(Convenience translation of the independent auditors' report and consolidated financial statements originally issued in Turkish)

Arçelik Anonim Şirketi

Consolidated financial statements as of and for the year ended December 31, 2016 together with independent auditors' report

Güney Bağımsız Denetim ve SMMM A.Ş.
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(Convenience translation of a report and consolidated financial statements originally issued in Turkish)

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.

(Convenience translation of a report and consolidated financial statements originally issued in Turkish)

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

Ethem Kutucular, SMMM
Partner

February 6, 2017
İstanbul, Türkiye

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ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016

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

		Audited	
	Notes	**December 31, 2016**	**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.

ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2016

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

		Audited	
	Notes	December 31, 2016	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**

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

ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2016

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

	Notes	Audited 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		

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

ARÇELİK ANONİM ŞİRKETİ

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

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

		Audited	
	Notes	**2016**	**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**

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

ARÇELİK ANONİM ŞİRKETİ

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

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

	Audited	
	2016	**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 wil 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**

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

ARÇELİK ANONİM ŞİRKETİ

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 comprehensive 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				
	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	Currency translation differences	Restricted reserves	Accumulated profit	Net income	Equity holders of the parent	Non-controlling interest	Total equity
					Actuarial gain/loss arising from defined benefit plans	Increases/ decreases on revaluation of non-current assets		Gains/ losses on remeasuring and/or reclassification of available-for-sale financial assets							
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)	-	-	-
Geçmiş yıllara ilişkin düzeltmelerin etkisi	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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.

ARÇELİK ANONİM ŞİRKETİ

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 comprehensive 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				
					Gains/ losses on revaluation and remeasurement			Gains/ losses on revaluation and reclassification							
	Paid-in capital	Adjustment to share capital	Share premium /discount	Balancing account for merger capital	Actuarial gain/loss arising from defined benefit plans	Increases/ decreases on revaluation of non-current assets	Gains/ losses on hedge	Gains/ losses on remeasuring and/or reclassification of available-for-sale financial assets	Currency translation differences	Restricted reserves	Accumulated profit	Net income	Equity holders of the parent	Non-controlling interest	Total equity
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.

ARÇELİK ANONİM ŞİRKETİ

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

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

		Audited	
	Notes	2016	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 ınvestments accounted for using equity method	12	(34,857)	(24,403)
Adjustments for fair value (gains) losses on derivative financial ınstruments	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 ıncome 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 ınstruments 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.

(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	-	-

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

* Branches of the Subsidiary, which operate in a different country, are separately presented.

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.

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

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.

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.

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

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.

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.

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

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.

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.

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

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.

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

Annual Improvements to IFRSs - 2014-2016 Cycle

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

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.
- 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.

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

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/TFRS 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/TFRS 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.

(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:

		December 31, 2016		December 31, 2015	
	Functional currency	**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 liquidafied in 2016
([5]) Raupach merged with Beko Deutschland as of June 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.

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

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.

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.

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

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.

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).

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

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 than12 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.

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

Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

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.

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

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.

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.

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

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.

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).

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

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).

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).

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

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.

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).

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

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.

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.

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

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.

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.

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

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.

(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.

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

NOTE 3 – BUSINESS COMBINATIONS (Continued)

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**

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

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

NOTE 4 - SEGMENT REPORTING (Continued)

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

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**

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

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.

(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

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

NOTE 7 - FINANCIAL LIABILITIES (Continued)

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**

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

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

NOTE 7 - FINANCIAL LIABILITIES (Continued)

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

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**

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

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)	
Held for trading:						
Short-term derivative instruments						
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.

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.

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

NOTE 9 - TRADE RECEIVABLES AND PAYABLES (Continued)

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**

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**

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

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**

(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

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

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	**-**	**-**

(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	December31, 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).

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

NOTE 14 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	January 1, 2015	Acquisitions	Additions	Disposals	Transfers	Currency Translation Differences	December31, 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**

(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**

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

NOTE 15 – OTHER INTANGIBLE ASSETS (Continued)

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.

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**

NOTE 16 – GOODWILL (Continued)

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.

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,
ı) 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).

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

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**

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:

December 31, 2016	Purchase commitments	Sales commitments
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**

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

NOTE 18 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (Continued)

December 31, 2015	Purchase commitments	Sales commitments
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**

	December 31, 2016	December 31, 2015
Collaterals obtained	3,092,142	2,831,414

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**

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

NOTE 18 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (Continued)

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**

The movements of warranty and assembly provisions for the years ended December 31, are as follows:

Warranty provision	2016	2015
As of January 1	**303,277**	**237,373**
Acquisions	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**

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

NOTE 19 – OTHER PROVISIONS (Continued)

Assembly provision	**2016**	**2015**
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.

TFRS 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.

(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
Acquisions	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 sensivity analysis of the assumption which was used for the calculation of provision for employment termination benefits as of 31 December 2016 is below:

	Net discount rate		**Turnover rate related the probability of retirement**	
Sensivity level	**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**

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

NOTE 22 – CURRENT INCOME TAX ASSETS

	December 31, 2016	December 31, 2015
Prepaid taxes and funds	74,629	27,014

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**

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

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.

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.

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

NOTE 25 – EQUITY (Continued)

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.

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.

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

NOTE 25 – EQUITY (Continued)

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**

(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).

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

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**

(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.

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

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.

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.

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

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/TFRS 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/TFRS and Tax Laws.

(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**

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

NOTE 33 - TAX ASSETS AND LIABILITIES (Continued)

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).

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**

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

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.

(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

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

NOTE 35 - RELATED PARTY DISCLOSURES (Continued)

	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**

(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

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

NOTE 35 - RELATED PARTY DISCLOSURES (Continued)

(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.

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

NOTE 35 - RELATED PARTY DISCLOSURES (Continued)

	2016	2015
(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**

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 conceiled gain distirubition described in Regulation No:11 Intra-Group Services of Transfer Pricing General Communiqué No:1.

	2016	2015
(d) Other purchases:		
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.

NOTE 35 - RELATED PARTY DISCLOSURES (Continued)

(f) Other transactions:

	2016	2015
Interest income:		
Yapı ve Kredi Bankası A.Ş. and its subsidiaries	11,894	11,151
Interest expense:		
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.

(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**

(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
Cureent 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	4.08	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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 (%)	TRY	EUR	USD	GBP	RON	RUB	CNY	ZAR	CZK	SEK	EGP	NOK	NAD	CHF	AUD	NZD	THB	BWP	UAH	VND
Cureent 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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

(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.

(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:

	Trade receivables			
December 31, 2016	**Related parties**	**Third parties**	**Bank deposits**	**Derivative instruments**
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)	-	-

	Trade receivables			
December 31, 2015	**Related parties**	**Third parties**	**Bank deposits**	**Derivative instruments**
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.

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

NOTE 36 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

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.

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.

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

NOTE 36 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

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**

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																	
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	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.

(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 CNY	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(9,243)
Against BWP	-	-	-	-	-	-	-	-	(9,156)	-	-	-	-	-	-	-	(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)**

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

NOTE 36 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

The original currency amounts of assets and liabilities denominated in foreign currencies and the total TRY equivalent as of December 31, 2015 are as follows:

	EUR	USD	GBP	RUB	PLN	CZK	NOK	SEK	ZAR	DKK	AUD	NZD	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	-	13,341	-	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**	**3,892,464**
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																	157,772
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.

(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	(80)	-	-	-	-	-	(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)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(9,707)
Against MYR	-	(294)	-	-	-	-	-	-	-	-	-	-	-	(74)	-	-	(861)
Against VND	-	-	-	-	-	-	-	-	-	-	-	-	-	(54)	-	-	(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**

(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	
December 31, 2016	**Foreign exchange appreciation by 10%**	**Foreign exchange depreciation by 10%**	**Foreign exchange appreciation by 10%**	**Foreign exchange depreciation by 10%**
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)**

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

NOTE 36 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

	Gain/Loss		Other Comprehensive Income	
December 31, 2015	**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)**

(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%**

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.

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

NOTE 37 - FINANCIAL INSTRUMENTS (Continued)

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	-

(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.

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