code, each shareholder, in case it is necessary for being able to exercise the shareholder right and if the right for obtaining or evaluating information had been exercised previously, may demand general assembly to clarify specific matters through with a special audit even if it is not included in the agenda. The Company has also not received such a request during the period. In addition, the operations of Arçelik A.Ş. are periodically audited by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi, an independent auditing firm (a member firm of Ernst & Young Global Limited), as well as by auditors elected during General Assembly.

2.3. General Assembly

In order to ensure attendance of maximum number of shareholders, announcements of invitation to the General Assemblies are made through all available means of communication, including electronic media, at least three weeks in advance. Our Articles of Association have been issued accordingly.

In addition to the announcements of General Assemblies and announcements and disclosures, which are required by the applicable legislation, the following matters are notably announced to our shareholders on our Company's website as well:

- a) The total number of shares and voting rights, which reflect the shareholding structure of the company, as of the date of announcement,
- b) Changes in management and activities at the Company or the Company's subsidiaries and affiliates that would have a crucial impact on any activities, and which took place in the previous accounting period or are planned in the next accounting period,
- c) In the event that the agenda of the General Assembly contains any items which stipulate the discharge, change or election of any members of the Board of Directors, the justification for these and information on the individuals who would be nominated for the Board of Directors;
- d) Requests of shareholders, Capital Markets Board (CMB) and/or other institutions and organizations related to the company for any items to be included on the agenda,
- e) In the event that the agenda of the General Assembly contains any items that stipulate for an amendment to any of the articles of association, the list of previous and current items to the articles of association alongside the relevant Board of Directors' resolution.

Concerning the fulfillment of the obligation stipulated in paragraph (c), résumés of individuals who shall be nominated for the Board of Directors; their employment history for the past ten years and reasons for leaving their prior employment; the nature and prominence of their relationships with the company and the company's affiliates as to whether they can be considered independent or not, and in the event that these individuals are elected as members of the Board of Directors, information on similar issues to affect the company operations.

All shares of the company's capital stock are nominative. An informative document regarding the agenda items shall be prepared and disclosed to the public on the company's corporate website and PDP prior to the General Assembly. General Assemblies are held open to the public, including stakeholders and members of the media, provided that they do not have the right to speak at the meeting as per Company's Articles of Association.

The Company held 1 Ordinary General Assembly Meeting and 1 Extraordinary General Assembly Meeting in 2016.

During the Ordinary General Assembly, which was held on March 25, 2016 and during which the Company's 2015 operations were discussed, 60,566,162,544 shares (89.63%) of 67,572,820,500 shares, which is the total of Company's capital, were represented physically and on electronic environment. Company's shareholders (either in person or by proxy), stakeholders and members of media attended the meeting. Representatives from several intermediary institutions and banks providing settlement and custody services also attended the meeting as observers. During the General Assembly Meetings, questions directed by shareholders are answered. In cases when the question being asked is not related to the agenda or is too complicated to be answered during the meeting, the answers thereto are provided by Investor Relations Unit in writing. No question was asked requiring such written response in the General Assemble dated March 25, 2016.

During the Extraordinary General Assembly, which was held on December 26, 2016 and during which the partial demerger process was discussed, 61,073,012,147 shares (90.38%) of 67,572,820,500 shares, which is the total of Company's capital, were represented physically and on electronic environment. Company's shareholders, stakeholders and members of media attended the meeting. Representatives from several intermediary institutions and banks providing settlement and custody services also attended the meeting as observers. During the General Assembly Meetings, questions directed by shareholders are answered. In cases when the question being asked is not related to the agenda or is too complicated to be answered during the meeting, the answers thereto are provided by Investor Relations Unit in writing. No question was asked requiring such written response in the General Assemble dated December 26, 2016.

Summary of the resolutions made at the Extraordinary General Assembly on partial demerger are as follows.

- In the 2nd item of the agenda; it was notified that the Demerger Plan regarding the partial demerger process, Demerger Report, Financial Tables and Annual Reports of the last three years and the interim financial statement for the period from 01.01.2016 to 30.06.2016 were made available at the Company Headquarters for review of the shareholders for two months beginning on 14.10.2016 before being submitted to the approval of the General Assembly and publicly disclosed (through Public Disclosure Platform and Company's www.arcelikas.com web site). The shareholders were informed on "Announcement on Right to Review", "Announcement on Protection of Creditors" and Certified Public Accountant's Report on Determination of Equities as per the Turkish Commercial Code.
- In the 3rd item of the agenda, the shareholders were informed on the Statement of the Board of Directors that no rights of clearance was raised with the partial demerger as per the Capital Markets Board Communiqué II-23.1 "Principles and Right of Clearance Applicable for Significant Transactions."
- In the 4th item of the agenda, Interim Financial Statement and Income Statement dated 30.06.2016 were approved as the basis for demerger.
- In the 5th item of the agenda, it was unanimously decided that the Demerger Report and Demerger and their annexes are approved, assets and liabilities under the local "dealer management", "advertising and sponsorship activities", "inventory and stock management", "logistics management", "guarantee services management", "assembly and maintenance services" are integrally and universally transferred to ARÇELİK PAZARLAMA ANONİM ŞİRKETİ which will be incorporated as a 100% affiliate of the Company by partial demerger and the transfer will be registered in the Articles of Association of ARÇELİK PAZARLAMA ANONİM ŞİRKETİ at Istanbul Trade Registry Directorate in accordance with TCC Article 159, simplified demerger provisions of the Merger and Demerger Communiqué by the Capital Markets Board and Articles 19 and 20 of the Corporate Tax Law.

The Minutes of the Company's Extraordinary General Assembly Meeting dated 26.12.2016 was registered by Istanbul Trade Registry Directorate on 30.12.2016.

- According to the Articles of Association, the General Assembly was announced at least three weeks before the General Assembly in PDP, in the Turkish Trade Registry Gazette, on the company's corporate website,

in Electronic General Assembly System, and on e-company in an effort to reach the highest possible number of shareholders besides the procedures stipulated through the legislation.

- All announcements comply with Corporate Governance Principles.
- Starting with the invitation date of the General Assembly, financial statements and reports, including the annual report, the proposal for dividend distribution, information on the agenda of the General Assembly, supplementary documents pertaining to the agenda, the current Articles of Association, the text and reasons of amendments, if any, to the Articles of Association are all made available to shareholders at the company headquarters and on the company's corporate website for the convenience and open review of shareholders.
- The Company prepares a clear agenda of the General Assembly to avoid any ambiguities and misunderstandings. Such information consists of references and citations pertaining to the agenda items to be discussed.
- Examples for power of attorney are announced and posted on the company's corporate website for shareholders represented by proxy.
- Voting procedure is announced prior to the meeting and shareholders are duly informed via the company's corporate website.
- During the General Assembly Meetings held on March 25, 2016 and December 26, 2016, the Company did not receive any requests from shareholders for any additional items to be included on the agenda.

General Assemblies are conducted with minimum costs and simplest method and as not to cause inequality among shareholders. By facilitating the participation of shareholders residing both in the country and abroad, they are enabled to participate in General Assembly.

Besides, all documents that may be needed by foreign shareholders in order to be informed about the General Assembly and agendas are translated into English and sent via the banks performing the barter and holding transactions of such shareholders and are also posted on the company's corporate website.

The company makes every effort to hold its General Assembly close to the city center for greater participation and convenience. The number of participants is tracked annually and the meeting venue is designated according to the number of participants.

Section II: Shareholders

The company makes every effort to hold its General Assembly close to the city center for greater participation and convenience. The number of participants is tracked annually and the meeting venue is designated according to the number of participants. The Ordinary General Assembly dated 25.03.2016 and the Extraordinary General Assembly dated 26.12.2016 were held at the following address: "Divan İstanbul Elmadağ, Asker Ocağı Caddesi No:1 34367 Şişli İstanbul". The location of the General Assembly was easily accessible to all shareholders. Invitations to the General Assembly are issued by the Board of Directors according to the provisions of the Turkish Commercial Code (TCC), Capital Market Law and the Articles of Association. Resolutions made by the Board of Directors for the convention of General Assemblies are shared with the public via disclosures filed with the PDP.

As per the regulations of CMB, it is obligatory to disclose financial statements to the public within 11 weeks after the end of accounting period. However, the company discloses its financial statements much earlier. The financial statements for 2016 year-end were disclosed during the 5th week. Following the disclosure of financial results, preparations for General Assembly are started and General Assembly is conducted upon the finalization of required legal procedures. This year's General Assembly will be conducted within three months after the accounting period. During the General Assembly, subjects included in the agenda are conveyed to shareholders in detail and fairly with a clear and understandable method; proper discussion environment is created where shareholders are provided with equal opportunities to express their opinions and raise questions. For the featured subjects included in the agenda, related board members, related other persons, authorized persons and auditors who are responsible for preparing the financial statements participate in the General Assembly in order to answer the questions and provide necessary information.

The shareholders are also given the opportunity to make comments and recommendations regarding the remuneration of the company's Board of Directors and top managers.

The General Assembly is provided with information on processes, if any, based on the permission acquired by shareholders having the governance control, members of Board of Directors, managers with the responsibility of administration and their spouses and second degree blood and kinship relatives at the General Assembly to perform tasks within the Company's area of operation in line with articles 395 and 396 of Turkish Commercial Code.

As per clause 4 of the article 415 of the new Turkish Commercial Code no. 6102 and the clause 1 of the article 30 of the Capital Market Law no. 6362, it is no longer a requirement to store share certificates to acquire the right to participate in the general assembly and the right to vote. Therefore, our partners who wish to participate in the General Shareholders' Meeting are not required to block their shares before the Central Registry Agency.

At the General Assembly, votes of shareholders on the agenda subjects are recorded in the minutes of meeting. Each agenda topic is voted separately at the meeting. The General Assembly is conducted under the supervision of a Commissioner from the Ministry of Customs and Trade.

General Assembly is informed about donations and aids which are made by the Company to foundations and associations for social relief with a separate agenda topic. At the ordinary general assembly held in 2016, information on the donations and aids in 2015 was provided with a separate agenda topic and the upper limit for donations in 2016 was determined to be TL 17,000,000 and there has been no change in the donation policy.

The minutes of the General Assembly are posted on the corporate website and are also made available to shareholders at the company's headquarters and given upon request.

2.4. Voting and Minority Rights

The voting procedures at the General Assembly are announced to shareholders at the beginning of the meeting. Applications, which cause inconvenience for the exercise of voting right, are avoided in the Company and each shareholder, including residing abroad, is provided with the opportunity to exercise his/her voting right in the most appropriate and convenient manner.

The Company's Articles of Association do not include any special voting privileges. Each share has one voting right. Any legal entity, which is the affiliate of The Company, does not exist among the Company's shareholders. The Articles of Association do not contain any provisions preventing a non-shareholder from voting by proxy.

Shareholders representing the minority rights compose the Management together with majority shareholders by their participation at General Assembly. In 2016, our company has not received any criticism or complaint concerning this issue. Minority rights are determined to be no lower than one-twentieth of the capital by the Articles of Association.

2.5. Dividend Rights

The dividend distribution policy approved by the shareholders as 6th Agenda article in Ordinary General Assembly held on 27.03.2014 has been determined as:

“Our company performs dividend distribution within the frame of the provisions of Turkish Commercial Code, Capital Market Regulations, Tax Regulations and other relevant regulations and the article regarding dividend distribution in our Articles of Association. The distribution of dividends is based on a balanced and consistent policy between shareholders and corporate interests in accordance with Corporate Governance Principles. As a principle, 50% of the distributable term profit, calculated according to the Capital Market Regulations, is distributed in the form of cash and/or bonus shares to the extent allowed by the relevant regulations and financial facilities as long as they have provisions in the existing resources specified in our legal records on the basis of market expectations, long-term corporate strategy, investment and finance policies, profitability and cash position. The purpose is to distribute dividends within maximum one month after the General Assembly meeting, which also decides on the date of distribution of dividends. General Assembly or Board of Directors, if authorized, may decide on distribution of dividends in installments in accordance with the Capital Market Regulations. The Articles of Association of the Company states that The Board of Directors may distribute dividend advance provided that it is authorized by the General Assembly, and that it complies with the Capital Market Regulations.”

Dividend distribution policy of the Company is included in the Annual Report and posted on the company’s corporate website.

The company’s profit distribution process is carried out in accordance with TCC (Turkish Commercial Code) and CMB, within statutory periods. At the Ordinary General Assembly dated March 25, 2016, it has been decided to distribute gross dividend rate at the rate of 38.773% (net 32.957%) based on 2015 financial results and as of April 1, 2016, dividend distribution has started. The Articles of Association do not grant any privileges regarding profit sharing.

2.6. Transfer of Shares

The Articles of Association do not include any provisions which obstruct the free transfer of shares and restricting the transfer of shares. CMB regulations are applied in terms of takeover of Company’s nominative shares treated in the stock market.

SECTION III: PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Corporate Web Site and Its Content

The Company uses its corporate website (www.arcelikas.com) actively in order to communicate more effectively and rapidly and to be constantly in touch with its shareholders, in accordance with CMB’s Principles. The information provided here is updated regularly. The information posted on the company’s website is the same as and/or consistent with the material event disclosures made in accordance with the applicable laws, they are complete and do not contain any contradictory information.

In addition to the information required to be publicly disclosed by the applicable laws, the company’s website provides the following information: trade registry information, the latest partnership and management structure, the notification that the company has not issued any privileged shares, the latest version of the company’s Articles of Association together with dates and numbers of the Turkish Trade Registry Gazettes that contain the amendments made; material event disclosures, financial statements, annual reports, prospectuses and IPO circulars, agendas of General Assembly and list of attendants and minutes, proxy voting form, dividend distribution policy, disclosure policy, ethical rules of the company and answers to frequently asked questions. Accordingly, such information for the last 5 years is available on the company’s website.

The company’s website is provided both in Turkish and English in compliance with the content and design required by CMB’s Principles. It is the responsibility of the Investor Relations Department to prepare, update and contribute to the content posted on the Investor Relations section of the company’s website. The Company makes every effort to provide investors of its corporate website with better service.

The company is controlled by the main partner Koç Holding A.Ş., Koç Family and the companies owned by the same.

3.2. Annual Report

The Company Board of Directors prepares the company’s annual reports in sufficient detail to ensure that the public is able to access complete and accurate information about the company’s activities and as per the information listed in Corporate Governance Principles.

In addition to the information required to be included by the applicable law and in other parts of Corporate Governance Principles, annual reports contain the following;

Section IV - Stakeholders

- a) Information on positions held by members of Board of Directors outside the company in their resumes and their declaration of independence,
- b) Information on the names of members of the committees of the Board of Directors, the frequency of meetings and the functions carried out,
- c) Information about corporate social responsibility activities conducted by the company that have social and environmental consequences and that have an impact on the social benefits enjoyed by employees and the vocational training they receive.

SECTION IV - STAKEHOLDERS

4.1. Informing Stakeholders

Stakeholders are third parties who are directly involved with the Company. The company provides information to its stakeholders on matters of interest by organizing meetings or using teleconferences. Taking into account the fact that engagement stakeholders would provide long-term benefits to the company, the Company respects the rights of its stakeholders that are protected by laws, mutual arrangements and contracts. The corporate governance structure of the Company allows all its stakeholders, including employees and representatives, to communicate their concerns regarding illegal or unethical practices to the company's top management. Evaluating the complaints received by the Company is among the tasks of Audit Committee. Furthermore, Internal Audit Department also evaluates the complaints and communicates them to the Audit Committee.

Composing the dealership organization of the Company in Turkey and company employees, nearly 3,000 dealers constitute a major stakeholders group that is directly in relation with the Company. The company regularly informs its employees through the practices, communiques, circular letters, regulations and written notifications and at the same time it holds regular "Dealer Meetings" throughout the year to keep its dealers up-to-date on practices and campaigns, company policies, targets and recent economic developments as well as to create a more effective system by listening to the dealers' problems and concerns.

Besides, we have various efforts to increase collaboration with our direct and indirect 5000 suppliers whom we consider a significant link of our supply chain and stakeholders. The primary ones among those efforts are Technology and Innovation collaboration days, supplier days, supplier trainings, audits, visits, Arçelik corporate website and our supplier portal. As part of these efforts, a general briefing

about Arçelik's vision, strategy, business goals and future actions is made, and our expectations from our suppliers in terms of sustainability is communicated.

Employee relations, which are managed by collective bargaining, are carried out through union representatives. The Company is a member of Metal Industrialists Union (MESS) and the blue-collar employees of the Company are the members of Turkish Metal Union. The Collective Bargaining Agreement, which covers all Arçelik employees who are the member of union and is effective from September 1, 2014 through August 31, 2017, was signed on December 15, 2014.

4.2. Stakeholders' Participation in the Company's Management

Particularly through suggestion system, call center, web site, face-to-face regular meetings for both employees as internal customers and dealers as external customers; mechanism and models supporting the participation of the stakeholders, particularly the company employees and the dealers, to the company management are included and developed in a way not to interrupt the operations of the company.

To encourage the participation of the stakeholders in the management, their demands determined through the tools like "suggestion, survey" are reflected on the operations of the company. Opinion and approval of the Labor Union are obtained for the implementation changes regarding the rights provided to the employees and working conditions and environment and the decisions are taken collectively. The Company also encourages its dealers, who are in close contact with the company, to participate in the company's management by organizing "Dealer Meetings".

The Company considers customer and supplier satisfaction among its top priorities. The Company monitors customer satisfaction regularly and issues reports. The Company cherishes the confidentiality of customer and supplier data, which are considered as trade secrets. Customer satisfaction policy of the company given below is shared with the stakeholders in writing and business and all management processes are shaped within the frame of this policy.

As Arçelik A.Ş. we adopt a customer-oriented approach which accepted as the main principle that customer request and suggestions for all of our brands we provide service to are easily communicated from each channel without profile discrimination (call center, e-mail, www.arcelik.com.tr, www.beko.com.tr, www.grundig.com.tr, www.altus.com.tr, fax, letter, social media, dealer), collected on a single

traceable, reportable, transparent and safe information pool, these records are handled and evaluated in compliance with the legal regulations in an objective, fair and confidential way and processes are continuously controlled to bring perfect customer experience. In parallel with our approach, all processes are integrated into the management system and a structure controlling each other is established and thus, management targets are set via this system.

The singular goal of all the efforts and investments made by the Arçelik Call Center is not only to provide the company's customers a high level of modern service on a 24/7 basis, but also to ensure a smooth dialog between them and Arçelik, respond to their proposals and requests more rapidly and maximize their level of satisfaction. One of the primary functions of the Arçelik Call Center is to contribute to the development of new products that meet customer expectations by providing a smooth flow of information in the form of suggestions and complaints to the relevant units of the Company.

Thanks to its state-of-the-art facilities exceeding its competitors, which give the Company an advantage, Arçelik Call Center's unique position is sustained by the variety of communication channels it has established with its consumers. Arçelik responds to a majority of its consumer requests, which it receives through both traditional communication channels such as fax and post and modern ones such as telephone and e-mail, instantly by phone. Committed to raising its level of service each day, Arçelik Call Center also conducts customer satisfaction surveys to tap into its customers and considers feedback surveys to be an opportunity to improve its operations.

Arçelik Call Center, which since 1991 has maintained a high level of dialog with its domestic customers and has striven to achieve high levels of customer satisfaction, has continued to expand its abroad call center services network since 2008 in order move closer to its goal of becoming an international call center and has begun to provide pre- and post-sale call center services in Germany and Austria from Turkey for all brands.

Through the consumer satisfaction surveys conducted for Austrian and German markets as well as Cyprus, Tunisia and Jordan, not only domestic market, but also foreign markets were listened and assessing their opinions and expectations were taken as a goal.

In 2016, we conducted surveys for services provided by Dealers for local customers and started measuring the NPS (Net Promoter Score) of our customers. Our customer agents

called the customers who stated dissatisfaction and completed the customer experience process in an effort to further increase the quality of service. NPS is also used to measure the quality of services offered to the customers by the Call Center.

Having assumed responsibility for the management of online sales and social media communication operations, "Arçelik Call Center Management" has continued to implement its strategy of being with its customers at all times.

One of most striking call center social responsibility projects of the previous years is the Home Agent Project. By implementing this project, the Company has continued to offer employment opportunities not only to many young people with disabilities, but to those employees who prefer working from home with a new working system.

An important opportunity for management to expand its know-how in different industries was that Arçelik Call Center started to provide technical assistance for cash register POS device that entered into market as a new product merging bank POS devices with cash register devices with Statement No. 69 and No. 70 "Payment Recording Devices" of Law No. 3100 of Ministry of Finance in 2013.

In 2016, Koç Finans and BT Helpdesk operations were provided by Arçelik Call Center as outsourced services and the service range continued to expand with local and international Helpdesk for internal customers and Koç Finans support line for Dealers.

Omnichannel Digital Transformation and Interaction Project initiated by the Company in 2016 ensures a consistent end to end experience for all customers, including the Call Center Management.

Arçelik Solution Center handled the Call Center applications of VIP customers located in Istanbul and continued its efforts to ensure a high-quality Customer Experience in 2016.

In 2016, Consumer Services under the roof of Consumer Services Directorate provided field service with 11,700 personnel, about 5,560 of which were technicians and 5,500 vehicles at about 543 authorized service locations operating under the authority of 12 regional managements throughout Turkey.

The technical staff is certified by the Technical Services and Training Division, which operates under the Consumer Services. We accelerated the oriented training and certification activities by using techniques based on measurement in education and besides, technologies based on e-learning were put into use. The entire technical staff

Section IV - Stakeholders

was provided with the trainings under relevant profession groups within the field of our industry and certified as per the law no. 6331.

Russia and Spain Academies were launched abroad and activities for education in the native language were started. New organizational structuring was engaged to manage the technical support activities and training processes in the foreign countries more efficiently.

Innovative devices, designs of which were made within Technical Services Department, were put into use of the authorized services. Thus, it was aimed to reduce the expenses and increase the satisfaction.

Authorized services provide over 13 million services annually for all the brands of Arçelik A.Ş. The ability to handle both the delivery and installation of a product with a single service call is one of the competitive advantages of the technical service.

Authorized service performance system is being implemented to provide more quality service to the customers and increase the satisfaction. Performance system is consisted of measurable criteria and performed based on authorized service and technicians. Performance results are shared with the authorized services quarterly and development and action plans are prepared for the areas needs to be improved. Premium system is applied for the authorized services according to the performance results to increase the efficiency of the performance system.

General meetings are organized with the authorized services with the participation of the top management. During these meetings, company policies and strategies are shared and studies are conducted for a sustainable cooperation by getting the opinion and suggestions of the Authorized Services.

Microsoft Machine Learning spare part planning software was taken into use in 2016 to plan the spare parts stocks at the headquarters and regions at an optimum level. The planning was systematized and made secure, flexible and fast through cloud computing infrastructure. This system was taken into use as the first phase of spare part planning and works started for global deployment. "Spare part estimation" project was granted with the first place award by Eurocloud in Turkey and then, first place award in "Best Business Impact Provided by Cloud Services" category during the 7th Eurocloud awards in Bucharest, Romania.

4.3. Human Resources Policy

Arçelik implements globally-accepted principles and thrives to meet the objectives of securing continued success and transfer its sustainable values to future generations. Our shared objectives in line with the vision of "Respects the Globe, Respected Globally" are to ensure that we conduct our business with integrity, create a working environment without any discrimination of unfair treatment, ensure that individuals from different backgrounds, cultures and perspectives work together to develop new ideas and solutions and create a secure and sustainable global value chain.

Human Resources Policy of Arçelik A.Ş. which had been determined in accordance with the strategies of the Company, common values and business ethics, has been documented and shared with the employees working in Turkey and in abroad subsidiaries. Human Resources Director is responsible for determination and management of the principles of the company's human resources policy, management of the relations with the employees and managing and implementing human rights principles.

Arçelik A.Ş. recruits talents based on certain criteria and within this criteria Arçelik Leadership Profile is being used covering Grow, Respect and Lead skills are as follows.

Arçelik Leadership Profile



Our fundamental principles which direct the Human Resources Policy are given below and in Human Resources practices we act in line with these principles.

- There is a global-local balance in human resources systems and practice. As an international company, local laws, practices and requirements are respected. Country's legal regulations take precedence in situations where Human Resources Policies and Practices conflict with local legislations.

- Human Resources Policy of Arçelik A.Ş. is fully aligned with the company's business strategies and also responds to not only current needs but also future needs of current organizational requirements.
- All Human Resources Policies and Practices respect and support human rights and oblige the company to avoid any discrimination and create equal opportunities for its employees. Arçelik A.Ş. does not discriminate based on ethnic origin, race, language, religion, age, gender, sexual orientation, nationality, disability, culture or political affiliation. This principle is accepted company-wide and a formal complaint from the employees regarding that they have experienced any discrimination has never been received. Arçelik A.Ş. Code of Business Ethics and Codes of Practice, Arçelik A.Ş. Personnel Regulation and all relevant policies put forward binding rules and the company ensures that these rules are implemented to permanently prevent any discrimination and in-house physical, mental and emotional abuse likely to occur between the employees.
- Fairness, consistency and trust lies at the heart of all human resources practices implemented. In line with this principle, job definitions, salaries, criteria of performance and reward system intended for the employees are announced to the employees in accordance with the determined schedule and it's ensured that all employees are informed equally. Some principles are taken into account in the trainings provided to the employees by Arçelik A.Ş. and training programs are developed and announced to the employees in a wide variety as to address the improvement needs of all employees.
- Career plans of employees are made in accordance with knowledge, skills and competencies. Annual human resources planning meetings are held in order to identify the critical positions and potential employees that would carry the company to the future, and performances of potential employees are monitored in order to support their development and make them ready for their possible future roles. There are succession plans in place for all management positions and potential employees are positioned in these plans. This helps to develop employees to managerial positions and also prevent any interruptions in the corporate management in case of any possible changes in these positions. In 2016, 17.4 percent of our employees have gone through rotation, assignment and promotion processes. This rate is 50% higher than the rate in 2015.
- For the purpose of improving Human Resources Standards continuously, Human Resources Practices are revised systematically and regularly and in light of latest developments and the feedback received, Human Resources processes are re-structured.
- Internal communication implementations put into use for the employees to be informed continuously about the developments and participate in the decision processes more actively have great importance. The purpose of Yammer social interaction platform put into use of the employees in 2016 is to allow our employees interact with each other on a global scale. It is positioned as a general notification platform and allows follow up of projects implemented by a single or multiple units on a single platform. Another platform put into use in the same year is the Click human resources platform. Click, initially used in Turkey, allows employees to gain detailed information on human resources processes and increases operational efficiency transferring a number of services provided by the Human Resources Department on a digital platform.
- At Arçelik A.Ş., opinions of the relevant union are obtained and mutual understanding is ensured before the decisions to be taken regarding the human resources policy changes and system revisions intended for the union member employees. All of the union member employees are informed of the changes.
- Personal information of the employees is kept confidentially within the frame of the legal legislations.

Arçelik A.Ş. aims to meet the business needs during the recruitment and replacement processes in current time and in the future and equal opportunities are provided to all candidates with suitable education, knowledge, skill, competency and experience in line with the ethical principles.

Total employee number in Turkey and abroad by 2016 year-end is given in the following table.

Number of employees by 2016 year-end	Total
Turkey	17,332
Abroad	12,219
Total Arçelik Group	29,551

The average length of service and age of employees in Turkey is 7.9 years and 33.9 years, respectively.

Approach of the company for the training and development process is that Company's performance is improved by working with continuous development principle in parallel with the company's vision and business targets. It's aimed to use the in-house resources in an efficient and effective way while planning the development needs of the employees in the current time and in future in line with the business requirements.

Section IV - Stakeholders

In 2016, the company provided 363,694 hour of trainings in total, average of 21,2 hours per person. Arçelik A.Ş. believes that organizational success is based on team work and collaboration along with the individual successes. In this direction, the company uses different development and management systems to improve the performance of the employees in compliance with the company targets. The activities in this area are explained in the Global Organization section of the Annual Report.

Arçelik A.Ş. evaluates, rewards and ensures the recognition of any success, invention and/or suggestion within the company that provide benefit in order to increase the motivation, commitment and productivity of the employees, put into use the best practices and encourage the rising critical behaviors. The company determines a fair employment policy through the approach, laws and competitive understanding in compensation management.

Arçelik A.Ş. gives importance to the impact of the employee engagement on the company's business results and monitors the employee engagement regularly through the independent researches and create development activities according to the research results. Annual employee engagement survey was conducted in 2016 too. Good practices that were engaged in previous years have been continued and projects were developed on fields of improvement. Based on the survey results, the focus is on recognition of the achievements of employees, supporting their career improvement, diversification of side benefits, increasing the level of communication with the employees and training. Benefits management, award management, communication, career management, orientation, training and development processes were reviewed and regular meetings were held to meet the top management with the employees.

Industrial Relations

Arçelik A.Ş. respects and supports the rights of its employees to organize and form unions in accordance with the company's industrial relations policy. The company pays strict attention to maintaining the peaceful working environment it has created on the basis of mutual trust between its employees and unions and by respecting the regulations and collective bargaining agreements. The Company takes local conditions, customs and practices, which are specific to the regions and countries in which it operates, into account in order to maintain the peaceful working environment it has created, even though these local conditions, customs and practices are not included in the agreements into which the company has entered.

Within the frame of Industrial Relations Policy, labor unions are not considered as adverse parties but as social stakeholders. Therefore, the Company always attaches great importance to be on good terms with labor unions and to act in concert. Providing better working conditions for the social stakeholders is an important goal of the Company. Accordingly, besides conforming to law, better working conditions, occupational health and safety, social aids such as maternity, death, education and marriage supports are included in collective bargaining agreements and care is taken for their implementation.

Arçelik A.Ş. provides the following social benefits to its employees in Turkey in accordance with the provisions of the collective bargaining agreements:

- 4 salary installments payments every year,
- Fuel aid,
- Annual allowance,
- Religious holiday allowance
- Nursery allowance,
- Maternity, marriage, death, military service and education allowances as payments made per case.
- Transportation and meal allowances, which are offered in-kind,
- Annual leave entitlements are specified under the collective bargaining agreement. Irrespective of whether they are members of a labor union or not, the employees are entitled to annual leaves longer than those provided under the law.
- Starting grades and wages of labor union employees are applied as determined by the collective bargaining agreement according to the nature of job they perform. The Collective Bargaining Agreement, which covers all Arçelik employees who are the member of union and is effective from September 1, 2014 through August 31, 2017, was signed in December 15, 2014.

Flextra Flexible Benefits program implemented for the first time in Turkey in 2015 is a benefits model to respond to diversified needs of the employees. Needs shaped by different lifestyles of our times require that employees are offered with customized options and solutions. In 2016, Flextra Program, which 86% of our monthly paid employees were enrolled, offers 29 product options in 7 main product groups. With the practice initiated in 2015, nursery support is provided for female employees and single male employees with children from 0 to 72 months old. In 2016, an Complementary Health Insurance is offered to Arçelik A.Ş. hourly wage employees working under permanent contract in Turkey operations. Within the scope of this service, 16,452 people including the employees, their spouses and children were insured within the annual report term.

Occupational Health and Safety

Starting from the “value given to the employee” that is one of the most important factors in the corporate vision, Arçelik A.Ş. provides integrity between the Occupational Health and Safety Policy and relevant legislation and business processes and encourages the integration of the planned and systematic studies within the scope of the Occupational Health and Safety and aims to prevent the occupational accident and disease based losses and to make improvements constantly.

Arçelik Occupational Health and Safety Policy

Arçelik and its employees comply with all applicable national and international occupational health and safety laws and regulations and create a safe and healthy working environment in line with occupational health and safety management system based on continuous improvement.

We perform our activities to;

- Analyze and decrease the occupational health and safety risks arising in the working environment,
- Conduct training activities in order to develop and increase the awareness in occupational health and safety issues,
- Take measures to achieve a zero work accident rate and a zero occupational disease rate and increase productivity

accompanying the Quality and Environmental Management Systems and we strive to set a model in durable goods sector with regard to occupational health and safety efforts. In accordance with this Policy, occupational health and safety is included as a criterion among other target criteria set for departments and individuals as part of the Performance Management System. The efforts regarding the Arçelik Occupational Health and Safety Action Plan issues and projects ensure compliance with occupational health and safety legislation and prevent possible occupational accidents and diseases.

In 2016, the Accident Frequency Rate, which indicates the frequency of occurred occupational accident based on the total actual working time, was realized as 3.21 with an improvement of 13.5% and the Accident Gravity Severity Rate, which indicates the working day loss occurred due to occupational accidents based on the total working time, was realized as 0.054 with an improvement an increase of 35%.

Arçelik A.Ş. always provides guidance to its employees regarding occupational health and safety on a regular basis

and encourages them to communicate among themselves and with their managers on issues related to occupational health and safety. In 2016, totally 200,789 man-hours of training on Occupational Health and Safety was provided with a comprehensive participation in all Arçelik facilities by occupational safety specialists and occupational physicians.

Adopting “zero accident rate and zero occupational disease rate” objective in terms of Occupational Health and Safety, Arçelik A.Ş. continues its efforts by involving employees at every level of the company and allocating the necessary resources to achieve desired targets.

In 2016, Arçelik A.Ş. was awarded in the 'Recommended Applications' category with the “Prevention of Occupational Accidents at the Press Mold Section” project implemented at Cooking Appliances Plant at the second Occupational Health and Safety Awards organized by MESS.

Arçelik A.Ş. was granted with the second place award with the “Triple Trolley Equipment” proposal by Supply Chain Directorate employees at the MESS Golden Proposal OHS Awards.

4.4. Rules of Ethics and Social Responsibility

The company aims to ensure customer satisfaction, offer world-class products and services of universal quality by using limited natural resources efficiently, and contribute to economic and social development. Accordingly, the company strives to be a global symbol of credibility, continuity and respectability in the eyes of all of its customers, shareholders, employees, suppliers, dealers and authorized services; in other words, all of its stakeholders.

We accept the standards established by Vehbi Koç, the founder of Koç Group, as our guiding principles;

- Our Customers are the focus of everything we do,
- Always to be the best is our ultimate goal,
- Our most important capital is our human resources,
- Our goal is to create resources for continuous development,
- We strive to strengthen Turkish economy from which we derive our own strength,
- Superior business ethics and honest working principles are the foundations of our business conduct.

The company has based its Code of Business Ethics on the above mentioned principles in order to provide its employees and others who represent the Company with a guiding document that would help them when making decisions.

Section IV - Stakeholders

Arçelik A.Ş. complies with the human rights and employee rights directives set forth by international initiatives of which it is a voluntary member. The Company ensures that its approach and practices are audited by independent audit companies. The Company is a part of Koç Group which has signed the United Nations Global Compact and complies with the human rights and employment standards principles therein. The Company discloses its performance in this area for review of its stakeholders through annual and sustainability reports.

In line with the approach of respect to human rights, the Company does not discriminate based on ethnic origin, race, language, religion, age, sexual orientation, gender, nationality, disability, culture or political preference. This approach starts with the recruitment policy and is based on the principles of finding the best talent for the right roles, equal pay for equal work, merit-based promotion and equal opportunities for all. Respect for human rights is at the center of all human resources processes. In this sense, we provide a non-discriminative and fair working environment for our employees, implement a merit-based payment and side benefits policy and secure our employees' rights for freedom of association and to engage in collective bargaining.

We commit to act in accordance with the laws and regulations to offer equal rights and prevent discrimination throughout the value chain, secure a non-discriminative working environment and prevent "Child Labor and Forced Labor" in line with the labor legislation as well as our policies. We care to ensure that the policies applicable at the Company are also applicable to the relations of our employees and our stakeholders. Our company expects from all its employees to behave in a manner that would contribute to the cultural integrity of our company and strengthening and development of its reputation and corporate structure. All of the employees, including temporary workers, are under obligation to follow the company's Code of Business Ethics. This Code of Business Ethics is disclosed to public in detail on our Company's website.

Code of Business Ethics booklet is given to Arçelik A.Ş. employees in exchange for their signatures, in their first day. Also, Arçelik Code of Business Ethics is assigned to all our employees in the form of digital trainings, and in the course of their training, their rate of accomplishment is monitored regularly.

We attach great importance to ethics rules based on the basic principles set forth by Vehbi Koç, the founder of Koç Group, to maintain the continuity of this system. Ethics rules are in line with the personnel regulations and were issued by the commitment of the Board of Directors. Arçelik A.Ş. Ethics Commission oversees the process and implementation of ethics rules. Members of the Ethics Board include the General Manager, Assistant General Manager responsible for the issue, Human Resources Director and Legal Consultant. Human Resources Director is responsible for regulating and implementing the human rights principles. Furthermore, it is under the responsibility of the management to display the required level of effort and leadership, to announce the Code of Business Ethics to all employees, to ensure that the employees put required level of importance on those policies, and to ensure that the all employees act in alignment with the Code of Business Ethics all the time. The company expects from all of its stakeholders to comply with business ethics and all related policies. Arçelik A.Ş. is one of the first companies to sign the corporate social responsibility Code of Conduct drafted by the European Committee of Domestic Equipment Manufacturers (CECED). The Code of Conduct secures the subscribing company to achieve a sustainable performance concerning working conditions, environmental laws and standards which are regulated by national laws and international conventions.

Furthermore, the Company has its production facilities audited by an independent audit firm within a program based on the criteria of BSCI (Business Social Compliance Initiative) and Sedex (Suppliers Ethical Data Exchange) Social Responsibility Organizations, widely accepted in EU and obtains compliance reports in consequence of these audits.

The company has adopted an approach which focuses on protecting and preserving the environment and natural resources in cooperation with its partners both during production and non-production activities while at the same time developing and manufacturing innovative products. The company monitors the compliance of its operations with all domestic and international legal obligations, which call for the protection of the environment and human health. The company regularly organizes training programs for its employees to extend the sentiment about the protection of environment and natural resources and combating with climate change and carries out projects with Public and Non-Governmental Organizations in Turkey to raise awareness of the public and maintains its support for carried out projects and efforts.

The Company carries out many different projects in the countries, where it operates, in the fields of education, sports, culture and art to support social development. Acting with corporate citizenship awareness, the Company provides the sustainability of the projects thanks to voluntarily supports of its employees and business partners. The policies and projects implemented by the Company are included in the explained in the “Social Responsibility” sections of the Activity Report.

The Company expands its global presence day by day in line with its vision and continues to develop by integrating the sustainability into the processes with the conscious of its responsibilities. Sustainability approach of the company is to act by looking after the social, economic, environmental and ethical dimensions of its operations, to follow-up these dimensions by integrating them into the corporate business targets and to manage its operations with sustainability principles within the frame of corporate policy and strategies. The company evaluates the risks and opportunities regarding the sustainability and expectations of the stakeholders as important inputs for its operations.

The highest level of responsibility for the sustainability management belongs to the Sustainability Committee in the company. Sustainability Committee bears the mission of determining the corporate sustainability and climate change policy and strategies, ensuring the integration with the company's business processes, monitoring the performance and increasing the efficiency. Sustainability Committee meets 2 times every year. 8 working groups were established to enable the members of Sustainability Committee to control and coordinate the sustainability activities regarding their own responsibility fields, ensure implementation and deployment of Sustainability Committee

decisions and report the related developments. These are Environmental Coordination, Energy Coordination, Climate Change Coordination, Green Chemistry Coordination, Occupational Health and Safety, Human Rights and Business Ethics, Value Chain Management and Sustainability Reporting Committees.

Top sustainability issues of Arçelik A.Ş. are innovative and environment-friendly products, risk management, business ethics, environmental approach in production processes, talent management, occupational health and safety, sustainability management in value chain, quality and safety of the products, sales and after sale services and contribution to social development.

With the aim of presenting its priorities, practices and business results in the field of sustainability to its stakeholders in an efficient and transparent way, Arçelik A.Ş. publishes an annual “Sustainability Report” in accordance with Global Reporting Initiative (GRI) Reporting Principles since 2008.

Arçelik A.Ş. 2015 Sustainability Report including the areas of “Management Approach”, “Talent Management”, “Environmental and Energy Management”, “Combating with Climate Change”, “Management of Natural Resources and Waste Management”, “Sustainability Management in the Value Chain” and “Social Development” was prepared at GRI G4 “core” application level. The Company's efforts on climate change are explained in the Annual Report's “Corporate Responsibility – Environmental Approach to Products and Production” section.

Arçelik A.Ş. is listed in Borsa Istanbul (BIST) Sustainability Index created on 04.11.2014. Arçelik A.Ş. shares the Annual Report and Sustainability Report with public through the corporate website at www.arcelikas.com.

SECTION V: BOARD OF DIRECTORS

5.1. Structure and Formation of Board of Directors

MBD Name- Surname	Independence Status	Date of assignment	Period of Duty	Functions in Board of Directors and Committees	Tasks out of the Company
Rahmi M. Koç	Not Independent Member	25.03.2016	1 year	Chairman of the Board, Chairman of the Executive Committee	Board Membership for Group and Non-group Companies
Ömer M. Koç	Not Independent Member	25.03.2016	1 year	Deputy Chairman of the Board, Member of Executive Committee	Board Membership for Group Companies
Semahat S. Arsel	Not Independent Member	25.03.2016	1 year	Board Member, Member of Executive Committee	Board Membership for Group Companies
Ali Y. Koç	Not Independent Member	25.03.2016	1 year	Board Member, Member of Executive Committee	Board Membership for Group Companies
Levent Çakiroğlu	Not Independent Member	25.03.2016	1 year	Board Member	Board Membership for Group Companies
Robert Sonman	Not Independent Member	25.03.2016	1 year	Board Member	Board Membership for Non-group Companies
Fatih K. Ebiçlioğlu	Not Independent Member	25.03.2016	1 year	Board Member, Member of Risk Management Committee	Board Membership for Group Companies
Hakan H. Bulgurlu	Not Independent Member	25.03.2016	1 year	Board Member	Board Membership for Group Companies
Kutsan Çelebician	Independent Member	25.03.2016	1 year	Board Member, Committee Chairman Responsible for Audit	Independent member of the board of directors for Koç Holding A.Ş. and Tüpraş A.Ş.
Tunç Uluğ	Independent Member	25.03.2016	1 year	Board Member Chairman of Corporate Governance Committee	Independent member of the board of directors for Aygaz A.Ş.
Mehmet Barmanbek	Independent Member	25.03.2016	1 year	Board Member, Member of Committee Responsible for Audit, Member of Corporate Governance Committee	Independent member of the board of directors for Ford Otomotiv Sanayi A.Ş.
K. Kaynak Küçükpınar	Independent Member	25.03.2016	1 year	Board Member, Chairman of Risk Management Committee	

Section V: Board of Directors

The above-table lists information on non-executive Board Members, except for the General Manager Hakan H. Bulgurlu, as defined by the CMB Corporate Governance Principles.

As per the Articles of Association, the activities of the Company are carried out by a Board of Directors that compose of at least five members who will be elected with the resolution of General Assembly within the framework of Turkish Commercial Code and the regulations of Capital Markets Board. 25.03.2016 dated General Assembly of the Company has taken a resolution that the Board of Directors shall compose of 12 members together with 4 independent members.

In accordance with the Structure of Board of Directors regulation included in the Article 4.3 of Capital Markets Board's Corporate Governance Principles, arrangements that are required for including independent members in the Board of Directors, have been accepted at 29.03.2012 dated General Assembly by making necessary amendments in the Articles of Association.

The Board Members are determined in such a way to function efficiently and in a constructive manner, make quick and rational decisions and organize the activities of the committees effectively.

Within the scope of 395th and 396th Articles of Turkish Commercial Code, the approval regarding the Board Members to carry out the activities which are included in the company's field of activity on their own or behalf of others and to participate in the companies that carries out such activities has been obtained at 25.03.2016 dated General Assembly.

Tasks of Board Chairman and General Manager are performed by two different persons. The Company pays attention that the Board Members have enough time to deal with the Company's activities; however there is no restriction for them to handle other task or tasks apart from the Company. Especially since the business experiences and sector specific knowledge of independent members have a significant contribution to the Board of Directors, such restriction is not deemed necessary. Prior to General Assembly, personal background as well as previous positions of the member is submitted for shareholders' information. The Annual Report provides the resumes of Board Members, General Manager and Assistant General Managers.

Tasks of Candidate Nomination Committee and Compensation Committee are carried out by Corporate Governance Committee in our company. Number of independent member nominees submitted to the Corporate Governance Committee for General Assembly dated 25.03.2016 is 4, independence declarations and resumes of these persons were evaluated in the Resolution of the Board of Directors dated 19.01.2016 of Corporate Governance Committee dated 20.01.2016 and it was decided that all of them are determined to be independent member nominees. By getting the approval of Capital Market Board through the letter dated 05.02.2016 for 4 independent member nominees (Kutsan Çelebican, Tunç Uluğ, Mehmet Barmanbek ve Kadri Kaynak Küçükpınar) and these 4 nominees are selected as independent members of board of directors for 1 year by the General Assembly dated 25.03.2016. There isn't any situation occurred removing the independence within the activity period for 2016.

Following the General Assembly meeting dated 25.03.2016 in which Members of the Board of Directors are selected, Chairman and Deputy Chairman of the Board of Directors are determined to decide on the assignment of the duty. The entire of the members of the Board of Directors have worked professionally in various industries for long years and they are experienced. The company benefits from the accumulation of knowledge and experiences of the members of the Board of Directors at the highest level. Members of the Board of Directors can share and express their opinions freely away from any effect.

We believe that ensuring the diversity of accumulation of knowledge, experience and opinion before the Board of Directors will make positive contribution to the efficient operation of the Board of Directors and to the company activities. Our evaluation studies are still ongoing to determine a target ratio for the woman members of the board of directors that is a tool to ensure that different opinions are represented in the Board of Directors. Currently, Ms. Semahat S. Arsel participates in the Board of Directors as woman member in compliance with the Corporate Governance Principles.

5.1. Operating Principles of Activity of the Board of Directors

Board of Directors holds meeting when it is required for the activities of the Company. In 2016, Board of Directors had 3 meetings and took 42 decisions. Independent board members have approved all resolutions. Different opinions expressed in the meetings of Board of Directors and reasons for counter votes are registered in decision record. Detailed reasons of the members who voted against are disclosed to the public. In the Board of Directors, each member has one voting right. However, in the meetings of the Board of Directors held in 2016, no disclosures on this matter have been made to public since there was no such opposition or expressed different opinion.

The Agenda of the Board of Directors are determined by the notification of matters that it is clearly decreed to be concluded by the resolution of the Board of Directors within the Company's Article of Association, made by related departments to Company's Top Management and the Board Members. In addition, the Agenda of the Board of Directors are also determined by the notification of any Board Member made to the Top Management of the Company about taking a decision on a matter of high concern. The subjects desired to be discussed in the meeting of the Board of Directors are collected at the department of Assistant General Manager, Finance and Accounting and the agenda is determined by consolidation.

Arçelik A.Ş. has appointed Assistant General Manager, Finance and Accounting for determining the agenda of Board of Directors' Meetings, issuing resolutions of Board of Directors, informing Board Members and providing communication.

The meetings of the Board of Directors are held in the headquarters of the Company or in a suitable place where the headquarters are located. Significant resolutions of the Board of Directors are announced to the public by Public Disclosure Platform (PDP) and are posted on Company's website in both Turkish and English.

The company has subsidiaries and affiliate companies. Since we believe that it will be for the benefit of the Company, to have the Board Members manage these companies, there are no restrictions on this matter.

The regulations of Company's Board Members are clearly determined in the Articles of Association. Authorities are included in the Company's signatory circular in more detail.

The Board of Directors takes a leading part in maintaining efficient communication among shareholders, settling and resolving disputes and for this purpose the Board of Directors works in close cooperation with Corporate Governance Committee and Shareholders Relation Unit.

"Manager Liability Insurance" is available for the members of the Board of Directors and top managers in our company.

The Board of Directors oversees the Company's activities and evaluates any possible conflict of interests as well as the outcome of such conflict in terms of the Company and takes the course of action to safeguard the interests of the Company. The Board also evaluates the compliance of related party transactions with the applicable regulations and considers the risk of misconduct with due diligence.

5.3. The Number, Structure and Independence of the

Committees Established Under the Board of Directors According to Articles of Association, the Board of Directors may establish advisory, coordination, audit and similar nature committees or sub-committees composing of its members and/or non-members on the subjects it deems suitable provided that relevant legislation provisions are followed.

In the election of members of committees established after 25.03.2016 dated Ordinary General Assembly, the provisions specified in Article 4.5 of CMB's Corporate Governance Principles were followed. "The Audit Committee" in charge of ensuring reliable fulfillment of duties and responsibilities of the Board of Directors was established. The Audit Committee regularly carries out its activities in compliance with Capital Markets Regulation and CMB's Corporate Governance Principles. All members of the Audit Committee have been elected from among independent board members. This Committee was composed of 2 members I and Kutsan Çelebican has been appointed as the Chairman and Mehmet Barmanbek has been appointed as the member. An in-house Audit Committee has been established for the purpose of auditing the operation of accounting and reporting systems to be in compliance with related law and regulations, public disclosure of financial statements, the operation and efficiency of internal audit system and it has held 6 meetings in 2016.

In accordance with the Corporate Governance Principles issued by Capital Markets Board, an in-house Corporate Governance Committee has been established for the purpose of monitoring the compliance of the Company, performing activities for improving the compliance and

Section V: Board of Directors

providing advices to the Board of Directors. Tasks of Candidate Nomination Committee and Compensation Committee are also carried out by Corporate Governance Committee. The chairman and one member of this committee were elected from among independent board members on Tuesday, April 5, 2016. Tunç Uluğ has been appointed as the Chairman of the Corporate Governance Committee and Mehmet Barmanbek and Investor Relations Department Manager Polat Şen were appointed as members. The Corporate Governance Committee has held 6 meetings in 2016.

From among the independent members, K. Kaynak Küçükpınar has been elected as the Chairman and Fatih K. Ebiçlioğlu has been appointed as the member of Risk Management Committee which has been established for the purpose of early detection and evolution of strategic, operational, financial and all other miscellaneous risks that may affect our Company, calculating the effects and probabilities, managing these risks in accordance with the Company's corporate risk taking profile, reporting, considering in decision-making mechanisms and accordingly providing advices and suggestions to the Board of Directors for creating and integrating efficient internal control systems. The Risk Management Committee has held 6 meetings in 2016.

In order to offer efficient coordination between the Board of Directors and the management structure, an Executive Committee has been formed, tasked with increasing the efficiency of the Board of Directors, ensuring efficiency in the subjects of business development and investment in areas aligned with strategic aims, and to offer suggestions and recommendations in that respect. As the Board of Directors could not convene in a time and frequency required, the aim of this committee is to inform the Board of Directors by following up the Company as well as industrial improvements closely when required; to ensure coordination between the Corporate management structure and the Board of Directors; to develop proper strategies for the Company and to make recommendations for the efficiency of the activities. Rahmi M. Koç has been appointed as the Chairman of the Committee of Execution and Semahat S. Arsel, Ömer M. Koç, Ali Y. Koç and Caroline N. Koç have been appointed as the members.

The duties, operation principles and the members of these committees were disclosed to the public by posting on the Company's website (www.arcelikas.com).

5.4. Risk Management and Internal Control Mechanism

Arçelik A.Ş. Board of Directors conducts its businesses in a transparent, accountable, fair and responsible manner.

A Chairman and a Vice Chairman are elected by and among the Board Members. Also, Chairmen and Members of Board committees are elected. Furthermore, the General Manager participates in the Board of Directors as the executive member.

Board of Directors creates internal control systems involving risk management and information systems and processes that may minimize the effects of risks which may affect the stakeholders (especially the shareholders) of the company by taking the opinion of Board of Directors committees into account.

With the decision taken by Arçelik A.Ş. Board of Directors at the meeting on 16.07.2010 for the purpose of ensuring efficient operation of committees within the body of Board of Directors in accordance with Article 378 of Turkish Trade Law number 6102 ad Corporate Governance Communique of Capital Market Board; a Risk Management Committee was formed in order to carry out activities with the aim of early identification of risks that may jeopardize the existence, development and continuity of the company, application of relevant actions concerning identified risks and managing risks. Mr. K. Kaynak Küçükpınar, independent member of the Board of Directors, is the chairman of this committee. Other member of the committee is Mr. Fatih K. Ebiçlioğlu, a member of the Board of Directors.

The Risk Management Committee convened 6 meetings in 2016. Risk Management Committee provides advices and suggestions to Board of Directors in terms of early diagnosis and assessment of strategical, financial, operational etc. risks; management and reporting of those risks in accordance with corporate risk taking profile of the Company; application relevant actions concerning the risks identified; regarding the risks in decision-making mechanisms; creating effective internal control mechanisms and their integration in this direction.

A Corporate Risk Management Directorate was formed under the Assistant General Manager of Finance and Accounting for Corporate Risk Management. Corporate Risk Management Directorate uses the risk management systems to manage, coordinate and supervise the strategic, compliance, external, financial and operational risks which may affect the Company and reports them to the Risk Management Committee.

Internal Audit Department, which is formed under the Assistant General Manager of Finance and Accounting for the purpose of healthy execution of internal auditing mechanism, reports information to the Auditing Committee at the meetings held during the year. Committee constantly supervises the execution and effectiveness of system and

presents to Board of Directors the issues and suggested solutions regarding the risk management and internal control mechanism when required.

5.5. Strategic Targets of the Company

The Board of Directors of the company keeps the risk, growth and return equilibrium of the Company at an optimum level through the strategic decisions taken and manages and represent the Company by primarily looking after the Company's long-term interests with a smart and cautious risk management approach.

The Board of Directors determines the strategic targets of the Company, identifies the needed human and financial resources and audits the performance of management.

The Board of Directors audits the compliance of the Company's activities with legislation, Articles of Association, internal regulations and created policies.

Mission and Vision as well as Main Business Targets of the Company are indicated below:

The mission of the company is to develop, manufacture, offer and provide products, which meet the customer needs by going beyond their expectations, make life easier and which are affordable, user-friendly and reliable, to provide after-sales services and continuously develop and grow in target markets by ensuring the satisfaction and long-term loyalty of the customers and employees and utilizing the resources in most efficient manner and meeting the expectations of stakeholders in line with corporate values, targets and strategies of Koç Group.

The company has adopted the vision of "Respects the Globe, Respected Globally". Company "Respects the Globe" because it is environmentally friendly, respects human beings and carries responsibility. The Company is "Respected Globally" because it always aims beyond the highest.

The Company's main business goals are as follows:

- Realizing sustainable growth and increasing our share in the current markets and getting into new markets
- Perpetuating the profitability level that will enable sustainable growth
- Being R&D, innovation, quality, design, brand and customer oriented
- Improving the capabilities for offering pioneering, innovative and environment and climate sensitive products, solutions and technologies during the product life cycle to provide added value for customers and society

- Developing and retaining global organization and capabilities by managing the differences with human-oriented approach.

The Board of Directors evaluates and approves the Company's vision and main business goals. These goals are shared with the public in the annual reports, on the company's website and through meetings or statements by means of various communications channels as well as PDP.

As per the Company's Articles of Association, during the Board Meetings, which are held periodically, Company's targets and performed activities are followed as also covering previous period performances. The current situation of the Company is revised and in case it is deemed necessary in consequence of current situations, new targets and strategies are developed.

5.6. Financial Rights

Covering every kind of right, interest and remuneration, which are provided to the Board Members and top managers and the criteria and remuneration policies that are used to determine these, the "Remuneration Policy for the Board Members and Top Managers" of our Company has been submitted to the examination of our shareholders on our website through the "Information Document" issued three weeks prior to 29.03.2012 dated Ordinary General Assembly and put into practice upon the approval of the General Assembly. The aforementioned policy which discusses 2015 activities and disclosed to the public through our company's web site, is also put on the agenda of Ordinary General Assembly in which 2016 activities shall be discussed and will be submitted to the opinion of the shareholders. Payments made within the framework of Remuneration Policy for the Board Member and Top Managers are evaluated by Corporate Governance Committee and the Board of Directors every year. In the footnotes of our financial statements, the payments made to the Board Members and top managers collectively are announced to the public in parallel with common practices. There is no transaction that may cause conflict of interest such as granting loans and credits to our Board Members or managers, giving guarantees in favor of them.

Stock options or payment plans based on Company's performance are not utilized for the compensation of Independent Board Members.

Environmental Approach to Products and Production

Arçelik A.Ş. designs its processes with an approach of sustainability and keeps its environmental performance under control in an effort to create a more livable world for future generations. Arçelik A.Ş. is leading the sector with its efforts in this area.

In line with its vision of “Respects the Globe, Respected Globally”, Arçelik A.Ş. aims to protect the environment and natural resources and make them sustainable with its energy-efficient products and environment-friendly operations.

In order to minimize the environmental impact of processes and products and to perform the required improvements, the performance in this area is constantly monitored. The efforts of Arçelik A.Ş. in this respect are held up as examples on a global scale.

In production, people and environment are the most important priorities of Arçelik A.Ş. All Arçelik A.Ş. operations are designed with an approach of maximum production with minimum resources. Efficiency and sustainability are at the focus of Arçelik A.Ş. business processes.

Arçelik A.Ş. puts maximum effort to leave better world to next generations. Arçelik A.Ş. published its environmental friendly activities by three documentaries. These documentaries provide information on the environment and sustainability vision of Arçelik A.Ş. under three topics; namely energy efficiency, water efficiency and recycling. With these documentaries, Arçelik A.Ş. aims to raise public awareness on environmental issues.

Arçelik A.Ş. effectively implements the Environmental and Energy Management Systems in all its business processes and sets annual improvement goals based on its objective of minimizing the environmental impact. Arçelik's high-priority efforts include reducing emissions and energy consumption, reducing and recycling waste at source, reducing water consumption and waste recycling. Arçelik A.Ş. also makes investment on environment protection and improvements to make its processes flawless.

Predicating itself on the Total Quality principle, Arçelik A.Ş. performs its business processes in accordance with international product and management standards that it is subject to; primarily the ISO 14001 Environmental Management System which is integrated with the ISO 9001 Quality Management System and ISO 50001 Energy Management System. Arçelik A.Ş. was certified with BS

7750 Environment Management System Standard at its Dishwasher Plant in 1994, just after two years its was introduced. Afterwards, upon BS 7750 Standard's recognition as ISO 14001 in 1996, Arçelik A.Ş. has started to apply ISO 14001 Environmental Management System Standard and ISO 50001 Energy Management System Standard since 2012. With ISO 14001 and ISO 50001 Management Systems, Arçelik A.Ş. has ensured to control environmental impacts, improve energy performance, comply with legal environmental and energy regulations and other conditions, improve continuously and prevent environmental pollution.

Through the efforts within 2014, Arçelik A.Ş. plants in Romania, Russia and China completed their first certification processes for ISO 50001 Energy Management System with success.

The efficiency and sustainability of Arçelik A.Ş. management systems are guaranteed through Internal System Audits regularly conducted in addition to audits conducted by independent institutions which hold international accreditation.

In 2010, Arçelik A.Ş. was granted with the first prize in the Management Category at the biannual European Union Environment Awards organized by the European Union Commission. With this prize, Arçelik A.Ş. once again proved the effectiveness of its environmental management activities and that sustainability is an essential part of the Company's vision and all business processes. Arçelik A.Ş. also made it to the finals in the “Management” category in the European side of the program and became the first non-European Union company to achieve this success.

Arçelik A.Ş. calculates greenhouse gas emissions since 2006. Arçelik's 2010 greenhouse gas emissions are audited by an independent accredited body within the frame of ISO 14064-1 Verification and Reporting of Greenhouse Gas Emissions Standard since 2010. Arçelik A.Ş. continued this process in 2016 and 2015 greenhouse gas emissions were verified by an independent accredited body at the level of "reasonable assurance".

In 2016, Arçelik Romania also started to measure greenhouse gas emissions at its plant in line with ISO 14064-1 Verification and Reporting of Greenhouse Gas Emissions and these measurements were verified by an independent accredited body at the level of "reasonable assurance".

Arçelik A.Ş. calculates the greenhouse gas emissions from its logistics activities since 2014 and these are verified within the frame of ISO 14064-1 at the level of "limited assurance". In 2016, the scope was extended and the greenhouse gas emissions from domestic and import & export logistics operations of Arçelik products in 2015 were also verified by an independent accredited body at the level of "limited assurance".

Arçelik A.Ş.'s eco-friendly approach is a result of controlled environmental impacts through "product life cycle", the technological superiority and the management systems implemented.



Arçelik A.Ş. conducts its economic, environmental, social and management performance within the frame of sustainability strategies.

Compliance with National and International Environmental and Energy Legislations

Arçelik A.Ş. continuously monitors its compliance with all legislations it is obligated to comply throughout the product life cycle. Arçelik A.Ş. uses "ISO 14001 Environmental Management System" and "ISO 50001 Energy Management System Standard" as basis for monitoring the compliance with the legislations. Arçelik A.Ş. has many procedures in place to protect the environment and human health in line with the Environment and Energy Policy as well as legal regulations and conducts its activities in full compliance with these procedures and legal regulations.

Within this frame, Arçelik A.Ş. fully complies with the following legal regulations concerning the industry;

- WEEE - Directive on Waste Electrical and Electronic Equipment,
- RoHS - Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment
- Ecodesign Framework Directive for Energy-Related Products
- REACH - Regulation of the Registration, Evaluation, Authorization and Restriction of Chemicals.
- Energy Efficiency Law and Regulation on Increasing Energy Resources and Efficiency in Energy Usage.



Environmental Approach to Products and Production

WEEE - Directive on Waste Electrical and Electronic Equipment

In February 2003, European Union issued WEEE I Directive 2002/96/EC regulating reuse, recycling, recovery and disposal of the products introduced to the market by electrical and electronic product manufacturers. Then, the WEEE II (Recast) Directive was issued on July 24, 2012, and the new directive entered into force in August 13, 2012. It is obligatory for European Union countries to convey this new WEEE Directive (2012/19/EU) to their national legislations until February 14, 2014.

To comply with WEEE Directive in EU countries, Arçelik A.Ş. fulfills its legal obligations through the mechanisms of collection and recycling. Arçelik A.Ş. is a member of many systems which collect and dispose the products at the end of their economic lives. Arçelik Group supports the harmonization of the WEEE Directive in the non-European Union countries as well. Furthermore, it has made necessary arrangements and complied with WEEE II (Recast) Directive.

"Waste Electrical and Electronic Equipment Control (WEEE) Regulation" was promulgated in Turkey in the Official Gazette dated May 22, 2012 and No. 28300. Arçelik A.Ş. is conducting necessary studies in order to perform its obligations within the framework of the WEEE Regulation.

In 2014, Arçelik A.Ş. established two recycling plants in Bolu and Eskişehir within the scope of WEEE. The Company became the first company to minimize the environmental impacts during the product life cycle in the sector.

The recycling plant in Eskişehir is the first recycling plant in Turkey which meets all technical requirements required for the plants to operate refrigerator/coolers/air conditioners and which has the ability to collect the CFC (chlorofluorocarbon) gases harmful to the ozone layer that exist in old refrigerators through closed system.

Arçelik A.Ş. continued Turkey's most comprehensive renewal campaign "Return to Nature" in 2016. The campaign was started in 2014. In this campaign the products collected from consumers by Arçelik and Beko dealers and authorized services were transferred to the WEEE recycling plants.

As a result of performance of these recycling plants in 2016, equivalent annual energy generation saving of 2.5 Megawatt powered 8 wind turbines. Is obtained, contributed to the national economy.

Materials obtained through Arçelik A.Ş.'s WEEE recycling activities were turned into art by Turkey's prominent artists and designers. Arçelik A.Ş. brought recycled WEEE into arts at the "Cycles" exhibition at Contemporary İstanbul on November 3rd to 6th.



2.5 Megawatt powered 8 wind turbines
=
Power savings generated by Arçelik
Recycling Plants

RoHS - Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment

Put into effect for European Union member countries in 2006, RoHS Directive 2002/95/EC restricts the use of certain hazardous substances in electrical and electronic equipment.

Performing necessary tests within the company and at accredited laboratories, Arçelik A.Ş. has achieved full compliance even before the effective date of the directive by establishing the Compliance Management System to ensure that the suppliers are in compliance with this directive.

Compliance with 2011/65/EU RoHS Recast Directive which superseded the 2002/95/EC directive was ensured as of January 2, 2013.

Eco-design Framework Directive for Energy-Related Products

Eco-design Framework Directive for Energy-Related Products by European Commission aims to improve environmental performance of the products through their entire "product life cycle" by systematically integrating environmental characteristics from the initial stages of design. Arçelik A.Ş. manufactures its products in compliance with this EU Directive. The regulation was issued and made effective in Turkey on 07.10.2010. Arçelik A.Ş. closely collaborated with the Ministry of Science, Industry and Technology during the issuance of this directive.

REACH - EU Regulation of the Registration, Evaluation, Authorization and Restriction of Chemicals

One of the most extensive legal regulations of EU which is effective since 2007, REACH Regulation regarding the registration, evaluation, authorization and restriction of chemicals sets liabilities through all stages of production and distribution chains from manufacturers of raw materials to the retailers.

Arçelik A.Ş. adopts and supports REACH Regulation as one of the most important legal procedures to protect the environment and human health as the Regulation aims to ensure the flow of necessary chemical safety data of all chemical substances from their manufacturer to the user industry and the availability of this flow to the consumers. At Arçelik A.Ş., REACH applications are followed by an expert team with this perspective. All necessary preparations are coordinated by this team and constant communication is maintained with the suppliers to ensure the development of a flawless process in compliance with the REACH Regulation. Detailed information about the operations of Arçelik A.Ş. concerning REACH can be obtained from reachinfo@arcelik.com.

Energy Efficiency Law and Regulation on Increasing Energy Resources and Efficiency in Energy Usage

Within the scope of "Energy Efficiency Law" no. 5627 which was promulgated in 2007 and basically aimed to use the energy efficiently, prevent the wastage, minimize the burden of the energy costs on the economy and increase the efficiency in energy use and energy resources for the protection of the environment, Arçelik A.Ş. employs engineers who participated in "Energy Manager Certification Program" carried by an authorized institution or YEGM (General Directorate of Renewable Energy) in its plants with higher energy consumption values than the declared limit. Many energy efficiency projects are carried out every year under the coordination of the energy managers and production-based energy consumption is continuously reduced by Arçelik A.Ş. Similarly, as stipulated in the energy efficiency law, Arçelik A.Ş. officially declares its energy consumption details in March every year.

Arçelik A.Ş. was granted with two prizes during the Energy Efficiency Week in 2016. Çayırova Washing Machine Plant was granted with the winning prize at Most Efficient Industrial Facility in Electrical Equipment Manufacturing Industry (EVET) category for ensuring maximum energy savings through sustainable energy efficiency in manufacturing. Eskişehir Refrigerator Plant was granted with the second prize in Projects for Increasing Energy Efficiency in Industry (SEVAP-2) category with the energy efficiency projects implemented in 2015.

Arçelik A.Ş. has been the first company to comply with international directives on environment and energy much earlier than they were integrated in Turkish legislation.

In line with European Union Commission directives on electrical and electronic household appliances, Arçelik A.Ş. designs and manufactures low energy consuming products. Arçelik A.Ş. has launched highly energy efficient products in Turkey much earlier than the said EU eco-design directives were integrated into Turkish legislation.

Arçelik A.Ş. was also the first household appliances manufacturer to produce refrigerators (in 1995) without ozone depleting CFC gases. The deadline set for Turkey in Montreal Protocol is 2006.

Refrigerator Coolant Gas Usage Table

R134a Usage started 1995	R600a Usage started 1997	R600a Usage continued 2016	
-----------------------------------	-----------------------------------	-------------------------------------	---

Arçelik A.Ş. designs its business processes and operations with environmental protection in mind and manufactures refrigerators with refrigerants that are environmentally friendly, not harmful to the ozone. In line with this vision, Arçelik A.Ş. manufactured 46 million refrigerators in total by the end of 2016 with hydrocarbon-based refrigerant gas (R600a).

Arçelik A.Ş. supports United for Efficiency (U4E) project led by United Nations Environment Programme (UNEP) and Global Environment Facility (GEF). With this project, it is aimed to increase energy efficiency of home appliances, implement energy policies, adopt necessary test standards and regulations and set up test substructure in this direction in developing countries.

Environmental Approach to Products and Production

Combating Climate Change

Arçelik A.Ş. strongly supports the national and international initiatives for combating climate change.

Within the scope of these studies, Arçelik A.Ş. develops international cooperations on combating climate change and supports policies and commitments in this field. The Company is a part of CDP, world's most important climate change initiative, since 2012 and participates in Global Climate Conferences and panels to share its best practices and represent the industry on a national level since 2011.

2012

- Doha Global Climate Conference
- CDP Turkey Carbon Disclosure Leadership

2014

- Attendance to Turkish Ministry of Environment and Urban Planning before Lima UN Climate Change Conference
- CDP The A List: The CDP Climate Performance Leadership Index
- Listed in Borsa Istanbul Sustainability Index

2016

- Marrakesh, UN Climate Change Conference
 - o United for Efficiency - (U4E) Panel
 - o Business Sector and Climate Change Panel
- CDP The A List: The CDP Climate Performance Leadership Index
- MSCI Global Sustainability Index Series "AAA" Grade
- Listed in Borsa Istanbul Sustainability Index

2011

- 2°C Communique signed
- Member of Turkish Climate Platform
- Durban UN Climate Change Conference

2013

- Warsaw UN Climate Change Conference
- CDP Turkey Carbon Performance Leadership

2015

- Paris Pledge for Action statement signed
- Paris, COP21, UN Climate Change Conference
 - o Sustainable Energy for All (SE4All) Panel
 - o United for Efficiency (U4E) Panel
- CDP - Road to Paris 2015 Project - Responsible corporate engagement in climate policy engagement
- World Bank - Climate Action and Green Competitiveness Panel
- CDP Turkey Carbon Disclosure Leadership
- MSCI Global Sustainability Index Series "AAA" Grade
- Listed in Borsa Istanbul Sustainability Index





AquaDrop - Washing Machine with 5.5-Liter Water Consumption

- AquaDrop technology ensures efficient washing of dishes of 13 people with 5.5 liters of water
- Fullsize (60cm) Grundig and Arçelik Upper Segment product portfolio
- A++, 5.5 Lt. (EcoChamp) performance, for water and energy-efficient products
- BLDC (Brushless DC) Motor technology used in the machines ensures efficient washing with 5.5 liters of water through variable water pressure and flow rate
- A++ energy efficiency and low noise level BLDC (Brushless DC) Motor

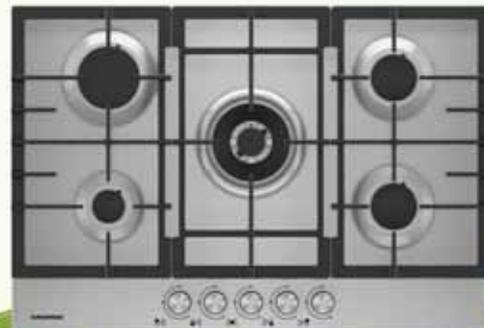


Highly-Efficient 24 " Dryer for North American Market

- Energy Star efficiency
- Heat pump drying technology
- Energy Star - Best Efficiency 2017 Dryer with Beko and Blomberg brands registered by U.S. Environmental Protection Agency

Highly-Efficient Gas Stove Burners Designed by Arçelik

- Gas stoves with highly-efficient burners
- Burners used on new gas stoves use 17% less gas than standard burners, saves 35% of time and are up to 25% more efficient (approved by Intertek UK).



Supply Chain

Arçelik A.Ş. considers climate change as a major risk for the sustainability of the globe and the Company. Arçelik A.Ş., as a responsible manufacturer, puts significant efforts on climate change.

In order to efficiently manage the risks and opportunities related to greenhouse gas emission, Arçelik A.Ş. measures the greenhouse gas emission resulting from production processes within the framework of product-life cycle since 2010.

Arçelik A.Ş. expanded the scope of its efforts on this issue and started a project "Scope 3 Emission Calculations (Logistics)" to measure the emissions arising product transportation in Turkey in 2013. In 2014, as a result of project, gas emissions arising from transportation of Arçelik A.Ş. products within Turkey were calculated and verified by an independent accredited body at the level of "limited assurance" as per ISO 14064- 1 Greenhouse Gas Emissions Calculation and Reporting Standard. This work continued in 2016 as it was in 2015. Greenhouse gas emissions from export and import logistics activities were verified by the independent accrediting organization at the level of "limited assurance" by expanding the coverage with the domestic logistics of Arçelik products in 2015.

By the effective use of Dynamic Routing application in Turkey, Arçelik A.Ş. has issued the loading quantities catalog in exports and maximized vehicle utilization through internal transportation route studies to ensure optimum route planning. These practices decreased the costs and reduced carbon emissions. Other results of dynamic routing are increased process efficiency and work force optimization. Arçelik A.Ş. continued to increase the share of sea ways in transportation and reached 82% in 2016. In addition, railways were used instead of roadways for transportation between the plants and ports where available and as a result carbon emissions were reduced.



Arçelik A.Ş. effectively manages greenhouse gas emissions.



Arçelik A.Ş. has increased the use of sea lanes in exports to **82%** and preferred railways to highways to decrease greenhouse gas emissions.



Consumer Services

"Dynamic Routing" system used for the transportation of the spare parts to end users of our services has improved the distance and reduced fuel consumption considerably.

Delivery of products from Dealer Shared Warehouses and provision of assembly services during the delivery have also provided fuel savings.

Home Agent project conducted by the Call Center Management have allowed certain operations to be carried out at home and Arçelik A.Ş. has secured significant fuel savings as a result of less personnel transportation. This has helped reduce carbon emissions to the environment and provided the advantage of spending less traffic time for the employees.

Arçelik A.Ş. offers Commercial A/Cs through 130 services throughout Turkey. Within the scope of this service, specific needs of chain stores and corporate customers regarding exploration, installation, maintenance and supply services are met.

As of 2016, Commercial A/C Services continue with systems capable of meeting air-conditioning requirements up to 3000 kW. Arçelik A.Ş. expanded its product portfolio with Fan Coil, A/C Hub and Chiller water-cooled product groups for large spaces including shopping malls, sports facilities and industrial plants where VRS systems are not sufficient. Therma Green (heat pump) product group for detached houses and wall-type heating system boilers as well as Grundig luminaries were added to the product portfolio.

"Waste Electrical and Electronic Equipment Control (AEEE) Regulation" was promulgated in the Official Gazette dated May 22, 2012 and No. 28300. Arçelik A.S. Consumer Services carry out necessary works along with company's internal stakeholders to fulfill the obligations within the framework of WEEE Regulations. The campaign was initiated in 2014 and waste electric and electronic devices were collected from consumers for further delivery to recycling plants in 2016.



Arçelik A.Ş. is engaged in many social responsibility activities in line with the mission of sharing its gains with the society and creating a more livable world for next generations. Arçelik A.Ş. does not compromise from its values and ethical principles while fulfilling its social responsibilities.

We are aware of our responsibilities. We are working to leave a better world to future generations. Our corporate vision, culture, values and ethical principles guide us as we fulfill these responsibilities.

Arçelik A.Ş. not only creates value to the employment and growth in the countries in which it operates, but also supports the development of social, cultural, environmental and sports activities. Contributing to social projects in accordance with its sustainable development principle will continue to be one of the priorities of Arçelik A.Ş.

Arçelik A.Ş. Family and Voluntariness

Arçelik A.Ş. considers developing and implementing sustainable projects aimed at improving social standards and solving issues in the light of corporate values and culture as one of its main responsibilities.

Social voluntariness is one of the core values of Arçelik A.Ş. The Company adapted maintaining the sustainability of the projects with the contribution and local embrace that will be provided by the volunteers composed of the large family of Arçelik A.Ş. as a significant success criteria.

Electrical Household Appliances Technical Training Program - Arçelik Laboratories - Turkey

Believing that educational activities can create the greatest added value in the improvement of the society, Arçelik A.Ş.

developed the “Electrical Household Appliances Technical Service Program” in order to reinforce the connection between manpower and employment, and to raise manpower with knowledge about the most recent developments and emerging technologies in Turkish electrical household appliance industry. For this, Arçelik A.Ş. has implemented an industry-first in Turkey under Electrical Household Appliances Technical Service Staff category for establishing and maintaining training-employment relationship.

For this, Arçelik Laboratories equipped with state-of-the-art measurement devices and equipment related to electrical household appliances technical service in a total of nine schools in Istanbul, Diyarbakır, Trabzon, İzmir, Ankara, Bursa and Tatvan as of 2011-2014 academic years.

This project which started with 4 vocational schools in 2011-2012 semester and reached 9 vocational schools in Turkey as of 2015-2016 semester supported 115 graduates in 2013, 112 in 2014, 252 in 2015 and 216 in 2016. In this semester, 444 students are educated in these departments; 228 11th grade and 216 12th grade. 59 teachers assigned for Arçelik Electrical Household Technical Service departments were provided with 20,100 man/hour of technical training in 2011 at Arçelik Academy and the trainings are ongoing based on requirements. The aim is to educate these students to a level that enables them to serve as technicians under white goods and air conditioner product groups with the knowledge they obtained in Arçelik Laboratories.





I Support Social Gender Equality In My Country - Turkey

In accordance with an approach of global citizenship, Koç Group creates shared values with “My country” projects to act in cooperation and collaboration to solve social issues.

Arçelik A.Ş. Family supports Koç Holding’s “I Support Social Gender Equality in My Country” project. The purpose of the project is to create awareness on the reasons and consequences of gender inequality and develop an egalitarian approach in culture and social life as a role model.

• Information Seminars for Employees

Within the scope of “I Support Social Gender Equality in My Country” project, voluntary company representatives were trained for a raised awareness on social gender equality through “Information” seminars in coordination with AÇEV. Volunteers entitled to be seminar trainers will train all employees and inform them through training events. 30 volunteers from Arçelik A.Ş. were granted with the title of voluntary trainer.

In 2016, 192 awareness seminars were conducted in eight campuses in Turkey for a total of 11,247 employees. Awareness seminars for the employees continue.



• Voluntary Dealer Trainings and International Support for Regional Activities

Arçelik A.Ş. Dealers continued to support “I Support Social Gender Equality in My Country” project in 2016.

Dealer processes were conducted in two steps. In the first step, a meeting was held with the dealers of Koç brands and they were informed and encouraged to embrace the project. Information seminars were held with voluntary dealers in 13 cities including Zonguldak, Düzce, Gebze, Muğla, Adana, Adıyaman, Şanlıurfa, Afyon, İzmir, Samsun and Sinop. Dealer processes were conducted in two steps. In the second step, 51 information seminars were held with the attendance of 6,000 people at elementary school, universities and professional institutions in collaboration with Turkish Family Health and Planning Foundation (TAP Foundation). Local projects were conducted through dealers.

Arçelik A.Ş. is dedicated to the concept and practices of social gender equality (participation in business life and extensification). Arçelik A.Ş. works to ensure that men and women grow together in business life, women participate in business life and take leader roles.



International Support Activities

In addition to creating new job opportunities locally, production plants, sales and marketing offices of Arçelik A.Ş. operating in different countries also carry out social responsibility projects and support activities ranging from education to health, environment and sport, to contribute to the social development of their countries/cities.



Beko France

Beko France is a partner of Professional Women's Network Paris, a member of the worldwide PWN network which is a dynamic network and leadership development platform for women holding manager and professional positions in the public and private sectors.

The mission of Professional Women's Network (PWN) is to promote the professional progress of women and give them the tools, networks and skills they need to assume leadership roles. Beko France have chosen to be partner of the “Prix Entrepreneur Responsible” (PER) initiative launched by PWN Paris. The initiative rewards a woman who founds a recent company, with a solid business model, which has placed the stakes of sustainable economy, social and environmental respect at the heart of its business strategy.



Beko Thailand

Beko Thailand organized the first tree planting event in September 2016 at Rayong Arboretum with the theme “Beko Go Green” in line with Arçelik A.Ş. vision of “Respects the Globe, Respected Globally”. 300 trees were planted during the event at Rayong Arboretum, an arboretum with a special ecosystem and biodiversity on a large wetland.



Beko Russia

Aiming at supporting the development of society in addition to economic activities, the Russian affiliate of Beko, LLC plays an important role in the development of the city where its manufacturing plant is located. Within the scope of 10th anniversary celebrations and the vision of social support, a tree planting event was organized.



Beko Poland

• Noble Box Project

Beko supports the “Szlachetna Paczka / The Noble Box Project” created to support and give hope to poor families in Poland especially during the Christmas period. The project is implemented by SPRING Association, a non-profit organization founded around 10 years ago to give presents to poor families during Christmas period. Project brings poor families and the donators and volunteers together. Beko employees selected two families for the third time within the scope of the project and gave them refrigerator, iron, toys for the kids, clothes, school equipment, and many other small things which are needed on daily basis.

• Social Welfare Home

Social Welfare Home is a charity association helping poor families. Beko supports the association by donating various products each year. In addition to Beko's corporate support, Beko employees also contribute to Social Welfare Home by donating unused clothes, toys, books and equipment. This organization is not a one-time event. It is spread over the year with the aim at distributing the donated goods to those who need them.

• Contributions to Sports

In addition to charity activities, Beko also contributed to sports in 2016. In this sense, Beko Poland has been the third-time name sponsor of Beko Elk Triathlon, which is a part of the 26th Olympic Distance Polish Championship organized as a means of qualification to ETU European Clubs Championship. With a preference of sponsoring different sports activities, Beko Poland supports children's football teams such as Gwarek Wieliczka and Górnik Wieliczka; swimming teams such as Warsaw Master Team; Speedway drivers such as Pawel Przedpelski; swimmers such as Sebastian Karas who wants to swim across La Manche Channel; and dancing tournaments such as Beko Dancing Cup.

Beko Spain

• Banco de Alimentos

The Spanish food bank is a voluntary and non-profit organization which collects food from people and redistribute to those in need and prevent wastage. The organization aims at triggering a sense of social solidarity and encouraging humanitarian values in the society to eliminate poverty and alienation fueled by social inequality. Beko employees collected 1,469 kilograms of fry food to support the food bank with the Christmas campaign in 2016.

• Asociacion Reto A La Esperanza

RETO is a non-profit organization established in 1985 in Cantabria. Starting with regional operations, RETO expanded its operations to a national scale. The basic purpose of the organization is to create a better future for drug addicts. Beko supports the rehabilitation centers with various products (refrigerators and washing machines) to help people struggling with drug addiction have a more comfortable life.

• San Juan De Dios Hospital

San Juan de Dios Hospital has a history of 500 years and serves the most fragile segments of the society with 400 centers in 55 countries. Beko has made donations to San Juan de Dios Hospital in 2016.

Defy - South Africa

• AmaZulu Community Trust



AmaZulu Community Trust was founded in 2009 in order to improve communities in South Africa by using the power of football. Football can be used as a mean to start life skills programs, HIV/AIDS trainings and incentives. 2 children with extraordinary skills are supported by a scholarship program established by Defy. Children under scholarship program were entitled to receiving education in the best schools of the region free of charge.

Social Responsibility



• Focus on the Family

Defy sponsored the “No Apologies” program, which has a budget of 1,000,000 Rand and pursues the goal of changing the ways of thinking and behaviors of the youth and encouraging them in making the right choices in their lives. In 2014, Defy has reached to around 4590 children through this program.



• Cheshire Homes

Cheshire Homes was founded to help disabled individuals in their daily life. Cheshire Homes volunteers work to create a warm and comfortable environment to assist disabled individuals support themselves and continue their treatment. In 2015, Defy provided household appliances for four Cheshire Homes in Durban.

Arctic - Romania

Arctic is engaged in many social responsibility project to support social improvement. Arctic continued to be an active supporter of the education system, encouraged good applications and supported the education of young people.

• First Cooling Systems Class - Gaești

Arctic provides technical material, educational material, research and development support to many local high schools and universities. In 2016, Arctic continued to support the Cooling Systems Operator Class opened in 2015 at Gaesti Vocational High School.

• Activities for Supporting the Professional Improvement of Employees

With the program "Arctic helps you organize your backpack", Arctic helps especially blue-collars gain more effective life skills. This campaign initiated in 2013 for the employees of the manufacturing plant later expanded as a support model covering all Arctic employees. The Company also conducted “You can help too” campaign to encourage its employees help those in need with toys, food and money.

• Supporting Local Organizations - Health Institutions

Arctic considers supporting local organizations as an important component of social responsibility. Arctic supports Gaești Hospital, a health institution serving the people in 16 settlements. Arctic helps the hospital with refrigerators, washing machines, dishwashers and tumble dryers to help the hospital and ensure hygiene conditions.

• Eco-friends Campaign

The campaign started in 2012 and continued in 2016 to preserve natural resources, waste management, energy consumption and reducing waste.

• History Preservation Project Protocol

Arctic attaches great importance to preservation of social and cultural assets and supports the renovation of Gaești's historical sector.

Grundig "Respect Food"

Grundig adapts the approach of "Respect Food", leads the efforts to prevent food waste and develops projects in collaboration with major organizations to create awareness on this issue.

Within the scope of "Respect Food", Grundig supported the "Food For Soul" initiative organized by Michelin-star Chef Massimo Bottura in an effort to develop solutions against waste food in April. The purpose and operating principles of "Food For Soul" perfectly match the values embraced by Grundig. Grundig's brand focus of "Innovation for a better world" focuses on a sustainable world among others. The brand supports this organization's objective of reducing food waste and works to raise awareness on this issue.

Grundig sponsored Refettorio Gastromotiva which worked to prevent food waste during the Olympics in August and turned them into consumable food with the support of many well-known chefs with recipes. The organization started its operations during the Olympic Games in Rio de Janeiro and the chefs cooked delicious meals with waste food in kitchens equipped with Grundig products which increased the useful life of the food and offered high-quality support.

Grundig supported the "Face a Fridge" event with 20 special design refrigerators. The event was held in August 2016 in Berlin by Thierry Noir, the legendary street artist who painted the Berlin Wall. Noir's unique work combined artistic skills with high-tech refrigerators. After the event, the refrigerators painted by Thierry Noir were sold on auction and the income was used to support "Food for Soul".





Beko believes that sports has the values that match the company's dynamic and energetic structure, and plays an important role in development of the youth. The power of sports to reach and touch the lives of many is an exact match for Beko's vision as a global brand. Beko supports social development through sports and makes new investments in this field day by day.

Beko was the "Presenting Sponsor" for 2015 France-Croatia-Germany-Latvia Eurobasket after 2009 Poland - Eurobasket, 2010 Turkey - FIBA Basketball World Cup, 2011 Lithuania - Eurobasket, 2013 Slovenia - Eurobasket and 2014 Spain - FIBA Basketball World Cup. In 2016, Beko continued to actively use FCB and Beşiktaş Football Club sponsorships through communication on various channels and dealer events.

Beko - FC Barcelona

Beko is the Official Premium Partner of FC Barcelona from the 2014/15 season to 2017/18 season. Bringing two global brands together, this sponsorship agreement resulted in featuring of Beko logo on the left arm of jerseys and back of training kits of FC Barcelona.

In 2016, Beko continued to sponsor FC Barcelona with the global Official Partner of Play campaign focused on the values of the game, the club and the brand. Beko's campaign was supported global stars Messi, Luis Suárez, Gerard Pique, Arda Turan and Marc-Andre ter Stegen as well as the animations of Neymar Jr., Andres Iniesta and Ivan Rakitic.

Beko is also the sponsor of FCBEscola for two years. FCBEscola is the official football academy of Barcelona Football Club in Turkey and operates with two schools in Istanbul.



Beko - Beşiktaş Professional Football A Team

Beko sponsored Beşiktaş JK football team between 1988 and 2004. Now, before the start of 2014-15 season, the company and the club signed an agreement that named Beko as the Jersey Back Sponsor of Beşiktaş Professional Football A Team, with which the company has special ties.

Beko Basketball Bundesliga - Germany

The German Basketball League, one of the leading basketball leagues in Europe, has been organized under the name of "Beko Basketball Bundesliga" from the start of the 2009-2010 season.

Grundig

Grundig continues to support sports activities in line with its approach of social responsibility and the brand is the name sponsor of Norwegian Women's and Men's Handball Leagues.

In 2016, Grundig was the main sponsor of the famous J/70 sailing race with a sponsorship agreement signed with Royal Nordic Yacht Club. Grundig continued to sponsor Fenerbahçe Women's Volleyball Team in Turkey in 2016.

Defy

Defy believes that sports is the key to a healthy society and supported the sprints in 2016. Wayde van Niekerk, South African athlete supported by Defy, won the gold medal with a record at the 400 meter race in 2016 Rio Olympic Games.

Awards and Achievements in 2016

Environmental Awards-Achievements

- Beko was the first household appliances brand to be awarded with the “Green Brands” quality award in Germany.
- Çayirova Washing Machine Plant was granted with the first prize in EVET (Energy-efficient Industrial Plant) category and Eskişehir Refrigerator Plant was granted with the second prize in SEVAP (Projects for Increasing Energy Efficiency in Industry) category by the Ministry of Energy and Natural Resources.
- Arçelik A.Ş. was listed in “The A List: The CDP Climate Performance Leadership Index 2016” for the second time. This list includes the world's best performing companies as determined by the Carbon Disclosure Project. Arçelik A.Ş. is first Turkish industrial company to enter this list twice.
- Arçelik A.Ş. was listed in Borsa Istanbul Sustainability Index for the third time with its efforts on sustainability.
- Arçelik A.Ş. was graded “AAA” by MSCI Global Sustainability Index Series.
- Beko and Grundig dryers were granted with “Energy Star Most Efficient 2017” award by the Environmental Protection Agency (EPA) in USA.

Corporate Awards-Achievements

- Arçelik A.Ş. was granted with six awards at the German Design Awards, a distinguished international organization by the German Design Council. Cast Oven was granted with “Winner” prize and Grundig Entry DAB Radio, Grundig Immensa LED TV, Beko Superia Washing Machine, VUX and Cast Hood were granted with “Special Mention” prize.
- Arçelik Selamlıque Capsule Turkish Coffee Machine was granted with a “Golden Award” from IF Design - a first in Turkey.
- Arçelik A.Ş. was granted with the “Product Development Process” prize with Beko 300TR Cash Register POS project at the 14th TESIF Innovation and Creativity Awards organized by Turkish Electronic Industrialists' Association (TESID).
- Beko Germany was granted with Plus X Awards in high quality, design and ease of use categories with IndyFlex+ counter top stove HII 68600 PTX and additionally ecology and functionality categories with A+++ refrigerator-freezer RCNE520E40ZX.
- Beko Italy was granted with the award for best call center - employer partnership by Club CMMC with the “Multi-channel Customer Services” project.
- Arçelik A.Ş. Cooking Appliances Plant was granted with the first prize with the “High-efficiency Gas Cooker - Burner Design” project in Large-scaled Enterprises R&D Category at the Efficiency Project Awards organized by the Ministry of Science, Industry and Technology - General Directorate of Efficiency.
- Arçelik Winterfest was named as the “Best Youth Festival” of 2016 by Ace of MICE.
- Arçelik A.Ş. was granted with “Patent League Leader” and “company with highest number of international patent applications” awards at the Turkish Patent Awards, held by the Turkish Patent Institute (TPE) for the fifth time.
- Arçelik A.Ş. was named as number three in the “Turkey's Most Respected Companies” research by Capital Magazine.
- Arçelik A.Ş. was named as number one in the Durable Consumer Goods Category in the same research.
- Arçelik Sailing Team won the BMW Bosphorus Sailing Fest 2016 Regatta in IRC2 class at the Bosphorus. At the same race, Beko Sailing Team came first in the IRC4 class.
- Arctic, leading Arçelik A.Ş. brand in the Romanian market, was granted with the “Romanian Values Award” by BIZ Magazine with its high performance.
- Arçelik was the seventh best exporter in the list of 2015 Export Leaders drafted by Turkish Exporters' Association (TIM).



- Grundig Music 45 DAB Radio, Beko Cosmos Flush Handle Refrigerator, Beko USA-style FS Oven, Beko USA-style Pro Oven, Arçelik Blender were granted with “Red Dot Award: Product Design” awards.
- Beko built-in product group was granted with Plus X Awards in “Most Innovative Brand of the Year” and “Best Design” categories.
- Arçelik A.Ş. was granted with the grand “Turkey's Best R&D Center” prize and “Best Durable Consumer Goods R&D Center prize at the “Private Sector R&D Centers Summit“ organized by the Ministry of Science, Industry and Technology - General Directorate of Efficiency.
- Arçelik A.Ş. was granted with the first prize for the first time in its industry at the 7th Eurocloud contest in “Best Business Impact Provided by Cloud Services” category in Bucharest, Romania with the Spare Part Estimation Project.
- At Design Turkey; Beko SBS Cosmos Flush Handle Refrigerator and Arçelik Selamlıque Capsule Turkish Coffee Machine were granted with two prizes in “Superior Design” category and four other prizes were won in “Best Design” category with Fourever 4-door refrigerator, Mini Grout Turkish Coffee Machine, Orion no-bag vacuum cleaner and oven.
- Beko 70 cm combi refrigerator, USA Blomberg solo oven, ABD Beko Pro Oven, Arçelik Mini Grout and Beko Zeus Divide & Cook products were granted with IF Design 2016 Design Awards.
- Beko 70cm Combi Refrigerator and Beko Professional Oven were granted with ‘Special Mention’ awards in the Kitchen category from the German Design Awards, the most well-known international awards by the German Design Council.
- Arçelik was selected as Turkey's lovemark in its category for the 9th consecutive year based on “Turkey's Lovemarks” research conducted by MediaCat and Ipsos.
- Grundig VUX (Virtual User Experience) was granted with “Innovation Honorary Award” by the International Consumer Electronics Fair - CES.
- Arçelik A.Ş. Ankara Dishwasher Plant was granted with “2016 Exporter Award” and “2016 R&D Award” by Ankara Chamber of Industry.
- Arçelik A.Ş. was granted with “R&D Leadership Award” at the fifth Turkey Innovation Week organized by Turkish Exporters' Association.
- Stiftung Warentest (StiWa), Germany's leading test magazine, granted first prize to Grundig GTA 38267 dryer with “good” rating and second prize to Beko DH 8534 GX0 dryer with “good” rating.
- Beko Hybrid dryer was listed at the first rank by France's leading magazine “Que Choisir”
- Beko Refrigerator's EverFresh+® technology was granted with the 'Technology Innovation of the Year Award' by the Chinese Electrical Home Appliances Research Institute (CHEARI).
- Arçelik A.Ş. was granted with a prize in the “Recommended Applications” category with the “Prevention of Occupational Accidents at the Press Mold Section” project and second prize with the “Triple Trolley Equipment” project at the Golden Glove and Golden Proposal Occupational Health and Safety Contest organized by Turkish Metal Industrialists Union.
- Defy remains top spot as SA's most loved appliance brand with a string of awards such as; Sunday Times Top Brands Awards, Iser Awards as top supplier and top major appliance supplier, TGI Icon Awards in the category cooking, cooling, SDA and laundry as well as, KZN Top Business Award.

Arçelik focuses on sustainable growth with the support of its competent workforce and brings diverse skills together in pursuit of a shared objective to continually update its organization with innovative skills.

Arçelik A.Ş. focuses on talent management activities under the principle of "Improving global organization and developing talents by managing diversities" that supports its vision. The Company aims at improving its capabilities by recruiting highly-qualified young talent and experienced professionals with the belief that individual achievements are at the core of organizational achievements. In line with this vision, various skill management systems are used to determine and evaluate the performance and competencies of employees.

Global Organization & Talent Management

Arçelik A.Ş. continues to strengthen its global position through acquisitions, new investments and supporting current investments. In line with the vision of growing in the global markets, Arçelik A.Ş. acquired Dawlance, Pakistan's leading white goods brand in 2016. The Company also incorporated Beko US Inc. headquartered in Chicago, USA. Production started at the new plant in Thailand in 2015 and the reorganization in Asia-Pacific continued in an effort to strengthen the Company position in the region and in the globe. As of the end of 2016, Arçelik is a global organization operating in 32 countries with 18 production plants in 7 countries and 30,000 employees.

Organizational improvement projects are conducted in line with the current global developments and global comparisons in an effort to secure the organizational structure capable of supporting the Company's growth plans and functional requirements.

Arçelik A.Ş. supports its global growth with a skilled work force and designs and implements global systems and processes to support the improvement of its employees' skills. Career plans of employees are made in accordance with knowledge, skills and competencies. Critical roles and potential employees which will help the Company reach its strategic objectives are determined at human resources planning meetings every year. In addition, the performance of the employees is monitored and their improvement is supported to prepare them for their potential roles in the future.

There are succession plans in place for all management positions and potential employees are assigned to management positions in line with these plans. Succession fulfillment rate in backup plans is closely monitored and actively used in all organizational changes. In 2016, 17.4 percent of the employees have gone through rotation, assignment and promotion processes. This rate is 50% higher than the rate in 2015.

Year	Career Movement Rate
2016	17.4%
2015	12.9%
2014	6.7%

18 manufacturing plants + 30,000 employees
around the globe

Talent Acquisition

Go Beyond Yourself employer brand was shared with the target audience to attract talent and maintain a sustainable communication with potential employees in line with the strategies and objectives. Arçelik A.Ş. attaches importance to deployment of social recruitment applications. In this sense; Arçelik Career, Facebook and LinkedIn pages were among the most effective resource in 2016. Arçelik A.Ş. uses the Arçelik Facebook page to reach university students and the contents of this page helped Arçelik be ranked at the first place based on the quality score among all corporations using a Facebook career page in Turkey, as determined by Social Brands index. LinkedIn Arçelik Career page was listed by Talent Brand Index and the quality score confirms that the interest of potential employees in Arçelik has increased. The score increased from 23% in 2015 to 26% in 2016.

Arçelik A.Ş. believes that company and employees share a common responsibility towards personal development and career management. In this context, the company implements an "Internal Job Posting System" where vacant internal positions are announced. This helps company announce all vacant positions internally and enable employees take initiatives towards their career development.

It is very critical that Go Beyond Yourself employer brand is embraced by Arçelik A.Ş. employees and that they become brand ambassadors. Digital access was improved by providing e-mail addresses for all employees to increase global communication on a global scale and convey the general messages throughout the organization. In 2016, the first investment on internal communication was made and the system was made accessible for more than 17,000 employees to diversify internal communication channels.

Culture of High Performance and Continuous Learning

Innovation Directorate, formed to ensure centralized coordination of internal innovation activities and planning of radical products and services, aims at implementation and development of systems in order to actualize different business ideas and support innovation culture within the Company. The foundation of Arçelik A.Ş.'s innovation culture is being engaging, inclusive, open to internal and external stakeholders, and respectful to intellectual property. The culture of innovation is supported by Arçelik A.Ş. Leadership Profile skills of innovative ideas, turning diversity into opportunity and building collaboration.

The Innovation Directorate supports multidisciplinary elements and innovative project teams and runs the Turning Technology Into Business (TTIB) program, an internal entrepreneurship program, since 2014. Under TTIB program, participants from various disciplines and functions create project teams of five to seven people. Project groups are developed with regular training and coaching on entrepreneurship, customer surveys, leadership and business plans for four months and they develop business ideas. The training and coaching process of the program is managed by Professor Ken Morse, an entrepreneurship coach from Massachusetts Institute of Technology (MIT), one of the best colleges of USA, and ex-Founding Director of MIT Entrepreneurship Center. At the end of the program, the innovative business models developed by the project teams are presented to the top management and projects with future potential are funded. This program also ensures multidisciplinary communication and allows the employees to follow their passions to establish a culture of innovation within the company. In 2016, 45 employees completed the program and the groups worked on seven different projects.

45

Number of employees who completed the Turning Technology into Business (TTIB) Internal Entrepreneurship Program in 2016

Arçelik Garage was established in 2016 to encourage internal entrepreneurship and shorten the process from the idea to the prototype with actual product quality. It has shared work spaces, activity areas, Maker Space and a high-tech, digital and layered prototype infrastructure. Arçelik Garage encourages design-focused thinking and lean entrepreneurship with the ability of testing ideas fast with customer opinions. Its motto is "Fail Fast, Fail Early and then Succeed".

The shared working space and Maker Space allows the employees to develop their ideas in collaboration. Prototype area is used to produce high-quality prototypes from ideas and make them available for the use of employees for early customer feedback. This infrastructure helps produce low-budget prototypes from hundreds of ideas and turn them into final products to meet the requirements of the customers and add value to the company.

Arçelik A.Ş. spends time for focused team efforts in order to support local needs and enhanced product ideas. Electronic platforms are being used to collect ideas from employees, and enable them share ideas and make discussions. We create opportunities for innovative projects by conducting activities that address needs in different markets on the basis of consumer insight. To encourage innovation and creativity atmosphere and internal entrepreneurship, researchers at Central R&D are allowed to spare 5% of their time for development of technologies and concept products of their choice.

Global Organization

Another platform which supports entrepreneurship and innovation is the Workshop 4.0 operating under Manufacturing Technology Directorate. Workshop 4.0 is equipped with latest technologies and provides experience with artificial intelligence, digital twins, collaborative robots, visual control and advanced automation tools in an effort to be ready for plants of the future. Workshop 4.0 is supported by the universities, institutions and private companies and the objective is to ensure that Arçelik employees are ready for Industry 4.0 revolution.

Fast Track program managed by the R&D Directorate is a seven-week full-time program for multidisciplinary teams and the objective is to develop innovative ideas which will add to the Company's revenues. Project teams are assigned with product and customer targets and expected to develop solution proposals which meet customer requirements using "Design Thinking Methodology". The solutions are tested and developed with customers. Solution proposals determined not to be qualified for meeting customer requirements are terminated at the test phase. This ensures that many ideas are tested with a fast pace, ineligible ones are eliminated and the best ideas are actualized with less resources. Prototypes produced by the 24-48-hour Hackathons are presented to the top management. Eligible prototypes are included in the program portfolio with a project and followed up as R&D projects.

Arçelik Garage
established to encourage internal entrepreneurship
and shorten the process from the idea to the
prototype with actual product quality.

Arçelik A.Ş. continually improves the performance of all employees within the global organization and aims fulfilling needs arising from local differences while focusing on the objectives of the global organization.

Arçelik A.Ş. development programs are designed to support the expertise and/or leadership developments of the employees. Development programs are managed under three categories, namely Talent In You, Leader In You and Future In You.

Talent In You

This category includes functional and professional development trainings, competence trainings, foreign language solutions, orientation programs for fast adaptation of new hires and various hobby and social responsibility trainings to help employees plan their personal development and professional career.

Functional and professional development programs include manufacturing, sales, purchasing, marketing, quality management systems, occupational safety and other technical trainings as well as structured programs including Sales Academy, Marketing Academy, Purchasing Academy, Project Leadership Academy, Market-oriented Product Development Program and Shift Manager Program.

An important functional development program enabled in 2016 is the TECHPRO Academy to support the expertise careers of technical employees working under the Production and Technology. TECHPRO Academy is a significant human resources investment in digital transformation. The importance of this program is being constantly updated and sustainable based on global trends.

The purpose of competency trainings is to ensure that the employees make improvements in terms of competencies and behaviors defined by Arçelik Leadership Profile. In this sense, employees are being encouraged to create their own development plans and planning their competency and behavioral development. Trainings listed in the annual Training Catalog also support the employees with their development areas.

Foreign language solutions include classroom trainings, e-learning resources and one to one lessons based on individual needs.

New hires are offered with an orientation program in the first 6 months after the date of employment. The orientation program is a five-day program on team work, innovation and finance as well as presentations of various functions and visits to plants and concept stores. Another program to accelerate the adaptation of new recruits to the Company and business processes is the “Warm-Up” program. For this purpose, we give a warm welcome to new employees through human resources sharing meetings and employee-manager interviews. Within the scope of “Co-mate” mentorship program, experienced employees are as mentors assigned to new hires to help them with the adaptation process.

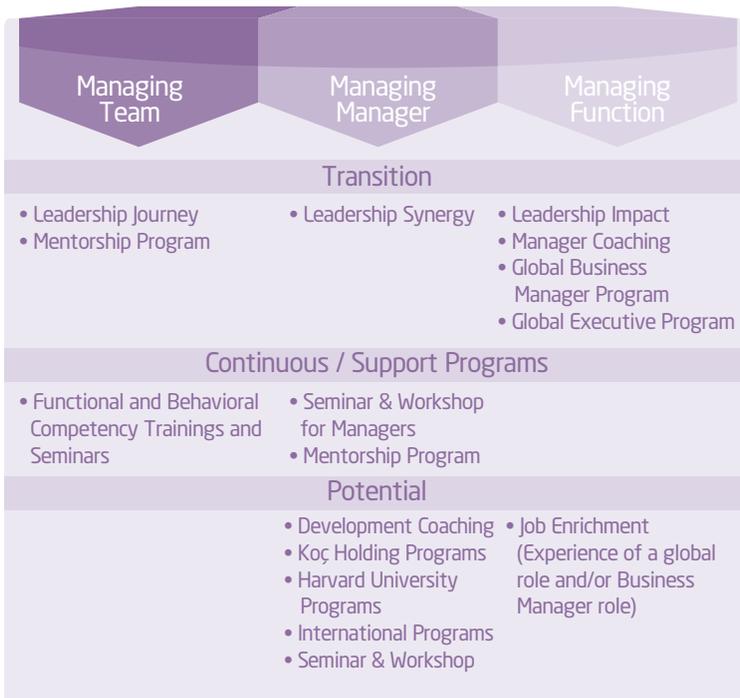
In addition to these;

- Hourly-rate employees are provided with on the job trainings, occupational safety trainings and various personal development seminars. The seminars in 2016 were on “Personal Leadership”, “Being a Working Mother & Father”, “Family Communication” and “Psychology of Parenting”.
- Within the scope of “For My Country” social responsibility initiative managed by Koç Holding, seminars were conducted on Social Gender Equality for all employees and 11,247 of all employees attended the seminar.
- Photography, sailing, theater, scuba diving and other hobby clubs are active in various campuses to support the employees in their hobbies.



Leader In You

Leadership development program designed to develop active leaders for the global organization. Arçelik A.Ş. leadership roles are categorized as managing team, managing manager and managing function. Expected leadership skills and behaviours from these three phases are different from each other. Therefore, specific development programs were designed for the requirements of these three categories. However, these three categories are evaluated from three perspectives; namely transition programs, continuous programs and potential programs. The development of managers is supported through programs developed with this perspective.



The managers can also attend the leadership development programs organized by Koç Holding. In 2016, three managers attended the programs from Be Global, Program for Leadership Development developed by Silicon Valley and Harvard University and Advanced Management programs. 13 managers attended the Harvard Druptive Strategy online program and 10 managers attended the Prosci Change Management certificate program developed in collaboration with Koç University.

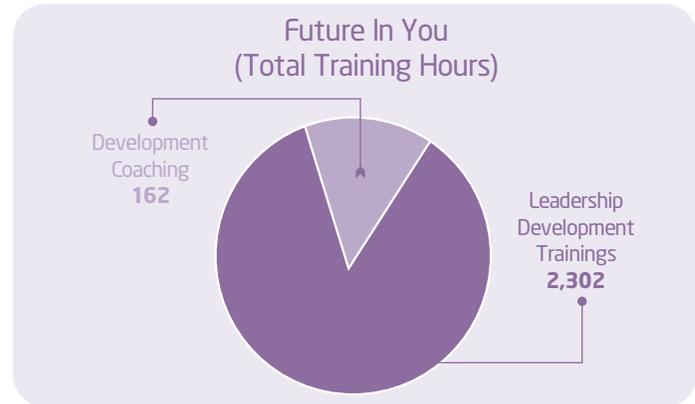


Future in You

These are potential development programs to help employees reach top-level positions during their career. The process is aimed at developing the individual under the titles of self-recognition and management, knowing others, management of relations and knowing and management of the job.

“Global Manager” is designed to develop the management of employees on an international scale and “Leadership Insight” development program designed for potential managers is under this category.

These development programs are integrated with potential development programs managed by Koç Holding. Programs offered to Arçelik A.Ş. employees for their development plans cover academic programs including e-MBA and modular MBA as well as various other programs to support leadership development and create personal awareness. Development coaching and internal coaching systems are also supported for the development of potential employees.



Employee Engagement

Aware of the fact that engagement of an individual to his/her organization is an indicative factor of well-being, an Employee Engagement Survey is conducted annually by Aon Hewitt, an independent employee engagement research company. In 2016, 81% of Arçelik A.Ş. employees responded to the survey. The engagement index has increased by 6.8 percent to 39.1 percent as compared to 2015. The engagement index has increased by 6.6 percent to 34.7 percent for hourly-rate employees and has by 5.9 percent to 60.9 percent for monthly-rate employees. These levels are the highest levels in the last five years. The survey results are analyzed in detail and the feedback are used for developments.

Annual Loyalty Index (%)	2016	2015	2014
Monthly-Rate Employees	60.9	55.0	46.0
Hourly-Rate Employees	34.7	28.1	29.0
Total	39.1	32.3	31.7

Based on the survey results, the focus is on recognition of the achievements of employees, supporting their career improvement, diversification of side benefits, increasing the level of communication with the employees and training. In line with these results; benefits management, award management, communication, career management, orientation, training and development processes were reviewed and renewed, also regular meetings were held to meet the top management with the employees.

Flextra Flexible Benefits program implemented for the first time in Turkey in 2015 is a benefits model to respond to diversified needs of the employees. Needs shaped by different lifestyles of our times require that employees are offered with customized options and solutions. In 2016, Flextra Program, which 86% of our monthly paid employees were enrolled, offers 29 product options in seven main product groups. Plans are in place to increase the level of participation in the future and deploy the program to other countries where Arçelik A.Ş. operates. With the practice initiated in 2015, nursery care support is provided for female employees and single male employees with children from 0 to 72 months old.

Arçelik A.Ş. continues to implement projects for increasing the level of engagement of its employees and is motivated to develop new projects and programs based on the feedbacks by the employees. Congratulations for You award management system revised in 2016 includes award programs under four categories.

Seniority Awards: These awards are for Koç Group employees who reach 10, 20, 25, 30 and 35 years of service for their services and loyalty.

Shining Moment Awards: Situational awards for employees whose behaviors are in line with Arçelik Leadership Profile competences.

Superiodic Awards: Awards for exceptional performances in line with the performance criteria within a certain period and specific to directorates and functions.

Pioneers and Pyramid Climbers Awards: Innovative employees who make a difference in line with the vision and objectives of Arçelik A.Ş. are recognized and awarded at special ceremonies. These are inclusive of all Arçelik A.Ş. employees, local and international. Creative and Innovators, Collaboration Developers, Customer Satisfaction Builders, Difference Makers and Environment and Society Contributors sub categories are used for evaluation and awarding.

In 2016, the number of awarded employees is 1023 in the Seniority Awards category, 1963 in the Shining Moment category, 1053 in the Superiodic category, and 251 in the Pioneers and Pyramid Climbers category.

In 2016, the suggestion system was digitalized and improved in an effort to receive the improvement suggestions and contributions of Arçelik A.Ş. employees more effectively. The employees send their proposals using the system under the Occupational Safety, Product Quality, Employee Engagement, Efficiency, Process/Service Quality, Environment and Energy Efficiency in Production categories and the suggestions are evaluated by experts. In 2016, 1955 suggestions were made and 360 of them were actualized after the evaluations. Owners of the actualized suggestions were awarded.

The Invention Day, held for the 16th time, is aimed at awarding employees with inventions which add to the technology knowledge of Arçelik. In 2016, 413 inventors were awarded in this scope. Being held with the participation of the entire top management team, the Invention Day also serves as a meeting where Arçelik shares its progress level and goals in this field.

Arçelik A.Ş. organizes events with employees and their families to increase the level of engagement within the scope of internal communication activities. Pause&Play brand organizes sharing opportunities, hobby clubs and special events to strengthen the communication and collaboration between individuals and positively effect the climate of the organization.

360

Number of Employee Suggestions Implemented

413

Number of Employees Awarded for Inventions

Digitalization

Human resources management has various responsibilities regarding the digital transformation of Arçelik A.Ş. The business processes of the company are effected by omni-channel marketing transformation, Industry 4.0, Internet of things (IoT) and other new generation trends. The organization and talents are developed and prepared for the transformation in line with contemporary developments and human resources processes are digitalized in accordance with these trends.

Arçelik A.Ş. implements digital and organizational transformation projects for its sales and marketing operations too. Together with the 14 initiatives organized to manage digital transformation, Commercial Strategy & Transformation Office and Multiple Program Development & Communication roles were created to support the transformation of organization and human resource. To develop the human resources which will transform the organization to offer a flawless consumer experience, competency and skill sets were defined and development programs were designed to develop these competencies and skills. Customer Experience Directorate and Digital Marketing & Strategy Department were established to support the digital transformation of the organization and the pace of efforts for acquiring new talents was increased.

Arçelik A.Ş. gives importance on management of human resources processes through global networks and shared platforms. In this sense, systems are digitalized and tools are used for talent management through new generation solutions. In 2016, the process continued to transfer the talent management processes initiated in 2015 to SAP SuccessFactors, a cloud solution. As of the end of 2016, Human Resources Planning processes are on SuccessFactors in 11 countries of operation. Global deployment of the system will continue in 2017.

New generation platforms are being developed to increase the level of social interaction on a global scale. The perspective is to deploy the systems on a global scale, make them available to employees all around the world and also offer solutions for the local requirements of each country.

Arçelik A.Ş. carefully implements digital and organizational transformation projects to its sales and marketing operations.



Arçelik A.Ş. designs its business processes with the approach of creating values and ensuring excellence as well as in line with the vision of efficiency and ethical values.

Business Excellence

Arçelik A.Ş. Business Excellence Approach is considered as a whole body of systems, through which business processes and business results are managed in line with the current vision. Processes are made more effective, efficient and uninterrupted within the objective of reaching better levels and a total quality approach is adopted based on the following management systems and methodologies.

- EFQM (European Foundation for Quality Management Excellence Model)
- ISO 9001 Quality Management System
- ISO 14001 Environmental Management System
- ISO 50001 Energy Management System
- ISO 14064-1 Greenhouse Gas Reporting System
- ISO 10002 Customer Satisfaction Management System
- ISO 27001 Information Security Management System
- ISO 28000 Supply Chain Security Management System
- CIPS (Chartered Institute of Procurement & Supply) Procurement and Supply Management
- OHSAS 18001 Occupational Health and Safety Management System
- ISO 17025 Laboratory Management System
- PCI-DSS (Payment Card Industry - Data Security Standard)
- ISO 20000 Information Technologies Service Management System
- ISO 22301 Business Continuity Management System
- Six Sigma (Process Improvement)
- Total Productive Maintenance (TPM)
- BSCI (Business Social Compliance Initiative) and Sedex (Suppliers Ethical Data Exchange) Social Responsibility Systems

Arçelik A.Ş. has started quality efforts through implementation of Quality Circles in the early 1980s. These efforts then incorporated and developed under Total Quality in the early 1990s. Arçelik A.Ş. adapts the process excellence (Total Quality Management) approach for all processes until the final product and is granted with European Foundation for Quality Management (EFQM) Quality Achievement and TUSIAD - KalDer (Turkish Society for Quality) Quality Grand Awards.

Management systems defined by international standards are audited by independent audit companies. Compliance with standards is evaluated by regular audits and continuously improved.

All the management systems defined by international standards (ISO 9001 Quality, ISO 14001 Environment, ISO 50001 Energy, ISO 14064-1 Greenhouse Gas Reporting, ISO 10002 Customer Satisfaction, ISO 27001 Information Security, ISO 28000 Supply Chain Security, CIPS Procurement and Supply Management, OHSAS 18001 Occupational Health and Safety - Electronics Plant, ISO 17025 Laboratory Management System - Central Calibration and Washing Machine EMC Laboratories, PCI-DSS Data Security - Ankara Teknokent, ISO 20000 IT Service Management - Ankara Teknokent, ISO 22301 Business Continuity Management - Ankara Teknokent) are certified by independent audit companies. Compliance with standards is evaluated by regular internal and external audits and continuously improved.

Arçelik A.Ş. deploys Six Sigma Methodology in all business processes to strengthen its international competitive edge and reach excellence by maximizing efficiency. The purpose of Six Sigma practices at Arçelik A.Ş. are,

- Improving the processes,
- Making processes transparent and manageable,
- Establishing a decision-making mechanism based on data,
- Establishing a platform that constantly increases profitability,
- Establishing harmony between organization and process goals,
- Establishing customer-orientation,
- Establishing a common language and strengthening creativity.

Being a productive maintenance management based on a team work that covers all levels, units and functions of the organization, the Total Productive Maintenance (TPM) has been implemented by Arçelik A.Ş. since 1996. The purpose of TPM is to eliminate all factors that has a direct or indirect negative impact on productivity and make the most effective use of resources.

Arçelik A.Ş. has its production facilities audited by an independent audit firm within a program based on the criteria of BSCI (Business Social Compliance Initiative) and Sedex (Suppliers Ethical Data Exchange) Social Responsibility Organizations, widely accepted in EU and obtains compliance reports in consequence of these audits.

Board of Directors 2016



Rahmi M. Koç

Chairman

He has completed his university education at John Hopkins University (USA), Department of Business Administration. He commenced his working career at Otokoç Company of Koç Group in 1958. He served at various senior official positions in Koç Holding. After becoming the Chairman of the Administrative Board in 1980, he was assigned as Koç Holding, Chairman of Board of Directors in 1984. He has been carrying on his work as the Honorary President of Koç Holding Board of Directors since 2003. Having served as the Chairman of the International Chamber of Commerce between 1995 and 1996, Rahmi M. Koç then worked at various positions such as Vice Chairman of Vehbi Koç Foundation Board of Trustees, Honorary Chairman of Koç University Board of Trustees, Founder and Chairman of Board of Rahmi M. Koç Museology and Culture Foundation, Vehbi Koç Foundation American Hospital Chairman of Board of Directors, Founder Member and Honorary President of TURMEPA/Turkish Marine Environment Protection Association, Honorary President of TUSIAD High Advisory Board, Member of TISK Advisory Board, Honorary Member of Foreign Policy Association, New York Metropolitan Art Museum Honorary Member of Board of Trustees, and Founder Member of Global Relations Forum Association.

Under the CMB's Corporate Governance Principles, Mr. Rahmi M. Koç, who is not assigned to executive function, is not an independent member.



Ali Y. Koç

Member

He had his university education at Rice University (USA), Faculty of Business Administration and then at Harvard University (USA) postgraduate program. He attended to the Manager Training Program at American Express Bank between 1990 and 1991 and worked as an Analyst in Morgan Stanley Investment Bank between 1992 and 1994. He served at the senior management of Koç Holding as the New Business Development Coordinator and Head of Information Group between 1997 and 2006. He worked as the Head of Koç Holding Corporate Communication and Information Group between 2006 and 2010. He is a Board Member since January 30, 2008 and Deputy Board Chairman since February 22, 2016 at Koç Holding.

Under the CMB's Corporate Governance Principles, Mr. Ali Y. Koç, who is not assigned to executive function, is not an independent member.



Ömer M. Koç

Vice Chairman

He graduated from Columbia College (USA) with a BA degree in 1985. He worked in Kofisa Trading for one year. He earned his MBA degree from Columbia Business School (1989). After working at Ramerica Intl. Inc., he joined Koç Group in 1990 and served at positions such as Director at Gazal A.Ş., Finance Coordinator at Koç Holding, Vice President and then President of Energy Group. He became a Member of Board of Directors of Koç Holding in 2004 and Deputy Board Chairman in May 2008 at Koç Holding. He is the Board Chairman of Koç Holding since February 22, 2016. He is also the Chairman of the Board of Trustees at Turkish Education Foundation, Chairman of the Board of Trustees at Koç University, Chairman of Geyre Foundation, Chairman of the Board of Yapı Kredi Kültür Sanat Yayıncılık and Chairman of the Board of Tüpraş.

Under the CMB's Corporate Governance Principles, Mr. Ömer M. Koç, who is not assigned to executive function, is not an independent member.



Levent Çakıroğlu

Member

He completed his undergraduate study at Ankara University, Faculty of Political Sciences, School of Business Administration and received his M.A. degree from the University of Illinois. He commenced his working career in the Ministry of Finance as an Account Expert in 1988. He worked as a part-time Instructor at Bilkent University between 1997-1998 and Vice Chairman of Financial Crimes Investigation Board of the Ministry of Finance. He joined Koç Group in 1998 as the Finance Group Coordinator and served as Koçtaş General Manager between 2002 and 2007, and Migros General Manager between 2007 and 2008, General Manager of Arçelik A.Ş. between 2008 and 2015 and President of Koç Holding Durable Goods Group since between 2010 and 2015. He was assigned as Assistant CEO of Koç Holding in February 2015 and he serves as Koç Holding CEO since April 2015. In 2016, he was assigned as a Board Member of Koç Holding.

Under the CMB's Corporate Governance Principles, Mr. Levent Çakıroğlu, who is not assigned to executive function, is not an independent member.



Semahat S. Arsel

Member

Commencing her working life as the Member of Koç Holding Board of Directors in 1964, Semahat Arsel, along with this duty, continues her other duties such as the Chairman of Board of Directors of Vehbi Koç Foundation, Divan Group's Chairman of Board of Directors, President of Semahat Arsel Nursing Education and Research Center, and Vice President of Florence Nightingale Foundation. She is at the same time the founder of Koç University, School of Health.

Under the CMB's Corporate Governance Principles, Mrs. Semahat Arsel, who is not assigned to executive function, is not an independent member.



Robert Sonman

Member

Robert Sonman earned his graduate and M.A. degrees from McGill University (Canada) in architecture. He is currently the Chairman of Board of Directors in Burla Group Companies which are shareholders in Arçelik A.Ş. He has been a Member of Board of Directors of Arçelik A.Ş. since April 1994. He speaks English and French.

Under the CMB's Corporate Governance Principles, Mr. Robert Sonman, who is not assigned to executive function, is not an independent member.



Dr. Fatih K. Ebiçlioğlu

Member

Following his bachelor's degree in International Relations Department of Ankara University's Faculty of Political Sciences and master's degree in Finance Department in Commonwealth University, he received doctoral degree in Finance-Accounting Department in Ankara University's Faculty of Political Sciences. He worked as Junior Accountant in 1989-1992, and as Accountant and Chief Accountant in 1992-2002 in the Ministry of Finance. In addition to these, he worked as a part-time lecturer in Hacettepe, Bilkent and Atılım Universities in 1998-2002. He joined Koç Holding as Financial Group Coordinator in 2002 and worked as Koç Holding Control Group Coordinator in 2004-2005 and Arçelik Deputy General Manager in 2005-2015. He has been working as Koç Holding Head of Durable Consumer Group since February, 2015.

Dr. Fatih K. Ebiçlioglu has no executive authorities and isn't an independent member as per CMB Corporate Governance Principles.



Hakan Hamdi Bulgurlu

Member

Following a bachelor's degree at Economy and Mechanical Engineering Departments of Texas University, Hakan Bulgurlu completed the joint MBA program at Northwestern University, Kellogg School of Management and Hong Kong University of Science and Technology. He started his professional life in Ram Foreign Trade Inc. in 1995. He worked as the Sales Manager in Ram Pacific until 1996. He worked as the Far East representative of Arçelik, Beko Elektronik, Atılım A.Ş. and Beko Ticaret from 1996 to 2000. In 2000, he was assigned as Ram Pacific General Manager. He worked as Arçelik-LG Air-Conditioner General Manager between 2007-2010. He served as the Deputy General Manager Responsible for Sales in Arçelik A.S. Europe, USA, Asia-Pacific in 2010. Hakan Bulgurlu was assigned as Arçelik A.S. General Manager as of February 17, 2015. Bulgurlu is a Board Member of Foreign Trade Association of Turkey (TURKTRADE), Founding Chairman of Turkey - Hong Kong Business Council organized under Foreign Economic Relations Board (DEIK) and Executive Board Member of European Committee of Domestic Equipment Manufacturers (CECED).

Hakan Hamdi Bulgurlu has executive authorities and is not an independent member as per CMB Corporate Governance Principles.



Kutsan Çelebicin

Member

He completed his university education at Ankara University, Faculty of Political Sciences. He commenced his working life at Ministry of Finance as an Account Expert in 1969, and served as Vice General Director of Treasury in the Ministry of Finance between 1979 and 1982 and then assigned to World Bank (IBRD) as Assistant Executive Director. He joined Koç Group in 1987 and retired from Koç Group as of December 2001 where he had served as Finance Coordinator, Vice Chairman and Chairman of Finance Group. He currently runs his finance consultancy business.

As of March 29, 2012, he serves as independent member in the Board of Directors of Arçelik A.Ş.



Tunç Uluğ

Member

Tunç Uluğ was graduated from Robert College. He received his Master degree in Mechanical Engineering from University of Columbia in 1964. He worked at Bechtel Co. in USA for 3 years and started working at Koç Group in 1967. He became General Manager in the various Koç Group Companies and served as Vice President and President between 1981- 1997 and retired from in 1997.

As of March 29, 2012, he serves as independent member in the Board of Directors of Arçelik A.Ş.



Mehmet Barmanbek

Member

He graduated from Ankara University Faculty of Political Sciences in 1963. He was Head Account Expert in Ministry of Finance between 1963-1977. He became Ford Otomotiv Sanayi A.Ş. Financial Affairs Manager in 1977 and was Assistant General Manager between 1986-2002 and retired in 2002 from that position.

As of March 29, 2012, he serves as independent member in the Board of Directors of Arçelik A.Ş.



K. Kaynak Küçükpınar

Member

He graduated from Napoli Technical University, Italia, Faculty of Shipbuilding Mechanical Engineering in 1968. He started his career in 1970 in Tofaş Turkish Automobile Factory. He was Purchasing Director of Tofaş Factory in 1975 and Assistant General Manager (Assistant Manager of Factory) of Tofaş A.Ş. between 1986-1993. He was Mako Elektrik Sanayii A.Ş. General Manager between 1994 - 2000. He retired in 2001 and he was Member of Mako A.Ş. Board of Directors until the end of 2002.

As of March 28, 2013, he serves as independent member in the Board of Directors of Arçelik A.Ş.

Management 2016



Hakan Hamdi Bulgurlu

General Manager

Following a bachelor's degree at Economy and Mechanical Engineering Departments of Texas University, Hakan Bulgurlu completed the joint MBA program at Northwestern University, Kellogg School of Management and Hong Kong University of Science and Technology. He started his professional life in Ram Foreign Trade Inc. in 1995. He worked as the Sales Manager in Ram Pacific until 1996. He worked as the Far East representative of Arçelik, Beko Elektronik, Atılım A.Ş. and Beko Ticaret from 1996 to 2000. In 2000, he was assigned as Ram Pacific General Manager. He worked as Arçelik-LG Air-Conditioner General Manager between 2007-2010. He served as the Deputy General Manager Responsible for Sales in Arçelik A.S. Europe, USA, Asia-Pacific in 2010. Hakan Bulgurlu was assigned as Arçelik A.S. General Manager as of February 17, 2015. Bulgurlu is a Board Member of Foreign Trade Association of Turkey (TURKTRADE), Founding Chairman of Turkey - Hong Kong Business Council organized under Foreign Economic Relations Board (DEİK) and Executive Board Member of European Committee of Domestic Equipment Manufacturers (CECED).



C. Can Dinçer

Assistant General Manager
Turkey Trade

Can Dinçer got his bachelor's degree in Mechanical Engineering Department in Istanbul Technical University in 1989 and master's degree in Department of Business in Stevens Technology Institute, USA in 1993. Having started his professional life as a Trainee in Arçelik A.Ş. Finance Department in 1993, Mr. Dinçer served as the Regional Sales Manager in Export Department in 1995. He worked as International Sales Manager - CIS and Other Countries between 2000-2005, as International Sales Director - European Foreign Markets between 2005-2009 and as Sales Director - Europe, USA, Asia-Pacific between 2009-2012 and as Sales Director - Subsidiaries, USA, Asia-Pacific between 2012-2015. Can Dinçer has been serving as the Assistant General Manager - Turkey Trade since February 2015. In addition to this role, he was assigned as Arçelik Pazarlama A.Ş. General Manager as of December 30, 2016.



C. Ş. Oğuzhan Öztürk

Assistant General Manager
Production and Technology

Cemal Şeref Oğuzhan Öztürk graduated from Aeronautical Engineering at Istanbul Technical University, and earned his Master's degree from the Faculty of Mechanical Engineering at the same university. He began his business career as a Research Assistant at the Material Sciences and Production Technology Application and Research Center at Istanbul Technical University in 1982. Öztürk joined Arçelik A.Ş. as a Quality Control Engineer at the Eskişehir Compressor Plant in 1987. After serving in various managerial positions across quality, manufacturing and product development processes at Arçelik A.Ş. Compressor and Refrigerator Plants, he was appointed as Arçelik A.Ş. Refrigerator Product Director, S.C. Arctic S.A. General Manager, Arçelik A.Ş. Washing Machine Product Director, Grundig Elektronik A.Ş. General Manager and Arçelik A.Ş. Supply Chain Director. Öztürk served as Assistant General Manager responsible for Purchasing and Supply Chain at Arçelik A.Ş. between 2010 and 2015. Oğuzhan Öztürk is the Assistant General Manager "Production and Technology" since October 2015.

Abdi Ayhan Önder	Product Director - Cooking Devices
Abdurahman Şahin	Product Director - Dishwasher
Ahmet İhsan Ceylan	Supply Chain Director
Ali Tayyar	Accounting Director - Headquarters and Plants
Alp Karahasanoglu	Product Director - Dryers and Electric Motors
Arel Atakol	Country Manager - Serbia, General Manager - Beko Balkans
Atila Uz	Product Director - Washing Machine
Barış Orbay*	Arçelik Sales Director - Arçelik Pazarlama A.Ş.
Brigitte Petit	Country Manager - France, General Manager - Beko France S.A.S.
Buket Çelebiöven	Human Resources Director
Cann Song	Country Manager - China, General Manager - Beko Electrical Appliances Co. Ltd.
Cem Kural	R&D Director
Cemil İnan	Product Management Director
Chan Lock	Country Manager - Malaysia, General Manager Beko Appliance Malaysia
E. C Murat Büyükerk	Regional Director - Africa, Middle East, Near East
Erhan Akdoğan*	Retail Development Director - Arçelik Pazarlama A.Ş.
Erkan Duysal	Innovation Director
Evren Albaş	Product Sourcing Director
Fatih Özkadı	Sustainability and Corporate Affairs Director
Federico Mangiacotti	Country Manager - Italy, General Manager - Beko Italy S.R.L.
Fikri Özdemir	Product Director - Electronics
Hakan Kozan	Country Manager - South Africa, General Manager - Defy Appliances Pty Ltd.
Haldun Dingec	Product Director - Refrigerator
Hande Sarıdal	Finance Director
Hasan Ali Yardımcı	Country Manager - America, General Manager - Beko -US Inc.
Hilmi Cem Akant	Country Manager - Spain, General Manager - Beko Electronics Espana SL



Mehmet Ragıp Balcıoğlu

Assistant General Manager,
International Trade

After receiving his bachelor's degree from Industrial Engineering Department of Istanbul Technical University in 1989, Ragıp Balcıoğlu completed Executive MBA Program in Koç University in 1996. Ragıp Balcıoğlu started his professional life as Marketing Manager in Data Hidrolik Makine Sanayi A.Ş. in 1990. Working as an Imported Materials Planning and Purchasing Specialist between 1992-1996 in Arçelik A.Ş., Mr. Balcıoğlu was assigned as Trade Manager in Beko UK in 1996. Balcıoğlu was assigned as Product Marketing Manager in 2003 and then respectively assigned as Product Marketing Unit Director in 2004 and as Product Management and Procurement Director in 2006. Balcıoğlu worked as Sales Director between 2008-2010, as Country Manager - UK and Ireland, Beko PLC General Manager between 2011-2015 and has been working as Assistant General Manager - International Trade since February, 2015.



Polat Şen

Assistant General Manager
Finance and Accounting

Polat Şen received his bachelor's degree in English Department of Economics in Marmara University in 1998 and master's degree in International Finance Department in Bradford University in 1999. Starting his professional life as Junior Auditor in Koç Holding A.Ş. Control Group Department in 2000, Mr. Şen worked as Senior Auditor in Koç Holding A.Ş. between 2002-2004. Mr. Şen was assigned as Arçelik A.Ş. Internal Audit Manager in 2004, as Financial Affairs Group Director in Grundig Electronics / Grundig Multimedia B.V. in 2008, and he worked as Grundig Multimedia B.V. Financial Affairs Director between 2009-2010. He served as the Purchasing Director between 2010-2015 and has been working as Assistant General Manager - Finance and Accounting since February 2015.



Tülin Karabük

Assistant General Manager
Marketing

Tülin Karabük graduated from Business Administration Department at Boğaziçi University in 1986. She received her MBA degree from Wales University. She started her business career at Ekom Eczacıbaşı Dış Ticaret A.Ş. in 1987. She later served in various top management positions as Assistant General Manager, responsible for sales and marketing, member of board of directors at 3M A.Ş., KVK A.Ş. and Turkcell Group. In September 2009, she began to serve as Arçelik A.Ş. Assistant General Manager responsible for Sales in Europe, America, and Asia-Pacific. Karabük has served as Assistant General Manager responsible for Marketing at Arçelik A.Ş. since September 2010.

Ho Xuan Loc	Country Manager – Vietnam, General Manager – VietBeko
Hüseyin Öner	Information Technologies Director
Hüseyin Şerif Beyaztaş*	Consumer Services Director – Arçelik Pazarlama A.Ş.
İhsan Somay	Accounting Director - Sales and Marketing
İsmail Kürşat Coşkun	Country Manager – Austria, General Manager – Elektra Bregenz A.G.
Maciej Mienik	Region Director – Eastern Europe, General Manager – Beko SA
Mehmet Emin Bulak	Purchasing Director
Mehmet Tüfekçi*	Marketing Director – Arçelik Pazarlama A.Ş.
Monica Iavorschi	Marketing Director – International
Murray Linn	Country Manager – Australia, General Manager – Beko A and NZ Pty Ltd.
Mustafa Eşenlik	Production Technologies Director
Nihat Bayız	Country Manager – Romania, General Manager – Arctic S.A.
Onur Dostel	Country Manager – Egypt, General Manager – Beko LLC Egypt
Orhan Sayman	Regional Director – Direct Sales, Europe, USA
Özkan Çimen	Corporate Risk Director
Per Kristian Ervik	Country Manager – Nordic, General Manager – Grundig Nordic No AS
R.C. Oğuzkan Şatiroğlu*	Beko Sales Director – Arçelik Pazarlama A.Ş.
Rajan Gungiah	Brand and Consumer Trends Director
Salih Arslantaş	Country Manager – Pakistan, General Manager – Dawlance
Serdal Korkut Avcı	Industrial Design Director
Sibel Kesler*	Finance and Accounting Director – Arçelik Pazarlama A.Ş.
Sühel Semerci	Country Manager – Germany, General Manager – Grundig Multimedia, Beko Deutschland GmbH
Teresa Arbuckle	Country Manager – UK, General Manager – Beko PLC
Zafer Üstüner	Regional Director – Asia Pacific
Zeynep Özbil	Corporate Communications Director

*Assigned at Arçelik Pazarlama A.Ş. as of 30.12.2016.

- Agenda
- Profit Distribution Proposal
- Arçelik A.Ş. Amendments to the Articles of Association
- Independency Statements of Candidates
for Independent Members of Board of Directors
- Dependent Company Report
- Independent Auditors' Report
- Consolidated Financial Statements

AGENDA FOR ORDINARY GENERAL ASSEMBLY MEETING OF ARÇELİK A.Ş. DATED 23 MARCH, 2017

- 1 - Opening and election of the Chairman of the Meeting,
- 2 - Reading, discussing and approving the 2016 Annual Report prepared by the Company Board of Directors,
- 3 - Reading the Summary of Independent Audit Report for 2016 accounting period,
- 4 - Reading, discussing and approving the Financial Statements related to the 2016 accounting period,
- 5 - Acquittal of each member of the Board of Directors in relation to the activities of Company in 2016,
- 6 - Acceptance, acceptance after amendment or refusal of the offer of the Board of Directors in accordance with the Company's profit distribution policy regarding the distribution of the profits of 2016 and the date of the distribution of profits,
- 7 - Acceptance, acceptance after amendment or refusal of the Board of Directors' offer for amending Article 6 entitled "Capital" of the Company Articles of Association,
- 8 - Determining the number and duty term of the Members of the Board of Directors, making elections in accordance with the determined number of members, selecting the Independent Members of the Board of Directors,
- 9 - Informing and approval of the Shareholders about the Remuneration Policy for the Members of the Board of Directors and Top Managers and the payments made within the scope of the policy in accordance with the Corporate Governance Principles,
- 10 - Determining annual gross salaries of the members of the Board of Directors,
- 11 - Approval of the Independent Auditing Institution selected by the Board of Directors in accordance with the Turkish Commercial Code and the Capital Markets Board regulations,
- 12 - Informing the shareholders about the donations made by the Company in 2016 and determining an upper limit for donations to be made in 2017,
- 13 - Informing the shareholders about the collaterals, pledges, mortgages and surety granted in favor of third parties and the income and benefits obtained in 2016 by the Company and subsidiaries in accordance with Capital Markets Board regulations,
- 14 - Authorising the shareholders holding management capacity, the Members of the Board of Directors, top managers and their spouses and relatives by blood and marriage up to the second degree within the framework of the articles 395th and 396th of Turkish Commercial Code and informing shareholders about transactions performed within the scope during 2016 as per the Corporate Governance Communiqué of Capital Markets Board,
- 15 - Wishes and opinions.

Meeting Place and Time : Divan İstanbul Oteli

Asker Ocağı Cd. No:1, 34367 Elmadağ - Şişli / İstanbul
23 March 2017, time 10:00

Profit Distribution Proposal

Esteemed Shareholders,

According to the financial statements for the accounting period 01.01.2016 and 31.12.2016, prepared by our Company within the framework of the Communiqué of the Capital Markets Board (CMB), numbered Series: II-14.1, and in compliance with the International Financial Reporting Standards and audited by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of Ernst & Young Global Limited); a "(Consolidated) Net Profit" of TL 1,304,149,954.23 has been provided of which TL 1,299,911,814.79 is net profit belonging to equity holders of the parent. Our profit distribution policy approved in the General Assembly on 27.03.2014, prepared on basis of the market expectation, long-term corporate strategy, investment and finance policies as well as profitability and cash position, our proposal for profit distribution has been explained below. The payment of dividend will commence on April 3, 2017 in accordance with the decision to be adopted by the general assembly.

In accordance with Capital Markets Law and Capital Markets regulations, it was established that a distributable profit of TL 1,299,911,814.79 has been obtained, the sum of TL 1,315,130,317.54, which includes the addition of TL15,218,502.75 consisting of the donations made to the tax-exempt foundations and associations, was the first dividend base and in official records it was seen that there was a total distributable profit of TL755,995,367.64, including TL 386,923,341.53 as net profit after tax.

The 5 % portion of legal reserves which has to be allocated according to Turkish Commercial Code article 519 will not be allocated for 2016 since legal reserves amount as of 31.12.2016 according to Tax Procedure Law reached 20% of the capital.

Following decisions have been made: From the consolidated profit calculated in accordance with CMB regulations,

TL 425,000,000.00 first dividend payable to shareholders

and total of,

TL 425,000,000.00		Gross Dividend to be distributed to the shareholders;
TL 39,121,358.98	10%	2 nd group reserves and

on the basis of our legal records;

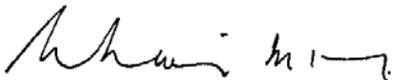
The distributable cash dividend TL 425,000,000.00 shall be funded;
TL 354,819,984.14 from current year profits
TL 70,180,015.86 from extraordinary reserves.

2nd group reserves TL 39,121,358.98 shall be funded;
TL 32,103,357.39 from current year profits,
TL 7,018,001.59 from extraordinary reserves.

After the deduction of dividend to shareholders and allocated second legal reserves from the current year profit, of the remaining TL 835,790,455.81 will be allocated as extraordinary reserves in accordance with the Capital Markets regulations.

- To our shareholders which are full taxpayer institutions or limited taxpayer institutions obtaining dividend through a workplace or permanent representatives in Turkey; dividend to be paid at the rate of 62.9 % and TL 0.62895 gross= net cash for shares at the nominal value of TL 1.00;
- And gross cash dividend of TL 0.62895 at the rate of 62.9%and net cash dividend of TL 0.53461 at the rate of 53.5%for shares with a nominal value of TL 1.00 to be paid to our other shareholders, and to begin the payment of dividend on April 3, 2017 is submitted to approval of General Assembly which will be held on 23rd March 2017 Thursday to approve 2016 accounting period.

With our kind regards,
Rahmi M. Koç
Chairman of the Board



OLD TEXT	NEW TEXT
<p>Article No: 6</p> <p>The Company has adopted registered capital system in accordance with the provisions of Law nr. 6362 and transited to registered capital system with 28.10.1982 dated and 61 numbered permit of Capital Markets Board.</p> <p>Upper limit of Company's registered capital is TL 1,500,000,000.00 (One billion and five hundred million Turkish Liras), divided into 150,000,000,000.00 (One hundred and fifty billion) registered shares, each with a nominal value of 1 (One) Kurus.</p> <p>The permit provided by the CMB for the upper limit of registered capital is valid for the years 2013-2017 (5 years). At the end of 2017, even if upper limit of registered capital are not attained, in order to enable board of directors to take capital increase decision after 2017, it is mandatory to obtain authority from general assembly for a new period not exceeding 5 years by obtaining the permit of Capital Markets Board for previously permitted upper limit or a new upper limit. In case abovementioned authorization shall not be obtained, the Company will be considered as signed out from the registered capital system.</p> <p>The issued capital of Company is TL 675,728,205.00 (Six hundred seventy five million and seven hundred twenty eight thousand and two hundred and five Turkish Liras) and mentioned issued capital is fully paid as free of collusion.</p> <p>Corporate stocks are tracked based on records within the framework of dematerialization principles.</p> <p>If necessary, Company's capital may be increased or decreased within the framework of the provisions of Turkish Commercial Code and Capital Markets Board.</p> <p>The Board of Directors is authorized to increase the issued capital by issuing new shares up to upper limit of registered capital when deemed as necessary in accordance with the provisions of Capital Markets Law and to take decisions on limiting the rights of shareholders for acquiring new shares and on issuing shares at a premium or under its nominal value. Authority of limiting the new share acquirement shall not be used in a way that causes disparity among shareholders.</p>	<p>Article No: 6</p> <p>The Company has adopted authorized capital system in accordance with the provisions of Law nr. 6362 and transited to authorized capital system with 28.10.1982 dated and 61 numbered permit of Capital Markets Board.</p> <p>Upper limit of Company's authorized capital is TL 1,500,000,000.00 (One billion and five hundred million Turkish Liras), divided into 150,000,000,000.00 (One hundred and fifty billion) registered shares, each with a nominal value of 1 (One) Kurus.</p> <p>The permit provided by the CMB for the upper limit of authorized capital is valid for the years between 2017-2021 (5 years). At the end of 2021, even if upper limit of authorized capital are not attained, in order to enable board of directors to take capital increase decision after 2021, it is mandatory to obtain authority from general assembly for a new period not exceeding 5 years by obtaining the permit of Capital Markets Board for previously permitted upper limit or a new upper limit. In case abovementioned authorization shall not be obtained, the Company cannot make a capital increase by a decision of the board of directors.</p> <p>The issued capital of Company is TL 675,728,205.00 (Six hundred seventy five million and seven hundred twenty eight thousand and two hundred and five Turkish Liras) and mentioned issued capital is fully paid as free of collusion.</p> <p>Corporate stocks are tracked based on records within the framework of dematerialization principles.</p> <p>If necessary, Company's capital may be increased or decreased within the framework of the provisions of Turkish Commercial Code and Capital Markets Board.</p> <p>The Board of Directors is authorized to increase the issued capital by issuing new shares up to upper limit of authorized capital when deemed as necessary in accordance with the provisions of Capital Markets Law and to take decisions on limiting the rights of shareholders for acquiring new shares and on issuing shares at a premium or under its nominal value. Authority of limiting the new share acquirement shall not be used in a way that causes disparity among shareholders.</p>

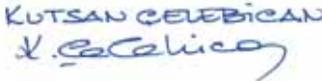
Independency Statements of Candidates for Independent Members of Board of Directors

January 16th, 2017

Statement of Independence

I hereby represent that, I will run as a candidate for the "independent member" position in the Arçelik A.Ş. (the Company) Board of Directors within the scope of the criteria determined under legislation, articles of association and the Corporate Governance Communique of the Capital Markets Board, and that in this regard;

- a) Between the company, partnerships controlling and having significant influence in company management, or shareholders having management control of the company and significant influence in company management, and legal entities controlling management of shareholders and me, my spouse and my secondary relatives by blood and marriage; there has been no employment relation in an executive position; there is no individual or joint ownership of capital or more than 5% of voting rights and preferred shares or no important commercial relationship has been established,
- b) For the past five years, I have not served as a shareholder (5% and more) or an executive who takes important tasks and responsibilities and to become a board member, in companies from and to which the Company considerably purchases or sells products and services especially including company audit (including tax auditing, statutory auditing and internal audit), rating and consultancy services, within the framework of the contracts made and during the periods in which products and services are purchased and sold;
- c) I have necessary professional education and training, knowledge and experience required for properly fulfilling the duties that I will undertake on becoming an independent board member;
- ç) Except for being academician in accordance with legislation, I will not work as full time employee in state institutions and organizations after being elected as a member;
- d) I am deemed to be resident in Turkey according to Income Tax Law (I.T.L.) dated 31/12/1960 and numbered 193;
- e) I have strong ethical standards, professional reputation, and experience to make positive contributions to company operations; to protect my neutrality in case of conflict of interests between company and shareholders and to decide independently by considering the rights of stakeholders;
- f) I will be able to allocate enough time to follow up the process of company operations and fulfil all requirements of the duties I undertake, in full;
- g) I have not carried out a duty as board member in the Company's Board of Directors for more than six years, within last ten years;
- ğ) I am not serving as an independent board member in more than three companies whose management is controlled by shareholders controlling the Company and Company management and in more than five companies traded on the exchange; and
- h) I am not registered and announced on behalf of and in the name of the legal entity elected as board member.

NAME & SURNAME: KUTSAN CELEBICAN
SIGNATURE: 

January 16th, 2017

Statement of Independence

I hereby represent that, I will run as a candidate for the "independent member" position in the Arçelik A.Ş. (the Company) Board of Directors within the scope of the criteria determined under legislation, articles of association and the Corporate Governance Communique of the Capital Markets Board, and that in this regard;

- a) Between the company, partnerships controlling and having significant influence in company management, or shareholders having management control of the company and significant influence in company management, and legal entities controlling management of shareholders and me, my spouse and my secondary relatives by blood and marriage; there has been no employment relation in an executive position; there is no individual or joint ownership of capital or more than 5% of voting rights and preferred shares or no important commercial relationship has been established,
- b) For the past five years, I have not served as a shareholder (5% and more) or an executive who takes important tasks and responsibilities and to become a board member, in companies from and to which the Company considerably purchases or sells products and services especially including company audit (including tax auditing, statutory auditing and internal audit), rating and consultancy services, within the framework of the contracts made and during the periods in which products and services are purchased and sold;
- c) I have necessary professional education and training, knowledge and experience required for properly fulfilling the duties that I will undertake on becoming an independent board member;
- ç) Except for being academician in accordance with legislation, I will not work as full time employee in state institutions and organizations after being elected as a member;
- d) I am deemed to be resident in Turkey according to Income Tax Law (I.T.L.) dated 31/12/1960 and numbered 193;
- e) I have strong ethical standards, professional reputation, and experience to make positive contributions to company operations; to protect my neutrality in case of conflict of interests between company and shareholders and to decide independently by considering the rights of stakeholders;
- f) I will be able to allocate enough time to follow up the process of company operations and fulfil all requirements of the duties I undertake, in full;
- g) I have not carried out a duty as board member in the Company's Board of Directors for more than six years, within last ten years;
- ğ) I am not serving as an independent board member in more than three companies whose management is controlled by shareholders controlling the Company and Company management and in more than five companies traded on the exchange; and
- h) I am not registered and announced on behalf of and in the name of the legal entity elected as board member.

NAME & SURNAME: TONG HUNG
SIGNATURE: 

January 16th, 2017

Statement of Independence

I hereby represent that, I will run as a candidate for the "independent member" position in the Arçelik A.Ş. (the Company) Board of Directors within the scope of the criteria determined under legislation, articles of association and the Corporate Governance Communique of the Capital Markets Board, and that in this regard;

- a) Between the company, partnerships controlling and having significant influence in company management, or shareholders having management control of the company and significant influence in company management, and legal entities controlling management of shareholders and me, my spouse and my secondary relatives by blood and marriage; there has been no employment relation in an executive position; there is no individual or joint ownership of capital or more than 5% of voting rights and preferred shares or no important commercial relationship has been established,
- b) For the past five years, I have not served as a shareholder (5% and more) or an executive who takes important tasks and responsibilities and to become a board member, in companies from and to which the Company considerably purchases or sells products and services especially including company audit (including tax auditing, statutory auditing and internal audit), rating and consultancy services, within the framework of the contracts made and during the periods in which products and services are purchased and sold;
- c) I have necessary professional education and training, knowledge and experience required for properly fulfilling the duties that I will undertake on becoming an independent board member;
- ç) Except for being academican in accordance with legislation, I will not work as full time employee in state institutions and organizations after being elected as a member;
- d) I am deemed to be resident in Turkey according to Income Tax Law (I.T.L.) dated 31/12/1960 and numbered 193;
- e) I have strong ethical standards, professional reputation, and experience to make positive contributions to company operations; to protect my neutrality in case of conflict of interests between company and shareholders and to decide independently by considering the rights of stakeholders;
- f) I will be able to allocate enough time to follow up the process of company operations and fulfil all requirements of the duties I undertake, in full;
- g) I have not carried out a duty as board member in the Company's Board of Directors for more than six years, within last ten years;
- ğ) I am not serving as an independent board member in more than three companies whose management is controlled by shareholders controlling the Company and Company management and in more than five companies traded on the exchange; and
- h) I am not registered and announced on behalf of and in the name of the legal entity elected as board member.

NAME & SURNAME:
SIGNATURE:

Mehmet Başmazbaşı

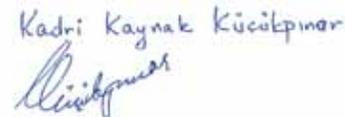

January 16th, 2017

Statement of Independence

I hereby represent that, I will run as a candidate for the "independent member" position in the Arçelik A.Ş. (the Company) Board of Directors within the scope of the criteria determined under legislation, articles of association and the Corporate Governance Communique of the Capital Markets Board, and that in this regard;

- a) Between the company, partnerships controlling and having significant influence in company management, or shareholders having management control of the company and significant influence in company management, and legal entities controlling management of shareholders and me, my spouse and my secondary relatives by blood and marriage; there has been no employment relation in an executive position; there is no individual or joint ownership of capital or more than 5% of voting rights and preferred shares or no important commercial relationship has been established,
- b) For the past five years, I have not served as a shareholder (5% and more) or an executive who takes important tasks and responsibilities and to become a board member, in companies from and to which the Company considerably purchases or sells products and services especially including company audit (including tax auditing, statutory auditing and internal audit), rating and consultancy services, within the framework of the contracts made and during the periods in which products and services are purchased and sold;
- c) I have necessary professional education and training, knowledge and experience required for properly fulfilling the duties that I will undertake on becoming an independent board member;
- ç) Except for being academican in accordance with legislation, I will not work as full time employee in state institutions and organizations after being elected as a member;
- d) I am deemed to be resident in Turkey according to Income Tax Law (I.T.L.) dated 31/12/1960 and numbered 193;
- e) I have strong ethical standards, professional reputation, and experience to make positive contributions to company operations; to protect my neutrality in case of conflict of interests between company and shareholders and to decide independently by considering the rights of stakeholders;
- f) I will be able to allocate enough time to follow up the process of company operations and fulfil all requirements of the duties I undertake, in full;
- g) I have not carried out a duty as board member in the Company's Board of Directors for more than six years, within last ten years;
- ğ) I am not serving as an independent board member in more than three companies whose management is controlled by shareholders controlling the Company and Company management and in more than five companies traded on the exchange; and
- h) I am not registered and announced on behalf of and in the name of the legal entity elected as board member.

NAME & SURNAME:
SIGNATURE:

Kadri Kaynak Küçükpınar


DEPENDENT COMPANY REPORT PREPARED WITHIN THE SCOPE OF 199TH ARTICLE OF TURKISH COMMERCIAL CODE

As per the 199th Article of 6102 numbered Turkish Commercial Code entered into force on July 1, 2012, the Board of Directors of Arçelik A.Ş. is obliged to prepare a report on relations in previous activity year with controlling company and its dependent companies within first three months of the current activity year and to include the conclusion of this report in the annual report. The necessary declarations of Arçelik A.Ş. on transactions performed with related parties are included in the 35 numbered financial report footnote.

In February 21, 2017 dated Report, prepared by the Board of Directors of Arçelik A.Ş. following declaration was included: "It has been concluded that in all transactions made within 2016 with controlling company and its dependent companies, based on the situations and conditions to the best of our knowledge at the time of transaction or taken precaution or avoiding to take the precaution, in every transaction a proper counter performance has been provided and there was no precaution taken or avoided to be taken that may damage the company and there was no transaction or precaution that may require balancing in this context."



Güney Bağımsız Denetim ve SMMM AŞ
Büyükdere Cad. Beytem Plaza
No:20 K:9 - 10, 34381 - Şişli
İstanbul - Turkey
Tel: +90 (212) 315 30 00
Faks: +90 (212) 230 82 91
www.ey.com

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of Arçelik Anonim Şirketi;

We have audited the accompanying consolidated balance sheet of Arçelik A.Ş. ("Arçelik" or "the Company") and its Subsidiaries (together will be referred to as the "Group") as at December 31, 2016 and the related consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and explanatory notes.

Management's responsibility for the financial statements

Group's management is responsible for the preparation and fair presentation of financial statements in accordance with the Turkish Accounting Standards published by the Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA") and for such internal controls as management determines is necessary to enable the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to error and/or fraud.

Independent auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our audit was conducted in accordance with standards on auditing issued by the Capital Markets Board of Turkey and standards on auditing issued by POA. Those standards require that ethical requirements are complied with and that the independent audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Independent audit involves performing independent audit procedures to obtain independent audit evidence about the amounts and disclosures in the financial statements. The independent audit procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error and/or fraud. In making those risk assessments, the Company's internal control system is taken into consideration. Our purpose, however, is not to express an opinion on the effectiveness of internal control system, but to design independent audit procedures that are appropriate for the circumstances in order to identify the relation between the financial statements prepared by the Group and its internal control system. Our independent audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's management, as well as evaluating the overall presentation of the financial statements.

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

Independent Auditors' Report

Opinion

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

Reports on other responsibilities arising from regulatory requirements

- 1) Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on February 6, 2017.
- 2) In accordance with subparagraph 4, Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period January 1 – December 31, 2016 and financial statements are not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.
- 3) In accordance with subparagraph 4, Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

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



CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2016

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

	Notes	December 31, 2016	Audited	December 31, 2015
ASSETS				
Current assets:				
Cash and cash equivalents	5	2,441,871		2,167,627
Trade receivables				
-Due from related parties	35	6,504		8,950
-Trade receivables, third parties	9	5,288,765		4,781,575
Derivative instruments	8	4,804		16,293
Inventories	11	2,761,570		2,140,057
Prepaid expenses	21	119,154		74,944
Current income tax assets	22	74,629		27,014
Other current assets	24	276,575		179,678
Subtotal		10,973,872		9,396,138
Assets held for sale		11,888		10,114
Total current assets		10,985,760		9,406,252
Non-current assets:				
Financial investments	6	2,735		539,176
Trade receivables				
-Trade receivables, third parties	9	24,484		13,205
Derivate instruments	8	178,882		144,742
Associates	12	236,090		209,881
Property, plant and equipment	14	2,750,411		2,055,675
Intangible assets				
-Goodwill	16	393,752		163,450
-Other intangible assets	15	1,910,508		1,007,480
Deferred tax assets	33	426,746		198,647
Total non-current assets		5,923,608		4,332,256
Total assets		16,909,368		13,738,508

The consolidated financial statements as at and for the year ended December 31, 2016 have been approved for issue by the Board of Directors on February 6, 2017.

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

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

	Notes	December 31, 2016	Audited December 31, 2015
LIABILITIES			
Current liabilities:			
Financial liabilities	7	1,239,158	1,035,741
Short term portion of long term financial liabilities	7	1,011,416	1,149,001
Trade payables			
-Due to related parties	35	506,164	413,983
-Trade payables, third parties	9	2,579,825	1,676,411
Derivative instruments	8	4,385	3,263
Employee benefit obligations	23	246,298	156,910
Other payables			
-Due to related parties	35	16,622	12,982
-Other payables, third parties	10	220,873	155,537
Current income tax liabilities	33	23,363	13,062
Provisions			
-Other provisions	19	412,360	334,536
Other current liabilities	24	345,624	284,871
Total current liabilities		6,606,088	5,236,297
Non-current liabilities			
Financial liabilities	7	3,407,081	3,268,907
Other payables			
-Due to related parties	35	56,292	60,674
Provisions			
-Provision for employee benefits	20	227,571	192,470
-Other provisions	19	140,236	126,052
Deferred tax liabilities	33	412,591	149,635
Other non-current liabilities		54,932	28,636
Total non-current liabilities		4,298,703	3,826,374
Total liabilities		10,904,791	9,062,671

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2016

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

	Notes	December 31, 2016	Audited	December 31, 2015
EQUITY				
Paid-in capital	25	675,728		675,728
Adjustment to share capital	25	468,811		468,811
Share premium/discount		889		889
Other accumulated comprehensive income and expense not to be reclassified to profit or loss				
Gains/ losses on revaluation and remeasurement				
-Actuarial gain/loss arising from defined benefit plans		(94,522)		(57,615)
-Increases/ decreases on revaluation of non-current assets		88,438		75,747
Other accumulated comprehensive income and expense to be reclassified to profit or loss				
-Currency translation differences		987,891		324,618
Gains/ losses on hedge				
-Gains/ losses on hedges of net investment in foreign operations		(323,047)		(259,170)
-Gains/ losses on cash flow hedges		6,152		1,413
Gains/ losses on revaluation and reclassification				
-Gains/ losses on remeasuring and/or reclassification of available-for-sale financial assets		2,183		374,201
Balancing account for merger capital	25	14,507		14,507
Restricted reserves	25	329,872		307,051
Retained earnings		2,521,133		1,839,690
Net income for the period		1,299,912		891,141
Equity holders of the parent		5,977,947		4,657,011
Non-controlling interest		26,630		18,826
Total equity		6,004,577		4,675,837
Total liabilities and equity		16,909,368		13,738,508
Commitments, contingent assets and liabilities	18			

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

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

	Notes	2016	Audited 2015
Net sales	4,26	16,096,172	14,166,100
Cost of sales	4,26	(10,756,612)	(9,630,207)
Gross profit		5,339,560	4,535,893
General administrative expenses	27	(762,791)	(602,068)
Marketing expenses	27	(3,227,324)	(2,722,014)
Research and development expenses	27	(151,668)	(125,173)
Other income from operating activities	29	690,067	471,267
Other expenses from operating activities	29	(389,773)	(275,148)
Operating profit		1,498,071	1,282,757
Income from investment activities	30	418,742	17,857
Expenses from investment activities	30	(2,413)	(2,781)
Income from associates (net)	12	34,857	24,403
Operating income before financial income/(expense)		1,949,257	1,322,236
Financial income	31	670,046	782,555
Financial expenses	32	(1,417,622)	(1,319,670)
Profit from continuing operations before tax		1,201,681	785,121
Tax income/(expense), continuing operations			
- Taxes on income	33	(100,195)	(97,286)
- Deferred tax income/(expense)	33	202,664	205,158
Net income		1,304,150	892,993
Attributable to			
Non-controlling interest		4,238	1,852
Equity holders of the parent		1,299,912	891,141
Earnings per share (kurus)	34	1.924	1.319
Diluted earnings per share (kurus)	34	1.924	1.319

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

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

	2016	Audited	2015
Net income	1,304,150		892,993
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss	(45,925)		(16,425)
Actuarial gain/ loss arising from defined benefit plans	(45,089)		(16,810)
Share of other comprehensive income of associates accounted for using equity method that will not be reclassified to profit or loss	(836)		385
Other comprehensive income not to be reclassified to profit or loss, tax effect	9,018		3,362
Actuarial gain/ loss arising from defined benefit plans, tax effect	9,018		3,362
Other comprehensive income to be reclassified to profit or loss	212,825		(51,361)
Currency translation differences	679,530		160,485
Other comprehensive income related with hedges of net investments in foreign operations	(79,845)		(53,536)
Gains/ losses on remeasuring and/or reclassification of available-for-sale financial assets	(391,598)		(159,312)
Share of other comprehensive income of associates accounted for using equity method that will be reclassified to profit or loss	4,738		1,002
Other comprehensive income to be reclassified to profit or loss, tax effect	35,549		18,671
Other comprehensive income related with hedges of net investments in foreign operations, tax effect	15,969		10,707
Gains/ losses on remeasuring and/or reclassification of available-for-sale financial assets, tax effect	19,580		7,964
Other comprehensive income/ (loss) (net of tax)	211,467		(45,753)
Total comprehensive income	1,515,617		847,240
Attributable to:			
Non-controlling interest	7,804		7,782
Equity holders of the parent	1,507,813		839,458

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

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

	Other accumulated com- prehensive income and expense reclassified to profit or loss		Other accumulated comprehensive income and expense to be reclassified to profit or loss		Retained earnings			Total equity								
	Paid-in capital	Adjustment to share capital	Share premium /discount	Balancing account for merger capital	Gains/ losses on revaluation and remeasurement	Gains/ losses on hedge	Gains/ losses on revaluation and reclassification		Equity holders of the parent							
										Gains/ losses on revaluation and reclassification	Currency/ translation differences	Restricted reserves				
	Actual gain /loss arising from defined benefit plans	Increases/ decreases non-current assets	Gains/ losses on remeasuring and/or reclassification of available-for-sale financial assets	Accumulated profit	Net income	Non- controlling interest										
Balance at January 1, 2016	675,728	468,811	889	14,507	(57,615)	75,747	(257,757)	374,201	324,618	307,051	1,839,690	891,141	4,657,011	18,826	4,675,837	
Other restatements	-	-	-	-	-	-	-	-	-	-	75,123	-	75,123	-	75,123	
Restated balances	675,728	468,811	889	14,507	(57,615)	75,747	(257,757)	374,201	324,618	307,051	1,914,813	891,141	4,732,134	18,826	4,750,960	
Transfers	-	-	-	-	-	-	-	-	-	22,821	868,320	(891,141)	-	-	-	
Total comprehensive income	-	-	-	-	(36,907)	12,691	(59,138)	(372,018)	663,273	-	-	1,299,912	1,507,813	7,804	1,515,617	
Net income	-	-	-	-	-	-	-	-	-	-	-	1,299,912	1,299,912	4,238	1,304,150	
Other comprehensive income	-	-	-	-	(36,907)	12,691	(59,138)	(372,018)	663,273	-	-	-	-	207,901	3,566	211,467
Dividends paid (Note 25)	-	-	-	-	-	-	-	-	-	-	(262,000)	-	(262,000)	-	(262,000)	
As of December 31, 2016	675,728	468,811	889	14,507	(94,522)	88,438	(316,895)	2,183	987,891	329,872	2,521,133	1,299,912	5,977,947	26,630	6,004,577	

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

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

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

	Paid-in capital	Adjustment to share capital	Share premium /discount	Balancing account for merger capital	Other accumulated com prehensive income and expense not to be reclassified to profit or loss		Other accumulated comprehensive income and expense to be reclassified to profit or loss			Retained earnings			Equity holders of the parent	Non-controlling interest	Total equity	
					Gains/ losses on revaluation and remeasurement	Increases/ decreases /loss arising from defined non-current benefit plans	Gains/ losses on hedge	Gains/ losses on revaluation and reclassification	Gains/ losses on revaluation and/or reclassification of available-for-sale financial assets	Currency translation differences	Restricted reserves	Accumulated profit				Net income
Balance at January 1, 2015	675,728	468,811	889	14,507	(44,552)	67,241	(215,930)	525,549	178,569	275,430	1,792,299	617,084	4,355,625	43,073	4,398,698	
Other restatements	-	-	-	-	-	-	-	-	-	-	61,780	-	61,780	-	61,780	
Restated balances	675,728	468,811	889	14,507	(44,552)	67,241	(215,930)	525,549	178,569	275,430	1,854,079	617,084	4,417,405	43,073	4,460,478	
Transfers	-	-	-	-	-	-	-	-	-	31,621	585,463	(617,084)	-	-	-	
Total comprehensive income	-	-	-	-	(13,063)	8,506	(41,827)	(151,348)	146,049	-	-	891,141	839,458	7,782	847,240	
Net income	-	-	-	-	-	-	-	-	-	-	-	891,141	891,141	1,852	892,993	
Other comprehensive income	-	-	-	-	(13,063)	8,506	(41,827)	(151,348)	146,049	-	-	-	(51,683)	5,930	(45,753)	
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	(249,852)	-	(249,852)	(32,204)	(282,056)	
Subsidiary acquisition	-	-	-	-	-	-	-	-	-	-	-	-	-	175	175	
Dividends paid (Note 25)	-	-	-	-	-	-	-	-	-	-	(350,000)	-	(350,000)	-	(350,000)	
As of December 31, 2015	675,728	468,811	889	14,507	(57,615)	75,747	(257,757)	374,201	324,618	307,051	1,839,690	891,141	4,657,011	18,826	4,675,837	

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

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

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

	Notes	2016	Audited 2015
Cash flows from operating activities:			
Net income from continued operations:		1,304,150	892,993
Adjustments to reconcile net cash provided from operating activities to net income after taxes			
Adjustments for tax expense (income)	33	(102,469)	(107,872)
Adjustments for depreciation and amortisation expense		438,682	369,823
Adjustments for impairment loss	38	49,515	31,467
Adjustments for provisions	38	161,814	91,680
Adjustments for interest expense	32	440,986	388,817
Adjustments for interest income	31	(28,350)	(22,972)
Adjustments for undistributed profits of investments accounted for using equity method	12	(34,857)	(24,403)
Adjustments for fair value (gains) losses on derivative financial instruments	31, 32	(35,782)	(176,744)
Adjustments for unrealised foreign exchange losses (gains)	31, 32	359,602	341,146
Other adjustments to reconcile profit (loss)	31, 32	11,120	6,868
Adjustments for income arised from government grants	29	(198,860)	(82,081)
Adjustments for dividend (income) expenses	30	(59)	(12,865)
"Adjustments for (income) expense caused by sale or changes in share of associates, joint ventures and financial investments"	30	(413,739)	-
Adjustments for losses (gains) on disposal of non-current assets	30	(2,531)	(2,211)
Net cash flow from operating activities before changes in operating assets and liabilities		1,949,222	1,693,646
Changes in operating assets and liabilities:			
Adjustments for decrease (increase) in trade receivables		(482,683)	(325,237)
Adjustments for decrease (increase) in inventories		(515,333)	(30,689)
Decrease (increase) in prepaid expenses		(44,210)	(6,203)
Adjustments for increase (decrease) in trade payables		955,788	308,940
Increase (decrease) in employee benefit liabilities	20	37,692	(16,217)
Adjustments for increase (decrease) in other operating payables		51,572	32,071
Increase (decrease) in government grants and assistance		182,966	70,366
Other adjustments for other increase (decrease) in working capital		67,250	110,794
Income taxes refund (paid)		(134,989)	(114,765)
Cash flows from operating activities		2,067,275	1,722,706
Investing activities:			
Cash flows used in obtaining control of subsidiaries or other businesses	3	(745,608)	(1,327)
Purchase of property, plant, equipment and intangible assets		(830,965)	(640,492)
Proceeds from sales of property, plant, equipment and intangible assets		7,006	18,844
Dividends received		12,809	24,275
Cash receipts from sales of equity or debt instruments of other entities	30	558,582	-
Cash flows from investing activities		(998,176)	(598,700)
Financing activities:			
Proceeds from borrowings		2,603,563	3,496,842
Repayments of borrowings		(3,043,217)	(3,266,729)
Dividends paid		(262,000)	(350,000)
Payments from changes in ownership interests in subsidiaries that do not result in loss of control	35	-	(282,056)
Interest paid		(441,734)	(385,787)
Interest received		29,604	22,196
Cash receipts from future contracts, forward contracts, option contracts and swap contracts (net)		14,253	40,748
Other inflows (outflows) of cash	31,32	(11,120)	(6,868)
Cash flows from financing activities		(1,110,651)	(731,654)
Net increase/(decrease) in cash and cash equivalents before currency translation differences		(41,552)	392,352
Effect of currency translation differences		317,051	153,278
Net increase/(decrease) in cash and cash equivalents		275,499	545,630
Cash and cash equivalents at January 1	5	2,166,153	1,620,523
Cash and cash equivalents at December 31	5	2,441,652	2,166,153

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 1 - GROUP'S ORGANISATION AND NATURE OF OPERATIONS

Arçelik Anonim Şirketi ("Arçelik" or "the Company") and its subsidiaries (collectively, "the Group") undertake all commercial and industrial activities in respect of the production, sales and marketing, customer services after sales, exportation and importation of consumer durable goods and consumer electronics. The Group operates eighteen manufacturing plants in Turkey, Romania, Russia, China, Republic of South Africa, Thailand and Pakistan. The Company is controlled by Koç Holding A.Ş., the parent company, Koç Family and the companies owned by Koç Family (Note 25).

The Company's head office is located at: Karaağaç Caddesi No: 2-6 Sütlüce 34445 Beyoğlu Istanbul / Turkey

The Company is registered to the Capital Markets Board ("CMB") and its shares have been quoted on the Borsa Istanbul ("BIST") since 1986. As of December 31, 2016, the publicly listed shares are 25.15% of the total shares. (December 31, 2015: 25.15%)

The average number of personnel employed by categories in the Group in 2016 is 4,812 white - collar (2015: 4,421) and 21,627 blue - collar (2015: 21,707) totaling to 26,439 (2015: 26,128).

Subsidiaries and branches	Country of incorporation	Core business	Nature of business
Continuing operations as of reporting date			
Arçelik Pazarlama A.Ş. ("Pazarlama A.Ş.")	Turkey	Service/Sales/Marketing	Consumer Durables/Electronics
Ardutch B.V. ("Ardutch")	Netherlands	Investment	Holding
Ardutch B.V. Taiwan ("Ardutch Taiwan") *	Taiwan	Purchase	Consumer Durables/Electronics
Beko A and NZ Pty Ltd. ("Beko Australia") *	Australia, New Zealand	Sales	Consumer Durables
Beko Appliances Malaysia Sdn Bhd. ("Beko Malaysia")	Malaysia	Sales	Consumer Durables
Beko Balkans D.O.O ("Beko Balkans")	Serbia	Sales	Consumer Durables/Electronics
Beko Deutschland GmbH ("Beko Deutschland")	Germany	Sales	Consumer Durables/Electronics
Beko Egypt Trading LLC ("Beko Egypt")	Egypt	Sales	Consumer Durables
Beko Electronics España S.L. ("Beko Espana")	Spain	Sales	Consumer Durables/Electronics
Beko France S.A.S. ("Beko France")	France	Sales	Consumer Durables/Electronics
Beko Hong Kong Ltd. ("Beko Hong Kong")	Hong Kong, China	Purchase	Consumer Durables/Electronics
Beko Italy SRL ("Beko Italy")	Italy	Sales	Consumer Durables/Electronics
Beko LLC. ("Beko Russia")	Russia	Production/Sales	Consumer Durables/Electronics
Beko Plc. ("Beko UK") *	UK, Republic of Ireland	Sales	Consumer Durables/Electronics
Beko Slovakia S.R.O. ("Beko Slovakia")	Slovakia	Sales	Consumer Durables/Electronics
Beko S.A. ("Beko Polska") *	Poland, Czech Republic	Sales	Consumer Durables/Electronics
Beko Shanghai Trading Company Ltd. ("Beko Shanghai")	China	Sales	Consumer Durables/Electronics
Beko Thai Co. ("Beko Thailand")	Thailand	Production/Sales	Consumer Durables
Beko Ukraine LLC. ("Beko Ukraine")	Ukraine	Sales	Consumer Durables
Beko US INC. ("Beko US")	United States of America	Sales	Consumer Durables
Changzhou Beko Electrical Appliances Co. Ltd. ("Beko China")	China	Production/Sales	Consumer Durables
Computer Vision Interaction S.A. ("CoVii")	Portugal	R&D	Software
Dawlance Electronics (Pvt.) Ltd. (DEL)	Pakistan	Sales	Consumer Durables
Dawlance (Private) Ltd. ("DPL")	Pakistan	Production/Sales	Consumer Durables
Defy Appliances (Proprietary) Ltd. ("Defy")	Republic Of South Africa	Production/Sales	Consumer Durables
Defy (Botswana) (Proprietary) Ltd. ("Defy Botswana")	Botswana	Sales	Consumer Durables
Defy (Namibia) (Proprietary) Ltd. ("Defy Namibia")	Namibia	Sales	Consumer Durables
Defy (Swaziland) (Proprietary) Ltd. ("Defy Swaziland")	Swaziland	Sales	Consumer Durables
Elektra Bregenz AG ("Elektra Bregenz")	Austria	Sales	Consumer Durables/Electronics
Grundig Multimedia A.G. ("Grundig Switzerland")	Switzerland	Sales	Electronics
Grundig Multimedia B.V. ("Grundig Multimedia")	Netherlands	Investment	Holding
Grundig Intermedia GmbH ("Grundig Intermedia") (*)	Germany, Croatia	Sales	Electronics
Grundig Nordic No AS ("Grundig Norway")	Norway	Sales	Consumer Durables/Electronics
Grundig Nordic AB. ("Grundig Sweden")	Sweden	Sales	Consumer Durables/Electronics
SC Arctic SA ("Arctic")	Romania	Production/Sales	Consumer Durables/Electronics
United Refrigeration Industries Ltd. ("URIL")	Pakistan	Production/Sales	Consumer Durables
Pan Asia Private Equity Ltd. ("Pan Asia")	British Virgin Islands	Investment	Holding
Vietbeko Limited Liability Company ("Vietbeko")	Vietnam	Sales	Consumer Durables
Ceased operations as of reporting date			
Archin Limited ("Archin")	Hong Kong, China	-	-
Beko Cesko ("Beko Cesko")	Czech Republic	-	-
Grundig Intermedia Ges.m.b.H ("Grundig Austria")	Austria	-	-
Grundig Portuguesa, Lda ("Grundig Portugal")	Portugal	-	-

* Branches of the Subsidiary, which operate in a different country, are separately presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 1 - GROUP'S ORGANISATION AND NATURE OF OPERATIONS (Continued)

Associates	Country of incorporation	Core business	Nature of business
Arçelik-LG Klima Sanayi ve Ticaret A.Ş. ("Arçelik-LG")	Turkey	Production/Sales	Consumer Durables
Koç Finansman A.Ş. ("Koç Finansman")	Turkey	Finance	Consumer Finance
Ram Dış Ticaret A.Ş. ("Ram Dış Ticaret")	Turkey	Sales	Foreign Trade
Tanı Pazarlama İ.H.A.Ş. ("Tanı Pazarlama")	Turkey	Consultancy	Marketing /Communication

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation

Financial reporting standards

The consolidated financial statements of the Group have been prepared in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards, ("TAS/TFRS") and interpretations as adopted in line with international standards by the Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA") in line with the communiqué numbered II-14.1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") announced by the Capital Markets Board of Turkey ("CMB") on June 13, 2013 which is published on Official Gazette numbered 28676. TAS/TFRS are updated in harmony with the changes and updates in International Financial and Accounting Standards ("IFRS") by the communiqués announced by the POA.

With the decision taken on March 17, 2005, the CMB announced that, effective from January 1, 2005, the application of inflation accounting is no longer required for companies operating in Turkey. The Group has prepared its consolidated financial statements in accordance with this decision.

Consolidated financial statements have been prepared under the historical cost convention except for the derivative instruments and available for sale financial assets presented at fair values and revaluations related to the differences between carrying value and fair value of tangible and intangible assets arising from business combinations.

New and amended standards and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2016 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and IFRIC interpretations effective as of January 1, 2016. The effects of these standards and interpretations on the the Group's financial position and performance have been disclosed in the related paragraphs.

The new standards, amendments and interpretations which are effective as at January 1, 2016 are as follows:

TAS 16 and TAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to TAS 16 and TAS 38)

The amendments to TAS 16 and TAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments had no effect on the financial position or performance of the Group.

TFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)

TFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment clarifies that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in TFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in TFRS 3 and other TFRSs except for those principles that conflict with the guidance in this TFRS. In addition, the acquirer shall disclose the information required by TFRS 3 and other TFRSs for business combinations. The amendments had no effect on the financial position or performance of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

TAS 27 Equity Method in Separate Financial Statements (Amendments to TAS 27)

POA of Turkey issued an amendment to TAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity's separate financial statements. Therefore, an entity must account for these investments either:

- At cost
- In accordance with TFRS 9 or
- Using the equity method defined in TAS 28

The entity must apply the same accounting for each category of investments. The amendment is not applicable for the Group and had no effect on the financial position or performance of the Group.

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

Amendments issued to TFRS 10 and TAS 28, to address the acknowledged inconsistency between the requirements in TFRS 10 and TAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in TFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendment is not applicable for the Group and had no effect on the financial position or performance of the Group.

TFRS 10, TFRS 12 and TAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to TFRS 10 and TAS 28)

Amendments issued to TFRS 10, TFRS 12 and TAS 28, to address the issues that have arisen in applying the investment entities exception under TFRS 10 Consolidated Financial Statements. The amendments are not applicable for the Group no effect on the financial position or performance of the Group.

TAS 1: Disclosure Initiative (Amendments to TAS 1)

Amendments issued to TAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income arising from equity accounted investments. The amendments had no significant effect on the financial position or performance of the Group.

Annual Improvements to TFRSs - 2012-2014 Cycle

POA issued, Annual Improvements to TFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:

- TFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarifies that changes in methods of disposal (through sale or distribution to owners) would not be considered a new plan of disposal, rather it is a continuation of the original plan
- TFRS 7 Financial Instruments: Disclosures – clarifies that i) the assessment of servicing contracts that includes a fee for the continuing involvement of financial assets in accordance with TFRS 7; ii) the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report
- TAS 19 Employee Benefits – clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located
- TAS 34 Interim Financial Reporting –clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report

The amendments had no significant effect on the financial position or performance of the Group.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

TFRS 15 Revenue from Contracts with Customers

In September 2016, POA issued TFRS 15 Revenue from Contracts with Customers. The new standard issued includes the clarifying amendments to IFRS 15 made by IASB in April 2016. 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). Effective date for TFRS 15 is January 1, 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 is in the process of assessing the impact of the standard on financial position or performance of the Group.

TFRS 9 Financial Instruments

In January 2016, POA issued the final version of TFRS 9 Financial Instruments. The final version of TFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. TFRS 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, TFRS 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. TFRS 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. Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by Public Oversight Authority (POA)

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued by the POA, thus they do not constitute part of TFRS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

IFRS 10 and IAS 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 – 2010–2012 Cycle

IFRS 13 Fair Value Measurement

As clarified in the Basis for Conclusions short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately.

Annual Improvements – 2011–2013 Cycle

IFRS 16 Leases

In January 2016, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

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

In January 2016, the IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Company/Group applies this relief, it shall disclose that fact. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

IAS 7 'Statement of Cash Flows (Amendments)

In January 2016, 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 Company/Group first applies those amendments, it is not required to provide comparative information for preceding periods. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

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

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

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- 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 Group is in the process of assessing the impact of the amendments on 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 amendments 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

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

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in TRY, which is the functional currency of Arçelik and the presentation currency of the Group.

Financial statements of subsidiaries operating in countries other than Turkey

Financial statements of subsidiaries operating in countries other than Turkey are adjusted to the TAS/IFRS promulgated by the POA to reflect the proper presentation and content. Subsidiaries' assets and liabilities are translated into TRY from the foreign exchange rate at the reporting date and income and expenses are translated into TRY at the average foreign exchange rate. Exchange differences arising from the translation of the opening net assets and differences between the average and balance sheet date rates are included in the "currency translation difference" under the shareholders' equity.

Consolidation principles

- (a) The consolidated financial statements include the accounts of the parent company, Arçelik, and its Subsidiaries and Associates on the basis set out in sections (b) to (f) below. The financial statements of the companies included in the consolidation have been prepared as of the date of the consolidated financial statements and are based on the statutory records with adjustments and reclassifications for the purpose of presentation in conformity TAS/IFRS promulgated by the POA as set out in the communiqué numbered II-14.1, and Group accounting and disclosure policies.
- (b) Subsidiaries are the Companies controlled by Arçelik when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
- (c) Subsidiaries are consolidated from the date on which the control is transferred to the Group and are no longer consolidated from the date that the control ceases.

The statement of financial position and statements profit or loss of the Subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by Arçelik and its Subsidiaries is eliminated against the related shareholders' equity. Intercompany transactions and balances between Arçelik and its Subsidiaries are eliminated on consolidation. The cost of, and the dividends arising from, shares held by Arçelik in its Subsidiaries are eliminated from shareholders' equity and income for the year, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

The table below sets out all Subsidiaries included in the scope of consolidation discloses their direct and indirect ownership, which are identical to their economic interests, as of December 31, 2016 and 2015 (%) and their functional currencies:

	Functional currency	December 31, 2016		December 31, 2015		
		Ownership interest	Effective shareholding	Ownership interest	Effective shareholding	
Continuing operations as of balance sheet date:						
Arctic	Romanian Lei ("RON")	96.72	96.72	96.72	96.72	
Ardutch	Euro ("EUR")	100.00	100.00	100.00	100.00	
Ardutch Taiwan	Taiwanese Dollar ("TWD")	100.00	100.00	100.00	100.00	
Beko Australia	Australian Dollar ("AUD")/ New Zealand Dollar ("NZD")	100.00	100.00	100.00	100.00	
Beko Balkans	Serbian Dinar ("SRD")	100.00	100.00	-	-	
Beko China	Chinese Yuan ("CYN")	100.00	100.00	100.00	100.00	
Beko Deutschland	Euro ("EUR")	100.00	100.00	100.00	100.00	
Beko Espana	Euro ("EUR")	100.00	100.00	100.00	100.00	
Beko Egypt	Egyptian Lira ("EGP")	100.00	100.00	100.00	100.00	
Beko France	Euro ("EUR")	100.00	100.00	100.00	100.00	
Beko Hong Kong	US Dollar ("USD")	100.00	100.00	100.00	100.00	
Beko Italy	Euro ("EUR")	100.00	100.00	100.00	100.00	
Beko Malaysia	Malaysian Ringgit ("MYR")	100.00	100.00	-	-	
Beko Polska	Polish Zloty ("PLN")/ Czech Koruna ("CZK")	100.00	100.00	100.00	100.00	
Beko Russia	Russian Ruble ("RUB")	100.00	100.00	100.00	100.00	
Beko Slovakia	Euro ("EUR")	100.00	100.00	100.00	100.00	
Beko Shanghai	Chinese Yuan ("CNY")	100.00	100.00	100.00	100.00	
Beko Thailand	Thai Baht ("THB")	100.00	100.00	100.00	100.00	
Beko UK	British Pound ("GBP")/ Euro ("EUR")	100.00	100.00	100.00	100.00	
Beko Ukraine	Ukrainian Hryvna ("UAH")	100.00	100.00	100.00	100.00	
Beko US ⁽¹⁾	US Dollar ("USD")	100.00	100.00	-	-	
CoVii	Euro ("EUR")	51.00	51.00	51.00	51.00	
Dawlance Electronics ⁽²⁾	Pakistan Rupi ("PKR")	100.00	100.00	-	-	
Dawlance (Private) ⁽²⁾	Pakistan Rupi ("PKR")	100.00	100.00	-	-	
Defy	South African Rand ("ZAR")	100.00	100.00	100.00	100.00	
Defy Botswana	Botswana Pula ("BWP")	100.00	100.00	100.00	100.00	
Defy Namibia	Namibian Dollar ("NAD")	100.00	100.00	100.00	100.00	
Defy Swaziland	Svazi Lilangeni ("SZL")	100.00	100.00	100.00	100.00	
Elektra Bregenz	Euro ("EUR")	100.00	100.00	100.00	100.00	
Grundig Multimedia	Euro ("EUR")	100.00	100.00	100.00	100.00	
Grundig Intermedia	Euro("EUR")/ Croatian Kuna ("HRK")	100.00	100.00	100.00	100.00	
Grundig Norway	Norwegian Krone ("NOK")	100.00	100.00	100.00	100.00	
Grundig Sweden	Swedish Krona ("SEK")	100.00	100.00	100.00	100.00	
Grundig Switzerland	Swiss Franc ("CHF")	100.00	100.00	100.00	100.00	
United Refrigeration Industries ⁽²⁾	Pakistan Rupi ("PKR")	100.00	100.00	-	-	
Pan Asia ⁽²⁾	US Dollar ("USD")	100.00	100.00	-	-	
Pazarlama A.Ş. ⁽³⁾	Turkish Lira ("TRY")	100.00	100.00	-	-	
Vietbeko	Vietnamese Dong ("VND")	100.00	100.00	100.00	100.00	
Ceased operations as of balance sheet date:						
Archin	-	100.00	100.00	100.00	100.00	
Beko Cesko	-	100.00	100.00	100.00	100.00	
Grundig Austria	-	100.00	100.00	100.00	100.00	
Grundig Hungary ⁽⁴⁾	-	-	-	100.00	100.00	
Grundig Portugal	-	100.00	100.00	100.00	100.00	
Raupach ⁽⁵⁾	-	-	-	100.00	100.00	

⁽¹⁾ Founded as a sales company in January 2016.

⁽²⁾ Acquired in 2016 (Note 3).

⁽³⁾ Pazarlama A.Ş. is founded to carry out the Company's domestic operations other than R&D and production activities through a separate legal entity, to transfer the whole of the assets and liabilities of "dealer management", "advertising and sponsorship activities," "inventory and stock management", "logistics management", "guarantee service management", "installation and service" activities in the balance sheet without compromising the integrity of the business with the partial demerger model as the Company's 100% subsidiary in December 30, 2016.

⁽⁴⁾ Grundig Hungary liquidated in 2016

⁽⁵⁾ Raupach merged with Beko Deutschland as of June 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

(d) Associates are companies in which the Group has attributable interest of more than 20% and less than 50% of the ordinary share capital held for the long-term and over which a significant influence is exercised. Associates are accounted for using the equity method.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. The Group ceases to account the associate using the equity method if it loses the significant influence or the net investment in the associate becomes nil, unless it has entered to a liability or a commitment. Subsequent to the date of the caesura of the significant influence, the investment is carried either at fair value when the fair values can be measured reliably or otherwise at cost when the fair values cannot be reliably measured.

The table below sets out all Associates and shows their direct and indirect ownership as of December 31, 2016 and 2015 (%):

	2016	2015
Arçelik - LG	45.00	45.00
Koç Finansman	47.00	47.00
Ram Dış Ticaret	33.50	33.50
Tanı Pazarlama	32.00	32.00

(e) Available-for-sale investments, in which the Group has attributable interests below 20% or in which a significant influence is not exercised by the Group, that have quoted market prices in active markets and whose fair values can be reliably measured are carried at fair value. Any financial investment that is who has no fair value quoted in a stock exchange or whose fair value is not measured reliably are carried at cost value.

(f) The non-controlling share in the net assets and results of Subsidiaries for the year are separately classified as "non-controlling interest" in the consolidated statements of financial position and consolidated statements of profit or loss.

Going concern

The Group prepared consolidated financial statements in accordance with the going concern assumption.

Offsetting

Financial assets and liabilities are offset and reported in the net amount when there is a legally enforceable right or when there is an intention to settle the assets and liabilities on a net basis or realize the assets and settle the liabilities simultaneously.

Comparatives and restatement of prior periods' financial statements

The consolidated financial statements of the Group include comparative financial information to enable the determination of the financial position and performance. Comparative figures are reclassified, where necessary, to conform to changes in presentation in the current year consolidated financial statements and the significant changes are explained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

2.2 Restatement and errors in the accounting policies and estimates

Any change in the accounting policies resulted from the first time adoption of a new standard is made either retrospectively or prospectively in accordance with the transition requirements. Changes without any transition requirement, material changes in accounting policies or material errors are corrected, retrospectively by restating the prior period consolidated financial statements. If changes in accounting estimates are related to only one period, they are recognised in the period when changes are applied; if changes in estimates are related to future periods, they are recognized both in the period where the change is applied and future periods prospectively.

2.3 Summary of significant accounting policies

Significant accounting policies applied in the preparation of these consolidated financial statements are summarized below:

Related parties

For the purpose of these consolidated financial statements, shareholders, key management personnel and Board members, in each case together with their families and companies controlled by/or affiliated with them, associated companies and other companies within the Koç Holding group, and the companies controlled by Koç Holding are considered and referred to as related parties (Note 35).

The Group recognizes sales and purchases related to its Subsidiaries made through Ram Dış Ticaret as intra-group transactions; thus these transactions are eliminated in the consolidated financial statements.

Trade receivables

Trade receivables that are created by the Group by way of providing goods or services directly to a debtor are carried at amortized cost. Receivables with short-term maturities which have no predefined interest rate are measured at the original invoice amount unless the effect of imputed interest is significant (Note 9).

A doubtful receivable provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The receivables in process of lawsuit or enforcement or in a prior stage, the customer having material financial difficulties, the receivable turning default or the possibility of material and unforeseeable delay in the future collection are included under objective evidences. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the collection amount is decreased from the doubtful receivable provisions and recorded as other income from operating activities (Note 29).

The Group collects some of its receivables via factoring. The Group follows related receivables in its consolidated financial statements since the collection risk of these receivables belongs to the Group until these ceded receivables are collected by the factoring company. Advance taken from factoring company against these receivables is recorded as factoring payable in "Financial Liabilities" account. Factoring expenses are accounted as accrual base in finance expenses account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

Inventories

Inventories are valued at the lower of cost or net realizable value. The cost of inventories is determined on the weighted average basis for each purchase. Cost elements included in inventories are materials, labor and factory overheads. The cost of borrowings is not included in the costs of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and estimated costs to make the sale (Note 11).

Financial instruments

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities more than 12 months after the balance sheet date. Those with maturities more than 12 months are classified as non-current assets. The Group's loans and receivables comprise "trade receivables" and "cash and cash equivalents" in the statement of financial position.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the related investments within 12 months of the balance sheet date.

(c) Financial instruments at fair value through profit or loss - derivative instruments

Derivative instruments are initially recognized at the transaction cost reflecting the fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. A financial instrument acquired to be sold or repurchased in the further periods is recognized in this group. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Group's financial instruments at fair value through profit or loss consist of forward contracts and currency swaps.

Financial liabilities

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective yield method; any difference between proceeds, net of transaction costs, and the redemption value is recognized in the statement of profit or loss over the period. Borrowing costs are charged to the statement of profit or loss when they are incurred (Note 7). Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

Recognition and de-recognition of financial instruments

All purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase or to sell the asset. These purchases or sales are purchases or sales generally require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the consolidated financial statements.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Foreign currency hedge of net investments in foreign operations

Gains or losses on the hedging instrument relating to the effective portion of the foreign currency hedge of net investments in foreign operations are recognized as other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the consolidated statement of profit or loss. The gain or loss on the hedging instruments that has been recognized directly in equity is transferred statements of profit or loss on the disposal of the foreign operation (Note 36).

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less (Note 5). For the purpose of consolidated statements of cash flows, cash and cash equivalents includes cash and cash equivalents with original maturities less than three months, excluding the interest accruals.

Investment properties

Buildings held for rental yields or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business are classified as "investment property". Investment properties are carried at cost less accumulated depreciation and any accumulated impairment losses. Investment properties are depreciated with the straight-line depreciation method over their useful lives (Note 13).

Investment properties are reviewed for impairment losses. Where the carrying amount of the investment property is greater than the estimated recoverable amount, it is written down to its recoverable amount. The recoverable amount of the investment property is the higher of discounted net value of future cash flows from the use of the related investment property or fair value less cost to sell.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

Property, plant and equipment and related depreciation

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided on restated amounts of property, plant and equipment using the straight-line method based on the estimated useful lives of the assets, except for land due to their indefinite useful life. The depreciation periods for property and equipment, which approximate the economic useful lives of assets concerned, are as follows:

Land and land improvements	10 - 50 years
Buildings	30 - 50 years
Machinery, equipment and moulds	2 - 25 years
Motor vehicles and fixtures	4 - 10 years
Leasehold improvements	3 - 10 years

Property, plant and equipment are reviewed for impairment losses 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 carrying amount of the asset exceeds its recoverable amount. The recoverable amount of the property, plant and equipment is the higher of future net cash flows from the utilization of this property, plant and equipment or fair value less cost to sell.

Gains or losses on disposals of property, plant and equipment are included in income/expense from investment activities.

Subsequent costs, such as repairs and maintenance or part replacement of tangible assets, are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits with the item will flow to the company (Note 14). All other costs are charged to the statements of profit or loss during the financial year in which they are incurred.

Other intangible assets

Other intangible assets are comprised of acquired brands, trademarks, patents, developments costs and computer software (Note 15).

a) Brands

Internally generated brand are not recognized as intangible assets as their costs cannot be distinguished from the cost of improvement of operations as a whole. Brands that are acquired separately are accounted for at their acquisition cost, and brands that are acquired as a part of business combination are accounted for at their fair value at the acquisition date in the financial statements.

The Group assessed the useful life of brand as indefinite since there is no foreseeable limit to the period over which a brand is expected to generate net cash inflows for the Group.

A brand is not subject to amortization as it is considered to have an indefinite useful life. A brand is tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount when the carrying amount of the brand exceeds its recoverable amount.

b) Development costs

Costs incurred on development projects relating to the design and testing of new or improved products are recognized as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other research and development expenditures are recognized as an expense as incurred. Development expenditures previously recognized as an expense cannot be recognized as an asset in a subsequent period. Development costs that have been capitalized are amortized from the commencement of the commercial production of the product on a straight-line basis from 2 to 10 years.

c) Computer software and rights

Computer software and rights are recognized at their acquisition cost. They are amortized on a straight-line basis over their estimated useful lives and carried at cost less accumulated amortization. Their estimated useful lives are between 4 -15 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

d) Trademark licenses and patents

Separately acquired trademark licenses and patents are carried at their acquisition costs. Trademark licenses and patents acquired in a business combination are accounted for at their fair values at the acquisition date. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives (5 years).

e) Customer Relationships

Internally generated customer relationships are not recognized as intangible assets as their costs cannot be distinguished from the cost of improvement of operations as a whole. Customer relationships that are acquired as a part of business combination are accounted for at their fair value at the acquisition date in the financial statements. Customer relationships have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over their estimated useful lives (8, 22 and 50 years).

Business combinations and goodwill

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses.

Business combinations realized before January 1, 2010 have been accounted for by using the purchase method in the scope of IFRS 3 "Business combinations" prior to amendment. The cost of a business combination is the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquire and in addition, any costs directly attributable to the business combination. If a business combination contract includes clauses that enable adjustments in the cost of business combination depending on events after acquisition date; in case the adjustment is measurable and more probable than not, than cost of business combination at acquisition date is adjusted.

Any excess of the cost of acquisition over the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill in the consolidated financial statements.

Goodwill recognized in business combinations is tested for impairment annually (as of December 31) or more frequently if events or changes in circumstances indicate impairment, instead of amortization (Note 16). Impairment losses on goodwill are not reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Any excess of the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the business combination is accounted for as income in the related period.

IFRS 3 "Business Combinations", which is effective for the periods beginning January 1, 2010, is applied for business combinations realized in 2011.

The revised IFRS 3 introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Such changes include the expensing of acquisition-related costs and recognizing subsequent changes in fair value of contingent consideration in the profit or loss (rather than by adjusting goodwill).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

Financial leases

(1) The Group as the lessee

Finance leases

Assets acquired under finance lease agreements are capitalized at the inception of the lease at the fair value of the leased asset, net of grants and tax credits receivable, or at the present value of the lease payment, whichever is the lower. Lease payments are treated as comprising capital and interest elements, the capital element is treated as reducing the capitalized obligation under the lease and the interest element is charged as expense to the consolidated statement of profit or loss. Depreciation on the relevant asset is also charged to the consolidated statement of profit or loss over its useful life.

Operational leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

(2) The Group as the lessor

Operational leases

Assets leased out under operating leases are classified under property, plant and equipment in the consolidated statement of financial position and rental income is recognized on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset which requires substantial period of time to get ready for its intended use or sale shall be capitalized over the cost of the asset (Note 15). Other borrowing costs shall be recognized as an expense in the period it incurs (Note 31 and Note 32).

Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the statement of profit or loss, except to the extent that it relates to items recognized directly in equity. In such case, the tax is also recognized in shareholders' equity.

The current income tax charge is calculated in accordance with the tax laws enacted or substantively enacted at the balance sheet date in the countries where the subsidiaries of the Group operate.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Currently enacted tax rates are used to determine deferred income tax at the balance sheet date (Note 33).

The principal temporary differences arise from the carrying values of property, plant and equipment and available-for-sale-investments and their historical costs, various provisions and unused tax allowances and exemptions.

Deferred tax liabilities are recognized for all taxable temporary differences, where deferred tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax relating to items recognized directly in equity is recognized in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

The Company recognizes deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, to the extent that, and only to the extent that, it is probable that:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilized.

The Company recognizes deferred tax liability for all taxable temporary differences associated with investments in subsidiaries except to the extent that both of the following conditions are satisfied:

- the parent is able to control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

Government grants allowing reduced corporate tax payment are evaluated within the scope of TAS 12 Income Taxes standard and are recognised as deferred tax asset by the qualified tax advantage amount, to the extent it is highly probable that future taxable profits will be available against which the unused investment tax credits can be utilised.

Employment termination benefits

Employment termination benefits, as required by the Turkish Labor Law and the laws applicable in the countries where the subsidiaries operate, represent the estimated present value of the total reserve of the future probable obligation of the Company arising in case of the retirement of the employees, termination of employment without due cause, call for military service, be retired or death upon the completion of a minimum one year service. Provision which is allocated by using defined benefit pension's current value is calculated by using prescribed liability method. Actuarial gains and losses are recognized as other comprehensive income or loss in shareholders' equity in the period in which they arise (Note 20).

Foreign currency transactions

Transactions in foreign currencies during the period have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into TRY at the exchange rates prevailing at the balance sheet dates. Exchange gain or losses arising from the settlement and translation of foreign currency items have been included under financial income/ expenses and other operating income/ expenses in the consolidated statements of profit or loss, except for the effective portion of the foreign currency hedge of net investments in foreign operations.

Revenue recognition

Revenues are recognized on an accrual basis at the fair values incurred or to be incurred when the goods are delivered, the risks and rewards of ownership of the goods are transferred, when the amount of revenue can be reliably measured and it is probable that the future economic benefits associated with the transaction will flow to the entity. Net sales represent the fair value of goods shipped less actual and estimated sales discounts and returns. Sales taxes such as Value Added Taxes ("VAT") excluded from revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

Incentives for investments, research and development activities

Gains arising from incentives for investment and research and development activities together with government grants are recognized when there is a reasonable assurance for the necessary conditions to be fulfilled and incentive to be acquired by the Group. Vested government grants related with expense or capitalization realized in previous accounting periods, are recognized in statements of profit or loss when collectible and grants relating to capital assets are accounted for as deferred income in the consolidated balance sheet and are credited to consolidated income statement on a straight-line basis over the expected lives of related assets.

Dividends

Dividends receivable are recognized as income in the period when they are declared. Dividends payable are recognized as an appropriation of profit in the period in which they are declared (Note 25).

Paid-in capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share premium

Share premium represents differences resulting from the sale of the Company's Subsidiaries' and Associates' shares at a price exceeding the face value of those shares or differences between the face value and the fair value of shares issued for acquired companies.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. No provision is recognized for operating losses expected in later periods.

Warranty expenses

Warranty expenses includes repair and maintenance expenses for products sold and labor and material costs of authorized services' for products under the scope of the warranty terms without any charge to the customers. Based on estimations using past statistical information warranty services and returns of products, warranty expenses are recognized for the products sold in the period for possible utilizations of warranties in the following future periods (Note 19).

Assembly provisions

As a result of forecasts that are based on past experience and future expectations, assembly provisions expenses are recognized in the period, which the products are sold to dealers but not yet installed in the sites of the end customers, against the costs of future free of charge aforementioned installments (Note 19).

Contingent assets and liabilities

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the consolidated financial statements and are disclosed as contingent assets or liabilities (Note 18).

Contingent liabilities are disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. If an outflow of resources has become probable, contingent liabilities are recognised in the financial statements. Contingent assets are not recognised in financial statements but disclosed in the notes to the financial statements where an inflow of economic benefits is probable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

Earnings per share

Earnings per share presented in the consolidated statements of profit or loss are determined by dividing consolidated net income attributable to that class of shares by the weighted average number of such shares outstanding during the year concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings or inflation adjustments. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them retroactive effect for the year in which they were issued and for each earlier period.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the steering committee that makes strategic decisions. Board of Directors has been identified as the sole authority to decide on the operations (Note 4).

Reporting of cash flows

In the consolidated statements of cash flows, cash flows are classified and reported according to their operating, investing and financing activities.

2.4 Critical accounting estimates, judgments, and assumptions

The preparation of consolidated financial statements requires estimates and assumptions to be made regarding the amounts for the assets and liabilities at the balance sheet date, and explanations for the contingent assets and liabilities as well as the amounts of income and expenses realized in the reporting period. The Group makes estimates and assumptions concerning the future. The accounting estimates and assumptions, by definition, may not be equal the related actual results. The estimates and assumptions that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Impairment test for intangible assets which have indefinite useful lives and goodwill:

In accordance with the accounting policy for the intangible assets which have indefinite useful lives and goodwill stated in Note 2.3, these assets are reviewed for impairment annually or whenever events or changes in circumstances indicate impairment by the Group. The recoverable amounts of the cash-generating units are determined using the methods of value in use and royalty relief. Certain estimates were used in these calculations (Notes 15 and 16). Impairment was not identified as a result of these tests.

The fair value of the available-for-sale financial instruments:

The fair value of the available-for-sale financial instruments that are not traded in an active market have been calculated by using references to the uncollusive market transactions, the fair values of the similar instruments and the discounted cash flows analysis (Note 6).

Waste Electrical and Electronic Equipment Control

The principal environmental protection regulation specific to domestic appliances market, the Group complies with, is the European Union WEEE ("Waste Electrical and Electronic Equipment") Directive, which makes manufacturers responsible at a European level for the financing of treatment, recovery and disposal of waste electrical and electronic products. Under this framework, countries have their own legal regulations in line with the Directive cited above, and responsibilities of the producers are implemented accordingly. In Turkey and European Union countries where the Group operates, the Group meets its responsibilities for financing and organizing the handling of waste electrical and electronic appliances through national compliance schemes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 3 - BUSINESS COMBINATIONS

On November 2, 2016 the Group has acquired 100% of the shares of Pan Asia Private Equity Ltd., who owns 100% share in DEL (Private) Limited, Dawlance Private Limited and United Refrigeration Industries Limited (together be called as "Dawlance Group" hereinafter).

Dawlance Group is the market leader in white goods and home appliances in Pakistan and with this acquisition that will contribute to the Group's goals to grow in emerging markets. The amount transferred for the acquisition includes; the synergy that will be created, revenue increase, the future benefits to be obtained as a result of growth in market and labor force. These benefits are not recorded apart from goodwill because they do not meet identifiable asset criteria. Since the acquisition includes transfer of control, goodwill is recognized during the acquisition.

Purchase price and the fair values of acquired assets and liabilities as of the acquisition date are as follows:

Consideration paid- cash	749,545
Cash and cash equivalents	3,937
Trade receivables	38,547
Inventories	132,438
Other current assets	28,743
Tangible assets (Note 14)	163,879
Intangible assets (Note 15)	633,838
Other non current assets	959
Borrowings	(151,202)
Trade and other payables	(39,807)
Other liabilities	(10,552)
Deferred tax liabilities (Note 33)	(204,216)
Total fair value of identifiable net assets	596,564
Goodwill (Note 16)	152,981
Total consideration	749,545

The Group used independent professional assessment companies for the valuation of property plant equipment, brand and customer relationships. The acquisition accounting has been finalized as of 31 December 2016 and the assets, liabilities and contingent liabilities determined based on TFRS 3, have been recorded based on their fair values at the date of acquisition.

During the acquisition period about the assessed assets and liabilities cash flows income and expenses in the business plan with predicted values utilizing financial market data and used for discounting this values after tax effect WACC determined as 15.4 %. When 1% relative risk factor for brand and customer relationships were added to this rate, the discount rate was determined as 16.4%. Brand and customer relationships were valued with relief-from-royalty and discounted cash flow methods. If EBITDA growth rate had been +/- 0.5% in calculation of discounted cash flows, amount of goodwill would have been 9.5% higher/lower. Originally, the discount rate is assumed to be 15.4%. Had the rate been assumed to be 0.5% higher and lower, goodwill amount would have been 10.9 % higher and 11.8% lower, respectively.

In the consolidated income statement, contribution to consolidated sales by Dawlance Group after the date of acquisition is TRY 88,787. In the same period, excluding the effects of inter-company sales profitability, the contribution by Dawlance Group to consolidated net profit of Arçelik Group amounts to TRY 5,736.

Had the financial statements of Dawlance Group been consolidated since January 1, 2016, the consolidated sales and net profit of Arçelik Group would have been higher TRY 648,111 and TRY 74,209, respectively.

As of December 31, 2016, the total amount of acquisition costs, which is included in the general and administrative expenses, is TRY 7,655.

The details of cash outflow due to acquisition are as follows:

Total consideration in cash	749,545
Cash and cash equivalents – acquired	(3,937)
Cash outflow due to acquisition of subsidiary (net)	745,608

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 4 - SEGMENT REPORTING

The reportable segments of Arçelik have been organized by management into white goods and consumer electronics. White goods reportable segment comprises washing machines, dryers, dish washers, refrigerators, ovens, cookers and the services provided for these products. The consumer goods reportable segment comprises televisions primarily with flat screens, computers, cash registers, other electronic devices and the services provided to consumers for these products. Other segment comprise the revenues from air conditioners, home appliances and furniture and kitchen gadgets except products included in white goods and consumer electronics.

Arçelik's reportable segments are strategic business units that present various products and services. Each of these segments is administrated separately due to the necessity of different technologies and marketing strategies.

Gross profitability is evaluated regarding the performance of the operational segments. Information about the operational segments is as follows:

a) Operational segments which have been prepared in accordance with the reportable segments for the year ended December 31, 2016 are as follows:

	White goods	Consumer electronics	Other	Total
Total segment revenue	11,707,009	2,266,263	2,122,900	16,096,172
Gross profit	4,137,733	633,413	568,414	5,339,560
Depreciation and amortization	361,726	67,462	17,455	446,643
Capital expenditures	668,545	141,257	29,181	838,983

b) Operational segments which have been prepared in accordance with the reportable segments for the year ended December 31, 2015 are as follows:

	White goods	Consumer electronics	Other	Total
Total segment revenue	10,298,964	1,965,642	1,901,494	14,166,100
Gross profit	3,578,365	433,094	524,434	4,535,893
Depreciation and amortization	301,418	60,468	14,875	376,761
Capital expenditures	556,120	83,580	15,865	655,565

c) Sales revenue grouped geographically based on the location of the customers for the years ended December 31 are shown as below:

2016	Turkey	Europe	Africa	Other	Total
Total segment revenue	6,449,459	7,190,997	1,107,561	1,348,155	16,096,172
2015	Turkey	Europe	Africa	Other	Total
Total segment revenue	5,724,498	6,419,597	1,047,926	974,079	14,166,100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 5 - CASH AND CASH EQUIVALENTS

	December 31, 2016	December 31, 2015
Cash in hand	608	451
Cash at banks		
- demand deposits	538,957	210,540
- time deposits	1,774,982	1,872,026
Cheques and notes	90,240	55,456
Other	36,865	27,680
Cash and cash equivalents in cash flow statement	2,441,652	2,166,153
Interest income accruals	219	1,474
	2,441,871	2,167,627

The maturity breakdown of cash and cash equivalents is as follows:

Up to 30 days	2,291,112	2,130,848
30-90 days	150,759	36,779
	2,441,871	2,167,627

NOTE 6 - FINANCIAL INVESTMENTS

Available-for-sale investments

	December 31, 2016		December 31, 2015	
	%	TRY	%	TRY
Koç Finansal Hizmetler A.Ş.	-	-	3.98	537,684
Tat Gıda Sanayi A.Ş.	0.34	2,656	0.34	1,413
Other		79		79
		2,735		539,176

The details of financial investments for the years ended December 31, are as follows:

	2016	2015
As of January 1	539,176	698,488
Change in fair value	22,141	(159,312)
Sale of financial asset (Note 30, 35)	(558,582)	-
As of December 31	2,735	539,176

Available-for-sale investment of the Group includes shares of Tat Gıda Sanayi A.Ş., as a listed company, whose fair value is determined by using the remaining bid offer in BIST as of balance sheet date.

The unrealized gain (net) arising from the changes in the fair value of Tat Gıda Sanayi A.Ş., the available for sale investment, amounting to TRY 1,181 and net of deferred tax effect amounting to TRY 62 have been recognized in consolidated shareholders' equity under the "Gain/losses on remeasuring and/or reclassification of available-for-sale financial assets" in the year ended December 31, 2016.

Gain arising from the changes in the fair value of Koç Finansal Hizmetler A.Ş. until sale of shares in the year ended December 31, 2016 amounting to TRY 20,898 and its deferred tax effect amounting to TRY 1,045 has been recognised in consolidated shareholders' equity under the "Gain/losses on remeasuring and/or reclassification of available-for-sale financial assets". Additionally, from the sale of Koç Finansal Hizmetler A.Ş. shares as of June 30, 2016, fair value gain previously recognised in shareholders' equity amounting to TRY 413,739 and its deferred tax effect amounting to TRY 20,687 have been classified to consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 7 - FINANCIAL LIABILITIES

a) Short-term financial liabilities

	December 31, 2016	December 31, 2015
Short-term bank borrowings	1,169,875	995,638
Payables from factoring activities (*)	68,370	39,628
Other	913	475
Total short-term financial liabilities	1,239,158	1,035,741
Short-term portion of long-term bank borrowings and interest accruals	975,119	1,119,002
Interest accruals of long-term bond issued (**)	36,297	29,999
Total short-term portion of long-term financial liabilities	1,011,416	1,149,001

(*) Factoring liabilities are amounting to TRY 43,237 denominated in EUR (2015: TRY 18,902), TRY 23,398 denominated in GBP (2015: TRY 18,708) and TRY 1,735 denominated in USD (2015: TRY 2,018) and interest rates are between 0.55%-0.62% for EUR (2015: 0.65%-1%) , 1.4% for USD (2015: 1.5%) and 1% for GBP (2015: 1.59%).

(**) Long term bonds issued:

2014:

The Company issued bond amounting to EUR 350 million, quoted in Ireland Stock Exchange, with re-offer yield 4% and annual interest payment on September 16, 2014. Maturity of the bond is September 16, 2021 and coupon rate is 3.875%.

2013:

The Company issued bond amounting to USD 500 million, quoted in Ireland Stock Exchange, with re-offer yield 5.125% and semi-annual interest payment on April 3, 2013. Maturity of the bond is April 3, 2023 and coupon rate is 5%.

As of December 31, 2016, the details of short-term bank borrowings are as follows:

Currency	Effective interest rate per annum (%)	Original currency	TRY equivalent
TRY	9.3	667,557,336	667,557
EUR	0.9	71,453,290	265,084
PKR	6.3	5,431,958,291	181,807
CNY	4.4	110,026,583	55,427
			1,169,875

As of December 31, 2015, the details of short-term bank borrowings are as follows:

Currency	Effective interest rate per annum (%)	Original currency	TRY equivalent
TRY	10.6	639,551,321	639,551
EUR	0.7	96,414,061	306,365
CNY	4.4	110,000,000	49,000
SEK	1.3	2,090,757	722
			995,638

b) Long-term financial liabilities

	December 31, 2016	December 31, 2015
Long-term bank borrowings	364,884	722,634
Long-term bonds issued	3,040,539	2,545,989
Other	1,658	284
	3,407,081	3,268,907

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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

NOTE 7 - FINANCIAL LIABILITIES (Continued)

As of December 31, 2016, the details of the long-term bank borrowings are as follows:

Currency	Effective interest rate per annum (%)	Original currency	TRY equivalent
TRY	11.7	872,327,083	872,327
EUR	2.6	66,821,668	247,901
ZAR	9.9	750,000,000	192,548
RUB	8.9	475,000,000	27,227
			1,340,003
Short-term portion of long-term loans and interest accruals			(975,119)
			364,884

As of December 31, 2015, the details of the long-term bank borrowings are as follows:

Currency	Effective interest rate per annum (%)	Original currency	TRY equivalent
TRY	11.8	1,381,151,557	1,381,152
EUR	2.6	89,098,357	283,119
ZAR	9.1	750,000,000	141,548
RUB	8.7	904,255,822	35,817
			1,841,636
Short-term portion of long-term loans and interest accruals			(1,119,002)
			722,634

As of December 31, 2016, detail of discounted amounts of long-term bonds issued is given below:

Currency	Effective interest rate per annum (%)	Original currency	TRY equivalent
USD	5.1	503,674,810	1,772,532
EUR	4.0	351,573,811	1,304,304
			3,076,836
Interest accruals of long-term bonds issued			(36,297)
			3,040,539

As of December 31, 2015, detail of discounted amounts of long-term bonds issued is given below:

Currency	Effective interest rate per annum (%)	Original currency	TRY equivalent
USD	5.1	502,551,654	1,461,219
EUR	4.0	350,820,921	1,114,769
			2,575,988
Interest accruals of long-term bonds issued			(29,999)
			2,545,989

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 7 - FINANCIAL LIABILITIES (Continued)

The payment schedule of the principal amounts of long-term bank borrowings and bonds is as follows:

	December 31, 2016	December 31, 2015
2017	-	581,408
2018	282,442	70,613
2019	82,442	70,613
2021	1,298,465	1,112,160
2023	1,759,600	1,453,800
	3,422,949	3,288,594

The analysis of borrowings and bonds issued in terms of periods remaining to contractual re-pricing dates is as follows:

	December 31, 2016	December 31, 2015
Up to 3 months	923,813	1,301,147
3 - 12 months	547,688	934,766
1-5 years	2,323,349	581,086
Over 5 years	1,759,600	2,565,960
	5,554,450	5,382,959

NOTE 8 - DERIVATIVE INSTRUMENTS

Valuation of outstanding derivative instruments which were transacted by the Group for foreign exchange risk management purposes are made through marketing to market value at the date of valuation and the fair value of these instruments are disclosed as asset or liability in the statement of financial position.

	December 31, 2016		December 31, 2015	
	Contract amount	Fair value assets/(liabilities)	Contract amount	Fair value assets/(liabilities)
<i>Held for trading:</i>				
<i>Short-term derivative instruments</i>				
Forward transactions	1,035,792	2,039 (2,183)	739,561	1,807 (259)
Foreign currency swap contracts	2,403,272	2,765 (2,202)	2,126,087	14,486 (3,004)
	3,439,064	4,804 (4,385)	2,865,648	16,293 (3,263)

Long-term derivative instruments

Cross-currency fixed interest rate swap (*)	2,294,713	178,882	-	1,960,174	144,742	-
---	-----------	---------	---	-----------	---------	---

(*) In order to mitigate foreign exchange risk and to naturally hedge principal and interest payments of the long term bond issued in 2013 in US Dollars against the major foreign currencies that sales and collections are performed in, the Company entered into cross currency fixed interest rate swap amounting to EUR 202.8 million with 4.65% interest rate in return for USD 270 million and amounting to GBP 57.5 million with 5% interest rate in return for USD 90 million in April, 2013.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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

NOTE 9 - TRADE RECEIVABLES AND PAYABLES

	December 31, 2016	December 31, 2015
Short-term trade receivables:		
Trade receivables	3,529,754	2,840,338
Notes receivables	1,649,614	1,794,339
Cheques receivables	273,467	271,172
Short-term trade receivables (gross)	5,452,835	4,905,849
Provision for doubtful receivables	(137,168)	(110,601)
Unearned credit finance income	(26,902)	(13,673)
Short-term trade receivables (net)	5,288,765	4,781,575

As of December 31, 2016, the Group has offsetted TRY 615,332 (December 31, 2015: TRY 382,302) from trade receivables that are collected from factoring companies as part of the irrevocable factoring.

The movements of provision for doubtful receivables for the years ended December 31, are as follows:

	2016	2015
As of January 1	110,601	97,019
Current year additions (Note 29)	27,065	17,344
Provisions no longer required (Note 29)	(2,883)	(1,770)
Write-offs (*)	(8,867)	(4,111)
Acquisitions	4,368	7
Currency translation differences	6,884	2,112
As of December 31	137,168	110,601

(*) Doubtful receivables, for which no possibility of collection is foreseen and no further cash inflow are expected, are written off from the records along with the related provisions.

	December 31, 2016	December 31, 2015
Long-term trade receivables	24,484	13,205
Short-term trade payables:		
Trade payables	2,455,560	1,597,265
Debt accruals	140,455	93,743
Unearned credit finance charges	(16,190)	(14,597)
	2,579,825	1,676,411

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 10 - OTHER PAYABLES

	December 31, 2016	December 31, 2015
Taxes and duties payable	173,224	142,777
Deposits and guarantees received	6,360	3,935
Dividend payables to shareholders	5,242	4,558
Other	36,047	4,267
	220,873	155,537

NOTE 11 - INVENTORIES

	December 31, 2016	December 31, 2015
Raw materials and supplies	1,092,288	946,661
Work in progress	98,748	83,611
Finished goods	1,366,939	925,878
Trade goods	296,263	250,979
Inventories (gross)	2,854,238	2,207,129
Provision for impairment on inventories	(92,668)	(67,072)
Inventories (net)	2,761,570	2,140,057

There are no inventories pledged as security for liabilities (December 31, 2015: None).

Allocation of the provision for impairment on inventories in terms of inventory type is as follows:

	December 31, 2016	December 31, 2015
Raw materials and supplies	62,709	54,784
Finished goods	26,850	10,723
Trade goods	3,109	1,565
	92,668	67,072

Movements of provision for impairment on inventories for the periods ended December 31 are as follows:

	2016	2015
As of January 1	67,072	57,958
Current year additions (Note 29)	22,450	14,123
Realized due to sales of inventory	(7,018)	(6,274)
Acquisitions	6,556	-
Currency translation differences	3,608	1,265
As of December 31	92,668	67,072

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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

NOTE 12 - ASSOCIATES

	December 31, 2016		December 31, 2015	
	%	TRY	%	TRY
Koç Finansman	47.0	104,059	47.0	89,851
Arçelik - LG	45.0	114,280	45.0	98,875
Ram Dış Ticaret	33.5	10,372	33.5	13,107
Tanı Pazarlama	32.0	7,379	32.0	8,048
		236,090		209,881

The movements of associates for the years ended December 31, are as follows:

	2016	2015
As of January 1	209,881	195,311
Shares of income/loss of associates	34,857	24,403
Shares of other comprehensive income/loss of associates	3,902	1,387
Gross profit elimination on inventory	200	190
Dividends received	(12,750)	(11,410)
As of December 31	236,090	209,881

Shares of income/loss from associates:

	2016	2015
Koç Finansman	19,297	13,888
Arçelik - LG	15,574	6,800
Ram Dış Ticaret	659	2,793
Tanı Pazarlama	(673)	922
	34,857	24,403

Aggregated summary figures of the financial statements of associates:

	December 31, 2016	December 31, 2015
Total assets	4,584,127	3,810,042
Total liabilities	4,054,751	3,334,872
	2016	2015
Net sales	2,108,567	2,050,453
Profit/loss for the period (net)	75,986	56,303

NOTE 13 - INVESTMENT PROPERTIES

	2016	2015
As of January 1 Cost	-	14,966
Accumulated depreciation	-	(9,037)
Net carrying value	-	5,929
Net carrying value at the beginning of the period	-	5,929
Disposals	-	(6,373)
Currency translation differences	-	553
Depreciation for the period	-	(109)
Net carrying value at the end of the period	-	-
As of December 31 Cost	-	-
Accumulated depreciation	-	-
Net carrying value	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 14 - PROPERTY, PLANT AND EQUIPMENT

	January 1, 2016	Acquisitions	Additions	Disposals	Transfers	Currency Translation Differences	December 31, 2016
Cost							
Land	47,939	39,913	28	-	29,674	14,374	131,928
Land improvements	40,605	-	1,233	-	559	91	42,488
Buildings	614,813	66,907	89,993	(212)	26,610	81,009	879,120
Machinery, equipment and moulds	3,668,047	117,905	157,164	(69,991)	252,195	196,171	4,321,491
Motor vehicles and fixtures	491,450	11,839	27,723	(12,236)	63,829	22,653	605,258
Leasehold improvements	48,635	-	4,211	-	(710)	1,731	53,867
Construction in progress	179,411	1,552	360,694	-	(372,157)	15,621	185,121
	5,090,900	238,116	641,046	(82,439)	-	331,650	6,219,273
Accumulated depreciation							
Land improvements	(24,354)	-	(1,923)	-	-	-	(26,277)
Buildings	(229,619)	(6,968)	(15,021)	142	(58)	(15,373)	(266,897)
Machinery, equipment and moulds	(2,433,425)	(61,230)	(248,993)	66,603	-	(89,690)	(2,766,735)
Motor vehicles and fixtures	(307,779)	(6,039)	(51,930)	11,569	-	(11,715)	(365,894)
Leasehold improvements	(40,048)	-	(2,829)	-	58	(240)	(43,059)
	(3,035,225)	(74,237)	(320,696)	78,314	-	(117,018)	(3,468,862)
Net book value	2,055,675						2,750,411

There is no mortgage on property, plant and equipment as of December 31, 2016 (December 31, 2015: None).

	January 1, 2015	Acquisitions	Additions	Disposals	Transfers	Currency Translation Differences	December 31, 2015
Cost							
Land	16,277	-	28,834	-	189	2,639	47,939
Land improvements	37,526	-	3,071	-	7	1	40,605
Buildings	595,944	-	5,013	(563)	2,686	11,733	614,813
Machinery, equipment and moulds	3,441,984	371	176,007	(64,999)	80,355	34,329	3,668,047
Motor vehicles and fixtures	421,415	-	37,373	(4,641)	31,984	5,319	491,450
Leasehold improvements	44,146	-	2,994	-	835	660	48,635
Construction in progress	46,585	-	250,166	(1,645)	(116,056)	361	179,411
	4,603,877	371	503,458	(71,848)	-	55,042	5,090,900
Accumulated depreciation							
Land improvements	(22,539)	-	(1,815)	-	-	-	(24,354)
Buildings	(212,424)	-	(13,395)	103	-	(3,903)	(229,619)
Machinery, equipment and moulds	(2,250,099)	(143)	(221,611)	57,300	-	(18,872)	(2,433,425)
Motor vehicles and fixtures	(268,681)	-	(39,673)	4,226	-	(3,651)	(307,779)
Leasehold improvements	(37,388)	-	(2,396)	-	-	(264)	(40,048)
	(2,791,131)	(143)	(278,890)	61,629	-	(26,690)	(3,035,225)
Net book value	1,812,746						2,055,675

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 15 – OTHER INTANGIBLE ASSETS

	January 1, 2016	Acquisitions	Additions	Disposals	Transfers	Currency translation differences	December 31, 2016
Cost							
Brands	577,198	209,566	4	-	-	137,729	924,497
Development costs	738,677	-	155,916	-	-	-	894,593
Computer software and rights	168,187	1,848	41,950	(1,801)	(1,219)	3,370	212,335
Trademark licenses and patents	22,795	162	67	(206)	1,219	3,963	28,000
Customer relationships	-	424,058	-	-	-	58,541	482,599
	1,506,857	635,634	197,937	(2,007)	-	203,603	2,542,024
Accumulated amortization							
Development costs	(358,260)	-	(101,634)	-	-	-	(459,894)
Computer software and rights	(118,392)	(1,714)	(20,442)	1,451	1,059	(2,119)	(140,157)
Trademark licenses and patents	(22,725)	(82)	(79)	206	(1,059)	(3,934)	(27,673)
Customer relationships	-	-	(3,792)	-	-	-	(3,792)
	(499,377)	(1,796)	(125,947)	1,657	-	(6,053)	(631,516)
Net book value	1,007,480						1,910,508

Net carrying value of the development costs as of December 31, 2016 is TRY 434,699 (December 31, 2015: TRY 380,417) and capitalized development costs excluding amount of borrowing cost capitalized in the period is TRY 155,860 (January 1 – December 31, 2015: TRY 128,257).

As of December 31, 2016 total amount of borrowing costs capitalized is TRY 56 (December 31, 2015: TRY 8,139).

	January 1, 2015	Acquisitions	Additions	Disposals	Currency Translation Differences	December 31, 2015
Cost						
Brands	547,786	-	-	-	29,412	577,198
Development costs	602,281	-	136,396	-	-	738,677
Computer software and rights	148,337	1,473	15,711	(51)	2,717	168,187
Trademark licenses and patents	20,243	-	-	-	2,552	22,795
	1,318,647	1,473	152,107	(51)	34,681	1,506,857
Accumulated amortization						
Development costs	(276,385)	-	(81,875)	-	-	(358,260)
Computer software and rights	(100,091)	(813)	(15,886)	10	(1,612)	(118,392)
Trademark licenses and patents	(20,171)	-	-	-	(2,554)	(22,725)
	(396,647)	(813)	(97,761)	10	(4,166)	(499,377)
Net book value	922,000					1,007,480

The carrying values of the brands of the Group are as below:

	December 31, 2016	December 31, 2015
Grundig (*)	319,280	281,424
Defy (*)	267,565	196,695
Dawlance	238,496	-
Beko	81,040	81,040
Other brands (*)	18,116	18,039
	924,497	577,198

(*) Values of brands in their original currencies are same as of December 31, 2016 and 2015 and the difference arises from foreign currency translation.

Brands impairment test

Brands were tested for impairment using the royalty relief method as of December 31, 2016. Sales forecasts which are based on financial plans approved by the board of directors covering a three to five-year period were considered in the determination of the brand value. Sales forecasts beyond the three and five-year period are extrapolated with 3% expected growth rate. The estimated royalty income is calculated by applying the expected 2% to 3% royalty rate. The royalty income calculated with the aforementioned method has been discounted with 8.5% to 16.4% discount rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 16 – GOODWILL

	2016	2015
As of January 1	163,450	169,195
Acquisitions (Note 3)	152,981	2,903
Currency translation differences	77,321	(8,648)
As of December 31	393,752	163,450

Details of goodwill are as follows:

	December 31, 2016	December 31, 2015
Defy and its subsidiaries	208,653	153,735
Dawlance and its subsidiaries	174,100	-
Other	10,999	9,715
	393,752	163,450

Goodwill impairment test

Goodwill is subject to impairment test every year. The recoverable amounts of cash generating units are determined on value in use basis.

Value in use is determined by discounting the expected future cash flows to be generated by the cash-generating unit. The below key assumptions are used in the calculation of the value in use as of December 31, 2016.

The projection period for the purposes of goodwill impairment testing is taken as 5 years between January 1, 2017 and December 31, 2021.

Cash flows for further periods (perpetuity) were extrapolated using a constant growth rate of 3.0% which does not exceed the estimated average growth rate of economy of the country.

Weighted average cost of capital rate of 8.50% - 12.75% is used as after tax discount rate in order to calculate the recoverable amount of the unit.

The post-tax rate was adjusted considering the tax cash outflows and other future tax cash flows and differences between the cost of the assets and their tax bases.

Defy Group operations as a cash generating unit and sensitivity to the changes in assumptions in impairment test

Recoverable value of cash generating unit is 32% above of goodwill included book value of related cash generating unit. In the calculation of the present value of future cash flows, estimations on earnings before interest tax depreciation amortization ("EBITDA"), long term growth rate and discount rates are taken into account.

EBITDA growth expectations

In original assumption, five year compound average growth rate of EBITDA is 11.9%. Had the compound average growth rate been assumed to be 10.9%, the recoverable amount would have been calculated as 23% above the goodwill included book value of cash generating unit and resulting no impairment provision.

Long term growth rate

Originally, the long term growth rate is assumed to be 3%. Had the rate been assumed to be 2%, the recoverable amount would have been 23% above the goodwill included book value of cash generating unit and resulting no impairment provision would have been provided for.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 16 – GOODWILL (Continued)

Discount rate

Originally, the discount rate is assumed to be 12.75%. Had the rate been assumed to be %13.75, the recoverable amount would have been 17 % above the goodwill included book value of cash generating unit and resulting no impairment provision would have been provided for.

Dawlance Group operations as a cash generating unit in impairment test

Since there is any material change in assumption used in calculation of goodwill between acquisition date and December 31, 2016, impairment provision for goodwill is not foreseen.

NOTE 17 - GOVERNMENT GRANTS

There are investment incentive certificates to which the Company has been entitled by the official authorities in connection with certain capital expenditures. The grants obtained by the Company in nature are as follows:

- a) 100% exemption from customs duty on machinery and equipment to be imported,
- b) Value-added tax exemption with respect to purchases of investment goods both from domestic and export markets,
- c) Incentives under the jurisdiction of the research and development law (100% corporate tax exemption, Social Security Institution incentives, etc.),
- d) Inward processing permission certificates,
- e) Cash refund from Tübitak - Teydeb for research and development expenses,
- f) Taxes and funds exemptions for R&D centers which are regulated under research and development law.
- g) Discounted corporate tax incentive,
- h) Insurance premium employer share incentive,
- i) Brand support incentive (known as "Turquality") given by Republic of Turkey Ministry of Economy.
- j) Grant has been received from the United Nations Industrial Development Organization (UNIDO) and from the Department of Trade and Industry of Romania and Republic of South Africa for the purchase of certain items of plant and equipment. All conditions of the grant have been fulfilled in 2016.

Grants which are accounted for under other income from operating activities for year ended December 31, 2016 are as follows:

- i) Research and development incentive premiums taken or certain to be taken amounts to TRY 4,783 (2015: TRY 5,081).
- ii) Brand support incentive (known as "Turquality") received from Republic of Turkey Ministry of Economy amounts to TRY 182,866 (2015: TRY 70,237).

NOTE 18 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

As of December 31, 2016, export commitments from Turkey under the scope of inward processing authorization certificates as export incentives amounts to full USD 422,783,406 (December 31, 2015: USD 274,539,501). In case that the related tax advantages are not utilized, it is possible to close of the certificates including export commitments without any sanctions.

Future minimum rentals payable under non-cancellable operating lease are as follows:

	December 31, 2016	December 31, 2015
Up to 1 year	40,247	27,360
1-5 years	87,753	40,921
Over 5 years	7,531	6,959
Operating lease commitments	135,531	75,240

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 18 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Derivative instruments contracts commitments

TRY equivalents of the Group's foreign exchange purchase and sales commitments in terms of currencies as of December 31, 2016 and December 31, 2015 are as follows:

	Purchase commitments	Sales commitments
December 31, 2016		
TRY	-	444,416
USD	1,662,437	50,904
EUR	879,118	1,147,516
AUD	14,712	83,071
CZK	-	35,101
CNY	47,685	128,183
DKK	-	38,864
ZAR	-	149,555
GBP	-	466,022
SEK	37,066	-
CHF	147,387	-
CAD	-	4,692
MYR	-	8,805
NOK	38,717	20,701
PLN	4,212	99,413
ROL	162,783	-
RUB	-	33,819
RSD	-	5,733
THB	7,087	-
NZD	-	15,778
	3,001,204	2,732,573
December 31, 2015		
TRY	60,104	231,511
USD	1,445,742	185,995
EUR	619,234	992,191
AUD	9,287	74,039
CZK	-	22,650
CNY	15,995	66,769
DKK	-	12,755
ZAR	-	157,228
GBP	30,105	413,498
SEK	47,599	29,703
CHF	88,656	-
CAD	-	4,189
NOK	-	7,290
PLN	-	63,762
ROL	170,190	-
RUB	9,631	44,759
RSD	-	13,442
NZD	-	9,498
	2,496,543	2,329,279
Collaterals obtained	December 31, 2016 3,092,142	December 31, 2015 2,831,414

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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

NOTE 18 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Collaterals/ pledges/ mortgages ("CPM") position of the Group as of December 31, 2016 and December 31, 2015 are as follows:

CPM's given by the Company	December 31, 2016	December 31, 2015
A. CPM's given for Company's own legal personality	700,641	598,529
B. CPM's given on behalf of fully consolidated companies	816	43,112
C. CPM's given on behalf of third parties for ordinary course of business	-	-
D. Total amount of other CPM's	-	-
i) Total amount of CPM's given on behalf of the majority shareholder	-	-
ii) Total amount of CPM's given on behalf of other Group companies which are not in scope of B and C	-	-
iii) Total amount of CPM's given on behalf of third parties which are not in scope of C	-	-
Total	701,457	641,641

TRY equivalents of collaterals, pledges and mortgages give as of December 31, 2016 and December 31, 2015 are as follows on original currency basis are as follows:

CPM's given by the Company	December 31, 2016	December 31, 2015
USD	632,996	522,553
TRY	51,173	50,081
EUR	11,868	45,015
Other currencies	5,420	23,992
	701,457	641,641

NOTE 19 – OTHER PROVISIONS

	December 31, 2016	December 31, 2015
Other short-term provisions		
Warranty provision	226,251	178,460
Assembly provision	73,118	64,693
Provision for transportation cost	31,260	18,654
Provision for lawsuit risks	9,501	8,980
Provision for returns	7,096	9,522
Other	65,134	54,227
	412,360	334,536
Other long-term provisions		
Warranty provision	139,855	124,817
Other	381	1,235
	140,236	126,052

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 19 – OTHER PROVISIONS (Continued)

The movements of warranty and assembly provisions for the years ended December 31, are as follows:

	2016	2015
Warranty provision		
As of January 1	303,277	237,373
Acquisitions	3,010	-
Additions	483,752	423,781
Disposals	(447,237)	(373,396)
Currency translation differences	23,304	15,519
As of December 31	366,106	303,277
Assembly provision		
As of January 1	64,693	47,369
Additions	278,181	244,991
Disposals	(269,756)	(227,667)
As of December 31	73,118	64,693

NOTE 20 - LONG TERM PROVISION FOR EMPLOYEE BENEFITS

	December 31, 2016	December 31, 2015
Provision for employment termination benefits	201,155	171,630
Provision for vacation pay liability	26,416	20,840
	227,571	192,470

Under the Turkish Legislations, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service 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 full TRY 4,297.21 as of December 31, 2016 (December 31, 2015: full TRY 3,828.37) for each period of service.

The provision for employee termination benefits is not funded, as there is no funding requirement

In accordance with Turkish Labor Code, employment termination benefit is the present value of the total estimated provision for the liabilities of the personnel who may retire in the future, The provision made for present value of determined social relief is calculated by the prescribed liability method, All actuarial gains and losses are accounted in equity as other comprehensive income or loss.

IFRS require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans, The Group makes a calculation for the employment termination benefit by applying the prescribed liability method, by the experiences and by considering the personnel who become eligible for pension, This provision is calculated by expecting the present value of the future liability which will be paid for the retired personnel.

Accordingly, the following demographic and financial actuarial assumptions were used in the calculation of the total liability:

	2016	2015
Net discount rate (%)	4.50	4.60
Turnover rate related the probability of retirement (%)	96.30	95.85

The principal assumption is that the maximum liability for each year of service will increase in line with inflation, Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation, As the maximum liability is revised semi-annually, the maximum amount of full TRY 4.426,16 (January 1, 2016: full TRY 4,092.53) which is effective from January 1, 2017 has been taken into consideration in calculating the reserve for employment termination benefits of the Company.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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

NOTE 20 - LONG TERM PROVISION FOR EMPLOYEE BENEFITS (Continued)

Movements in the provisions for employment termination benefits for the years ended December 31, are as follows:

	2016	2015
As of January 1	171,630	160,984
Interest expense	14,209	12,337
Actuarial losses	45,089	16,810
Acquisitions	47	-
Service cost	11,244	14,045
Payments during the year	(41,908)	(32,997)
Currency translation differences	844	451
As of December 31	201,155	171,630

There are defined benefits having the attributes of employment termination benefits in the foreign subsidiaries of the company. The geographical distribution of provision for employment termination benefits is as follows:

Turkey	197,742	169,340
Non – Turkey	3,413	2,290
	201,155	171,630

The sensitivity analysis of the assumption which was used for the calculation of provision for employment termination benefits as of 31 December 2016 is below:

Sensitivity level	Net discount rate		Turnover rate related the probability of retirement	
	0.5% decrease	0.5% increase	0.5% decrease	0.5% increase
Rate	(%4.0)	(%5.0)	(%95.80)	(%96.80)
Change in employee benefits liability	9,323	(8,599)	(5,140)	5,702

NOTE 21 – PREPAID EXPENSES

	December 31, 2016	December 31, 2015
Short-term prepaid expenses	88,004	57,786
Advances given for inventories	17,709	4,075
Advances given for fixed assets	13,441	13,083
	119,154	74,944

NOTE 22 – CURRENT INCOME TAX ASSETS

	December 31, 2016	December 31, 2015
Prepaid taxes and funds	74,629	27,014

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 23 – EMPLOYEE BENEFIT OBLIGATIONS

	December 31, 2016	December 31, 2015
Payables to personnel	135,737	73,756
Social security payables	93,003	69,458
Accruals for bonuses and premiums	17,558	13,696
	246,298	156,910

NOTE 24 - OTHER ASSETS AND LIABILITIES

	December 31, 2016	December 31, 2015
Other current assets:		
Value added tax and private consumption tax receivable	149,004	76,753
Taxes and funds deductible	79,779	83,348
Income accruals	22,904	9,927
Other	24,888	9,650
	276,575	179,678
Other current liabilities:		
Accruals for customer premiums	292,914	247,938
Advances received	47,686	30,091
Other	5,024	6,842
	345,624	284,871

NOTE 25 - EQUITY

Paid-in capital

The Company adopted the registered share capital system available to companies registered to the CMB and set a limit on its registered share capital representing registered type shares with a nominal value of kurus1. Registered and issued share capital of the Company is as follows:

	December 31, 2016	December 31, 2015
Limit on registered share capital	1,500,000	1,500,000
Issued share capital in nominal value	675,728	675,728

Companies in Turkey may exceed the limit on registered share capital in the event of the issuance of bonus shares to existing shareholders.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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

NOTE 25 – EQUITY (Continued)

The shareholding structure of the Company is as follows:

	December 31, 2016		December 31, 2015	
	Share %	Amount	Share %	Amount
Shareholders:				
Koç Holding A.Ş.,	40.51	273,742	40.51	273,742
Temel Ticaret ve Yatırım A.Ş.	2.75	18,577	2.75	18,577
Koç Family Members	8.67	58,590	8.67	58,590
Total Koç Family members and companies owned by Koç Family members	51.93	350,909	51.93	350,909
Teknosan Büro Makine ve Levazımı Ticaret ve Sanayi A.Ş.	12.05	81,428	12.05	81,428
Burla Ticaret ve Yatırım A.Ş.	5.56	37,572	5.56	37,572
Koç Holding Emekli ve Yardım Sandığı Vakfı	5.14	34,722	5.14	34,722
Vehbi Koç Vakfı	0.17	1,137	0.17	1,137
Other	25.15	169,960	25.15	169,960
Paid-in capital	100.00	675,728	100.00	675,728
Adjustment to share capital (*)		468,811		468,811
Total share capital		1,144,539		1,144,539

(*) "Adjustment to share capital" represents the restatement effect of cash and cash equivalent contributions to share capital measured in accordance with the TAS/TFRS promulgated by the POA. "Adjustment to share capital" has no use other than being transferred to paid-in share capital.

All of the shareholders of the Company have equal rights and there are no preference shares outstanding.

Contribution to shareholders' equity related to the merger

Contribution to shareholders' equity related to the merger with Grundig Elektronik A.Ş. at June 30, 2009.

Restricted reserves

The Turkish Commercial Code ("TCC") stipulates that the general legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Group's paid-in share capital. Other legal reserve is appropriated out of 10% of the distributable income after 5% dividend is paid to shareholders. Under the TCC, general legal reserves can only be used for compensating losses, continuing operations in severe conditions or preventing unemployment and taking actions for relieving its effects in case general legal reserves does not exceed half of paid-in capital or issued capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 25 – EQUITY (Continued)

The details of these restricted reserves are as follows:

	December 31, 2016	December 31, 2015
General legal reserves	83,690	83,690
Other legal reserves	246,182	223,361
	329,872	307,051

As agreed in the ordinary general meeting dated March 25, 2016, the decision to pay dividend as cash has been taken and the payment was made in April 2016 (previous year in April 2015). The dividend details are as follows: 38.8% (2015: 51.8%) corresponding to gross TRY 0.38773 (full) (2015: TRY 0.51796 (full)) (net amount being equal to gross amount) per share of TRY 1.00 (full) nominal value to the institutional shareholders who are full taxpayers and to the limited liable taxpayers who obtain dividends through a business or permanent representative in Turkey; 32.9% (2015: 44.0%) corresponding to gross TRY 0.38773 (full) (2015: gross TRY 0.51796 (full)) and net TRY 0.32957 (full) (2015: net TRY 0.44027 (full)) per share of TRY 1.00 (full) nominal value to the other shareholders.

Retained earnings

Accumulated profits other than net profit for the period are reported in this account. Extraordinary reserves which are not restricted and accordingly considered as accumulated profit is accounted in this account.

Dividend distribution

Listed companies distribute dividend in accordance with the Communiqué No, II-19.1 issued by the CMB which is effective from February 1, 2014.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on interim financial statements of the Company.

In accordance with the Turkish Commercial Code (TCC), unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution policy of the company are set aside, no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

As of December 31, 2016 total amount of current year income in the statutory records and other reserves that can be subject to the dividend distribution of the Company is TRY 755,518 (December 31, 2015: TRY 645,220).

NOTE 26 - SALES AND COST OF SALES

	2016	2015
Domestic sales	6,897,695	6,113,517
Foreign sales	11,204,569	9,791,584
Gross sales	18,102,264	15,905,101
Discounts	(2,006,092)	(1,739,001)
Net sales	16,096,172	14,166,100
Cost of sales	(10,756,612)	(9,630,207)
Gross profit	5,339,560	4,535,893

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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

NOTE 27 -RESEARCH AND DEVELOPMENT EXPENSES, MARKETING EXPENSES AND GENERAL ADMINISTRATIVE EXPENSES

	2016	2015
Marketing expenses:		
Transportation, distribution and storage expenses	915,471	802,411
Warranty and assembly expenses	761,933	668,772
Advertising and promotion expenses	574,109	426,751
Personnel expenses	500,292	430,142
License expenses	52,838	42,574
Depreciation and amortization expenses	37,393	26,629
Energy expenses	7,110	8,256
Other	378,178	316,479
	3,227,324	2,722,014
General administrative expenses:		
Personnel expenses	375,936	297,603
Depreciation and amortization expenses	56,828	44,061
Insurance expenses	47,269	39,108
Information technology expenses	43,141	36,112
Legal consultancy and audit expenses	40,257	24,596
Rent expenses	22,507	19,050
Duties, taxes and levies	17,121	18,822
Donations	15,407	9,984
Repair and maintenance expense	6,997	5,972
Energy expenses	6,619	5,858
Other	130,709	100,902
	762,791	602,068
Research and development expenses (*) :		
Depreciation and amortization expenses	99,738	81,835
Personnel expenses	29,124	24,655
Energy expenses	2,961	2,846
Other	19,845	15,837
	151,668	125,173

(*) Total research and development expenditures in the year, including development costs capitalized, were realized as TRY 207,790 in 2016 (2015: TRY 172,797).

NOTE 28 - EXPENSES BY NATURE

	2016	2015
Raw materials, supplies and trade goods	9,817,005	8,369,061
Changes in finished goods, work in process and trade goods	(501,482)	(28,215)
Personnel expenses	1,793,407	1,530,542
Transportation, distribution and storage expenses	1,001,071	882,598
Warranty and assembly expenses	761,933	668,772
Advertising and promotion expenses	574,109	426,751
Depreciation and amortization expenses	438,682	369,823
Foreign exchange loss arising from trading activities	245,602	168,871
Energy expenses	109,072	106,674
Repair and maintenance expenses	86,954	73,014
Legal consultancy and audit expenses	59,932	37,516
Insurance expenses	58,343	48,575
License expenses	52,838	42,574
Provision expense for doubtful receivables	27,065	17,344
Cash discounts expenses	24,912	25,107
Provision expense for impairment on inventories	22,450	14,123
Credit finance charges arising from trading activities	11,738	1,789
Other	704,537	599,691
	15,288,168	13,354,610

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 29 - OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

	2016	2015
Other income from operating activities:		
Foreign exchange gains arising from trading activities	426,765	306,004
Income from claims and grants	198,860	82,081
Credit finance income arising from trading activities	25,557	17,246
Reversals of provisions	4,335	6,040
Reversal of provisions for doubtful receivables	2,883	1,770
Other	31,667	58,126
	690,067	471,267
Other expenses from operating activities:		
Foreign exchange losses arising from trading activities	(245,602)	(168,871)
Cash discounts expenses	(24,912)	(25,107)
Provision expense for doubtful receivables	(27,065)	(17,344)
Provision expense for impairment on inventories	(22,450)	(14,123)
Credit finance charges arising from trading activities	(11,738)	(1,789)
Other	(58,006)	(47,914)
	(389,773)	(275,148)

NOTE 30 – INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

	2016	2015
Income from investment activities:		
Income from sales of financial investment (*) (Note 6)	413,739	-
Income from sales of property plant and equipment	4,944	4,992
Dividends received from financial investments	59	12,865
	418,742	17,857
Expenses from investment activities:		
Loss from sales of property plant and equipment	(2,413)	(2,781)
	(2,413)	(2,781)

(*) The amount is related to income from sales of shares of Group's available for sale financial asset Koç Finansal Hizmetler A.Ş.

NOTE 31- FINANCIAL INCOME

	2016	2015
Foreign exchange gains (*)	424,314	437,958
Gains on derivative instruments	216,863	321,269
Interest income	28,350	22,972
Other	519	356
	670,046	782,555

(*) Foreign exchange gains are related to cash and cash equivalents, financial borrowings and other liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 32 - FINANCIAL EXPENSES

	2016	2015
Foreign exchange losses (*)	(783,916)	(779,104)
Interest expenses	(440,986)	(388,817)
Losses on derivative instruments	(181,081)	(144,525)
Other	(11,639)	(7,224)
	(1,417,622)	(1,319,670)

(*) Foreign exchange losses are related to cash and cash equivalents, financial borrowings and other liabilities.

NOTE 33 - TAX ASSETS AND LIABILITIES

	December 31, 2016	December 31, 2015
Corporation and income taxes	115,379	99,123
Prepaid tax	(92,016)	(86,061)
Tax liabilities (net)	23,363	13,062
Deferred tax assets	426,746	198,647
Deferred tax liabilities	(412,591)	(149,635)
Deferred tax assets/(liabilities), net	14,155	49,012

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, tax liabilities, as reflected in these consolidated financial statements, have been calculated on a separate-entity basis.

The corporation tax rate is 20% in Turkey (December 31, 2015: 20%). Corporation tax rate is applied to net income of the companies after adjusting for certain disallowable expenses, exempt income and allowances.

Income tax expense for the years ended December 31 is as follows:

	2016	2015
Tax income/(expenses)		
- Current period tax expense	(100,195)	(97,286)
- Deferred tax expense	202,664	205,158
Tax income/(expenses), net	102,469	107,872

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between their statement of financial position accounts prepared in accordance with TAS/IFRS promulgated by POA Financial Reporting Standards and their statutory financial statements. These temporary differences usually result from the recognition of revenue and expenses in different reporting periods for TAS/IFRS and Tax Laws.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 33 - TAX ASSETS AND LIABILITIES (Continued)

The breakdown of cumulative temporary differences and the resulting deferred tax assets/liabilities provided using principal tax rates is as follows:

	Cumulative temporary differences		Deferred tax assets/ (liabilities)	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Property, plant and equipment and intangible assets	2,533,773	1,538,662	(617,996)	(328,536)
Derivative instruments	180,057	145,296	(36,012)	(29,057)
Unearned credit finance income/expense (net)	36,463	49,288	(7,293)	(9,858)
Available-for-sale investments	2,298	393,896	(115)	(19,694)
Unused tax advantages (*)	(4,594,043)	(2,679,899)	489,686	289,226
Provision for warranty, assembly and transportation expenses	(338,062)	(282,602)	70,641	58,459
Provision for employment termination benefits	(197,805)	(169,396)	39,560	33,879
Provision for impairment on inventories	(83,547)	(58,662)	18,171	11,799
Provision for doubtful receivables	(14,868)	(2,275)	4,268	436
Other	(219,956)	(184,727)	53,245	42,358
Deferred tax assets/(liabilities), net			14,155	49,012

(*) Gains arising from investments under incentive certificate are subject to corporate income tax at reduced rates being effective from the financial year which the investment starts to be operated partially or entirely till the period that investment reaches the contribution amount. In this context, as of December 31, 2016 the tax advantage of TRY 441,892 (December 31, 2015: TRY 254,274) in which the corporate income tax at reduced rates is determined by deducting accumulated depreciation in the calculation of the net value of property plant and equipment, from which the Company predicts to benefit in the foreseeable future is recognized as deferred tax asset in the consolidated financial statements.

	2016	2015
Balance as of January 1	49,012	(168,069)
Deferred tax income/(expense) recognized in statement of profit or loss	202,664	205,158
Deferred tax effect on sales of financial investment	19,642	-
Deferred tax income recognized directly in the shareholders' equity	8,956	11,326
Acquisitions (Note 3)	(204,216)	-
Currency translation differences	(61,903)	597
Balance as of December 31	14,155	49,012

Group's total deductible loss of which deferred tax assets have not been calculated are TRY 451,099. Maturity analysis of this amount is as follows:

	December 31, 2016
2016	21,043
2017	30,161
2018	32,850
2019	17,533
2020 and after	349,512
	451,099

Subsidiaries' accumulated and undistributed profits are being used in financing investments and working capital requirements, and the dividend payments are subject to Group management's approval. Complete distribution of these accumulated profits is not anticipated as of balance sheet date, and consequently no resulting deferred tax liability is accrued. As of December 31, 2016, total gross accumulated distributable but undistributed profits of subsidiaries to parent entities amounts to TRY 1,307,428 (December 31, 2015: TRY 728,344).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 33 - TAX ASSETS AND LIABILITIES (Continued)

Reconciliation between tax expenses for the years ended December 31, 2016 and 2015 and calculated tax expense using corporate tax rate in Turkey (20%) is as follows:

	2016	2015
Profit before tax	1,201,681	785,121
Tax expense calculated using 20% local tax rate	(240,336)	(157,024)
Exemptions	118,086	49,530
Effect of unused tax losses for which no deferred tax asset was recognized	(16,940)	(7,579)
Expenses not deductible for tax purposes	(39,789)	(9,690)
Impact of different tax rates in other countries	12,666	(2,147)
Adjustments with no tax effects	75,816	7,865
Utilization of previously unrecognized tax advantages	196,138	232,788
Other	(3,172)	(5,871)
Taxation income/(expense) recognized in statement of profit or loss	102,469	107,872

NOTE 34 - EARNINGS PER SHARE

Earnings per share disclosed in the consolidated statements of income are determined by dividing the net income per share by the weighted average number of shares that have been outstanding during the year.

The Companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. In earnings per share calculation, this bonus share issuance is accepted as shares issued. Hence, weighted average stock share, which is used in the calculation of earnings per share, is acquired by retrospective application of bonus share issue.

Earnings per share and dividends paid in terms of share groups are as follows:

	December 31, 2016	December 31, 2015
Net income	1,299,912	891,141
Weighted average number of ordinary shares with nominal value (kurus1 each one)	67,572,820,500	67,572,820,500
Earnings per share (kurus) (*)	1.924	1.319
Diluted earnings per share (kurus) (*)	1.924	1.319
Dividends distributed to the equity holders of the parent	262,000	350,000
Gross dividend distributed per share (kurus) (*)	0.388	0.518

(*) The earnings and dividends paid per diluted and basic shares do not differ since the shareholders have equal rights on the shares and there is no preferred share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 35 - RELATED PARTY DISCLOSURES

(i) Balances with related parties

	December 31, 2016	December 31, 2015
(a) Due from related parties:		
Yapı ve Kredi Bankası A.Ş. (1)	2,818	1,223
Koçtaş Yapı Marketleri Ticaret A.Ş. (1)	2,318	1,191
Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş. (1)	-	6,343
Other	1,368	193
	6,504	8,950
(b) Due to related parties:		
Current:		
Arçelik-LG (2)	251,160	213,400
Zer Merkezi Hizmetler ve Ticaret A.Ş. (1)	133,419	110,971
Ram Dış Ticaret (2)	46,527	45,020
Koç Holding A.Ş. (3)	22,261	15,999
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. (1)	19,793	3,144
Other	33,004	25,449
	506,164	413,983

(1) Koç Holding group companies

(2) Associates

(3) Parent company

	December 31, 2016	December 31, 2015
Other payables to related parties – Current:		
Zer Merkezi Hizmetler ve Ticaret A.Ş. (*)	16,238	12,982
Other	384	-
	16,622	12,982
Other payables to related parties – Non Current:		
Zer Merkezi Hizmetler ve Ticaret A.Ş. (*)	55,141	59,359
Other	1,151	1,315
	56,292	60,674

(*) The Company has a contract regarding the right to use Beko brand and undertaking the marketing, sales and distribution activities of Beko brand products between the Company and Zer Merkezi Hizmetler ve Ticaret A.Ş. (prior title was Beko Ticaret A.Ş.) for 20 years beginning on 2001. Due to the fact that the rights to use Beko brand will be held by the Company upon the expiration of the contract period, Beko brand has been recognized under intangible assets in the consolidated financial statements of the Group. Net book value of Beko brand, which is held under other liabilities to related parties, amounts to TRY 81,040 as of December 31, 2016. (December 31, 2015: TRY 81,040).

Maturity breakdown of gross future minimum payables of other payables to related parties is as follows:

	December 31, 2016	December 31, 2015
Other payables to related parties (gross)		
Up to 1 year	20,021	16,477
1 to 5 years	61,046	67,411
	81,067	83,888
Future finance charges on other liabilities	(8,153)	(10,232)
Present value of other payables to related parties (net)	72,914	73,656

Maturity analysis of the present value of other payables to related parties is as follows:

	December 31, 2016	December 31, 2015
Up to 1 year	16,622	12,982
1 to 5 years	56,292	60,674
	72,914	73,656

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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

NOTE 35 - RELATED PARTY DISCLOSURES (Continued)

	December 31, 2016	December 31, 2015
(c) Deposits:		
Yapı ve Kredi Bankası A.Ş. and its subsidiaries ⁽¹⁾	441,508	519,044

(d) Krediler:

Yapı ve Kredi Bankası A.Ş. and its subsidiaries	129,985	18,815
---	---------	--------

⁽¹⁾ Koç Holding group companies

(e) Derivative instruments

December 31, 2016	Contract amount	Fair value assets/(liabilities)
Yapı ve Kredi Bankası A.Ş. and its subsidiaries	260,924	1,558 (156)
December 31, 2015	Contract amount	Fair value assets/(liabilities)
Yapı ve Kredi Bankası A.Ş. and its subsidiaries	816,151	293 (914)

(ii) Transactions with related parties

	2016	2015
(a) Sales of goods and services:		
Koçtaş Yapı Marketleri Ticaret A.Ş.	18,046	13,147
Yapı ve Kredi Bankası A.Ş.	17,696	13,562
Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	17,048	30,136
Arçelik-LG	5,387	3,605
Zer Merkezi Hizmetler ve Ticaret A.Ş.	4,903	4,292
Other	5,207	2,619
	68,287	67,361

(b) Other sales:

Koç Holding A.Ş. (*)	558,582	-
----------------------	---------	---

(*) Group's available for sale financial asset Koç Finansal Hizmetler A.Ş. ("KFS") shares corresponding to 3.98% of the share capital is sold to Koç Holding A.Ş. as of June 30, 2016 with the approval of Banking Regulation and Supervision Agency with total remuneration in cash, and profit on sale transaction was booked under income from investment activities (Note 30). The transaction value is determined by taking into account the valuation range indicated in the valuation report prepared by an independent consulting company and the recent market value of Yapı Kredi Bankası shares held by KFS as of the Board Decision date.

(c) Purchases of goods and services:

Zer Merkezi Hizmetler ve Ticaret A.Ş.	857,589	727,967
Arçelik-LG	478,872	379,830
Ram Dış Ticaret	156,037	150,380
Bilkom Bilişim Hizmetleri A.Ş. ⁽¹⁾	144,281	103,610
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	82,597	65,595
Setur Servis Turistik A.Ş. ⁽¹⁾	43,262	30,223
Koç Holding A.Ş. (**)	38,039	31,924
Ram Sigorta Aracılık Hizmetleri A.Ş. (*) ⁽²⁾	26,449	44,901
Other	80,083	61,762
	1,907,209	1,596,192

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 35 - RELATED PARTY DISCLOSURES (Continued)

The Group purchases direct and indirect materials and receives service from Zer Merkezi Hizmetler A.Ş. The average payment term is around sixty days.

The Group purchases air conditioners, produced by Arçelik-LG. Purchasing conditions are determined in line with sales conditions.

(*) The amount is composed of accrued premiums in the period ending December 31, 2016 in scope of policies signed between insurance companies with the intermediary role of Ram Sigorta Aracılık Hizmetleri A.Ş. which is operating as insurance agency.

(**) The amount contains finance, legal consultancy, planning, tax consultancy, senior management service costs invoiced by Parent Company "Koç Holding A.Ş." regarding their related services according to the concealed gain distribution described in Regulation No:11 Intra-Group Services of Transfer Pricing General Communiqué No:1.

(d) Other purchases:

	2016	2015
Temel Ticaret ve Yatırım A.Ş. (*) (2)	-	282,056

(*) The Group purchased Beko UK's 50% shares from Temel Ticaret ve Yatırım A.Ş. at June 29, 2015 for TRY 282,056.

(1) Koç Holding group companies

(2) Company controlled by Koç family members

(e) Key management compensation:

Total compensation provided to members of the Board of Directors, General Manager, Assistant General Managers and Directors directly reporting to General Manager by the Company during the year ended December 31, 2016 amounts to TRY 61,152 (December 31, 2015: TRY 51,289). TRY 17,500 (December 31, 2015: TRY 9,000) of the total compensation is redundancy payments made to the senior executives and the remaining amount is short-term benefits.

(f) Other transactions:

	2016	2015
<i>Interest income:</i>		
Yapı ve Kredi Bankası A.Ş. and its subsidiaries	11,894	11,151
<i>Interest expense:</i>		
Yapı ve Kredi Bankası A.Ş. and its subsidiaries	2,976	10,839

NOTE 36 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

Hedging operations and derivative instruments

Liquidity Risk

The risk of failure in settling financial liabilities is eliminated by managing the balance sheet and expected cash flows in harmony. In this context; the maturities of the financial liabilities are kept in line with the maturities of assets to eliminate any duration mismatch and in order to maintain short term liquidity, net working capital objectives are set and balance sheet ratios are aimed to be kept at particular levels.

Cash flow estimations for midterm and long term liquidity management of the Group are made by taking into account financial market and sector dynamics and cash flow cycle is observed and is tested by various scenarios.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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

NOTE 36 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

The analysis of the Group's financial liabilities with respect to their maturities as of December 31, 2016 is as follows:

Total financial liabilities (non-derivative):	Carrying value	Contractual cash-flows	Up to 3 months	3 months- 12 months	1 year- 5 years	More than 5 years
Financial liabilities	5,657,655	6,576,871	1,021,178	1,428,891	2,235,232	1,891,570
Trade payables	3,085,989	3,103,876	2,996,165	107,711	-	-
Other payables, related parties	72,914	81,067	5,015	15,006	61,046	-
Other payables, third parties	220,873	220,873	211,594	9,279	-	-
	9,037,431	9,982,687	4,233,952	1,560,887	2,296,278	1,891,570

Derivative instruments	Carrying value	Contractual cash-flows	Up to 3 months	3 months- 12 months	1 year- 5 years	More than 5 years
Derivative cash inflows		3,685,320	2,006,662	63,346	253,382	1,361,930
Derivative cash outflows		(2,949,817)	(1,720,255)	(48,056)	(192,484)	(989,022)
Derivative instruments (net)	179,301	735,503	286,407	15,290	60,898	372,908

The analysis of the Group's financial liabilities with respect to their maturities as of December 31, 2015 is as follows:

Total financial liabilities (non-derivative):	Carrying value	Contractual cash-flows	Up to 3 months	3 months- 12 months	1 year- 5 years	More than 5 years
Financial liabilities	5,453,649	6,412,282	1,097,682	1,291,737	1,232,082	2,790,781
Trade payables	2,090,394	2,106,599	2,063,348	43,251	-	-
Other payables, related parties	73,656	83,888	4,143	12,334	67,411	-
Other payables, third parties	155,537	155,537	154,515	1,022	-	-
	7,773,236	8,758,306	3,319,688	1,348,344	1,299,493	2,790,781

Derivative instruments	Carrying value	Contractual cash-flows	Up to 3 months	3 months- 12 months	1 year- 5 years	More than 5 years
Derivative cash inflows		2,876,276	1,437,014	52,337	209,347	1,177,578
Derivative cash outflows		(2,570,550)	(1,428,634)	(42,796)	(172,005)	(927,115)
Derivative instruments (net)	157,772	305,726	8,380	9,541	37,342	250,463

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 36 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Interest Rate Risk

Changes in interest rates create significant risks over financial results with due to the impact on interest sensitive assets and liabilities. These exposures are managed with inter balance sheet methods by maintaining a balance in terms of amount and maturity between interest rate sensitive assets and liabilities and using derivative instruments when considered necessary.

In this context, matching of not only maturities of receivables and payables but also contractual re-pricing dates is crucial. In order to minimize the exposures to interest rate volatility, contractual re-pricing date of financial liabilities and receivables and "fixed interest/ floating interest", "short-term/ long-term" balance within liabilities are structured coherently.

Average effective annual interest rates of statement of financial position accounts as of December 31, 2016 and 2015 are as follows:

December 31, 2016	TRY	EUR	USD	GBP	RON	RUB	CNY	ZAR	CZK	SEK	EGP	NOK	NAD	CHF	AUD	NZD	THB	BWP	VND	PKR	
Current Assets																					
Cash and cash equivalents	-	0.09	0.72	0.02	0.67	8.31	1.73	5.25	0.00	0.00	5.06	0.00	5.00	0.00	0.00	0.00	0.70	1.00	1.00	4.16	
Trade receivables	4.06	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Liabilities																					
Short-term bank borrowings	9.29	0.85	-	-	-	-	4.35	-	-	-	-	-	-	-	-	-	-	-	-	-	6.28
Trade payables	8.34	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-Current Liabilities																					
Long term bank borrowings	11.75	2.62	-	-	-	8.90	-	9.86	-	-	-	-	-	-	-	-	-	-	-	-	-
Long term bonds issued	-	4.00	5.10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
December 31, 2015																					
Current Assets																					
Cash and cash equivalents	-	0.59	1.21	0.25	1.26	10.41	2.29	5.25	0.00	-	4.52	0.13	5.00	0.10	0.50	2.95	0.76	1.00	8.50	1.00	
Trade receivables	2.04	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Liabilities																					
Short-term bank borrowings	10.59	0.72	-	-	-	-	4.35	-	-	1.25	-	-	-	-	-	-	-	-	-	-	-
Trade payables	9.50	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-Current Liabilities																					
Long term bank borrowings	11.85	2.62	-	-	-	8.71	-	9.13	-	-	-	-	-	-	-	-	-	-	-	-	-
Long term bonds issued	-	4.00	5.10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 36 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Analysis of financial instruments of the Company which are sensitive to interest rate changes is as follows:

	2016	2015
Financial instruments with fixed interest rates		
Time deposits	708,381	1,050,725
Borrowings and bonds issued	4,744,460	4,814,462
Other	70,941	40,387
Financial instruments with variable interest rates		
Time deposits	1,066,820	822,775
Borrowings	842,254	598,800

At December 31, 2016, if interest rates of all foreign currency denominated financial assets and liabilities with variable interest rates has strengthened/weakened by 100 base point with all other variables held constant, income before taxes would have been TRY 2,246 (2015: TRY 2,240) lower/ higher as a result of lower/higher interest income/expense arised from time deposits and borrowings with variable interest rates.

Funding risk

The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

Credit risk

The Group is exposed to credit risk arising from receivables from credit financed sales and deposits with banks.

Credit risk of receivables from third parties is managed by securing receivables with collaterals covering receivables at the highest possible proportion. Methods used are as follows:

- Bank guarantees (guarantee letters, letter of credits etc.),
- Credit insurance (Global insurance policies, Eximbank and factoring insurance etc.),
- Mortgages,
- Cheques-notes negotiated.

In credit risk control, for the customers which are not secured with collaterals, the credit quality of the customer is assessed by taking into account its financial position, past experience and other factors. Individual risk limits are set in accordance and the utilization of credit limits is regularly monitored.

For banks, the ratings of the independent rating institutions are taken into consideration.

Same credit risk management principles are used for the management of the financial assets. Investments are made to instruments with highest liquidity and credit note of the company of transaction is taken into consideration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 36 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Details of credit and receivable risk as of December 31, 2016 and December 31, 2015 are as follows:

December 31, 2016	Trade receivables		Bank deposits	Derivative instruments
	Related parties	Third parties		
Maximum exposed credit risk as of reporting date ⁽¹⁾	6,504	5,313,249	2,314,158	183,686
Secured portion of the maximum credit risk by guarantees, etc. ⁽²⁾	-	(4,101,459)	-	-
A. Net book value of financial asset either are not due or not impaired	6,504	4,651,762	2,314,158	183,686
-Secured portion by guarantees, etc.	-	(3,558,228)	-	-
B. Financial assets with renegotiated conditions	-	113,761	-	-
- Secured portion by guarantees, etc.	-	(99,232)	-	-
C. Net book value of overdue but not impaired financial assets	-	498,492	-	-
- Secured portion by guarantees, etc.	-	(394,765)	-	-
D. Net book value of the impaired assets	-	49,234	-	-
- Overdue (Gross book value)	-	186,402	-	-
- Impairment (-)	-	(137,168)	-	-
- Secured portion of the net value by guarantees, etc.	-	(49,234)	-	-
December 31, 2015	Trade receivables		Bank deposits	Derivative instruments
	Related parties	Third parties		
Maximum exposed credit risk as of reporting date ⁽¹⁾	8,950	4,794,780	2,084,040	161,035
Secured portion of the maximum credit risk by guarantees, etc. ⁽²⁾	-	(3,592,264)	-	-
A. Net book value of financial asset either are not due or not impaired	8,950	4,345,094	2,084,040	161,035
-Secured portion by guarantees, etc.	-	(3,222,520)	-	-
B. Financial assets with renegotiated conditions	-	51,233	-	-
- Secured portion by guarantees, etc.	-	(43,077)	-	-
C. Net book value of overdue but not impaired financial assets	-	354,592	-	-
- Secured portion by guarantees, etc.	-	(282,806)	-	-
D. Net book value of the impaired assets	-	43,861	-	-
- Overdue (Gross book value)	-	154,462	-	-
- Impairment (-)	-	(110,601)	-	-
- Secured portion of the net value by guarantees, etc.	-	(43,861)	-	-

⁽¹⁾ Amounts showing the maximum credit risk exposed as of reporting date by excluding guarantees in hand and other factors that increase the credit quality.

⁽²⁾ Major part of guarantees is composed of mortgages and trade receivable insurances.

a) Credit quality of financial assets which are not overdue and not impaired and receivables which are re-negotiated

	December 31, 2016	December 31, 2015
Group 1	12,859	7,392
Group 2	4,605,763	4,324,138
Group 3	153,405	73,747
	4,772,027	4,405,277

Group 1 - New customers (customers for a period less than 3 months).

Group 2 - Existing customers with no defaults in the past (customers for a period of more than 3 months).

Group 3 - Existing customers with some defaults in the past of which were fully recovered.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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

NOTE 36 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

b) Aging analysis of the receivables which are overdue but not impaired

	December 31, 2016	December 31, 2015
0-1 month	262,254	116,510
1-3 months	166,955	165,005
3-12 months	37,057	38,950
1-5 years	32,226	34,127
	498,492	354,592

c) Geographical concentration of the trade receivables

	December 31, 2016	December 31, 2015
Turkey	2,941,721	2,826,024
Europe	1,329,242	1,314,972
Other	1,048,790	662,734
	5,319,753	4,803,730

Foreign exchange risk

Since the Group operates in a diverse geographical area, operations are performed using multiple currencies. Therefore, foreign exchange risk is one of the most significant financial risks that the Group is exposed to.

Trade relations between the Company and its subsidiaries are structured within the framework of relevant legislations and managed centrally by subsidiaries' functional currencies. Thus, foreign currency risk born by the subsidiaries is minimized.

Foreign exchange risk is followed based on functional currency of each subsidiary. It is aimed to set the ratio of foreign exchange risk position over equity at a predetermined interval.

The main principle of foreign currency risk management is to minimize the impact of foreign exchange fluctuations by maintaining foreign exchange asset position close to zero.

Inter balance sheet methods are preferred for the management of foreign currency risk as in other risk items. However, when necessary, derivative instruments are also used for maintaining foreign currency position at a predetermined level.

Foreign currency hedge of net investments in foreign operations

The Group designated some portion of the Euro dominated bonds issued as a hedging instrument in order to hedge the foreign currency risk arisen from the translation of net assets of part of the subsidiaries operating in Europe from Euro to Turkish Lira. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in equity in foreign currency hedge of net investments in foreign operations fund in order to net off the increment value fund arisen from the translation of the net assets of investments in foreign operations. As of December 31, 2016 a portion of bank borrowings amounting to EUR 150,000,000 (before tax) was designated as a net investment hedging instrument (December 31, 2015: EUR 150,000,000).

Foreign currency position

Assets and liabilities denominated in foreign currency held by the Group before consolidation adjustments are as follows:

	December 31, 2016	December 31, 2015
Assets	3,913,700	3,408,875
Liabilities	(4,962,169)	(3,892,464)
Net position of financial statement	(1,048,469)	(483,589)
Net position of derivative instruments	901,901	503,552
Foreign currency position (net)	(146,568)	19,963

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 36 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Currencies, other than the functional currencies of the Company and its subsidiaries are accepted as foreign currencies. The original currencies are presented in thousands ('000). The original currency amounts of assets and liabilities denominated in foreign currencies and the total TRY equivalent as of December 31, 2016 are as follows:

	EUR	USD	GBP	RUB	PLN	CZK	NOK	SEK	ZAR	DKK	AUD	NZD	JPY	CAD	CNY	CHF	TRY Equivalent
Current Assets	560,973	261,562	101,397	561,181	107,146	263,827	-	3,867	297,801	82,257	33,193	404	1,099	1,780	207,361	619	3,913,700
Trade receivables	358,701	165,603	101,309	561,181	107,145	263,809	-	31	297,795	60,298	33,167	399	-	1,780	177,304	-	2,795,401
Monetary financial assets	172,062	29,058	10	-	1	18	-	3,836	6	21,959	15	5	-	-	-	1	753,117
Other	30,210	66,901	78	-	-	-	-	-	-	-	11	-	1,099	-	30,056	618	365,182
Total Assets	560,973	261,562	101,397	561,181	107,146	263,827	-	3,867	297,801	82,257	33,193	404	1,099	1,780	207,361	619	3,913,700
Current Liabilities																	
Trade payables	204,657	202,719	1,269	-	-	-	240	334	9,156	1,186	6,637	148	73,754	-	61,427	643	1,533,887
Financial liabilities	27,372	8,115	-	-	-	-	-	-	-	-	-	-	-	-	-	-	130,105
Other monetary liabilities	781	4,863	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20,011
Non-Current Liabilities																	
Financial liabilities	394,465	500,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,223,026
Other monetary liabilities	-	15,668	-	-	-	-	-	-	-	-	-	-	-	-	-	-	55,140
Total Liabilities	627,275	731,365	1,269	-	-	-	240	334	9,156	1,186	6,637	148	73,754	-	61,427	643	4,962,169
Net Position of Financial Statement	(66,302)	(469,803)	100,128	561,181	107,146	263,827	(240)	3,533	288,645	81,071	26,556	256	(72,655)	1,780	145,934	(24)	(1,048,469)
Off-balance sheet derivative assets (*)	355,677	472,391	-	-	5,000	-	-	-	-	-	5,800	-	-	-	-	-	3,000,886
Off-balance sheet derivative liabilities (*)	(303,812)	(14,465)	(107,903)	(590,000)	(118,000)	(255,000)	-	-	(297,000)	(78,000)	(32,000)	-	-	(1,800)	(170,000)	-	(2,098,985)
Net position of off-balance sheet items	51,865	457,926	(107,903)	(590,000)	(113,000)	(255,000)	-	-	(297,000)	(78,000)	(26,200)	-	-	(1,800)	(170,000)	-	901,901
Net Asset/(Liability) Position of Foreign Currency	(14,437)	(11,877)	(7,775)	(28,819)	(5,854)	8,827	(240)	3,533	(8,355)	3,071	356	256	(72,655)	(20)	(24,066)	(24)	(146,568)
Net Asset/(Liability) Position of Foreign Currency Monetary Items	(96,512)	(536,704)	100,050	561,181	107,146	263,827	(240)	3,533	288,645	81,071	26,545	256	(73,754)	1,780	115,878	(642)	(1,413,651)
Fair Value of Financial Instruments Used for Foreign Exchange Hedge																	179,301
Hedged Amount of Foreign Currency Assets	303,812	14,465	107,903	590,000	118,000	255,000	-	-	297,000	78,000	32,000	-	-	1,800	170,000	-	2,098,985
Hedged Amount of Foreign Currency Liabilities	205,677	472,391	-	-	5,000	-	-	-	-	-	5,800	-	-	-	-	-	2,444,401

(*) Some portion of EUR denominated bonds issued designated as hedging instrument against to the foreign currency risk arisen from the conversion of net investments in foreign operation at subsidiaries located in Europe, is included in off balance sheet derivative assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 36 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Net foreign currency positions against the functional currencies are as follows:

December 31, 2016	EUR	USD	GBP	RUB	PLN	CZK	NOK	SEK	ZAR	DKK	AUD	NZD	JPY	CAD	CNY	CHF	TRY equivalent
Against TRY	(6,935)	26,836	(7,208)	(28,819)	(5,854)	8,809	-	-	-	-	767	-	(69,912)	(20)	7,305	(24)	35,601
Against EUR	-	2,905	-	-	-	-	-	-	801	-	-	-	-	-	-	-	10,429
Against RUB	5,556	1,119	-	-	-	-	-	-	-	-	-	-	-	-	-	-	24,550
Against PLN	(345)	102	-	-	-	18	-	-	-	-	-	-	-	-	-	-	(919)
Against GBP	758	863	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,849
Against RON	1,583	(4,232)	179	-	-	-	-	-	-	-	-	-	(2,697)	-	-	-	(8,328)
Against CZK	755	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,801
Against NOK	3,446	-	-	-	-	-	-	3,533	-	2,880	-	-	-	-	-	-	15,582
Against SEK	(4,974)	(2)	-	-	-	-	(240)	-	-	191	-	-	-	-	-	-	(18,463)
Against USD	1,025	2,021	42	-	-	-	-	-	-	-	-	-	-	-	-	-	11,096
Against ZAR	(2,595)	(1,528)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(15,004)
Against AUD	(57)	68	-	-	-	-	-	-	-	-	-	256	-	-	-	-	656
Against EGP	6	(29,839)	(794)	-	-	-	-	-	-	-	-	-	-	-	-	-	(108,416)
Against HRV	(3,061)	48	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(11,187)
Against CHF	(3,129)	672	-	-	-	-	-	-	(9,156)	-	-	-	-	-	-	-	(9,243)
Against BWP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,352)
Against NZD	(32)	(12)	-	-	-	-	-	-	-	(411)	-	-	-	-	-	-	(1,204)
Against USD	250	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	927
Against RSD	(5,575)	(301)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(21,742)
Against THB	(649)	(953)	-	-	-	-	-	-	-	-	-	-	(46)	-	-	-	(5,763)
Against MYR	-	(1,068)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,759)
Against VND	-	(3,072)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(10,811)
Against PKR	(464)	(5,504)	6	-	-	-	-	-	-	-	-	-	-	-	(31,371)	-	(36,868)
	(14,437)	(11,877)	(7,775)	(28,819)	(5,854)	8,827	(240)	3,533	(8,355)	3,071	356	256	(72,655)	(20)	(24,066)	(24)	(146,568)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 36 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Currencies, other than the functional currencies of the Company and its subsidiaries are accepted as foreign currencies. The original currencies are presented in thousands ('000). The original currency amounts of assets and liabilities denominated in foreign currencies and the total TRY equivalent as of December 31, 2016 are as follows:

	EUR	USD	GBP	RUB	PLN	ROL	CZK	NOK	SEK	ZAR	DKK	AUD	NZD	JPY	CAD	THB	CNY	CHF	TRY Equivalent
Current Assets																			
Trade receivables	397,859	153,391	99,841	1,088,041	84,794	-	220,846	24,807	101,767	674,127	41,963	33,871	-	-	1,249	-	-	-	2,540,959
Monetary financial assets	184,376	41,625	89	10	-	-	21	-	4,246	-	8,302	5	4	-	-	175	-	-	712,316
Other	13,216	38,887	121	-	-	-	-	-	-	-	-	8	-	-	-	-	-	-	155,600
Total Assets	595,451	233,903	100,051	1,088,051	84,794	-	220,867	24,807	106,013	674,127	50,265	33,884	4	-	1,249	175	13,341	-	3,408,875
Current Liabilities																			
Trade payables	133,365	148,153	1,853	-	-	-	-	199	165,883	18,228	-	4,542	-	-	-	128	-	175	933,449
Financial liabilities	27,891	6,666	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	108,008
Other monetary liabilities	13	4,650	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,561
Non-Current Liabilities																			
Financial liabilities	416,757	500,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,778,087
Other monetary liabilities	-	20,415	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	59,359
Total Liabilities	578,026	679,884	1,853	-	-	-	-	199	165,883	18,228	-	4,542	-	-	-	128	-	175	3,882,484
Net Position of Financial Statement	17,425	(445,981)	98,198	1,088,051	84,794	-	220,867	24,608	(59,870)	655,899	50,265	29,342	4	-	1,249	47	13,341	(175)	(483,589)
Off-balance sheet derivative assets (*)	298,370	497,228	7,000	-	-	-	-	-	137,818	-	-	4,390	-	-	-	-	-	-	2,480,832
Off-balance sheet derivative liabilities	(312,245)	(63,969)	(96,147)	(1,130,000)	(85,000)	-	(192,500)	(22,000)	(86,000)	(670,000)	(30,000)	(35,000)	-	-	(2,000)	-	-	-	(1,977,280)
Net position of off-balance sheet items	(13,875)	433,260	(89,147)	(1,130,000)	(85,000)	-	(192,500)	(22,000)	51,818	(670,000)	(30,000)	(30,610)	-	-	(2,000)	-	-	-	503,552
Net Asset/(Liability) Position of Foreign Currency	3,550	(12,722)	9,051	(41,949)	(206)	-	28,367	2,608	(8,053)	(14,101)	20,265	(1,268)	4	-	(751)	47	13,341	(175)	19,963
Net Asset/(Liability) Position of Foreign Currency Monetary Items	4,209	(484,868)	98,077	1,088,051	84,794	-	220,867	24,608	(59,870)	655,899	50,265	29,334	4	-	1,249	47	13,341	(175)	(639,189)
Fair Value of Financial Instruments Used for Foreign Exchange Hedge																			
Hedged Amount of Foreign Currency Assets	312,245	63,969	96,147	1,130,000	85,000	-	192,500	22,000	86,000	670,000	30,000	35,000	-	-	2,000	-	-	-	1,977,280
Hedged Amount of Foreign Currency Liabilities	148,370	497,228	7,000	-	-	-	-	-	137,818	-	-	4,390	-	-	-	-	-	-	2,004,192

(*) Some portion of EUR denominated bonds issued designated as hedging instrument against to the foreign currency risk arisen from the conversion of net investments in foreign operation at subsidiaries located in Europe, is included in off balance sheet derivative assets.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**
(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 36 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Net foreign currency positions against the functional currencies are as follows:

December 31, 2015	EUR	USD	GBP	RUB	PLN	CZK	NOK	SEK	ZAR	DKK	AUD	NZD	CAD	THB	CNY	CHF	TRY equivalent
Against TRY	8,468	29,139	9,187	(41,949)	(206)	28,346	2,808	15,683	-	-	(1,207)	-	(751)	175	13,341	(175)	160,330
Against EUR	-	666	-	-	-	-	-	-	4,127	-	-	-	-	-	-	-	2,715
Against RUB	2,068	(452)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,257
Against PLN	41	15	-	-	-	21	-	-	-	-	-	-	-	-	-	-	176
Against GBP	(68)	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(210)
Against RON	213	(1,281)	70	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,747)
Against CZK	477	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,516
Against NOK	6,218	(60)	-	-	-	-	-	(23,735)	-	20,265	-	-	-	-	-	-	19,943
Against SEK	(4,710)	(38)	-	-	-	-	(191)	-	-	-	-	-	-	-	-	-	(15,139)
Against CNY	365	2,192	588	-	-	-	-	-	-	-	-	-	-	-	-	-	10,062
Against ZAR	(269)	(2,269)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,452)
Against AUD	(186)	365	-	-	-	-	-	-	-	-	-	4	-	-	-	-	478
Against EGP	(3)	(34,531)	(794)	-	-	-	-	-	-	-	-	-	-	-	-	-	(103,827)
Against HRV	(4,969)	(5,954)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(33,101)
Against CHF	88	602	-	-	-	-	(9)	-	-	-	-	-	-	-	-	-	2,027
Against BWP	-	-	-	-	-	-	-	-	(18,228)	-	-	-	-	-	-	-	(3,441)
Against NZD	(333)	-	-	-	-	-	-	-	-	-	(61)	-	-	-	-	-	(1,187)
Against USD	184	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	585
Against RSD	(1,709)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,431)
Against HUF	(6)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(19)
Against THB	(2,319)	(804)	-	-	-	-	-	-	-	-	-	-	-	(74)	-	-	(9,707)
Against MYR	-	(294)	-	-	-	-	-	-	-	-	-	-	-	(54)	-	-	(861)
Against VND	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4)
	3,550	(12,722)	9,051	(41,949)	(206)	28,367	2,608	(8,053)	(14,101)	20,265	(1,268)	4	(751)	47	13,341	(175)	19,963

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 36 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

As of December 31, 2016 and December 31, 2015, if related currencies had appreciated by 10% against TRY with all other variables held constant, profit before tax and other comprehensive income (before tax) as a result of foreign exchange losses on the translation of foreign exchange position is presented in the tables below. Secured portions include impact of derivative instruments.

	Gain/Loss		Other Comprehensive Income	
	Foreign exchange appreciation by 10%	Foreign exchange depreciation by 10%	Foreign exchange appreciation by 10%	Foreign exchange depreciation by 10%
December 31, 2016				
USD net asset/liability	(165,333)	165,333	(163,093)	163,093
Secured portion from USD risk	161,153	(161,153)	161,153	(161,153)
USD Net effect	(4,180)	4,180	(1,940)	1,940
EUR net asset/liability	31,052	(31,052)	42,429	(42,429)
Secured portion from EUR risk	(36,408)	36,408	19,241	(19,241)
EUR Net effect	(5,356)	5,356	61,670	(61,670)
GBP net asset/liability	43,244	(43,244)	50,996	(50,996)
Secured portion from GBP risk	(46,602)	46,602	(46,602)	46,602
GBP Net effect	(3,358)	3,358	4,394	(4,394)
RUB net asset/liability	3,217	(3,217)	39,247	(39,247)
Secured portion from RUB risk	(3,382)	3,382	(3,382)	3,382
RUB Net effect	(165)	165	35,865	(35,865)
RON net asset/liability	-	-	80,689	(80,689)
Secured portion from RON risk	-	-	-	-
RON Net effect	-	-	80,689	(80,689)
PLN net asset/liability	9,027	(9,027)	15,336	(15,336)
Secured portion from PLN risk	(9,520)	9,520	(9,520)	9,520
PLN Net effect	(493)	493	5,816	(5,816)
CZK net asset/liability	3,632	(3,632)	6,726	(6,726)
Secured portion from CZK risk	(3,510)	3,510	(3,510)	3,510
CZK Net effect	122	(122)	3,216	(3,216)
NOK net asset/liability	(10)	10	407	(407)
Secured portion from NOK risk	-	-	-	-
NOK Net effect	(10)	10	407	(407)
SEK net asset/liability	136	(136)	4,264	(4,264)
Secured portion from SEK risk	-	-	-	-
SEK Net effect	136	(136)	4,264	(4,264)
NZD net asset/liability	63	(63)	63	(63)
Secured portion from NZD risk	-	-	-	-
NZD Net effect	63	(63)	63	(63)
ZAR net asset/liability	7,410	(7,410)	69,400	(69,400)
Secured portion from ZAR risk	(7,625)	7,625	(7,625)	7,625
ZAR Net effect	(215)	215	61,775	(61,775)
AUD net asset/liability	6,736	(6,736)	5,855	(5,855)
Secured portion from AUD risk	(6,646)	6,646	(6,646)	6,646
AUD Net effect	90	(90)	(791)	791
DKK net asset/liability	4,039	(4,039)	4,039	(4,039)
Secured portion from DKK risk	(3,886)	3,886	(3,886)	3,886
DKK Net effect	153	(153)	153	(153)
JPY net asset/liability	(218)	218	(218)	218
Secured portion from JPY risk	-	-	-	-
JPY Net effect	(218)	218	(218)	218
CAD net asset/liability	464	(464)	464	(464)
Secured portion from CAD risk	(469)	469	(469)	469
CAD Net effect	(5)	5	(5)	5
THB net asset/liability	-	-	26,214	(26,214)
Secured portion from THB risk	-	-	-	-
THB Net effect	-	-	26,214	(26,214)
EGP net asset/liability	-	-	(8,141)	8,141
Secured portion from EGP risk	-	-	-	-
EGP Net effect	-	-	(8,141)	8,141
UAH net asset/liability	-	-	607	(607)
Secured portion from UAH risk	-	-	-	-
UAH Net effect	-	-	607	(607)
CNY net asset/liability	7,351	(7,351)	15,468	(15,468)
Secured portion from CNY risk	(8,564)	8,564	(8,564)	8,564
CNY Net effect	(1,213)	1,213	6,904	(6,904)
CHF net asset/liability	(8)	8	26,697	(26,697)
Secured portion from CHF risk	-	-	-	-
CHF Net effect	(8)	8	26,697	(26,697)
BWP net asset/liability	-	-	89	(89)
Secured portion from BWP risk	-	-	-	-
BWP Net effect	-	-	89	(89)
RSD net asset/liability	-	-	1,573	(1,573)
Secured portion from RSD risk	-	-	-	-
RSD Net effect	-	-	1,573	(1,573)
MYR net asset/liability	-	-	11	(11)
Secured portion from MYR risk	-	-	-	-
MYR Net effect	-	-	11	(11)
VND net asset/liability	-	-	400	(400)
Secured portion from VND risk	-	-	-	-
VND Net effect	-	-	400	(400)
PKR net asset/liability	-	-	85,906	(85,906)
Secured portion from PKR risk	-	-	-	-
PKR Net effect	-	-	85,906	(85,906)
	(14,657)	14,657	395,618	(395,618)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 36 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

December 31, 2015	Gain/Loss		Other Comprehensive Income	
	Foreign exchange appreciation by 10%	Foreign exchange depreciation by 10%	Foreign exchange appreciation by 10%	Foreign exchange depreciation by 10%
USD net asset/liability	(129,674)	129,673	(128,553)	128,553
Secured portion from USD risk	125,975	(125,975)	125,975	(125,975)
USD Net effect	(3,699)	3,698	(2,578)	2,578
EUR net asset/liability	53,201	(53,202)	55,402	(55,402)
Secured portion from EUR risk	(52,073)	52,073	(4,409)	4,409
EUR Net effect	1,128	(1,129)	50,993	(50,993)
GBP net asset/liability	42,232	(42,232)	46,370	(46,370)
Secured portion from GBP risk	(38,339)	38,339	(38,339)	38,339
GBP Net effect	3,893	(3,893)	8,031	(8,031)
RUB net asset/liability	4,310	(4,310)	24,503	(24,503)
Secured portion from RUB risk	(4,476)	4,476	(4,476)	4,476
RUB Net effect	(166)	166	20,027	(20,027)
RON net asset/liability	-	-	57,110	(57,110)
Secured portion from RON risk	-	-	-	-
RON Net effect	-	-	57,110	(57,110)
PLN net asset/liability	6,360	(6,361)	10,165	(10,165)
Secured portion from PLN risk	(6,376)	6,376	(6,376)	6,376
PLN Net effect	(16)	15	3,789	(3,789)
CZK net asset/liability	2,599	(2,599)	4,464	(4,464)
Secured portion from CZK risk	(2,265)	2,265	(2,265)	2,265
CZK Net effect	334	(334)	2,199	(2,199)
NOK net asset/liability	815	(815)	1,332	(1,332)
Secured portion from NOK risk	(729)	729	(729)	729
NOK Net effect	86	(86)	603	(603)
SEK net asset/liability	(2,068)	2,068	952	(952)
Secured portion from SEK risk	1,790	(1,790)	1,790	(1,790)
SEK Net effect	(278)	278	2,742	(2,742)
NZD net asset/liability	1	(1)	1	(1)
Secured portion from NZD risk	-	-	-	-
NZD Net effect	1	(1)	1	(1)
ZAR net asset/liability	12,379	(12,379)	53,752	(53,752)
Secured portion from ZAR risk	(12,645)	12,645	(12,645)	12,645
ZAR Net effect	(266)	266	41,107	(41,107)
AUD net asset/liability	6,207	(6,207)	5,993	(5,993)
Secured portion from AUD risk	(6,475)	6,475	(6,475)	6,475
AUD Net effect	(268)	268	(482)	482
DKK net asset/liability	2,137	(2,137)	2,137	(2,137)
Secured portion from DKK risk	(1,276)	1,276	(1,276)	1,276
DKK Net effect	861	(861)	861	(861)
CAD net asset/liability	262	(262)	262	(262)
Secured portion from CAD risk	(419)	419	(419)	419
CAD Net effect	(157)	157	(157)	157
THB net asset/liability	-	-	25,392	(25,392)
Secured portion from THB risk	-	-	-	-
THB Net effect	-	-	25,392	(25,392)
EGP net asset/liability	-	-	(1,380)	1,380
Secured portion from EGP risk	-	-	-	-
EGP Net effect	-	-	(1,380)	1,380
UAH net asset/liability	-	-	(1,492)	1,492
Secured portion from UAH risk	-	-	-	-
UAH Net effect	-	-	(1,492)	1,492
CNY net asset/liability	594	(594)	7,729	(7,729)
Secured portion from CNY risk	-	-	-	-
CNY Net effect	594	(594)	7,729	(7,729)
CHF net asset/liability	(51)	51	19,927	(19,927)
Secured portion from CHF risk	-	-	-	-
CHF Net effect	(51)	51	19,927	(19,927)
BWP net asset/liability	-	-	254	(254)
Secured portion from BWP risk	-	-	-	-
BWP Net effect	-	-	254	(254)
RSD net asset/liability	-	-	252	(252)
Secured portion from RSD risk	-	-	-	-
RSD Net effect	-	-	252	(252)
MYR net asset/liability	-	-	983	(983)
Secured portion from MYR risk	-	-	-	-
MYR Net effect	-	-	983	(983)
VND net asset/liability	-	-	870	(870)
Secured portion from VND risk	-	-	-	-
VND Net effect	-	-	870	(870)
	1,996	(1,999)	236,781	(236,781)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 36 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Import and exports performed to / from Turkey for the year ended as of December 31, 2016 and 2015 are as follows:

	December 31, 2016		December 31, 2015	
	Original amount	TRY equivalent	Original amount	TRY equivalent
EUR	1,000,603,460	3,348,985	971,546,139	3,087,185
USD	329,703,181	994,189	306,330,827	890,688
GBP	272,859,689	1,108,634	257,782,584	1,108,646
Other		578,237		582,728
Total exports		6,030,045		5,669,247
EUR	358,994,291	1,198,790	372,605,376	1,128,992
USD	742,971,249	2,236,634	828,830,857	2,238,364
GBP	914,558	3,722	1,099,171	4,502
Other		13,706		6,023
Total imports		3,452,852		3,377,881

Capital Risk Management

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

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

The gearing ratios as of December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
Total financial liabilities (Note 7)	5,657,655	5,453,649
Cash and cash equivalents (Note 5)	(2,441,871)	(2,167,627)
Net financial liabilities	3,215,784	3,286,022
Equity	6,004,577	4,675,837
Total capital invested	9,220,361	7,961,859
Gearing ratio	35%	41%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 37 - FINANCIAL INSTRUMENTS

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined by the Group, using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

Following methods and assumptions were used to estimate the fair value of the financial instruments for which is practicable to estimate fair value:

Financial Assets

The carrying values of financial assets including cash and cash equivalents which are accounted with their costs are estimated to be their fair values since they are short term.

The carrying values of trade receivables along with the related allowances for uncollectibility are estimated to be their fair values.

Financial Liabilities

The fair values of short-term financial liabilities and other financial liabilities are estimated to be their fair values since they are short term.

As of December 31, 2016 the carrying value and the fair value of the long-term borrowings, including the short term portions, are equal to TRY 4,418,497 (December 31, 2015: TRY 4,417,908) (Note 7), and TRY 4,418,228 (December 31, 2015: TRY 4,437,055) respectively. Fair value is calculated by discounting the cash out flows regarding due dates of financial liabilities considering the changing country risk premium and changes in market interest rates.

Fair value hierarchy table

The Group classifies the fair value measurement of each class of financial instruments according to the source, using the three-level hierarchy, as follows:

Level 1: Market price valuation techniques for the determined financial instruments traded in markets (unadjusted)

Level 2: Other valuation techniques includes direct or indirect observable inputs

Level 3: Valuation techniques does not contains observable market inputs

Fair value hierarchy table as of December 31, 2016 is as follows:

Financial assets carried at fair value in statement of financial position	Level 1	Level 2	Level 3
Derivative instruments (assets) (Note 8)	-	183,686	-
Financial investments (Note 6)	2,656	-	-

Financial liabilities carried at fair value in statement of financial position

Derivative instruments (liabilities) (Note 8)	-	4,385	-
---	---	-------	---

Fair value hierarchy table as of December 31, 2015 is as follows:

Financial assets carried at fair value in statement of financial position	Level 1	Level 2	Level 3
Derivative instruments (assets) (Note 8)	-	161,035	-
Financial investments (Note 6)	-	537,684	-

Financial liabilities carried at fair value in statement of financial position

Derivative instruments (liabilities) (Note 8)	-	3,263	-
---	---	-------	---

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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

NOTE 38 - SUPPLEMENTARY CASH FLOW INFORMATION

Statements of cash flows are presented within the consolidated financial statements.

Details of "changes in provisions" line presented in the consolidated statements of cash flows are as follows:

	1 January- December 31, 2016	1 January- December 31, 2015
Adjustments for provisions:		
Warranty provision	62,829	50,385
Accrual for customer premiums	44,976	11,515
Provision for employment termination benefits	25,453	26,382
Provision for assembly and transportation cost	21,031	21,290
Provision for vacation pay liability	5,576	6,928
Accrual for bonuses and premiums	3,862	(23,525)
Provision for legal claims	513	(2,346)
Return provisions	(2,426)	1,051
	161,814	91,680

	1 January- December 31, 2016	1 January- December 31, 2015
Adjustments for impairment loss:		
Provision for doubtful receivables	27,065	17,344
Provision for impairment on inventories	22,450	14,123
	49,515	31,467

NOTE 39 – EVENTS AFTER BALANCE SHEET DATE

None.



General Information

Reporting Period	:	01.01.2016 - 31.12.2016
Trade Name	:	Arçelik A.Ş.
Trade Registry and Number	:	İstanbul Trade Registry, No: 54957
HQ Address	:	Karaağaç Caddesi No:2-6 Sütlüce 34445 Beyoğlu - İstanbul
Web	:	www.arcelikas.com
Phone	:	+90 212 314 34 34
Fax	:	+90 212 314 34 63
Call Center	:	444 0 888



Arçelik A.Ş. Contact Information

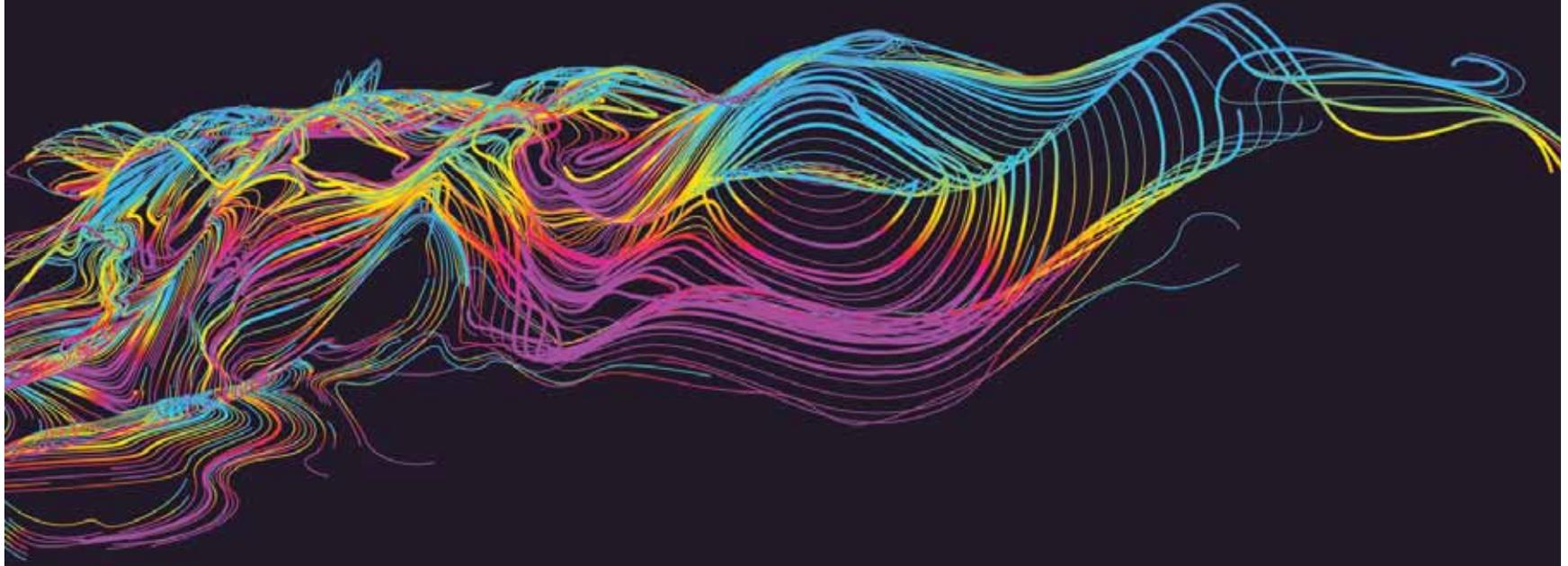
Polat Şen
Assistant General Manager Finance and Accounting
e-mail: polat.sen@arcelik.com
Phone: 00 90 212 314 34 34
Fax: 00 90 212 314 34 60

 This report has been published using recycled paper.

Please download the Annual Report's app to smartphones and tablets by reading the QR code.



Design made by **Duayen** Reklam



Arçelik A.Ş.

Karaağaç Cad. No:2-6 Sötlöce, Beyođlu 34445 İstanbul, Turkey T: +90 212 314 34 34 F: +90 212 314 34 63

www.arcelikas.com

