Tümosan Engine and Tractor Industry Inc.

and its Subsidiaries

Consolidated Financial Statements for the Year Ended December 31, 2016 and Independent Auditor's Report

Aksis International Independent Audit Inc., August 19, 2016
March 13, 2017

This report includes 2 pages of independent auditor's report and 71 pages of consolidated financial statements and explanatory notes on the consolidated financial statements at the console.

Tümosan Engine and Tractor Industry

Inc. and its Subsidiaries

Contents

INDEPENDENT AUDITOR'S REPORT

To the Board of Management of Tümosan Engine and

Tractor Industry Inc. Report on Financial Statements

We have audited the accompanying consolidated financial statements of Tümosan Engine and Tractor Industry Inc. (hereinafter the "Company") and its Subsidiaries (hereinafter collectively the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statements of income, other comprehensive income, changes in equity and cash-flow for the period then ended, and a summary of significant accounting policies and other explanatory notes.

The Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Turkish Accounting Standards and for the internal control which it deems necessary to ensure the preparation of financial statements that are free from material misstatement, whether arising from fraud or from error.

Independent Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We performed our audit in accordance with the independent auditing standards as endorsed by the Capital Markets Board and Independent Auditing Standards, which is a part of the Turkish Auditing Standards promulgated by the Public Oversight, Accounting and Auditing Standards Authority. These standards require that we comply with ethical requirements and plan and perform the audit in such a manner that it may be ascertained with reasonable assurance whether the financial statements are free from material misstatements.

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

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

Opinion

In our opinion, the consolidated financial statements present, in accordance with the Turkish Accounting Standards, a true and fair view of the financial position of Tümosan Engine and Tractor Industry Inc. and its Subsidiaries as at December 31, 2016 and of their financial performance and their cash flows for the period then ended.

Report on Other Liabilities Arising from the Legislation

1. The Auditor's Report on the Early Risk Detection System and Committee prepared pursuant to Paragraph 4 of Article 398 of the Turkish Commercial Code (Law No. 6102) (hereinafter "TCC") was presented to the Company's Board of Management on March 13, 2017.

2. In accordance with paragraph 4 of Article 402 of the Turkish Commercial Code (Law No. 6102), no material issue has been encountered as to whether the bookkeeping system of the Company for the period from January 1 to December 31, 2016 and its financial statements do not comply with the provisions of TCC and articles of association relating to financial reporting.

3. Pursuant to Paragraph 4 of Article 402 of TCC, the Board of Management has made the required explanations within the scope of the audit and provided the requested documents.

Tayyip Yaşar, CPA,
Responsible Auditor

March 13, 2017,
Istanbul, Turkey
Aksis International Independent Audit Inc., August 19, 2016

Tümosan Engine and Tractor Industry Inc. and its Subsidiaries

As of December 31, 2016

Consolidated Statement of Financial Position (Balance Sheet)

	Note Reference	**Audited**	**Audited**
ASSETS		**December 31, 2016**	**December 31, 2015**
Current assets			
Cash and cash equivalents	*4*	2,099,046	239,778
Financial investments	*5*	9,105,569	--
Trade receivables			
- Trade receivables from related parties	*3*	*1,029,841*	*487,581*
- Trade receivables from third parties	*7*	*123,494,328*	*110,969,841*
Other receivables			
- Other receivables from related parties	*3*	*18,525,449*	*11,723,444*
- Other receivables from third parties	*8*	*1,942,381*	*191,176*
Inventories	*9*	104,811,395	93,965,433
Prepaid expenses	*10*	7,971,709	1,746,416
Other current assets	*16*	21,180,655	12,106,175
Total current assets		**290,160,373**	**231,429,844**
Fixed assets			
Tangible fixed assets	*12*	106,477,847	93,484,854
Intangible fixed assets			
- Other intangible fixed assets	*13*	38,201,634	25,789,580
Investment property	*11*	1,967,695	2,015,172
Prepaid expenses		--	659,388
Deferred tax asset	*24*	81,659	--
Total fixed assets		**146,728,835**	**121,948,994**
Total assets		**436,889,208**	**353,378,838**

The accompanying notes are an integral part of the financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiaries

As of December 31, 2016

Consolidated Statement of Financial Position (Balance Sheet)

	Note Reference	Audited	Audited
RESOURCES		**December 31, 2016**	**December 31, 2015**
Short-term liabilities			
Short-term borrowings	*6*	68,391,672	32,735,374
Short-term portions of long-term borrowings:	*6*	2,099,649	--
Other financial liabilities		--	182,606
Trade payables			
- Trade payables to related parties	*3*	*665,022*	*891,848*
- Trade payables to third parties	*7*	*40,211,502*	*37,444,334*
Liabilities for employee benefits	*15*	2,676,524	1,595,395
Other payables			
- Other payables to related parties	*3*	--	*28, 176*
- Other payables to third parties	*8*	*833,534*	*3,000*
Deferred income	*10*	4,340,809	5,275,137
Obligations related current tax payable	*24*	*120,239*	*1,020,276*
Short-term provisions			
- Short-Term provisions for employee benefits	*14.15*	*1,068,207*	*826,860*
- Other short-term provisions	*15*	*8,511,545*	*6,450,210*
Other short-term liabilities		--	*407,447*
Total short-term liabilities		**128,918,703**	**86,860,663**
Long-term borrowings	*6*	1,727,279	--
Long-term provisions			
- Long-term provisions for employee benefits	*14.15*	*3,036,169*	*3,343,451*
Deferred tax liability	*24*	159,578	635,425
Total long-term liabilities		**4,923,026**	**3,978,876**
Total liabilities		**133,841,729**	**90,839,539**

	Note Reference	Audited	Audited
EQUITY	*17*		
Equity of the parent company			
Paid-in capital		115,000,000	115,000,000
Premiums/allowances on shares		13,074,563	13,074,563
Capital Adjustments Due to Cross-Ownership (-)			
Capital reserves		729,443	729,443
Share premium		--	--
Other accumulated comprehensive income and expenses not to be reclassified to profit or loss			
- Revaluation and measurement gains and losses		39,371,136	39,371,136
- Actuarial Gains and Losses		672,736	194,984
Reserves on retained earnings		13,843,979	13,843,979
Accumulated profits		80,325,194	46,730,878
Net income for the period		40,030,428	33,594,316
Non-controlling interests		--	--
Total equity		**303,047,479**	**262,539,299**
Total equity and liabilities		**436,889,208**	**353,378,838**

The accompanying notes are an integral part of the financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiaries

Consolidated Income Statement for the Year Ended December 31, 2016

	Note References	Audited Audited	Audited Audited
		January 1 - December 31, 2016	January 1 - December 31, 2015
Revenue	*18*	500,190,654	449,392,781
Cost of sales	*18*	(376,900,375)	(348,639,619)
Gross profit		**123,290,279**	**100,753,162**
General administrative expenses (-)	*19*	(19,054,029)	(11,577,832)
Marketing expenses (-)	*19*	(59,132,354)	(42,296,525)
Research and development expenses (-)	*19*	--	(4,974,342)
Other real operating income	*21*	10,572,975	8,596,120
Other real operating expenses (-)	*21*	(3,130,534)	(10,873,950)
Real operating profit		**52,546,337**	**39,626,633**
Income from investing activities	*23*	876,729	801,479
Expenses from investing activities (-)		(15,914)	(24,955)
Operating profit before financing expenses		**53,407,152**	**40,403,157**
Financing income	*22*	3,765,514	3,683,415
Financing expenses (-)	*22*	(9,478,186)	(4,263,848)
Financing income/(expenses), net		**(5,712,672)**	**(580,433)**
Income for the period before tax		**47,694,480**	**39,822,724**
Tax income/(expense)		**(7,664,052)**	**(6,228,408)**
- Tax expense for the period	*24*	(8,340,996)	(6,621,490)
- Deferred tax income/(expense)	*24*	676,944	393,082
Income for the period		**40,030,428**	**33,594,316**
		--	**--**
Distribution of income of the period			
Share of the parent company		40,030,428	33,594,316
Non-controlling interests		**--**	**--**
Number of Shares	*25*	**115,000,000**	**115,000,000**
Earnings Per Share	*25*	**0.3481**	**0.2921**

The accompanying notes are an integral part of the financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiaries

Consolidated Statement of Other Comprehensive Income for the Year Ended December 31, 2016

	Note References	Audited	Audited
		January 1 - December 31, 2016	**January 1 - December 31, 2015**
Income for the period		**40,030,428**	**33,594,316**
Other comprehensive income portion			
Not to be reclassified to profit or loss			
- Actuarial differences		597,190	384,588
- Deferred tax income/(expense)		(119,438)	(76,918)
Total other comprehensive income		**477,752**	**307,670**
Total comprehensive income		**40,508,180**	**33,901,986**
Distribution of the Total Comprehensive Income			
Share of the parent company		40,030,428	33,594,316
Non-controlling interests		**--**	**--**

The accompanying notes are an integral part of the financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiaries

Consolidated Statement of Changes in Equity for the

Year Ended December 31, 2016

Currency: Turkish Lira ("TL")

				Accumulated other comprehensive income and expenses that cannot be reclassified to profit or loss					
	Paid-in capital	*Share premium*	*Other Reserves*	*Tangible Fixed Asset Revaluation Fund*	*Accumulated Remeasurement Gains/Losses of Defined Benefit Plans*	*Reserves on Retained Earnings*	*Accumulated Profits/Losses*	*Net Income/Loss for the Period*	*Equity Total*
Balance as of January 1, 2015	**115,000,000**	**13,074,563**	**--**	**39,371,136**	**(112,686)**	**10,504,898**	**28,324,897**	**21,745,062**	**227,907,870**
Transfers	--	--	729,443	--	--	3,339,081	18,405,981	(21,745,062)	**729,443**
Net Income/(Loss) for the Period	--	--	--	--	--	--	--	33,594,316	**33,594,316**
Other Comprehensive Income	--	--	--	--	--	--	--	--	**--**
- Actuarial differences	--	--	--	--	307,670	--	--	--	**307,670**
Balance as of December 31, 2015	**115,000,000**	**13,074,563**	**729,443**	**39,371,136**	**194,984**	**13,843,979**	**46,730,878**	**33,594,316**	**262,539,299**
Balance as of January 1, 2016	**115,000,000**	**13,074,563**	**729,443**	**39,371,136**	**194,984**	**13,843,979**	**46,730,878**	**33,594,316**	**262,539,299**
Transfers	--	--	--	--	--	--	33,594,316	(33,594,316)	**--**
Net Income/(Loss) for the Period	--	--	--	--	--	--	--	40,030,428	**40,030,428**
Other Comprehensive Income	--	--	--	--	--	--	--	--	**--**
- Actuarial differences	--	--	--	--	477,752	--	--	--	**477,752**
Balance as of December 31, 2016	**115,000,000**	**13,074,563**	**729,443**	**39,371,136**	**672,736**	**13,843,979**	**80,325,194**	**40,030,428**	**303,047,479**

The accompanying notes are an integral part of the financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiaries

Consolidated Cash-Flow Statement for the
Year Ended December 31, 2016

Currency: Turkish Lira ("TL")

	Note	**Audited**	**Audited**
		January 1 - December 31, 2016	**January 1 - December 31, 2015**
Net income for the period		40,030,428	33,594,316
Reconciliation of net income to net cash provided by operating activities:			
Adjustments related to depreciation and amortisation expenses	*12.13*	17,116,728	15,069,943
Adjustments related to severance payment	*15*	736,636	1,091,427
Adjustments related to provision for doubtful receivables	*7*	(269,255)	2,622,559
Tax income/expense	*24*	7,664,052	6,228,408
Interest income from banks		(3,765,513)	(3,573,665)
Warranty and other provisions		2,061,335	604,940
Provision for unused vacation entitlements	*15*	241,347	247,517
Adjustments related to provision/(cancellation) for inventory impairment	*9*	(1,644,225)	173,691
Interest expenses for banks	*22*	9,476,217	3,988,482
Net cash from operating activities before changes			
Net cash from operating activities			
Change in assets and liabilities			
Adjustments related to increase/decrease in trade and other receivables		(21,350,702)	(36,388,162)
Adjustments related to increase/decrease in inventories		(9,201,737)	(5,504,544)
Adjustments related to increase/decrease in prepaid expenses/other assets and liabilities		(15,047,832)	14,726,822
Adjustments related to increase/decrease in trade and other payables		3,342,700	(1,689,799)
Adjustments to employee benefits		1,081,128	262,698
Adjustments related to deferred income		(934,328)	(144,011)
Severance payments paid	*15*	(446,727)	(171,405)
Taxes paid	*24*	(9,241,033)	(5,601,214)
Net cash from/(used in) operating activities		**19,849,219**	**25,538,003**
Cash flows from investing activities			
Adjustments related to changes in financial investments		(9,105,569)	104,308
Cash outflows from purchases of tangible and intangible fixed assets		(43,501,322)	(29,410,142)
Proceeds from the sales of tangible fixed assets		1,027,024	1,029,914
Net cash from/(used in) investing activities		**(51,579,867)**	**(28,275,920)**
Net cash used in financial activities			
Changes in financial payables, net		39,300,620	2,162,577
Interest collected		3,765,513	3,573,665
Interest paid		(9,476,217)	(3,988,482)
Net cash from financial activities		**33,589,916**	**1,747,760**
Net increase/decrease in cash and cash equivalents		**1,859,268**	**(990,157)**
Cash and cash equivalents at the beginning of the period	*4*	**239,778**	**1,229,935**
Cash and cash equivalents at the end of the period	*4*	**2,099,046**	**239,778**

The accompanying notes are an integral part of the financial statements.

CONTENTS

1 Organization and Area of Activity of the Group

Tümosan Engine and Tractor Inc. (formerly Alçelik Çelik Yapı Construction Industry and Trade Inc.) (hereinafter "Tümosan" or the "Company") was established in 1975 to produce engine parts, transmission organs and similar equipment, but later on has concentrated its activities in the production of diesel engines and tractors. Tümosan, being Turkey's first diesel-engine manufacturer, has been supplying diesel engines for tractors manufactured under the same brand, as well as other manufacturers of diesel-powered vehicles for many years.

The Company was included in the privatization program on August 18, 1998, and the Company's shares belonging to the Mechanical and Chemical Industry Corporation were transferred to the Privatization Administration and it was decided to complete the privatization process within one year.

Four companies participated in the privatization tender held on April 24, 2000. Anadolu Joint Venture Group ranked first and Konya Selçuklu Joint Venture Group ranked second, according to the results of the tender. As the entrepreneurs determined to be the buyers as per the tender result were not able to sign the sales contract offered to them respectively within the given time period, the tender could not be concluded positively and their tender guarantees were forfeited in connection therewith.

Tümosan, which continued its activities limitedly after the tender, was attached to Sümer Holding on February 7, 2003. The second tender for its privatization was announced in 2004 and Alçelik Çelik Yapı Construction Industry and Trade Inc. purchased Tümosan by means of an asset sale and the transfer was completed on July 1, 2004.

On December 5, 2012, 26% of the Company's shares were offered to the public at Istanbul Stock Exchange. Tümosan Engine and Tractor Industry Inc.'s shares are traded on the Istanbul Stock Exchange since 5 December 2012.

The Company's headquarters and factory are located at the following addresses:

Head office:

Maltepe Mahallesi Londra Asfaltı Caddesi No. 28/1, Topkapı, 34010-Zeytinburnu,

Istanbul/Turkey Factory:

Büyükkayacık Mahallesi Aksaray Çevre Yolu Caddesi No: 7/1,

Selçuklu/Konya/Turkey Information on the Company's shareholders and their shares is

as follows:

	December 31, 2016	**December 31, 2015**
Name/Title	**Share Rate %**	**Share Rate %**
Ereğli Textile Tourism Industry and Trade Inc.	64.59	66.33
Muzaffer Albayrak	1.74	1.74
Ahmet Albayrak (son of Ahmet)	1.74	1.74
Bayram Albayrak	1.74	1.74
Nuri Albayrak	1.74	1.74
Kazım Albayrak	1.74	1.74
Mustafa Albayrak	1.74	1.74
Free-float portion	24.97	23.23
Total	**100.00**	**100.00**

The Company is controlled by the Albayrak Family although Ereğli Textile Tourism Industry and Trade Inc. is the main shareholder.

1 Organization and Area of Activity of the Group *(contd)*

The upper limit of the Company's registered capital is TL 500 million with the Capital Markets Board's permission dated June 29 June 2012 and numbered 22/778. The upper limit of the registered capital approved by the Capital Markets Board is valid for 2012-2016 (5 years). The accompanying financial statements comprise the consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group"). Consolidation principles are disclosed in Note 2.1.

As of December 31, 2016, the number of employees of the Group is 518 (December 31, 2015: 478).

Subsidiaries Included in Consolidation

Tümosan Foundry Inc.: It is engaged in all kinds of casting and processing activities and trading.

Tümosan Defence Inc.: It is engaged in the development of new products in defence and weapons industries, in R&D activities, in the contribution to the production and development of existing products, in the production, purchase and sale of weapons and subsidiary industry products thereof.

The consolidated interim financial statements as of December 31, 2016 have been prepared by consolidating the following subsidiaries in accordance with the full consolidation method:

	Control Ratio	
Company	**December 31, 2016**	**December 31, 2015**
Tümosan Foundry Inc.	100%	100%
Tümosan Defence Inc.	100%	100%

2 Basis of Presentation of Financial Statements

2.1 Basis of presentation

(a) Preparation of financial statements

The consolidated financial statements as of December 31, 2016 and accompanying notes have been prepared in accordance with
the Turkish Accounting Standards ("TAS"), which were put into force by the Public Oversight, Accounting and Auditing Standards Authority ("POA"), pursuant to the provisions of the Capital Markets Board's ("CMB") "Communiqué on Principles of Financial Reporting in Capital Market (Serial: II, No. 14.1)" ("Communiqué"), which was promulgated in the Official Gazette edition 28676 on June 13, 2013. TAS comprises the Turkish Accounting Standards, the Turkish Financial Reporting Standards ("TFRS") and annexes and interpretations thereof.

Furthermore, the consolidated financial statements and notes are presented in accordance with the formats announced by CMB on June 7, 2014.

(b) Basis of measurement

Consolidated financial statements have been prepared on the historical cost basis except for lands which are accounted for under tangible fixed assets measured at fair value. The methods used for fair value measurement are also disclosed in Note 2.5.

(c) Adjustment of financial statements in hyperinflationary periods

By a decision dated 17 March 2005 which would be effective from 1 January 2005, CMB announced that the implementation of inflation accounting was not applicable for companies operating in Turkey and preparing financial statements according to accounting and reporting principles adopted by CMB ("CMB Financial Reporting Standards"). Therefore, TAS 29 "Financial Reporting in Hyperinflationary Economies" has not been applied in the accompanying consolidated financial statements since January 1, 2005.

(d) Functional and reporting currency

The accompanying financial statements are presented in TL, which is the functional currency of the Company. All financial information is presented in TL unless otherwise stated.

(e) Comparative information

The accompanying consolidated financial statements are prepared comparatively with the previous period in order to determine the Group's financial position and performance and trends in cash flows. In order to comply with the presentation of the financial statements for the current period, comparative information is reclassified when necessary and related differences are disclosed in related notes

The Group has classified the expenses from price differences amounting to TL 632,037 that were recognised in other real operating expenses as of December 31, 2015
into cost of sales in the comparative period of financial statements as of December 31, 2016.

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2 Basis of presentation of financial statements *(continued)*

2.1 Basis of presentation *(continued)*

(f) Foreign currency

Foreign currency transactions are translated to the functional currency of the related Company at the exchange rate on the date on which the transaction was made. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates on the reporting date. Foreign currency gains or losses related to monetary items is the difference between the effective interest rate of the amount amortised in functional currency at the beginning of the period and the amount translated at the period-end exchange rate of the amount amortised in foreign currency at the end of the period with the adjustment of the payments effects.

Non-monetary items denominated in foreign currencies and measured at fair value are translated into functional currency at the exchange rates prevailing at the time the fair value was determined. Non-monetary items denominated in foreign currencies and measured at historical cost are translated [into functional currency] at the exchange rates prevailing at the transaction date. Exchange differences arising from translation are recognised in profit or loss, except for differences arising from the effective portion of cash-flow hedge instruments recognised in other comprehensive income.

Foreign currency parities for the periods ended at 31 December are as follows:

	December 31, 2016	December 31, 2015
US dollar/TL	3.5192	2.9076
euro/TL	3.7099	3.1776
British pound sterling	4.3189	4.3007
Swiss franc	3.4454	2.9278

(g) Basis of consolidation

The consolidated financial statements as of December 31, 2016 and December 31, 2015 comprise the accounts of the Company and its subsidiaries.

(i) Business Combinations

Business combinations are accounted for using the purchase method other than business combinations under common control at the date of acquisition, which is the date the control was transferred to the Group. Control refers to the Group's power to govern the financial and operating policies of an entity so as to obtain the benefits from activities of that entity. Potential voting rights that are exercisable are considered by the Group when assessing control. The Group measures goodwill at the acquisition date as follows:

- The fair value of the purchase price; plus
- The carrying value of non-controlling interests acquired in business combinations; plus
- If the business combination is carried out more than once, the fair value of the equity interest previously held by the acquiring entity in the acquired entity at the date of combination; less
- Net recognised value of identifiable assets acquired and liabilities assumed (generally fair value).

2 Basis of presentation of financial statements *(continued)*

2.1 Basis of presentation *(continued)*

(g) Basis of consolidation *(continued)*

If a negative result is reached in the valuation made, the bargain purchase is recognised directly in the income statement.

The acquisition price does not include the amounts related to the establishment of existing relationships. These amounts are generally recognised in the income statement.

Transaction costs other than those related to the issuance of debt securities or share-based securities borne by the Group in connection with the business combination are recognised as an expense when they are incurred.

The following accounting principles are applied to business combinations under common control:

- As business combinations under common are accounted for by the pooling of interest method, goodwill should therefore not be included in financial statements,
- When applying the pooling of interest method, financial statements should be adjusted as if the combination was realised at the beginning of the reporting period in which the common control occurred and presented comparatively from the beginning of the reporting period in which common control occurred,
- In consolidation procedures, financial statements should be revised in accordance with the provisions of TAS, including financial statements' consolidation accounting, as if financial statements were prepared in accordance with TAS on or after the date on which the company that controls the group acquired the control of companies under common control since it would be appropriate to look from the point of view of the parent company in reflecting business combinations under common control to financial statements,
- In order to eliminate a possible assets and liabilities nonconformity due to business combination under common control, an account "Effect of Business Combinations Involving Ventures or Entities Under Common Control" must be used as an offsetting account under equity.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an investee entity if the Group incurs variable yields of that entity or holds the right in respect of those variable yields and has the opportunity to affect those yields with its power over the investee entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control starts until the date on which control ends.

The following table shows the rates of active ownership interests and total voting rights in percentage (%) as of December 31, 2016 and December 31, 2015 of all the Company's subsidiaries included in the scope of consolidation that are directly or directly under control of the Company.

	Control Ratio	
Company	**December 31, 2016**	**December 31, 2015**
Tümosan Foundry Inc.	100%	100%
Tümosan Defence Inc.	100%	100%

2 Basis of presentation of financial statements *(continued)*

2.1 Basis of presentation *(continued)*

(g) Basis of consolidation *(continued)*

(iii) Non-controlling interests

Adjustments to non-controlling interests are calculated over the proportionate amount of the net asset value of the subsidiaries at the date of their acquisition. Changes in the Group's share in the subsidiary not resulting in loss of control are accounted for as equity transaction.

(iv) Loss of control

If the Group loses its control over the subsidiaries, the Group derecognises the assets and liabilities of the subsidiaries, non-controlling interests and other amounts under equity related to the subsidiaries. Gains or losses arising therefrom are recognised in the income statement. Remaining shares in its previous subsidiaries are measured at their fair value as of the day the control is lost.

(v) Elimination transactions in consolidation

Intragroup balances, transactions and unrealised gains and losses resulting from intragroup transactions are eliminated in full in the preparation of the consolidated financial statements. Unrealised gains resulting from transactions made with investments accounted for using the equity method are eliminated from the investment at the ratio of the Group's share in the investment. If there is no impairment, unrealised losses are also eliminated in the same way as in unrealised gains.

2.2 Declaration of conformity to TAS

The accompanying consolidated financial statements have been prepared in accordance with the Turkish Accounting Standards ("TAS") published and put into force by the Public Oversight, Accounting and Auditing Standards Authority ("POA").

The accompanying consolidated financial statements have been prepared in accordance with the principle of fair presentation in compliance with TAS, with reclassifications and adjustments made on the basis of the legal records of the Company and its subsidiaries.

The Company maintains its own and its subsidiaries' books of account in accordance with the Uniform Chart of Accounts, Turkish Commercial Code and Turkish Tax Laws, and prepares its statutory financial statements in TL accordingly.

The Group's consolidated financial statements prepared as at December 31, 2016 were approved by the Board of Management on March 13, 2017.

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2 Basis of presentation of financial statements *(continued)*

2.3 Changes in accounting policies

The accounting policies adopted in the preparation of the financial statements for the year ended December 31, 2016 are consistent with those applied as of December 31, 2015. Standards, amendments and interpretations that are not yet effective and have not been adopted early by the Group:

(a) Standards issued but not yet effective and not applied early

The new standards, interpretations and amendments published as of the date of approval of the financial statements but not yet effective for the current reporting period and not applied early by the Group are as follows. Unless otherwise stated, the Group will make the necessary changes that will affect its financial statements and notes after the entry into force of the new standards and interpretations.

TFRS 9 ***Financial Instruments - Classification and Measurement***

With the amendment made in December 2012, the new standard will be effective for annual periods beginning on or after January 1, 2018. The first phase of the standard TFRS 9 Financial Instruments introduces new provisions for the measurement and classification of financial assets and liabilities. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and the measurement of financial liabilities that are classified as the ones which are measured by reflecting the fair value difference to profit or loss. These amendments require that the portion relating to credit risk of the fair value changes in this kind of financial liabilities be presented in the statement other comprehensive income. Early application of the standard is permitted. The Company is assessing the impact of the standard on its financial position and performance.

2 Basis of presentation of financial statements *(continued)*

2.3 Changes in accounting policies *(continued)*

TFRS 15 Revenue from Contracts with Customers

The new standard published in September 2016 changes the guidance contained in the existing TFRSs and introduces a new control based model for contracts with customers. This new standard introduces new guidance in accounting for revenue in respect of the separation of goods or services and their recognition over time, and stipulates that revenue is measured as the consideration which the company expects rather than the fair value. This amendment is effective for annual reporting periods beginning on or after 1 January 2018, whereby an earlier application is permitted. The Group is assessing the impact of the standard on its financial position and performance.

The new and amended standards and interpretations published by the International Accounting Standards Board (IASB) but not published by POA.

The below-mentioned new standards, interpretations and amendments to the existing International Financial Reporting Standards ("IFRS") are issued by IASB but have not yet become effective for the current reporting period; however, these new standards, interpretations and amendments have not yet been published/adapted to TFRS by POA and therefore do not form a part of TFRS. Accordingly, standards issued by IASB but not yet published by POA are referred to as IFRS or IAS. The Group will make the necessary changes in its financial statements and notes after these standards and interpretations become effective as TFRS standards.

2 Basis of presentation of financial statements *(continued)*

2.3 Changes in accounting policies *(continued)*

IFRS 9 Financial Istruments – Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39 – IFRS 9 (2013)

In November 2013, IASB issued a new version of IFRS 9 that includes the requirements for new hedge accounting and related amendments to IAS 39 and IFRS 7. Depending on this version, entities may choose as their accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for all hedging transactions. In addition, the Standard postpones the mandatory effective date of January 1, 2015, which was included in earlier versions of IFRS 9. IFRS 9 (2014), which was published after IFRS (2013), determined the mandatory effective date as January 1, 2018. The Group is assessing the impact of the standard on its financial position and performance.

IFRS 9 Financial Instruments (2014)

IFRS 9 standard issued in July 2014 changes the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*

standard. This version includes updated applications comprising also guidances issued in previous versions for the classification and measurement of financial instruments, including a new expected credit loss model for the calculation of impairment of financial assets, and new general hedge accounting requirements. IFRS 9 also carries over from IAS 39 the applications for accounting for and derecognition of financial instruments. IFRS 9 standard is effective for annual periods beginning on or after 1 January 2018. The Group is assessing the impact of the standard on its financial position and performance.

IFRS 16 Leases

IASB published the new standard IFRS 16 Leases on January 13, 2016. This standard replaces the existing IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease and SIC-15 Operating Leases - Incentives standards and interpretations governing the lease transactions and also causes amendments to IAS 40 Investment Property standard. IFRS 16 eliminates the dual accounting model which is the current practice in the form of presenting finance leases in the balance sheet and operating leases out of balance sheet with respect to lessees. Instead, a single balance sheet-based accounting model is presented similar to existing lease accounting. For lessors, recognition continues to remain similar to existing practices. This amendment is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply TFRS 15 Revenue from Contracts with Customers. The Group is assessing the impact of the standard on its financial position and performance.

2 Basis of presentation of financial statements *(continued)*

2.3 Changes in accounting policies *(continued)*

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

IASB has published IFRIC 22 to remove any doubt as the date of foreign exchange rate which will be taken into consideration for foreign currency-denominated advances payed or received. This Interpretation applies to non-monetary assets or liabilities denominated in forein currency which are accounted for by entities as prepaid expenses or income received as advances. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for the amount of each advance. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018, whereby an earlier application is permitted. The Group is assessing the effects of the amendment on its financial position and performance**.**

IAS 7 Statement of Cash Flows - Disclosure Initiative (Amendments to IAS 7)

As part of IASB's comprehensive disclosure initiative, amendments have been made to IAS 7 Statement of Cash Flows to improve presentation and disclosures in financial statements. This amendment will enable the users of financial statements to evaluate cash and non-cash based changes in liabilities arising from financing activities. This amendment is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Group is assessing the impact of the amendment on its financial position and performance.

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

The amendments clarify that a deductible temporary difference depends only to a comparison of an asset's carrying amount and its taxable value at the end of reporting period and that it will not be affected from possible future changes and estimated recovery in the related asset's carrying amount. This amendment is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Group is assessing the impact of the amendment on its financial position and performance.

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

IASB has published amendments to IFRS 2 Share-based Payment to increase consistency in accounting for share-based payments and to eliminate certain uncertainties. This amendment clarifies the measurement of cash-settled share-based payment transactions, the classification of share-based payment transactions by netting withholding tax and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. Thus, the same approach used to measure equity-settled share-based payments was adopted in the measurement of cash-setled share-based payments. Share-based payments by netting withholding tax will be recognised as equity-settled payments if certain conditions are met. This amendment is effective for annual reporting periods commencing on or after 1 January 2018, whereby an earlier application is permitted. This amendment is not expected to have any significant effects on the financial position or performance of the Group.

2 Basis of presentation of financial statements *(continued)*

2.3 Changes in accounting policies *(continued)*

IAS 40 - Transfers of Investment Property (Amendments to IAS 40)

IASB has amended to IAS 40 Investment Property to clarify events providing evidence of transfers from investment property to other asset groups, or vice versa. This amendment clarifies that a change in management's intention for the use of an asset by itself does not constitute evidence of a change in use of the asset. Therefore, when an entity decides to dispose of an investment property without development, the property continues as an investment property until it is derecognised from the financial statement and is not reclassified into inventory. Similarly, when the entity begins to restructure its existing investment property to continue to use in the same manner in the future, this property will continue to be classified as investment property and will not be classified to property used by its owner during the restructuring.

This amendment is effective for annual reporting periods commencing on or after 1 January 2018, whereby an earlier application is permitted. This amendment is not expected to have any significant effects on the financial position or performance of the Group.

Improvements in IFRS

The "Annual Improvements in IFRS / 2014-2016 Period" published for the standards in effect are presented below. The Group is assessing the impact of the amendment on its financial position and performance.

Annual improvements - 2014 - 2016 Period

IFRS 1 "First-time Adoption of International Financial Reporting Standards"

The abolition of short-term exemptions provided for disclosures on financial instruments for those who will adopt IFRS for the first time, for employee benefits and for the consolidation of investment entities under the annual improvements for 2012-2014 cycle.

IFRS 12 "Disclosure of Interests in Other Entities"

For the clarification of the scope of IFRS 12, it has been added that an entity is not required to disclosure condensed financial information required to be made as per IFRS 12 if an entity classifies its investments in a subsidiary, joint venture or associate as a for-sale asset (included in an asset group to be derecognised). *IAS 28 - "Investments in Associates and Joint Ventures"* If an investment in a associate or joint venture is held, directly or indirectly, by an entity that is like a venture capital, mutual fund, unit trust or investment-linked insurance funds, the entity may elect to apply the fair value method in those associates and joint ventures in accordance with IFRS 9.

2.4 Changes in accounting estimates and errors

Changes in accounting estimates are applied prospectively in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both. The significant changes made in accounting policies and significant accounting errors identified are applied retrospectively and prior period financial statements are revised.

2 Basis of presentation of financial statements *(continued)*

2.5 Summary of significant accounting policies

(a) Financial instruments

(i) Non-derivative financial assets

The Group recognises its loans and receivables at the date of their occurrence. All financial assets, including financial assets designated at fair value through profit or loss, are recognied on the transaction date at which the Group becomes a party to the contractual provisions of the related financial instrument.

The Group derecognises the financial asset when its rights related to cash flows due to the contract related to financial assets expire or when the related rights are transferred through a purchase and sale of all risks and rewards related to that financial asset. Any kind of rights that is created from transferred financial assets or held by the Group is recognised as a separate asset or liability.

The Group offsets its financial assets and liabilities, and reports the net amount in its financial statements, only when a legal right exists to offset the amounts against one another and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group can present non-derivative financial assets as financial assets recognised at fair value through profit or loss, financial assets held to maturity, loans and receivables, and available-for-sale financial assets.

Financial assets recognised at fair value through profit or loss

If a financial asset is either held for trading or designed for such a transaction at initial recognition, this financial instrument is classified as a financial asset at fair value through profit or loss. If the Group manages such investments or decides to purchase or sell these investments at fair value pursuant to the Group's written risk management or investment strategies, such financial assets are designated as financial assets at fair value through profit or loss. Any transaction costs are directly recognised in the income statement when they occur. Financial assets at fair value through profit or loss are measured at fair value and changes in their fair value, including dividend income, are recognised in the income statement.

Financial assets held for trading purposes include government bonds held to meet the Group's short-term cash requirements and actively managed by the Group's treasury department.

Financial assets at fair value through profit or loss include share-based securities that would otherwise be classified as available-for-sale financial assets.

2 Basis of presentation of financial statements *(continued)*

2.5 Summary of significant accounting policies

(a) Financial instruments

(i) Non-derivative financial assets (continued)

To the extent that the Group actually intends and is able to hold debt securities until final maturity, these are classified as held-to-maturity financial assets. Investments held to maturity are initially recognised at fair value plus any directly attributable transaction costs if any. Following the initial recognition, financial assets held-to-maturity are stated at amortised cost of their future principal and interest cash flows using the effective interest rate method less impairment losses (see Note 2.5 (e)).

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially accounted for at fair value plus directly attributable transaction costs. Following the initial recognition, loans and recivables are reported at amortised cost of their future principal and interest cash flows using the effective interest rate method less impairment losses (see Note 2.5 (e)).

Loans and receivables comprise cash and cash equivalents and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents consist of cash balances with little or no risk of change in fair value and bank deposits with maturity dates of three months or less from the date of their acquisition and are used by the Group for financing short-term liabilities.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial instruments that have been classified as available for sale or have not been classified in any of the above-mentioned categories. Available-for-sale financial assets are initially recognised at fair value plus directly attributable transaction costs.

After initial recognition, available-for-sale financial assets are measured at fair value. Changes in its fair value, except for impairment (see Note 2.5 (e)), and foreign exchange differences on available-for-sale debt securities (see Note 2.5 (e)) are recognised in the other comprehensive income and presented in the fair value reserve in equity. When financial instruments are derecognised, the accumulated gains or losses recorded in equity is reclassified to the income statement.

Available-for-sale financial assets consist of share-based securities and debt securities.

2 Basis of presentation of financial statements *(continued)*

2.5 Summary of significant accounting policies

(a) Financial instruments

(ii) Non-derivative financial liabilities

The Group recognises its subordinated liabilities on the date on which they are incurred. All financial liabilities are recognied on the transaction date at which the Group becomes a party to the contractual term of the related financial instrument.

In cases where its contractual obligations are fulfilled, cancelled or terminated, the Group derecognises the related financial liability.

The Group classifies its non-derivative financial liabilities in the categories of other financial liabilities. Such financial assets are initially recognised at fair value less directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are reported at amortised cost of their future principal and interest cash flows using the effective interest rate method.

Other financial liabilities consist of financial payables, current accounts at banks and trade and other payables.

Current accounts at banks, which are payable on demand and are part of the Group's cash management, are included in the cash-flow statement as part of cash and cash equivalents.

(iii) Capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of tax effects if any.

(iv) Financial derivative instruments

The Group uses financial derivative instruments to hedge its exposure to foreign currency risks. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and if the combined instrument is not measured at fair value through profit or loss.

The relationship between the hedged item and the hedging instrument, the risk management objectives and strategies of the related hedging transaction and the methods that will be used to measure the effectiveness of hedging are documented when a derivative financial instrument is originally designed as hedging. At the inception of such relationship and during the ongoing process, the hedge method is assessed whether it is effective on changes in the expected fair value or cash flows of the related instruments in which the method is applied, or whether the effectiveness of each hedged outcome is between 80% and 125%. To qualify for cash flow hedges, the high probability of occurrence of the forecast transaction constituting the subject of hedging transaction and changes in cash flows that can affect profit or loss are required.

Financial derivative instruments are initially recognised at fair value and their directly attributable transaction costs are recognised in the income statement on the date when they occur. Subsequent to their initial recognitilon, derivatives are measured at fair value and the changes that occur are accounted for as described below.

2 Basis of presentation of financial statements *(continued)*

2.5 Summary of significant accounting policies

(a) Financial instruments

(iv) Financial derivative instruments (continued)

Cash flow hedges

If a derivative instrument is designated as a hedging instrument for the risk of changes in the cash flows of an asset or a liability that are recognised or a particular risk related to a highly probable transaction that will affect profit or loss, the effective portion of the change in the fair value of the derivative instrument is recognised in the other comprehensive income and presented in the hedging reserve under equity. The ineffective portion of the change in the fair value of the derivative is recognised directly in the income statement.

If the hedged item is a non-financial asset, the amount accumulated in equity is kept in the other comprehensive income and classified to the income statement in the same period, or periods, in which the non-financial asset item has affected profit or loss. In other cases, the amount accumulated in equity is reclassified to the income statement in the same period in which the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, the accumulated gain or loss previously recognised in equity is reclassified to the income statement.

Separable embedded derivatives

When changes in the fair values of separable embedded derivatives occur, they are recognised directly in the income statement.

Other derivatives not held for trading

If a derivative financial instrument is not designated in a hedging relationship required for hedge accounting, changes in the fair value of derivative instruments are recognised directly in the income statement when they occur.

2 Basis of presentation of financial statements *(continued)*

2.5 Summary of significant accounting policies

(b) Tangible fixed assets

(i) Recognition and measurement

Tangible fixed assets are measured at cost less accumulated depreciation and any impairment.

Cost includes expenses that are directly attributable to the acquisition of assets. The cost of assets constructed by the Group includes the following items:

• Material and direct labour costs;

Costs that are directly attributable to the asset being made operational in accordance with the Group's intended use;

• Costs related to the dismantling or restoration of parts, the replacement of parts and the restoration of the area in which they are located if the Group has the obligation to dispose of an asset or restore the site where it is located; and

• Capitalised borrowing costs.

Costs include transfers from equity of gains or losses arising from qualifying cash flow hedges for tangible fixed assets acquired in foreign currencies. The purchased software is capitalised as part of the equipment when it is a complementary element for the use of the related equipment.

Where parts comprising tangible fixed assets have different useful lives, they are accounted for as separate items (significant parts) of tangible fixed assets.

Lands have been accounted for using the revaluation method. Value increases are recosnised under "Revaluation and measurement gains and losss" in Equity.

Gains or losses arising from the disposal of a tangible fixed assets (the difference between the net amount resulting from the disposal of the tangible fixed asset and its book value) are recognised in the income statement.

The Group's tangible fixed assets acquired before January 1, 2005 are carried at cost revised according to effects of inflation as of December 31, 2004 less accumulated depreciation and permanent impairment losses; whereas tangible fixed assets acquired from January 1, 2005 are carried at cost less accumulated depreciation and permanent impairment losses.

(ii) Subsequent costs

Subsequent expenses are only capitalised if it is possible that future economic benefits associated with these expenses will flow to the Group. Ongoing repair and maintenance costs are recognised as an expense when incurred.

2 Basis of presentation of financial statements *(continued)*

2.5 Summary of significant accounting policies

(c) Tangible fixed assets *(continued)*

(iii) Depreciation

Tangible fixed asset items are subjected to depreciation as of the date they are ready for use, or as regards assets costructed by the Group, as of the date these constructed assets are completed and become available.

Depreciation is calculated on a straight-line basis over the estimated useful lives of tangible fixed asset items after deducting estimated residual values from the costs of these items. Depreciation is generally recognised in the income statement unless it is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and useful life if it is reasonably certain that the Group will not assume the ownership of the leased asset at the end of the lease. Land is not subject to depreciation.

The estimated useful lives of significant tangible fixed assets in current and comparative periods are as follows:

Disclosure	**Useful Life (Year)**
Land Improvements	15
Buildings	50
Machinery and equipment	3-24
Motor vehicles	4-7
Furniture and fixtures	1-50
Special Costs	5-17

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if necessary.

(d) Intangible fixed assets

(i) Recognition and measurement

Other intangible assets acquired by the Group that have a specified useful life are measured at cost less accumulated amortisation and accumulated impairment, if any.

(ii) Subsequent costs

Subsequent costs are capitalised only if they have an effect that enhances the future economic benefits of the intangible assets to which they relate. All other expenditures, including internally generated goodwill and trademarks, are recognised in the income statement when they are incurred.

(iii) Amortisation charges

Amortisation charges of intangible assets other than goodwill is recognised in the income statement using amortisation on a straight-line basis over the estimated useful lives of the related assets from the date they are ready to use.

Estimated useful lives for current and comparative periods are as follows:

Disclosure	Useful Life (Year)
Rights	1-15
Development Expenses	3-10

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if necessary.

2 Basis of presentation of financial statements *(continued)*

2.5 Summary of significant accounting policies

d) Investment Property

Investment property is property held to earn rental income and/or for the purpose of capital appreciation and is measured initially at cost, including transaction costs. After the initial recognition, investment property is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses.

Investment property is eliminated from the balance sheet (derecognised) when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Gains/losses arising from the retirement or disposal of investment property are included in the income statement (profit or loss) for the period in which they arise.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property carried at fair value to owner-occupied property, the property's deemed cost for subsequent accounting is its fair value at the date of change in use. If an owner-occupied property is converted into an investment property carried at fair value, the entity adopts the accounting policy applied to "Tangible Fixed Assets" until the date of change in use.

Properties which are leased within the framework of operating leases are not classifed as investment property.

2 Basis of presentation of financial statements *(continued)*

2.5 Summary of significant accounting policies

(e) Impairment of assets

(i) Non-derivative financial assets

At each reporting date, financial assets other than financial assets recognised at fair value through profit or loss are tested to see whether there is objective evidence of any impairment. An impairment loss is deemed to be incurred if, after the initial recognition of a financial asset, there is objective evidence of impairment as a result of one or more events that have occurred and if these events have an impact on the expected future cash flows of the financial asset that can be reliably estimated.

The objective evidence that causes the impairment of financial assets may include situations such as the default of the debtor or its failure to meet its financial liability, the restructuring of an amount under conditions which the Group cannot consider the opposite, the probability of insolvency proceedings against the debtor or the issuer, the occurrence of negative conditions in the payment situations of these parties or the closure of an active market for the financial asset. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

The Group assesses the indicators for impairment of financial assets (loans and receivables) measured at amortised cost both at the asset level and collectively. All significant assets are assessed for a significant impairment. Assets for which there is no significant impairment as a seperate asset are collectively subjected to impairment test for their impairments that are realised but not yet determined. Assets that are individually not significant are grouped on the basis of similar risk characteristics and tested collectively for impairment.

The Group performs its assessment about collective impairment taking into consideration the probability to fall into default, the timing of recovery and the past trends of amounts of losses.

Impairment of financial assets measured at amortised cost is recognised in the income statement as the difference between the carrying amount of the financial asset and its future expected cash flows from its present value reduced using the effective interest rate method and is reported as a provision in loans and receivables, or in investments of held-to-maturity securities. The interest calculated over the impaired asset is presented as discounted. The interest calculated over the impaired asset continues to be recorded as discounted. If, as a result of an event occurring after the impairment was recognised, the amount of the impairment loss decreases, this decrease is recognised in the income statement and the previously recognised impairment loss is reversed by the amount of this decrease.

2 Basis of presentation of financial statements *(continued)*

2.5 Summary of significant accounting policies

(e) **Impairment of assets** *(continued)*

Impairment in an available-for-sale financial asset is recorded by transferring the total losses that are recognised in the other comprehensive income and monitored in fair-value increase funds under the equity to profit or loss. The total loss excluded from the other comprehensive income and recognised in the income statement (profit or loss) is the difference between the cost of acquisition found after deducting any principle repayment and amortisation charges and the current fair value less impairment charges that were previously recognised in the income statement, if that asset is a note payable. In line with the impairment losses on investments accounted for by the equity method, it is measured by comparing the recoverable amount in the investment with the book value of the investment. Impairments are recognised in the income statement. An impairment loss is reversed if there is a change in the positive direction in the estimates used to determine the recoverable amount.

(ii) Non-financial assets

At each reporting date, the Group assesses whether there is an indication of impairment for non-financial assets other than inventories and deferred tax assets. If such an indication exists, the recoverable amount of that asset is estimated. For goodwill and assets with indefinite useful lives, the recoverable amount is estimated at the same period each year. An impairment loss is recognised if the book value of a cash-generating unit ("CGU") related to an asset exceeds the recoverable amount.

The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell and its value in use. The value in use is determined by discounting the future cash flows to their present value using the pre-tax discount rate to present the current market assessments that reflect the specific risks and the time value of money in the related asset or in CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest units, or CGUs, that generate cash inflows from sustainable activities that are independent of the cash inflows of other assets or groups of assets. Subject to the operating segment's ceiling test, CGUs to which goodwill has been allocated are collected at the level of the goodwill impairment test, herewith reflecting the lowest level at which goodwill is monitored for purposes of internal reporting. To test for impairment, goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in the income statement. The provision for impairment accounted for that originates from cash-generating units is deducted first from the book value of the goodwill allocated to CGUs (groups of CGUs) and then from the book values of other assets in CGUs (groups of CGUs) on pro rata basis.

An impairment loss in respect of goodwill is not reversed. In other assets, impairment losses recognised in previous periods are reversed up to the amount not exceeding the amount of book value, which would be determined for that asset if the impairment loss of that asset was not recorded, less depreciation or amortisation.

2 Basis of presentation of financial statements *(continued)*

2.5 Summary of significant accounting policies

(f) Employee benefits

(i) Provision for severance payments

In accordance with the Turkish Labour Law, the Group is obligated to pay certain amounts to its employees who leave the work due to retirement. Provision for sevarance payments represents the present value of the Group's estimated future liability in the event of retirement of its employees. Provision for severance payments is calculated as if all employees are entitled to such payment and is reported on an accrual basis in the financial statements. Provision for severance payment is calculated according to the upper limit for severance payments disclosed by the Administration. As of December 31, 2016 and 2015, upper limits set for severance payments are TL 4,297 and TL 3,828, respectively.

According to Turkish Financial Reporting Standards, companies are required to calculate defined benefit plans using actuarial valuation methods. Accordingly, the basic statistical assumptions used when calculating the probability of retirement estimates used to determine the total liability in the accompanying financial statements as of December 31, 2016 and 2015 are disclosed in Note 15.

All changes in the provision for severance payments, except for actuarial differences, are recognised in the income statement. Actuarial differences are recognised under "Actuarial gains/(losses)" in other comprehensive income that will not be reclassified to profit or loss and reported directly under equity.

(ii) Short-term employee benefits

Liabilities for short-term employee benefits are measured without discounting and are recognised as an expense as related service is provided. As a result of the employees' past services, a liability is recorded for the amounts expected to be paid out under short-term cash bonus or profit-sharing plans in the cases that result from the legal or or constructive acceptance where the Group is obligated to pay and where this liability can be reliably estimated. Provisions for short-term employee benefits consist of provisions for bonus payments to employees and unused vacation entitlements.

2 Basis of presentation of financial statements *(continued)*

2.5 Summary of significant accounting policies

(g) Events after the reporting period

The events after the reporting period include all events between the balance sheet date and the date of authorisation for issuance of the balance sheet, even if they have occurred after any announcement of profit or disclosure to the public of any other selected financial information.

If adjusting events occur after the balance sheet date, the Group adjusts the amounts recognised in the financial statements in accordance with this new situation. Non-adjusting events after the balance sheet date are disclosed in the notes to the financial statements if they are material.

(h) Provisions

A provision is made if there is an existing liability resulting from past events, if it is probable that the fulfillment of liability will result in outflows of economic benefits, and if the amount of liability can be reliably measured. Provisions are determined by discounting the estimated future cash flows to their present value using the pre-tax discount rate that reflects the time value of money and the risks specific to the liability. The discount amount is recognised as financial expense.

(i) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Provision is measured at the lower of the present value of the cost expected as a result of the termination of the contract and the present value of the net cost expected to be incurred as a result of the continuation of the contract. Before allocating a provision, the Company recognises impairment on assets associated with the contract.

(i) Revenue

Sales revenues are recognised on an accrual basis at the fair value of the consideration received or receivable in the cases where the goods are delivered or the service is provided, the product-related important risks and benefits are transferred to the buyer, the amount of income can be calculated reliably or it is very likely that the Group will obtain the economic benefits related to the transaction. Net sales show the invoiced value, excluding sales tax of the sold product or completed service, less rebates and discounts. Interest income obtained within other income is calculated using the effective interest rate method and recognised on an accrual basis, and rental income obtained within operating lease is recognised on a periodical accrual basis.

(j) Government grants

Unconditional government grants received are recognised under other income in the income statement when these grants become receivable. Other government grants are recognised at their fair value as deferred income where there is sufficient assurance that the Group will provide the necessary conditions for the grant and the grant will be received, and then they are systematically recognised under other income in the income statement during the useful life of the asset.

The grants related to the costs incurred by the Group are accounted for under other income in the income statement systematically at periods when costs are incurred.

2 Basis of presentation of financial statements *(continued)*

2.5 Summary of significant accounting policies

(k) Related parties

are deemed related to the Group if one of the following criteria applies:

(a) That party, directly, or indirectly through one or more intermediaries:

- (i) controls the entity, or vice versa, or where the party and the entity are under common control (including parent companies, subsidiaries and affiliates in the same line of business);
- (ii) holds an interest in the Group that gives it significant influence over the Group, or
- (iii) has joint control over the Group;

(b) The Party is an associate of the Group;

(c) The party is a joint venture in which the Group is a venturer;

(d) The party is a member of the key personnel of the Group or its parent company;

(e) The party is a close member of the family of any individual referred to in (a) or (d);

(f) The party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e);

(g) The party has a post-employment defined benefit plan for the benefit of employees of the entity, or of an entity that is a related party of the entity.

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

Business relations with related parties may be conducted due to ordinary activities.

2 Basis of presentation of financial statements *(continued)*

2.5 Summary of significant accounting policies

(l) Leasing transactions

(i) Leased assets

Assets used through leases are classified as finance leases where substantially all of the risks and rewards incidental to ownership of the asset are transferred to the Group. At commencement of the lease term, fixed assets acquired through finance leases are measured at the lower of the fair value of the related asset and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable for that asset.

Assets used under other leases are classified as operating leases and are not recognised in the statement of financial position of the Group.

(ii) Lease payments

Payments made under operating leases are recognised in the income statement over the lease term on a straight-line basis. Lease incentives are accounted for as part of the total rental expenses over the lease term.

Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. Financial expenses are allocated for each period over the lease term so as to determine a constant periodic rate of interest on the remaining balance of the liability.

(iii) Determining whether an agreement contains a lease

The Group determines at the inception of an agreement whether the agreement constitutes or contains a lease. This is met in the following two conditions:

- If the fulfilment of the agreement depends upon the use of a specific asset or assets; and
- the agreement comprises a right to use of the asset or assets.

At the inception the agreement or upon a reassessment of the agreement, the Group separates the payments required by such an agreement into those for leases and those for other issues on the basis of their relative fair values. If the Group determines that it is not possible to reliably sperate the payments related to a finance lease agreement, it recognises an asset and a liability equal to the amount of the related asset's fair value. The liability is reduced as subsequent payments are made and the financial expenses added to the liability are recorded using the Group's incremental borrowing rate.

2 Basis of presentation of financial statements *(continued)*

2.5 Summary of significant accounting policies

(m) Financing income and financing expenses

Financing income includes interest income from cash and cash equivalents, income from financial instruments held for hedge accounting purposes that are recognised in the income statement, and net earnings previously recognised in other comprehensive income. Interest income is recognised in the income statement on an accrual basis using the effective interest rate method.

Financing expenses include interest expenses of loans received, impairment losses recorded on cash and cash equivalents and financial liabilities, and foreign exchange differences.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the income statement using the effective interest method. Foreign exchange gains and losses on financial assets and liabilities are reported in the financial income or financial expenses according to the net position of exchange rate movements.

(n) Tax

Income tax liability on income for the period comprises current and deferred taxes. Current tax and deferred tax are recognised directly in equity or in profit or loss accounts, except for tax effects of the items recorded in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the current year computed using tax rates enacted or substantially enacted as of the end of the reporting period, and includes any adjustment to tax payable in respect of previous years. Current tax liability also includes tax liabilities arising from dividend distribution notifications.

(ii) Deferred taxes

Deferred taxe is calculated on temporary differences between the carrying amounts of assets and liabilities in financial statements and the amounts used for tax base. Deferred tax is not recognised for temporary differences arising in the following cases:

- Temporary difference arising from the initial recognition of assets or liabilities in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- Temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements that the Group is able to control the timing of the reversal of the differences and it is probable that the reversal will not occur in the foreseeable future; and
- Taxable temporary differences arising from initial recognition of goodwill.

2 Basis of presentation of financial statements *(continued)*

2.5 Summary of significant accounting policies

(n) **Tax** *(continued)*

The Group measures deferred tax liabilities and deferred tax assets in a manner consistent with the tax-related consequences of the expectation at the end of the reporting period as to how its assets will recover their carrying amounts, or how to pay its debts. For a investment property measured using the fair value model, it is presumed until proven otherwise that the carrying amount of such an investment property would be recovered through sale.

Deferred tax is measured using tax rates enacted or substantially enacted as of the end of the reporting period when temporary differences are reversed.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current taxes assets against current tax liabilities and if they relate to the same tax-paying entity, or in the case of different entities, to the entities that have the intention to settle tax receivables or liabilities on a net basis or to make the collection and payment separately but simultaneously.

A deferred tax asset is recognised for carryforward of unused tax losses, tax advantages and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, tax advantages and deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and deferred tax assets are reduced for the parts for which it is no longer probable that the related tax advantage will be utilised.

(iii) *Tax risk*

When determining the amounts of current tax expense and deferred tax expense, the Group takes into account uncertain tax positions and whether there are any additional tax and interest obligations required to be paid. This assessment may involve a number of professional judgments about future events and is based on estimates and assumptions. If new information emerges that will change the Group's professional judgment concerning the adequacy of its existing tax liability, this change in tax liability will affect the tax expense for the period in which this situation is determined.

2 Basis of presentation of financial statements *(continued)*

2.5 Summary of significant accounting policies

(o) Cash-flow statement

In the cash-flow statement, cash flows for the period are classified and reported according to operating activities, investing activities and financing activities. Cash flows from operating activities represent cash flows arising from the subjects covered by the Group's area of activity. The Group presents cash flows from operating activities according to the indirect method whereby net profit/loss is adjusted for the effects of transactions of a non-cash nature, any accruals or deferrals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Cash flows from investing activities present the cash flows which the Group uses and obtains in its investing activities (tangible and intangible asset investments and financial investments).

Cash flows from financing activities present the resources used by the Group in financing activities and repayments of those resources.

Cash and cash equivalents are cash and bank deposits with maturity dates of less than three months and highly liquid short-term investments with a maturity of less than three months starting from the date of acquisition and not subject to a a risk of fluctuations in value.

(p) Dividends

Dividend receivable is recorded as income in the period in which it is declared. Dividend payable is reflected in the financial statements as a part of dividend distribution in the period when the General Meeting decides on the distribution of dividends.

(q) Reporting of financial information by segments

As the Group has neither a distinguishable operating segment in the presentation of product or service groups that has different characteristics from other segments in terms of risk and return nor a distinguishable geographical segment with different characteristics of risk and return, no segment reporting was prepared.

2 Basis of presentation of financial statements *(continued)*

2.5 Summary of significant accounting policies

(r) Income and expenses from investing activities

Income from investing activities consists of proceeds from fixed asset disposals and earnings recognised in profit or loss from derivative instruments.

Expenses from investing activities consist of losses from fixed asset disposals and losses recognised in profit or loss from derivative instruments.

Gains and losses arising from derivative financial instruments are reported in gross amounts in the income, or expenses, from investing activities on the basis of each transaction according to whether the income state or expense state of the fair value incurred as a result of the valuation of the related transaction.

(s) Other real operating income and expenses

Other real operating income consists of interest income on bank deposits whose accrued amount has been calculated using the effective interest rate method, income from uncollectible doubtful receivables or provisions for inventories, proceeds from exchange rate differences originating from the items in the statement of financial position other than debt instruments, and income from other operations.

Other real operating expenses consist provisions for doubtful receivables or inventories, donations, expenses from exchange rate differences originating from the items in the statement of financial position other than debt instruments, and expenses from other operations.

Income or expenses from exchange-rate differences are reported at net amounts under real operating income, or expenses, according to whether the position of exchange rate movements are at net income or net expense on a company basis.

(t) Determination of fair value

The Group's various accounting policies and disclosures require that the fair value of both financial and non-financial assets and liabilities be determined. The following methods are used to determine fair values for measurement and disclosure purposes. Where applicable, additional information about the assumptions used in determining the fair values is presented in the notes incidental to the asset or liability.

(i) Trade and other receivables

The fair values of trade and other receivables are estimated as the value determined by discounting future cash flows using market interest rates prevailing at the date of measurement. Short-term receivables with no stated interest rate are measured at original invoice amount unless the effect of discount is significant. These fair values are determined at the time of initial recognition and at the end of each reporting period for disclosure purposes.

(ii) Other non-derivative financial liabilities

These fair values are determined at the time of initial recognition and at the end of each reporting period for disclosure purposes. The fair value is calculated by discounting future principal and interest cash flows to the present value using market interest rates prevailing at the date of measurement. The market interest rate with regard to the liability part of convertible notes is determined by giving reference to similar liabilities with no convertibility option. The market interest rate for finance lease transactions is determined according to similar lease agreements.

2 Basis of presentation of financial statements *(continued)*

2.6 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in accordance to TFRS requires the management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Important judgements that the management has made and basic sources of uncertainty in estimates in the application of the Group's accounting policies during the preparation these financial statements are consistent with those applied in the financial statements for the year ended December 31, 2015.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in subsequent periods affected by these revisions.

Information on estimates that have significant effect on the amounts recognised in the financial statements are disclosed in the following notes:

- Not 2.5 (b, c) Useful lives of tangible and intangible fixedd assets
- Note 7 - Provision for impairment of trade receivables
- Note 14 - Provisions, contingent assets and liabilities
- Note 15 - Assumptions used to calculate provision for severance payments
- Note 24 - Tax assets and liabilities
- Note 26 - Determination of fair value

3 Related Party Disclosures

In the financial statements, shareholders, key management personnel and members of the Board of Management, their families and companies controlled by or affiliated with them, and associates and jointly controlled companies are accepted as related parties. The Group conducts various transactions with related parties during its operations.

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

Certain related parties of the Group disclosed in this note and their relationships with the Group are as follows: These companies are controlled by the Albayrak Family and are presented as a related party.

Ereğli Textile Tourism Industry Trade Inc. ("Ereğli Textile")

Albayrak Holding Inc. ("Albayrak Holding")

Ağa Mining Industry Trade Ltd. (“Ağa Mining”)

Albayrak Tourism Travel Construction Trade Inc. ("Albayrak Construction")

Albil Central Services Inc. ("Albil")

Birlikte Distribution Inc. ("Birlikte Distribution")

Birun Hotel Management Inc. ("Birun Hotel Management")

Kademe Waste Technologies Industry Inc. ("Kademe Waste")

Nakil Logistics Inc. ("Nakil Logistics")

Platform Tourism Transport Food Construction Cleaning Services Industry and Trade Inc. ("Platform)

Reklam Piri Media Communication Inc. ("Reklam Piri")

Albayrak Somali Port Management Branch ("Somali Port")

Varaka Paper Industry Inc. ("Varaka Paper")

Yeşil Adamlar Waste Management and Transport Inc. ("Yeşil Adamlar")

3 Related Party Disclosures *(continued)*

Receivables and payables concerning related parties as of December 31, 2016 are as follows:

	Receivables		Payables	
December 31, 2016	**Short Term**		**Short Term**	
	Trade	**non-trade**	**Trade**	**non-trade**
Ereğli Textile	--	16,159,826	--	--
Albayrak Construction	60,203	2,365,623	--	--
Somali Port	819,979	--	--	--
Varaka Paper	102,148	--	--	--
Kademe Waste	47,511	--	--	--
Albil	--	--	331,066	--
Ağa Mining	--	--	248,000	--
Birlikte Distribution	--	--	38,572	--
Platform	--	--	11,334	--
Reklam Piri	--	--	36,050	--
Total	**1,029,841**	**18,525,449**	**665,022**	**--**

Receivables and payables concerning related parties as of December 31, 2015 are as follows:

	Receivables		Payables	
December 31, 2015	**Short Term**		**Short Term**	
	Trade	**non-trade**	**Trade**	**non-trade**
Ereğli Textile	--	11,723,187	--	--
Somali Port	424,957	--	--	--
Birun Hotel Management	51,703	--	--	--
Yeşil Adamlar	10,921	--	--	--
Albil	--	--	719,322	--
Albayrak Construction	--	--	6,203	--
Kademe Waste	--	--	65,014	28, 176
Birlikte Distribution	--	--	29,543	--
Platform	--	--	59,477	--
Other	--	257	12,289	--
Total	**487,581**	**11,723,444**	**891,848**	**28, 176**

3 Related Party Disclosures *(continued)*

Purchases and expenses from related parties for the periods from January 1 to December 31, 2016 and January 1 to December 31, 2015 are as follows:

	January 1 - December 31, 2016				January 1 - December 31, 2015	
	Goods and Services	**Rent**	**Fixed Asset**	**Other**	**Goods and Services**	**Other**
Albil	1,684,811	--	2,147,317	277,383	2,182,958	--
Reklam Piri	20,000	--	--	--	15,000	--
Birlikte Distribution	15,278	--	--	22,458	--	17,843
Ereğli Textile	--	--	--	3,840	--	1,280
Albayrak Holding	--	1,513,845	--	34,495	--	--
Ağa Mining	--	--	248,000		--	--
Kademe Waste	--	--	75,600	1,100,791	--	817,848
Yeşil Adamlar	--	--	--		--	--
Platform	--	44,400	--	--	--	44,400
Albayrak Construction	--	--	10,665,900	--	--	--
	1,720,089	**1,558,245**	**13,136,817**	**1,438,967**	**2,197,958**	**881,371**

Sales to and income from related parties for the periods from January 1 to December 31, 2016 and January 1 to December 31, 2015 are as follows:

	January 1 - December 31, 2016				January 1 - December 31, 2015			
	Sale of Goods and Services	**Rent**	**Interest**	**Other**	**Rent**	**Fixed Asset**	**Interest**	**Other**
Ereğli Textile	--	--	2,504,083	16,172,365	10,466	--	1,358,940	73,229
Albil	--	--	--	501,997	--	--	--	--
Birun Hotel Management	--	--	--	--	--	--	--	49,167
Kademe Waste	--	130,495	--	1,691,844	125,085	--	--	710,843
Yeşil Adamlar	--	--	--	--	--	--	--	9,505
Somali Port	--	--	--	--	--	--	--	524,025
Nakil Logistics	--	--	--	--	1,200	7,465,601	--	--
Platform	--	--	--	1,112		--	--	615
Kazzaz	47,870	--	--	4,923		--	--	--
Varaka Paper	252,794	--	--	--	--	--	--	--
	300,664	**130,495**	**2,504,083**	**18,372,241**	**136,751**	**7,465,601**	**1,358,940**	**1,367,384**

Benefits Provided to the Top Management

As of December 31, 2016, the total amount of benefits and advantages provided to the top management is TL 1,289,101 (December 31, 2015 - TL 891,359).

4 Cash and Cash Equivalents

The details of cash and cash equivalents as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	December 31, 2015
Cash	6,472	1,545
Banks		
- Demand Deposits	*2,092,574*	*238,233*
Total	**2,099,046**	**239,778**

As of December 31, 2016, there is no blockage on bank deposits of the Group (December 31, 2015: None).

5 Financial Investments

As of December 31, 2016, financial investments consist of the bonds issued by Ereğli Textile. The Company recognises the related bonds as assets held to maturity. The nominal value of the related bonds is TL 9,000,000, whereas the discounted value is TL 9,105,569 (December 31, 2015: None).

6 Financial Payables

The details of financial payables of the Group as at 31 December 2016 and 31 December 2015 are as follows:

	December 31, 2016		December 31, 2015	
	Effective Interest Rate %	Amount in TL	Effective Interest Rate %	Amount in TL
Short-term Loans				
- Turkish lira	13.00% - 15.00%	68,391,672	12.00% - 15.25%	32,735,374
Short-term Portions of Long-term Loans				
- Turkish lira	13.00% - 15.00%	2,099,649	--	--
Long-Term Loans				
- Turkish lira	13.00% - 15.00%	1,727,279	--	--
Total Loans		**72,218,600**		**32,735,374**

As of December 31, 2016, the Group has given a mortgage amounting to TL 12 million and customer cheques in the amount of TL 61,036,633 as guarantees to related banks in respect of the credits which it has used (As of December 31, 2015, mortgage was TL 12 million and customer cheques were TL 25,444,252).

7 Trade Receivables and Payables

Short-term Trade Receivables

As of December 31, 2016 and December 31, 2015, short-term trade receivables from third parties consist of following items:

	December 31, 2016	December 31, 2015
Notes and Cheques Receivable	75,554,862	56,957,190
Buyers	50,746,500	57,088,940
Provision for Doubtful Receivables	(2,807,034)	(3,076,289)
Total	**123,494,328**	**110,969,841**

(*) The movement table of provision for doubtful trade receivables of the Group is as follows:

	2016	2015
Opening Balance	(3,076,289)	(453,730)
Expenses for the Period	269,255	(2,622,559)
Closing Balance	**(2,807,034)**	**(3,076,289)**

Short-term Trade Payables

Trade payables to third parties as of December 31, 2016 and December 31, 2015 consist of the following items:

	December 31, 2016	December 31, 2015
Payables to Sellers	38,321,453	33,958,963
Notes Payable	1,890,049	3,485,371
Total	**40,211,502**	**37,444,334**

8 Other Receivables and Payables

Other Short-term Receivables

The Group's other short-term receivables from third parties as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	**December 31, 2015**
Taxes to be Refunded	1,752,076	191,176
Deposits and Guarantees Given	4,000	--
Receivables from Employees	159,550	--
Other Various Receivables	26,755	--
Total	**1,942,381**	**191,176**

Disclosures on the nature and level of risks concerning trade receivable are given in Note 26.

Other Short-term Payables

Trade payables to third parties as of December 31, 2016 and December 31, 2015 consist of the following items:

	December 31, 2016	**December 31, 2015**
Debts to Tax Office	796,216	--
Other Payables	37,318	3,000
Total	**833,534**	**3,000**

9 Inventories

The details of inventories of the Group as at 31 December 2016 and 31 December 2015 are as follows:

	December 31, 2016	December 31, 2015
Materials and Spare Parts	67,030,360	67,890,812
Goods in Transit	20,083,958	10,689,490
Work in Process	9,007,328	6,224,040
Finished Goods	6,782,439	8,077,305
Trade Goods	1,683,597	3,118,799
Other Inventories	635,232	20,731
Inventory Impairment (-) (*)	(411,519)	(2,055,744)
Total	**104,811,395**	**93,965,433**

There are no pledges or mortgages on the inventories as of December 31, 2015 and December 31, 2014.

(*) The movement table of the Group for inventory impairment is as follows:

	2016	2015
Balance on January 1	(2,055,744)	(1,882,053)
Additions	--	(173,691)
Provision reversed/realised during the period	1,644,225	--
Balance on December 31	**(411,519)**	**(2,055,744)**

10 Prepaid Expenses and Deferred Income

Prepaid Expenses

Short-term Prepaid Expenses

As of December 31, 2016 and December 31, 2015, the amount of prepaid expenses from third parties remaining in the part of current assets of the Group is as follows:

	December 31, 2016	December 31, 2015
Advances Given	7,689,314	1,638,447
Expenses for Future Months	147,308	34,798
Work Advances	135,087	73,171
Total	**7,971,709**	**1,746,416**

Deferred Income

Short-term Deferred Income

The details of the Group's short-term deferred income from third parties as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	December 31, 2015
Advances Received	3,854,162	4,653,153
Expenses for Future Months	486,647	479,952
Expense Accruals	--	142,032
Total	**4,340,809**	**5,275,137**

11 Investment Property

The details of the Group's investment property as of December 31, 2016 and December 31, 2015 are as follows:

	2016	2015
Cost value		
Opening balance on January 1, 2016	2,373,804	2,373,804
Additions	--	--
Period-end balance	**2,373,804**	**2,373,804**
Accumulated depreciation		
Opening balance on January 1, 2016	(358,632)	(280,023)
Depreciation expense for the current period	(47,477)	(78,609)
Period-end balance	**(406,109)**	**(358,632)**
Net book value at the beginning of the period	**2,015,172**	**2,093,781**
Net book value at the end of the period	**1,967,695**	**2,015,172**

Currency: Turkish Lira ("TL")

12 Tangible Fixed Assets

Movement tables of tangible fixed assets for the year ended December 31, 2016 are summarised as follows:

	Lands	Land improvements	Buildings	Plants, Machinery and Equipment	Vehicles	Furniture and fixtures	Investments in Progress	Special Costs	Total
Cost value									
Opening balance on January 1, 2016	44,313,075	2,520	12,908,332	69,767,820	5,146,449	9,118,338	636,284	976,501	142,869,319
Additions	2,068,748	334,767	329,158	3,546,306	3,353,187	4,457,750		10,808,915	24,898,832
Outflow					(962,117)	--	(636,284)		(1,598,401)
Closing Balance on December 31, 2016	**46,381,823**	**337,287**	**13,237,490**	**73,314,126**	**7,537,519**	**13,576,088**	**--**	**11,785,416**	**166,169,750**
Less: Accumulated depreciation									
Opening balance on January 1, 2016	--	(1,145)	(1,653,995)	(39,963,765)	(2,490,102)	(4,629,043)	--	(646,415)	(49,384,465)
Depreciation for the current period		(18,766)	(263,653)	(5,129,027)	(1,347,326)	(1,873,863)		(2,246,181)	(10,878,815)
Outflow					571,377				571,377
Closing balance on December 31, 2016	**--**	**(19,911)**	**(1,917,648)**	**(45,092,792)**	**(3,266,051)**	**(6,502,906)**	**--**	**(2,892,596)**	**(59,691,903)**
Net book value on January 1, 2016	**44,313,075**	**1,375**	**11,254,337**	**29,804,055**	**2,656,347**	**4,489,295**	**636,284**	**330,086**	**93,484,854**
Net book value on December 31, 2016	**46,381,823**	**317,376**	**11,319,842**	**28,221,334**	**4,271,468**	**7,073,182**	**--**	**8,892,820**	**106,477,847**

There no pledges or mortgages on the fixed assets of the Group.

Currency: Turkish Lira ("TL")

12 Tangible Fixed Assets *(continued)*

Movement table of tangible fixed assets for the year ended December 31, 2015 is summarised as follows:

	Lands	Land improvements	Buildings	Plant, machinery and equipment	Vehicles	Furniture and fixtures	Investments in Progress	Special Costs	Total
Cost value									
Opening balance on January 1, 2015	44,113,075	2,520	11,508,332	65,259,203	3,770,520	7,335,632		768,901	132,758,183
Additions	200,000		1,400,000	4,508,617	1,632,959	1,796,338	636,284	207,600	10,381,798
Outflows					(257,030)	(13,632)			(270,662)
Closing balance on December 31, 2015	**44,313,075**	**2,520**	**12,908,332**	**69,767,820**	**5,146,449**	**9,118,338**	**636,284**	**976,501**	**142,869,319**
Less: Accumulated depreciation									
Opening balance on January 1, 2015	--	(934)	(1,400,495)	(32,464,746)	(1,875,877)	(3,236,692)	--	(554,342)	(39,533,086)
Depreciation for the current period	--	(211)	(253,500)	(7,499,019)	(803,529)	(1,405,525)	--	(92,073)	(10,053,857)
Outflows	--	--	--	--	189,304	13,174	--	--	202,478
Closing balance on December 31, 2015	**--**	**(1,145)**	**(1,653,995)**	**(39,963,765)**	**(2,490,102)**	**(4,629,043)**	**--**	**(646,415)**	**(49,384,465)**
Net book value on January 1, 2015	**44,113,075**	**1,586**	**10,107,837**	**32,794,457**	**1,894,643**	**4,098,940**	**--**	**214,559**	**93,225,097**
Net book value on December 31, 2015	**44,313,075**	**1,375**	**11,254,337**	**29,804,055**	**2,656,347**	**4,489,295**	**636,284**	**330,086**	**93,484,854**

13 Intangible Fixed Assets

Movements of intangible fixed assets for the year ended December 31, 2016 which consist of development expenses, rights and licences are as follows:

	2016	2015
Cost value		
Opening balance on January 1, 2016	34,764,923	16,808,134
Additions	18,602,490	19,028,344
Outflow	--	(1,071,555)
Period-end balance	**53,367,413**	**34,764,923**
Accumulated amortisation charges		
Opening balance on January 1, 2016	(8,975,343)	(4,147,691)
Current period amortisation	(6,190,436)	(4,937,477)
Outflow	--	109,825
Period-end balance	**(15,165,779)**	**(8,975,343)**
Net book value at the beginning of the period	**25,789,580**	**12,660,443**
Net book value at the end of the period	**38,201,634**	**25,789,580**

There are no pledges or mortgages on the intangible fixed assets of the Group.

14 Provisions, Contingent Assets and Liabilities

a) Provisions

The details of the Group's provisions as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	December 31, 2015
Provision for Vacation (Note 14)	1,068,207	826,860
Provision for warranties	8,027,839	6,043,373
Provision for Lawsuits	483,706	406,837
Short-term provisions	**9,579,752**	**7,277,070**
Provision for Severance Payments (Note 14)	3,036,169	3,343,451
Long-term provisions	**3,036,169**	**3,343,451**
Total provisions	**12,615,921**	**10,620,521**

The movements of provision for warranty expenses over periods are as follows:

	2016	2015
Balance on January 1	6,043,373	5,845,270
Increase/decrease during the period	1,984,466	198,103
Total	**8,027,839**	**6,043,373**

14 Provisions, Contingent Assets and Liabilities *(continued)*

b) Guarantees - Pledges - Mortgages ("GPMs")

As of December 31, 2016 and December 31, 2015, the details of the GPMs given by the Group and their breakdown are shown below:

GPMs given by the Group (in TL)	**December 31, 2016**	**December 31, 2015**
A. The Total Amount of GPMs Given on Behalf of its Own Legal Entity	90,341,303	3,132,657
B. The Total Amount of GPMs Given on Behalf of Companies Included in Full Consolidation		
C. The Total Amount of GPMs Given on Behalf of Other 3rd parties for the Continuation of its Ordinary Business Operations (*)	750,368,549	568,317,734
D. The Total Amount of Other GPMs Given		
i. The Total Amount of GPMs Given on Behalf of the Main Shareholder		
ii. The Total Amount of GPMs Given on Behalf the Other Related Companies that Do Not Fall under Articles B and C		
iii. The Total Amount of GPMs Given on Behalf of 3rdParties that Do Not Fall under Article C		
Total	**840,709,852**	**571,450,391**

The monetary positions of GPMs given by the Group as of December 31, 2016 are presented below:

	December 31, 2016	**December 31, 2015**
Turkish lira	765,714,672	570,727,504
US dollar	3,097,318	722,887
Euro	71,897,862	--
Total	**840,709,852**	**571,450,391**

(*) The Group and the Turkish Ziraat Bank (hereinafter the "Bank") signed an agreement in December 2010. According to this agreement, in the event the customer that has purchased the tractor which the Group sells through Tümosan's tractor vendors (Vendor) using credit via the Bank fails to repay the credit, the Bank has the right to request from the Group the difference between the income obtained from the forced sale of the tractor and 75% of the insurable value determined by the Association of the Insurance and Reinsurance Companies of Turkey for the related tractor. However, the Company reflects the difference that the Bank will demand from it to the related Vendor that has sold the tractor. Therefore, the liability is ultimately transferred to the Vendor although the guarantee mentioned above is a guarantee given to the Bank by the Company.

15 Employee Benefits

Liabilities for Employee Benefits

The details of the Group's liabilities for short-term employee benefits as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	December 31, 2015
Social Security Contributions Payable	1,187,857	499,506
Employee's Wage Taxes	590,004	348,958
Wages and Salaries Payable	898,663	746,931
Total	**2,676,524**	**1,595,395**

Provisions for Short-term Employee Benefits

Provisions for short-term employee benefits as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	December 31, 2015
Provisions for vacation	1,068,207	826,860
Total	**1,068,207**	**826,860**

The movement of provision for vacation over the years is as follows:

	2016	2015
Beginning of Period	826,860	579,343
Provision Allocated During the Period	241,347	247,517
Period end	**1,068,207**	**826,860**

In the event of termination of the employment contract for any reason, the Group is obligated to pay to the employee or his/her beneficiaries the renumerations for the days of unused vacation entitlements based on his/her wage at the date when the employment contract was terminated. Provision for unused vacation is the amount of undiscounted total liability that corresponds to the vacation days, to which all employees are entitled, but which have not yet been used as of the reporting date.

15 Employee Benefits *(continued)*

Provisions for Long-term Employee Benefits

	December 31, 2016	December 31, 2015
Provision for severance payments	3,036,169	3,343,451
Total	**3,036,169**	**3,343,451**

In accordance with existing laws in Turkey, the Group is obligated to make a certain amount of severance payment to the personnel, who has served at least for one year, that is dismissed from work without reason, or that is called to duty for military service, or that dies, or that completes the term of service required for retirement, or that has reaches the pensionable age.

The liability for severance payment is not legally subject to any funding. Provision for severance payments is calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. TAS 19 ("Employee Benefits") provides for the development of company liabilities within the scope of defined benefit plans using actuarial valuation methods. In this respect, the actuarial assumptions used in the calculation of total liabilities are as follows:

	December 31, 2016	December 31, 2015
Discount rate	10.75%	11.50%
Expexted inflation rate	6.00%	9.00%
Net discount rate	4.48%	2.29%

The main assumption is that the maximum liability for each year of service will increase in line with inflation. Accordingly, the discount rate applied represents the expected real rate after adjustment of future inflation effects. Hence, provisions in the accompanying financial statements as at 31 December 2016 are calculated by estimating the present value of the future probable liability arising from the retirement of employees.

The movements of provison for severance payments during the year are as follows:

	2016	2015
Balance on January 1	3,343,451	2,808,016
Service Cost	410,247	768,505
Interest Expense	326,388	322,922
Actuarial Gain/Loss	(597,190)	(384,587)
Payments	(446,727)	(171,405)
Balance on December 31	**3,036,169**	**3,343,451**

16 Other Assets and Liabilities

The details of other current assets of the Group as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016	December 31, 2015
Deferred Value Added Tax	21,177,682	12,027,238
Other	2,973	78,937
Total	**21,180,655**	**12,106,175**

17 Capital, Reserves and Other Equity Items

Paid-in Capital

The capital structure of the Group as of December 31, 2016 and December 31, 2015 is as follows:

	December 31, 2016		December 31, 2015	
	Share Rate %	Share Amount (TL)	Share Rate %	Share Amount (TL)
Ereğli Textile	64.59%	74,285,492	66.33%	76,285,493
Other	10.44%	12,000,000	10.44%	12,000,000
Free-float Portion	24.97%	28,714,508	23.23%	26,714,507
Paid-in Capital	**100.00%**	**115,000,000**	**100.00%**	**115,000,000**

As of December 31, 2016, the Group's capital is fully paid up and consists of 115,000,000 shares with nominal value of TL 115,000,000 and TL 1 per share (December 31, 2015 - Capital: TL 115,000,000 and 115,000,000 shares with TL 1 per share).

Reserves on Retained Earnings

As per Article 519 of the Turkish Commercial Code (Law No. 6102) ("TCC"), entities shall set aside 5% of their annual profits as general legal reserves until reaching up to 20% of their paid-in capital. If the entity has losses from previous years, it is deducted from the annual profit in the accounting of 5%. In accordance with Article 519 (c) of the Turkish Commercial Code, after a dividend of 5% has been paid to shareholders, 10% of the amount to be distributed to the shareholders and the others who share the profit shall also be added to the general legal reserves.

Accumulated Other Comprehensive Income and Expenses that will not be reclassified to Profit or Loss

The Group's accumulated other comprehensive income and expenses that will not be reclassifed to profit or loss as at 31 December 2016 and 31 December 2015 are as follows:

	December 31, 2016	December 31, 2015
Defined Benefit Plans Remeasurement Gains/Losses	672,736	194,984
Total	**672,736**	**194,984**

18 Revenue

The statement of revenue and cost of sales for the years ended December 31, 2016 and December 31, 2015 is as follows:

	January 1 - December 31, 2016	**January 1 - December 31, 2015**
Domestic Sales	490,416,442	445,073,712
Foreign Sales	11,110,929	9,977,319
Other Income	1,694,808	243,743
Gross Revenue	**503,222,179**	**455,294,774**
Sales Returns and Allowances	(3,031,525)	(5,901,993)
Net sales	**500,190,654**	**449,392,781**

	January 1 - December 31, 2016	**January 1 - December 31, 2015**
Expenses for Raw Materials and Supplies	(307,498,646)	(301,437,045)
General Production Expenses	(15,004,709)	(12,867,007)
Depreciation and Amortisation Charges	(7,512,257)	(7,590,828)
Personnel Expenses	(22,215,985)	(15,880,031)
Changes in Work-in-process Inventories	2,783,288	138,355
Changes in Finished Goods Inventories	(1,294,866)	(1,022,496)
Cost of Trade Goods Sold	(26,157,200)	(9,980,567)
Cost of Sales	**(376,900,375)**	**(348,639,619)**
Gross Profit	**123,290,279**	**100,753,162**

The product-based detail of sales revenue is as follows:

	January 1 - December 31, 2016	**January 1 - December 31, 2015**
Tractor Sales	464,252,900	424,199,439
Spare Part Sales	20,703,208	14,027,741
Engine Sales	5,080,802	5,055,368
Sales of Agricultural Machinery	10,153,744	6,110,233
Cost of Sales	**500,190,654**	**449,392,781**

19 Operating Expenses

General Administrative Expenses

The general administrative expenses of Group for the years ended December 31, 2016 and December 31, 2015 are as follows:

	January 1 - December 31, 2016	**January 1 - December 31, 2015**
Depreciation and Amortisation Expenses	8,350,810	2,787,379
Personnel Expenses	4,941,820	3,637,307
Financial and Legal Consulting Expenses	1,465,419	1,409,935
Energy, Fuel and Water Expenses	1,142,590	577,940
Rental Expenses	1,095,355	440,257
Travel and Accommodation Expenses	298,426	342,761
Data Processing Materials Expenses	205,247	620,081
Other Expenses	1,554,362	1,762,172
Total	**19,054,029**	**11,577,832**

Marketing, Sales and Distribution Expenses

Marketing, sales and distribution expenses of the Group for the years ended December 31, 2016 and December 31, 2015 are as follows:

	January 1 - December 31, 2016	**January 1 - December 31, 2015**
Premium and Commission Expenses	27,543,580	16,755,527
After-Sales Service and Warranty Expenses	18,017,065	12,969,622
Personnel Expenses	4,111,253	3,049,994
Promotion Expenses	2,735,195	3,046,560
Sales Transportation Expenses	3,435,823	2,744,393
Depreciation and Amortisation Expenses	1,253,661	--
Other	2,035,777	3,730,429
Total	**59,132,354**	**42,296,525**

Research and Development Expenses

The Group has incurred research and development expenses amounting to TL 4,974,342 including depreciation and amortisation expenses amounting to TL 4,961,736 for the year ended December 31, 2015. The accumulated development expenses amounting to TL 7,534,643 for the year ended December 31, 2016 have been capitalised on the related projects (Note 13).

20 Expenses Classified by Type

Personnel expenses of the Group for the years ended December 31, 2016 and December 31, 2015 are as follows:

By expense centre	January 1 - December 31, 2016	January 1 - December 31, 2015
Cost of Sales	22,215,985	15,880,031
General Administrative Expenses	4,941,820	3,637,307
Sales and Marketing Expenses	4,111,253	3,049,994
Total	**31,269,058**	**22,567,332**

Depreciation and amortisation expenses of the Group for the years ended December 31, 2016 and December 31, 2015 are as follows:

	January 1 - December 31, 2016	January 1 - December 31, 2015
Cost of Sales	7,512,257	7,590,828
General Administrative Expenses	8,350,810	2,787,379
Sales and Marketing Expenses	1,253,661	--
Research and Development Expenses	--	4,691,736
Total	**17,116,728**	**15,069,943**

21 Other Real Operating Income and Expenses

Other Income

Other real operation income of the Group for the years ended December 31, 2016 and December 31, 2015 is as follows:

	January 1 - December 31, 2016	January 1 - December 31, 2015
Provisions No Longer Required	2,973,078	--
Guarantee Income Earned (Power Project)	1,644,650	--
Premium and Discount Income	1,326,909	--
Discount Interest Income	1,241,852	--
R&D Incentive Income	786,418	--
Gains from Sale of Scrap and Raw Materials	446,134	568,231
Late Interest Income Related to Trade Receivables	--	1,481,070
Income From Exchange Differences	--	4,180,985
Other	2,153,934	2,365,834
Total	**10,572,975**	**8,596,120**

21 Other Real Operating Income and Expenses *(continued)*

Other Expenses

Other real operating expenses of the Group for the years ended December 31, 2016 and 31 December 2015 are as follows:

	January 1 - December 31, 2016	**January 1 - December 31, 2015**
Expenses from Exchange Differences	1,655,256	4,275,989
Donations and Grants	810,000	699,164
Provision Expenses	121,869	3,029,396
Rediscount Expenses	68,609	1,021,004
Non-deductible Expenses	--	1,091,080
Other	474,800	757,317
Total	**3,130,534**	**10,873,950**

22 Financing Income and Expenses

Financing Income

The financing income of the Group for the years ended December 31, 2016 and December 31, 2015 is as follows:

	January 1 - December 31, 2016	**January 1 - December 31, 2015**
Interest Income	3,765,514	3,573,665
Gains from Sale of Securities	--	109,750
Total	**3,765,514**	**3,683,415**

Financing Expenses

The financing expenses of the Group for the years ended December 31, 2016 and December 31, 2015 is as follows:

	January 1 - December 31, 2016	**January 1 - December 31, 2015**
Interest Expenses	9,476,217	3,988,482
Factoring Commission Expenses	1,969	275,366
Total	**9,478,186**	**4,263,848**

23 Income from Investing Activities

The Group income from investing activities for the years ended December 31, 2016 and December 31, 2015 is as follows:

	January 1 - December 31, 2016	January 1 - December 31, 2015
Gains from Sales of Fixed Assets	516,548	94,921
Rental Income from Investment Property	360,181	702,857
Gains from Sales of Securities	--	3,701
Total	**876,729**	**801,479**

24 Income Taxes

As of December 31, 2016, the corporate income tax rate for the Company operating in Turkey is 20% (December 31, 2015: 20%). The corporate income tax rate is applied to the taxable base calculated by adding non-deductable expenses to the corporation's commercial earnings and deducting exemptions in tax laws.

According to the Corporate Income Tax Law, 75% of gains from sales of associates and real estate assets that have been held for at least two years are exempt from taxation if these gains are recorded in equity accounts for five years from the date of sale. The remaining 25% is subject to corporate income tax.

In addition, there is a withholding tax liability on dividend distributions, which is accrued during the period when the dividend payment is made. A 15% withholding tax is applicable to dividend payments, other than those made to limited taxpayer corporations obtaining income through an office or a permanent representative in Turkey and to corporations located in Turkey. The withholding rates in the related Double Taxation Treaties are also taken into account in the application of withholding rates to dividend distributions made to limited taxpayer corportions and to real persons.

According to Turkish tax legislation, tax losses can be carried forward to offset against future taxable income for a period of five years. However, tax losses cannot be carried back.

In Turkey, there is no application such as making an agreement with tax authorities with respect to taxes that will be paid. Corporate income tax returns are given within four months following the month in which the accounting period is closed. The authorities competent for tax examination may examine the tax returns and the underlying accounting records for five years starting from the beginning of the year following the date when the return was given, and may make re-assessment as a result of the findings.

Tax losses can be carried forward to offset against the future taxable income from the year when the loss was incurred. If tax losses are reported to the tax authorities for four consecutive tax periods, then the tax authorities are entitled to perform unplanned audit.

Transfer Pricing Arrangements

Transfer pricing is regulated under the title "Disguised Profit Distribution through Transfer Pricing" of Article 13 of the Corporate Income Tax Law. The General Communiqué on disguised profit distribution through transfer pricing that was published on November 18, 2007 has determined the details for application.

24 Income Taxes *(continued)*

If taxpayers are involved in the purchase and sale of goods or services with related parties at prices that do not comply with the arm's length principle, the related profit will be considered to have been distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing will not accepted as tax deductible for corporate income tax purposes.

Tax Expenses

The details of tax income/expense for the years ended December 31, 2016 and December 31, 2015 are as follows:

	2016	2015
Accounted for in the income statement		
Tax expense for the current period:		
Tax expense for the period	(8,340,996)	(6,621,490)
Deferred tax income/(expense):		
Arising from temporary differences	676,944	393,082
	(7,664,052)	**(6,228,408)**
Accounted for in statement of comprehensive income		
Deferred tax expense/income:		
Tax effects of actuarial differences	(119,438)	(76,918)
	(119,438)	**(76,918)**
Total tax income/(expense)	**(7,783,490)**	**(6,305,326)**

Tax Assets/Liabilities for the Current Period

The detail of tax assets/liabilities for the current period recognised

	December 31, 2016	December 31, 2015
Obligations related current tax payable	120,239	1,020,276
Balance on December 31, 2016	**120,239**	**1,020,276**

The reconciliation of current period's tax recognised and movements of it during the year are as follows:

	2016	2015
Balance on January 1	1,020,276	--
Corporate Income Tax Calculated	8,340,996	6,621,490
Corporate Income Tax Paid	(9,241,033)	(5,601,214)
Balance on December 31, 2016	**120,239**	**1,020,276**

24 Income Taxes *(continued)*

Reconciliation of effective tax rate

For the years ended December 31, 2016 and December 31, 2015, the tax provision reported is different from the amount calculated using the statutory tax rate on pre-tax profit. The breakdown of the related reconciliation is as follows:

		2016		2015
Income/(loss) for the period		40,030,428		33,594,316
Tax Expense for the Current Period:		(7,664,052)		(6,228,408)
Profit/(loss) before tax	**%**	**47,694,480**	**%**	**39,822,724**
Corporate income tax calculated at the statutory rate	20.0%	(9,538,896)	20.0%	(7,964,545)
Non-Deductible Expenses	0.1%	(69,578)	0.9%	(358,779)
R&D Deductions	(2.3) %	1,094,703	(6.0) %	2,402,831
Other	(1.8) %	849,719	0.8%	(307,915)
Total tax income/(expense) recognised in the income statement	**17.9%**	**(7,664,052)**	**14.9%**	**(6,228,408)**

Deferred Tax

The Group recognises deferred tax assets and liabilities for temporary timing differences arising from the differences between statutory financial statements for taxable basis and financial statements prepared in accordance with TFRS. Such differences usually arise from the fact that certain income and expense items are included in different periods in financial statements prepared in accordance with TFRS and financial statements for taxable basis. These differences are stated in the following page.

The tax rate used in the calculation of deferred tax assets and liabilities is 20%.

Currency: Turkish Lira ("TL")

24 Income Taxes *(continued)*

Deferred Tax *(continued)*

Deferred tax assets and liabilities recognised

The items attributable to deferred tax assets and liabilitie as of December 31, 2016 and December 31, 2015 consist of the following:

	Assets		Liabilities		Deferred Tax Assets/(Liabilities)	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Adjustments on Tangible and Intangible Fixed Assets	--	--	(2,413,101)	(2,489,603)	(2,413,101)	(2,489,603)
Provisions for vacation	213,641	165,372	--	--	213,641	165,372
Rediscount Adjustments on Trade Payables and Receivables	343,777	561,522	--	--	343,777	561,522
Property Valuations	--	--	(2,072,165)	(2,072,165)	(2,072,165)	(2,072,165)
Provision for Doubtful Receivables	561,407	615,258	--	--	561,407	615,258
Provision for Warranty Expenses	1,605,568	1,208,675	--	--	1,605,568	1,208,675
Severance Payment	607,234	668,690	--	--	607,234	668,690
Impairment Adjustments	82,304	411,149	--	--	82,304	411,149
Provision for Lawsuits	96,741	81,367	--	--	96,741	81,367
Effect of Inventory Valuation Adjustments	858,738	214,310	--	--	858,738	214,310
Bank Loans	--	--	(37,022)	--	(37,022)	--
Other	74,959	--	--	--	74,959	--
Total Deferred Tax Assets/(Liabilities)	**4,444,369**	**3,926,343**	**(4,522,288)**	**(4,561,768)**	**(77,919)**	**(635,425)**
Deductible Tax Amount	(4,362,710)	(3,926,343)	4,362,710	3,926,343	--	**--**
Net Deferred Tax Assets/(Liabilities)	**81,659**	**--**	**(159,578)**	**(635,425)**	**(77,919)**	**(635,425)**

24 Income Taxes *(continued)*

Deferred Tax *(continued)*

Assets and liabilities related to deferred tax

	December 31, 2016	December 31, 2015
Deferred tax asset	81,659	--
Deferred tax liability	(159,578)	(635,425)
Balance on December 31, 2015	**(77,919)**	**(635,425)**

The reconciliation of deferred tax assets and liabilities that are recognised and movements of them during the year are as follows:

	2016	2015
Balance on January 1	(635,425)	(951,589)
Recognised in profit or loss	676,944	393,082
Recognised in other comprehensive income	(119,438)	(76,918)
Balance on December 31	**(77,919)**	**(635,425)**

25 Earnings Per Share

Earnings per share is calculated by dividing the net income for the current period by the weighted average number of shares in issue during the period. In Turkey, companies are entitled to increase their capital through the distribution of bonus shares to be covered from the revaluation surplus fund or accumulated profits. In calculation of earnings per share, such increases are accepted as bonus issue. Dividend distributions added to capital are also considered in the same way. Therefore, when calculating the average number of shares, it is considered that such shares are in issue during the year. Thus, the weighted average number of the shares used to calculate the earnings per share has been determined taking into account retrospective effects.

	2016	2015
The weighted average [number] of shares outstanding during the period (each 1 TL)	115,000,000	115,000,000
Net Income for the Period	40,030,428	33,594,316
Earning per share (TL)	**0.3481**	**0.2921**

26 Financial Instruments - Risk Management and Fair Values

Financial risk management

The Group may be exposed to the following risks depending on the use of its financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note discloses the Group's exposure to each of the above risks, and the Group's objectives, policies and methods for measuring and managing these risks. More detailed quantitative disclosures are available in the financial statements.

Financial risk management is carried out by each subsidiary within the frame of the policies approved by its Board of Management within the general principles determined by the Group.

Risk management system

The Group's risk management policies are designed to monitor the compliance to the limits that are related to determining and analysing the risks with which the Group confronts, appropriate risk limits and controls. Risk management policies and systems are regularly monitored to reflect changes in market and Group activities. The Group aims to develop a disciplined and constructive control environment, wherein all employees understand their roles and responsibilities, through the training and management standards and procedures which it applies.

26 Financial Instruments - Risk Management and Fair Values *(continued)*

Credit risk

Credit risk is the risk that a customer or counterparty fails to meet its contractual obligations and arises mainly from receivables from customers.

Value exposed to credit risk:

Carried amount of financial assets represents the Group's maximum credit risk. The following table shows the details of the maximum exposure to credit risk as of December 31:

	Trade Receivables		**Other Receivables**		**Cash and Cash Equivalents**
December 31, 2016	**Related Party**	**Third Party**	**Related Party**	**Third Party**	**Deposits in Banks**
The maximum exposure to credit risk at the reporting date (A+B+C+D) (1)	**1,029,841**	**123,494,328**	**18,525,449**	**1,942,381**	**2,092,574**
- The portion of the maximum risk secured by guarantee etc.	--	83,214,300	--	--	--
A. Net book value of financial assets that are neither past due nor impaired (2)	1,029,841	123,494,328	18,525,449	1,942,381	2,092,574
B. Book value of assets that are past due but not impaired	--	--	--	--	--
C. Net book value of impaired assets (3)	--	--	--	--	--
- Past due (gross book value)	--	2,807,034	--	--	--
- Impairment (-)	--	(2,807,034)	--	--	--
- The portion of the net value secured by guarantee, etc.	--	--	--	--	--
- Not past due (gross book value)	--	--	--	--	--
- Impairment (-)	--	--	--	--	--
- The portion of the net value secured by guarantee, etc.	--	--	--	--	--
D. Off-balance sheet items with credit risk	--	--	--	--	--

26 Financial Instruments - Risk Management and Fair Values *(continued)*

Credit Risk *(continued)*

	Trade Receivables		Other Receivables		Cash and Cash Equivalents
December 31, 2015	**Related Party**	**Third Party**	**Related Party**	**Third Party**	**Deposits in Banks**
The maximum exposure to credit risk at the reporting date (A+B+C+D) (1)	**487,581**	**110,969,841**	**11,723,444**	**191,176**	**238,233**
- The portion of the maximum risk secured by guarantee, etc. -	--	74,341,500	--	--	--
A. Net book value of financial assets that are neither past due nor impaired (2)	487,581	110,969,841	11,723,444	191,176	238,233
B. Book value of assets that are past due but not impaired	--		--	--	--
C. Net book value of impaired assets (3)	--	--	--	--	--
- Past due (gross book value)	--	3,076,289	--	--	--
- Impairment (-)	--	(3,076,289)	--	--	--
- The portion of the net value secured by guarantee, etc.	--	--	--	--	--
- Not past due (gross book value)	--	--	--	--	--
- Impairment (-)	--	--	--	--	--
- The portion of the net value secured by guarantee, etc.	--	--	--	--	--
D. Off-balance sheet items with credit risk	--	--	--	--	--

26 Financial Instruments - Risk Management and Fair Values *(continued)*

Liquidity Risk

Liquidity risk is the risk that the Group may encounter difficultiy in meeting its financial obligations to be paid by giving cash or other financial assets. The Group's liquidity risk management approach is to keep as much liquid as possible so that the existing and prospective debt requirements can be funded under normal conditions or in crisis situations in a way that will not harm the Group, or its reputation.

The Group intends to retain sufficient cash to meet expected operating expenses, including the fulfillment of financial obligations, to the extent that possible effects of unforeseen circumstances, such as natural disasters, are exceptional.

The maturities of the Group's financial liabilities, including estimated interest payments, determined according to the payment schedule as of December 31, 2016 and December 31, 2015 are as follows:

December 31, 2016	**Book Value**	**Sum of cash outflows pursuant to contractual or expected maturity dates (=I+II+III)**	**Less than 3 moths (I)**	**3 to 12 months (II)**	**1 to 5 years (III)**
Pursuant to contractual or expected maturity dates					
Non-derivative financial liabilities					
Bank loans	72,218,600	72,751,685	39,269,890	31,512,697	1,969,098
Trade payables	40,876,524	40,893,793	39,736,638	1,157,155	--
Liabilities for employee benefits	2,676,524	2,676,524	2,676,524	--	--
Other payables	833,534	833,534	833,534	--	--
Total	**116,605,182**	**117,155,536**	**82,516,586**	**32,669,852**	**1,969,098**

December 31, 2015	**Book Value**	**Sum of cash outflows pursuant to contractual or expected maturity dates (=I+II+III**	**Less than 3 moths (I)**	**3 to 12 months (II)**	**1 to 5 years (III)**
Pursuant to contractual or expected maturity dates					
Non-derivative financial liabilities					
Bank loans	32,735,374	33,648,141	27,325,310	6,322,831	--
Trade payables	38,336,182	38,723,465	872,400	37,851,065	--
Liabilities for employee benefits	1,595,395	1,595,395	1,595,395	--	--
Other payables	31,176	31,176	31,176	--	--
Total	**72,698,127**	**73,998,177**	**29,824,281**	**44,173,896**	**--**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or in significantly different amounts.

26 Financial Instruments - Risk Management and Fair Values *(continued)*

Market Risk

Market risk is the risk that changes in the money market, such as exchange rates, interest rates or prices of instruments traded in securities markets, may change the Group's income or the market value of financial instruments held by the Group. Market risk management aims to optimise returns while controlling exposure to market risk within acceptable limits.

(i) Foreign Exchange Risk

The Group is exposed to currency risk due to its foreign currency-denominated purchasing transactions and bank loans. The Group manages foreign exchange risk by performing forward exchange and option transactions.

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2015 are as follows:

	December 31, 2016				
	TL Equivalent	**US dollar**	**Euro**	**GBP**	**CHF**
1. Trade receivables	3,585,491	306,442	539,300	117,202	37
2a. Monetary financial assets (including cash and bank accounts)	1,156,006	127,012	191,117	--	--
2b. Non-monetary financial assets	--	--	--	--	--
3. Other	56,437	15,609	406		
4. Current assets (1+2+3)	**4,797,934**	**449,063**	**730,823**	**117,202**	**37**
5. Trade receivables	--	--	--	--	--
6a. Monetary financial assets	--	--	--	--	--
6b. Non-monetary financial assets	--	--	--	--	--
7. Other	--	--	--	--	--
8. Fixed assets (5+6+7)	--	--	--	--	--
9. Total assets (4+8)	**4,797,934**	**449,063**	**730,823**	**117,202**	**37**
10. Trade payables	15,832,781	818,708	3,491,087	--	--
11. Financial liabilities	--	--	--	--	--
12a. Other monetary liabilities	464,108	--	125,100		
12b. Other non-monetary liabilities	--	--	--	--	--
13. Short-term liabilities (10+11+12)	**16,296,889**	**818,708**	**3,616,187**	**-**	**-**
14. Trade payables	--	--	--	--	--
15. Financial liabilities	--	--	--	--	--
16a. Other monetary liabilities	--	--	--	--	--
16b. Other non-monetary liabilities	--	--	--	--	--
17. Long-term liabilities (14+15+16)	--	--	--	--	--
18. Total liabilities (13+17)	**16,296,889**	**818,708**	**3,616,187**	**-**	**-**
19. Net asset/(liability) position of the off-balance sheet foreign-currency derivative instruments (19a-19b)	--	--	--	--	--
19a. Sum of the off-balance sheet foreign-currency derivative products with active character	--	--	--	--	--
19a. Sum of the off-balance sheet foreign-currency derivative products with passive character	--	--	--	--	--
20. Net foreign currency asset/(liability) position (9-18+19)	**(11,498,955)**	**(369,645)**	**(2,885,364)**	**117,202**	**37**
21. Net foreign currency asset/(liability) position of monetary items (TFRS 7.B23) (=1+2a+5+6a- 10-11-12a-14-15-16a)	**(11,555,393)**	**(385,254)**	**(2,885,770)**	**117,202**	**37**
22. Total fair value of financial instruments used to hedge foreign currency	--		--	--	--
23. The amount of hedged portion of foreign-currency assets	--	--	--	--	--
24. The amount of hedged portion of foreign-currency liabilities	--	--	--	--	--

26 Financial Instruments - Risk Management and Fair Values *(continued)*

Market Risk *(continued)*

(i) Foreign Exchange Risk *(continued)*

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2015 are as follows:

	December 31, 2015			
	TL Equivalent	**US dollar**	**Euro**	**GBP**
1. Trade receivables	3,308,322	145,655	907,860	--
2a. Monetary financial assets (including cash and bank accounts)	3,524	--	1,109	--
2b. Non-monetary financial assets	--	--	--	--
3. Other	736,205	66,893	168,019	1,816
4. Current assets (1+2+3)	**4,048,051**	**212,548**	**1,076,988**	**1,816**
5. Trade receivables	--	--	--	--
6a. Monetary financial assets	--	--	--	--
6b. Non-monetary financial assets	--	--	--	--
7. Other	--	--	--	--
8. Fixed assets (5+6+7)	**--**	**--**	**--**	**--**
9. Total assets (4+8)	**4,048,052**	**212,548**	**1,076,988**	**1,816**
10. Trade payables	10,466,318	2,840,917	694,256	
11. Financial liabilities	111,216		35,000	
12a. Other monetary liabilities	--	--	--	--
12b. Other non-monetary liabilities	--	--	--	--
13. Short-term liabilities (10+11+12)	**10,577,534**	**2,840,917**	**729,256**	**--**
14. Trade payables	--	--	--	--
15. Financial liabilities	--	--	--	--
16a. Other monetary liabilities	--	--	--	--
16b. Other non-monetary liabilities	--	--	--	--
17. Long-term liabilities (14+15+16)	--	--	--	--
18. Total liabilities (13+17)	**10,577,534**	**2,840,917**	**729,256**	**--**
19. Net asset/(liability) position of the off-balance sheet foreign-currency derivative instruments (19a-19b)	--	--	--	--
19a. Sum of the off-balance sheet foreign-currency derivative products with active character	--	--	--	--
19a. Sum of the off-balance sheet foreign-currency derivative products with passive character	--	--	--	--
20. Net foreign currency asset/(liability) position (9-18+19)	**(6,529,482)**	**(2,628,369)**	**347,732**	**1,816**
21. Net foreign currency asset/ (liability) position of monetary items (TFRS 7.B23) (= 1+2a+5+6a-10- 11-12a-14-15-16a)	**(7,265,688)**	**(2,695,262)**	**179,713**	**--**
22. Total fair value of financial instruments used to hedge foreign currency	--		--	--
23. The amount of hedged portion of foreign-currency assets	--	--	--	--
24. The amount of hedged portion of foreign-currency liabilities	--	--	--	--

26 Financial Instruments - Risk Management and Fair Values *(continued)*

Market Risk *(continued)*

(i) Foreign Exchange Risk *(continued)*

Sensitivity Analysis

The following shows to what amount the depreciation of the Turkish lira against the specified currencies by 10% will increase the equity and profit/loss for the years ended December 31, 2016 and December 31, 2015. In this analysis all other variables, especially the interest rates, are assumed to remain constant.

December 31, 2016		
	Profit/Loss	
	Appreciation of the Foreign Currency	Depreciation of the Foreign Currency
If the US dollar appreciates 10% against the Turkish lira;		
1- US dollar net asset/liability	(130,085)	130,085
2- Hedged amount from US dollar risk (-)	--	--
3- Net Effect of the US dollar (1+2)	**(130,085)**	**130,085**
If the euro appreciates 10% against the Turkish lira;		
4- Euro net asset/liability	(1,070,441)	1,070,441
5- Hedged amount from euro risk (-)	--	--
6- Net effect of the euro (4+5)	**(1,070,441)**	**1,070,441**
If the British pound sterling appreciates 10% against the Turkish lira;		
7- British pound sterling net asset/liability	50,618	(50,618)
8- Hedged amount from British pound sterling (-)	--	--
9- Net effect of the British pound sterling (7+8)	**50,618**	**(50,618)**
If the Swiss franc appreciates 10% against the Turkish lira;		
10- Swiss franc net asset/liability	13	(13)
11- Hedged amount from Swiss franc risk (-)	--	--
12-Net effect of the Swiss franc (4+5)	**13**	**(13)**
TOTAL (3+6+9+12)	**(1,149,895)**	**1,149,895**

26 Financial Instruments - Risk Management and Fair Values *(continued)*

Market Risk *(continued)*

(i) Foreign Exchange Risk *(continued)*

Sensitivity Analysis (continued)

December 31, 2015		
	Profit/Loss	
	Appreciation of the Foreign Currency	Depreciation of the Foreign Currency
If the US dollar appreciates 10% against the Turkish lira;		
1- US dollar net asset/liability	(764,225)	764,225
2- Hedged amount from US dollar risk (-)	--	--
3- Net Effect of the US dollar (1+2)	**(764,225)**	**764,225**
If the euro appreciates 10% against the Turkish lira;		
4- Euro net asset/liability	110,495	(110,495)
5- Hedged amount from euro risk (-)	--	--
6- Net effect of the euro (4+5)	**110,495**	**(110,495)**
If the British pound sterling appreciates 10% against the Turkish lira;		
7- British pound sterling net asset/liability	781	(781)
8- Hedged amount from British pound sterling (-)	--	--
9-Net effect of the Saudi riyal (7+8)	**781**	**(781)**
TOTAL (3+6+9)	**(652,949)**	**652,949**

(ii) Interest Rate Risk

The Group's operations are exposed to the risk of changes in interest rates when its interest bearing assets and liabilities are amortised or repriced at different times or amounts. The Group manages this risk by natural measures and the limited use of derivative instruments formed through balancing its interest rate-sensitive assets and liabilities.

The details of interest-sensitive financial instruments of the Group as at 31 December 2016 and 31 December 2015 are as follows:

	Book value	
	December 31, 2016	**December 31, 2015**
Fixed-interest instruments		
Financial assets		
- Cash and cash equivalents	*2,092,574*	*238,233*
Financial liabilities		
- Borrowings	72,218,600	32,735,374

26 Financial Instruments - Risk Management and Fair Values *(continued)*

Market Risk *(continued)*

(ii) Interest Rate Risk (continued)

Fair Value Sensitivity Analysis for Fixed-interest Financial Instruments

The Group did not recognise any financial asset or liability with fixed interest rate in the financial assets at fair value through profit/loss and did not develop any derivative instruments (interest rate swaps) as a hedging derivative according to the fair value hedge accounting model. A change in interest rates at the reporting date, therefore, would have no impact on the income statement.

Fair Value

The Group has calculated the fair value of financial instruments using available market information and appropriate valuation methodologies. However, since the use of judgment was required to find the fair value, fair value measurements may not reflect the values that may occur in the current market conditions. The Group's management accepts that financial assets, including cash and receivables from banks, other financial assets and short-term financial payables, carried at cost value discounted using effective interest method and the fair values of payables approximate their respective carrying values considering their short-term nature and their negligible contingent losses.

Classification of Fair Value Measurement

The following table presents the valuation methods of financial instruments valued at fair value. Valuation methods according to levels are defined as follows:

level 1: Quoted (unadjusted) prices on active markets for identical assets or liabilities;

Level 2: Data which are not quoted prices as in Level 1 but which are directly (through prices) or indirectly (derived from prices) observable for assets and liabilities;

Level 3: Inputs not based on observable market data (non-observable input data)

Financial assets and liabilities denominated in foreign currencies are translated at the exchange rates that approximate the market prices as of the date of the statement of financial position.

The following methods and assumptions are used to estimate the fair value of each financial instrument when it is possible to determine the fair value.

Financial Assets

It is considered that, due to their short-term nature and negligible credit risk, cash and cash equivalent assets and their accrued interests and the carrying amounts of other financial assets approximate their fair values. The carrying value less provision for doubtful receivables of trade receivables are considered to approximate their fair values.

Financial Liabilities

The fair values of trade payables and other monetary liabilities are considered to approximate their respective carrying amounts due to their short-term nature. It is foreseen that the fair values of trade payables approximate their carrying amounts due to their short-term nature.

27 Events After the Reporting Period

Following the negotiations conducted with Technical Support Provider ("TSP") candidates in ccordance with the Undersecretariat for Defence Industries ("SSM")-Tümosan Agreement, the Technical Support Provider Agreement was signed with AVL List GmbH firm on October 7, 2015. AVL firm has committed to providing an Export Licence, which will not restrict in-country and out-of country use and sale of the Power Group that will be produced in Turkey. The export licence declared by AVL firm was not accepted by the Undersecretariat for Defence Industries in 2016. For this reason, AVL firm failed to fulfil its commitments and the TSP Agreement was cancelled thereafter and the letter of guarantee issued by the firm was forfeited.

Since the execution of the agreement signed between the Company and SSM made it impossible to obtain support from only a single TSP and to procure Power Group Critical Subsystems until the project was completed, the Company submitted to SSM a request for the inclusion of critical subsystems in the scope of the project and for the implementation of the project with national resources only by receiving expert support in the necessary matters.

The amendment requests made by the Company due to force majeure were negotiated with SSM until 24 February 2017, but since SSM informed that it would not be legally possible to go beyond the provisions of the agreement, the Power Group Development Project, Design and Development Period (Term-1) Agreement signed between SSM and the Company was mutually terminated by the parties. There is no mutual penal sanction because of the termination of the agreement. The Company received back the letter of guarantees which it had given.

As Turkey's only domestic diesel engine and transmission designer and manufacturer, since 2012, the Company has worked extensively for the realisation of the Power Group Project and has established a R&D central complex according to the objectives of the Project and has invested in human resources. The Company has decided to continue to effectively use and develop the human resources that have acquired considerable experience in the works done up to date and the knowledge accumulated taking into account its investors' interests.

Owing to the experience gained in the Altay Tank Project, the Company has decided to apply for the project again if the project is re-tendered taking into account the new conditions.

As of December 31, 2016, the Company has evaluated the expected future economic benefits of these development costs amounting to TL 12,869,395 recognised in intangible fixed assets within the scope of TAS 38 "Intangible Assets" and TAS 36 "Impairment of Assets" and has decided not to allocate impairment.