

**TEKFEN HOLDİNG ANONİM ŐİRKETİ
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL
STATEMENTS WITH THE
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR
ENDED 31 DECEMBER 2016

(Translated into English from the report
originally issued Turkish)



Tel: +90 212 365 62 00
Fax: +90 212 365 62 01
e-mail: bdo@bdo.com.tr
www.bdo.com.tr

BDO Denet Bağımsız Denetim
ve Danışmanlık Anonim Şirketi
Tic. Sicil Numarası : 254683
Mersis Numarası : 0291001084600012
Şirket Merkezi : Eski Büyükdere Cad. No: 14
Park Plaza Kat: 4
34398 Maslak/İstanbul
Turkey

**CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITOR'S REPORT
ON CONSOLIDATED FINANCIAL STATEMENTS**

**To the Board of Directors of
Tekfen Holding Anonim Şirketi**

We have audited the accompanying consolidated financial statements of Tekfen Holding Anonim Şirketi ("the Company") and its subsidiaries (collectively referred to as "the Group") which comprise consolidated the balance sheet as at 31 December 2016, the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Independent Auditor's Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of Tekfen Holding Anonim Şirketi and its subsidiaries as at 31 December 2016, and their financial performance and cash flows for the year then ended in accordance with the TAS.

BDO Denet Bağımsız Denetim ve Danışmanlık Anonim Şirketi, a Turkish joint stock company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Garantisi ile sınırlı bir Birleşik Krallık şirketi olan BDO International Limited'in üyesi ve bir Türk anonim şirketi olan BDO Denet Bağımsız Denetim ve Danışmanlık Anonim Şirketi, bağımsız üye kuruluşlardan oluşan BDO ağıнын bir parçasını teşkil etmektedir.



Reports on Independent Auditor's Responsibilities Arising from Other Regulatory Requirements

- 1) Pursuant to Article 398 of the Turkish Commercial Code ("TCC") no. 6102, the auditor's report on early detection of risk system and the authorized committee is submitted to the Company's Board of Directors on 23 February 2017.
- 2) Pursuant to subparagraph 4, Article 402 of "TCC", no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January – 31 December 2016 is not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.
- 3) Pursuant to subparagraph 4, Article 402 of "TCC", the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

Istanbul,
23 February 2017

**BDO Denet Bağımsız Denetim
ve Danışmanlık A.Ş.**
Member, BDO International Network

Erdal Aslan, YMM
Partner

CONTENT	PAGE
CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016	1-2
CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016	3
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016.....	4
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016	5
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016	6
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016.....	7-75
NOTE 1 ORGANIZATION AND OPERATIONS OF THE GROUP	7-9
NOTE 2 BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS	10-22
NOTE 3 JOINT OPERATIONS	22
NOTE 4 SEGMENTAL REPORTING	23-26
NOTE 5 CASH AND CASH EQUIVALENTS	27
NOTE 6 FINANCIAL INVESTMENTS	27-28
NOTE 7 SHORT AND LONG-TERM BORROWINGS.....	28-29
NOTE 8 TRADE RECEIVABLES AND PAYABLES	30-31
NOTE 9 OTHER RECEIVABLES AND PAYABLES	32
NOTE 10 INVENTORIES	33
NOTE 11 CONSTRUCTION CONTRACTS	34
NOTE 12 INVESTMENTS VALUED BY EQUITY METHOD	35-37
NOTE 13 INVESTMENT PROPERTY	38
NOTE 14 PROPERTY, PLANT AND EQUIPMENT	39-41
NOTE 15 INTANGIBLE ASSETS	41
NOTE 16 PREPAID EXPENSES AND DEFERRED REVENUE	42
NOTE 17 GOVERNMENT GRANTS AND INCENTIVES	42
NOTE 18 PROVISIONS, CONTINGENT ASSETS AND LIABILITIES	43-44
NOTE 19 COMMITMENTS	45
NOTE 20 EMPLOYEE BENEFITS	46-47
NOTE 21 OTHER CURRENT/NON-CURRENT ASSETS AND OTHER SHORT TERM LIABILITIES	48
NOTE 22 SHAREHOLDERS' EQUITY	48-50
NOTE 23 REVENUE AND COST OF REVENUE	51
NOTE 24 GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES	52-53
NOTE 25 QUALITATIVE EXPENSES.....	53
NOTE 26 OTHER OPERATING INCOME AND EXPENSES	54
NOTE 27 INVESTMENT INCOME AND EXPENSES	55
NOTE 28 FINANCIAL INCOME AND EXPENSES	55
NOTE 29 ASSETS CLASSIFIED AS HELD FOR SALE	56
NOTE 30 TAX INCOME AND EXPENSES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)	56-60
NOTE 31 EARNINGS PER SHARE	60
NOTE 32 RELATED PARTY TRANSACTIONS.....	61-63
NOTE 33 DERIVATIVE INSTRUMENTS.....	63
NOTE 34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES.....	64-72
NOTE 35 FINANCIAL INSTRUMENTS	73-74
NOTE 36 OTHER MATTERS MATERIALLY AFFECTING FINANCIAL STATEMENTS.....	74-75
NOTE 37 SUBSEQUENT EVENTS.....	75

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

AUDITED CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

ASSETS	Notes	Audited	Audited
		31 December 2016	31 December 2015
Current Assets		4.533.781	3.713.282
Cash and cash equivalents	5	1.483.429	1.032.202
Financial investments	6	108.121	-
Trade receivables	8	1.075.322	959.646
- Related party receivables		20.680	26.677
- Trade receivables		1.054.642	932.969
Other receivables	9	61.083	5.707
- Related party receivables		53.922	2.944
- Other receivables		7.161	2.763
Receivables from ongoing construction contracts	11	391.944	451.340
Derivative instruments	33	2.245	-
Inventories	10	968.741	891.446
Prepaid expenses	16	91.213	62.672
- Prepaid expenses		91.213	62.672
Assets related with current tax	30	48.324	43.658
Other current assets	21	279.178	242.760
- Other current assets		279.178	242.760
		4.509.600	3.689.431
Assets classified as held for sale	29	24.181	23.851
Non-Current Assets		2.135.028	1.912.773
Financial investments	6	175.435	70.770
Trade receivables	8	152.542	128.607
- Trade receivables		152.542	128.607
Other receivables	9	3.823	2.957
- Other receivables		3.823	2.957
Investments valued by equity method	12	118.445	147.848
Investment property	13	82.559	88.830
Property, plant and equipment	14	1.487.673	1.379.244
Intangible assets	15	16.678	14.604
Prepaid expenses	16	6.348	11.273
- Prepaid expenses		6.348	11.273
Deferred tax assets	30	50.999	41.814
Other non-current assets	21	40.526	26.826
- Other non-current assets		40.526	26.826
TOTAL ASSETS		6.668.809	5.626.055

The accompanying notes form an integral part of these consolidated financial statements.
Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

AUDITED CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

LIABILITIES	Notes	Audited 31 December 2016	Audited 31 December 2015
Current Liabilities		3.896.563	2.889.548
Short-term financial debts	7	920.641	615.133
Short-term portion of long term financial debts	7	88.774	327.707
Trade payables	8	1.528.823	1.211.747
- Related party payables		10.919	490
- Trade payables		1.517.904	1.211.257
Payables related to employee benefits	20	70.449	36.496
Other payables	9	73.815	25.363
- Other payables		73.815	25.363
Ongoing construction progress payments	11	384.782	162.300
Derivative instruments	33	131	-
Deferred revenue	16	685.253	361.164
- Deferred revenue		685.253	361.164
Current tax liability	30	57.062	48.486
Short-term provisions		82.935	97.687
- Short-term provisions attributable to employee benefits	20	72.905	32.411
- Other short-term provisions	18	10.030	65.276
Other short-term liabilities	21	3.898	3.465
- Other short-term liabilities		3.898	3.465
Non-Current Liabilities		392.789	651.372
Long-term financial debts	7	251.550	272.070
Trade payables	8	44.033	2.269
- Trade payables		44.033	2.269
Other payables	9	28.517	18.385
- Other payables		28.517	18.385
Government incentives and grants	17	1.194	1.093
Deferred revenue	16	-	247.921
- Deferred revenue		-	247.921
Long-term provisions		40.135	61.052
- Long-term provisions attributable to employee benefits	20	40.054	60.977
- Other long-term provisions	18	81	75
Deferred tax liabilities	30	27.360	48.582
TOTAL LIABILITIES		4.289.352	3.540.920
SHAREHOLDERS' EQUITY		2.379.457	2.085.135
Equity Attributable To Owners Of The Parent	22	2.349.681	2.057.358
Paid in capital		370.000	370.000
Capital structure adjustment		3.475	3.475
Premiums in capital stock		300.984	300.984
Accumulated other comprehensive income			
(loss) that will not be reclassified in profit or loss		1.369	(376)
- Gain (loss) on revaluation and remeasurement		1.369	(376)
Accumulated other comprehensive income			
(loss) that will be reclassified in profit or loss		199.373	160.229
- Currency translation reserve		125.977	108.234
- Hedging reserve		1.621	-
- Gain (loss) on revaluation and reclassification		71.775	51.995
Restricted profit reserves		194.145	176.413
Retained earnings		955.924	861.167
Net profit for the period		324.411	185.466
Non-controlling Interests		29.776	27.777
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		6.668.809	5.626.055

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

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

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

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

	Notes	Audited 1 January- 31 December 2016	Audited 1 January- 31 December 2015
Revenue	23	4.737.397	3.888.172
Cost of revenue (-)	23	(4.083.852)	(3.479.298)
GROSS PROFIT		653.545	408.874
General administrative expenses (-)	24	(171.635)	(143.977)
Marketing expenses (-)	24	(123.712)	(123.072)
Research and development expenses (-)	24	(1.256)	-
Other operating income	26	269.673	293.167
Other operating expenses (-)	26	(370.560)	(370.431)
Share on profit of investments valued using equity method	12	57.238	51.962
OPERATING PROFIT		313.293	116.523
Investment income	27	13.375	18.761
Investment expense (-)	27	(140)	(2.168)
PROFIT BEFORE FINANCIAL INCOME (EXPENSE)		326.528	133.116
Financial income	28	307.701	255.422
Financial expense (-)	28	(195.291)	(128.978)
PROFIT FROM CONTINUING OPERATIONS BEFORE TAXATION		438.938	259.560
Tax Expense From Continuing Operations	30	(108.615)	(66.524)
Tax expense for the period (-)		(144.562)	(80.971)
Deferred tax income		35.947	14.447
PROFIT FROM CONTINUING OPERATIONS FOR THE PERIOD		330.323	193.036
Distribution of Profit For The Period			
Non-controlling interests		5.912	7.570
Owners of the parent		324.411	185.466
Earnings Per Share	31	0,877	0,501

The accompanying notes form an integral part of these consolidated financial statements.
Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

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

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

	<u>Notes</u>	<u>Audited 1 January- 31 December 2016</u>	<u>Audited 1 January- 31 December 2015</u>
PROFIT FOR THE PERIOD		330.323	193.036
OTHER COMPREHENSIVE INCOME (EXPENSE):			
<u>Items that will not be reclassified to profit or loss</u>		1.745	282
Gain on revaluation of defined retirement benefit plans	22	2.181	353
Taxes based on other comprehensive income that will not be reclassified to profit or loss		(436)	(71)
- <i>Deferred tax expense (-)</i>		<i>(436)</i>	<i>(71)</i>
<u>Items that will be reclassified to profit or loss</u>		35.431	(69.997)
Currency translation reserve differences	22	14.030	(71.932)
Gain on revaluation of available for sale financial assets	6	20.821	2.037
Gains on cash flow hedging		2.026	-
Taxes based on other comprehensive income that will be reclassified to profit or loss		(1.446)	(102)
- <i>Deferred tax expense (-)</i>		<i>(1.446)</i>	<i>(102)</i>
OTHER COMPREHENSIVE INCOME (EXPENSE)		<u>37.176</u>	<u>(69.715)</u>
TOTAL COMPREHENSIVE INCOME		<u>367.499</u>	<u>123.321</u>
Distribution of Total Comprehensive Income (Loss)			
Non-controlling interests		2.199	(9.122)
Owners of the parent		365.300	132.443

The accompanying notes form an integral part of these consolidated financial statements.
Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

	Paid in capital	Capital structure adjustment	Premiums in capital stock	Items not to be reclassified to profit or loss	Items to be reclassified to profit or loss	Retained Earnings							
				Gain (loss) on revaluation and remeasurement	Currency translation reserve	Gains on hedging	Gain on revaluation and reclassification	Legal reserves	Prior years' income	Net profit for the period	Equity attributable to owners of the parent	Non-controlling interests	Equity
Audited													
Opening balance as of 1 January 2015	370.000	3.475	300.984	(658)	163.474	-	50.060	140.185	875.736	55.909	1.959.165	36.899	1.996.064
Transfers	-	-	-	-	-	-	-	36.228	19.681	(55.909)	-	-	-
Total comprehensive income (loss)	-	-	-	282	(55.240)	-	1.935	-	-	185.466	132.443	(9.122)	123.321
- Profit for the period	-	-	-	-	-	-	-	-	-	185.466	185.466	7.570	193.036
- Other comprehensive income (loss)	-	-	-	282	(55.240)	-	1.935	-	-	-	(53.023)	(16.692)	(69.715)
Dividends	-	-	-	-	-	-	-	-	(41.049)	-	(41.049)	-	(41.049)
Other changes	-	-	-	-	-	-	-	-	6.799	-	6.799	-	6.799
Closing balance as of 31 December 2015	370.000	3.475	300.984	(376)	108.234	-	51.995	176.413	861.167	185.466	2.057.358	27.777	2.085.135
Audited													
Opening balance as of 1 January 2016	370.000	3.475	300.984	(376)	108.234	-	51.995	176.413	861.167	185.466	2.057.358	27.777	2.085.135
Transfers	-	-	-	-	-	-	-	17.732	167.734	(185.466)	-	-	-
Total comprehensive income	-	-	-	1.745	17.743	1.621	19.780	-	-	324.411	365.300	2.199	367.499
- Profit for the period	-	-	-	-	-	-	-	-	-	324.411	324.411	5.912	330.323
- Other comprehensive income (loss)	-	-	-	1.745	17.743	1.621	19.780	-	-	-	40.889	(3.713)	37.176
Dividends	-	-	-	-	-	-	-	-	(63.666)	-	(63.666)	-	(63.666)
Increase (decrease) due to changes in the proportion of shares in subsidiaries that doesn't result in loss of control	-	-	-	-	-	-	-	-	91	-	91	(200)	(109)
Other changes	-	-	-	-	-	-	-	-	(9.402)	-	(9.402)	-	(9.402)
Closing balance as of 31 December 2016	370.000	3.475	300.984	1.369	125.977	1.621	71.775	194.145	955.924	324.411	2.349.681	29.776	2.379.457

The accompanying notes form an integral part of these consolidated financial statements.
Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

	Notes	Audited 1 January- 31 December 2016	Audited 1 January- 31 December 2015
A. CASH FLOWS FROM OPERATING ACTIVITIES			
		686.422	194.721
Profit for the Period		330.323	193.036
Adjustments to Reconcile Net Profit		183.657	103.133
- Depreciation and Amortization	13,14,15	114.396	100.607
- Impairment/Reversed Provision	10,14,29	2	(100)
- Provision Adjustments	8,18,20	66.400	65.687
- Dividend Income	27	(8.972)	(7.921)
- Interest Expense and Income Adjustments	28	(35.195)	(60.097)
- Gain / Loss on Fair Valuation	6,33	(90)	15
- Group's Share on Profit of Investments in Associates Accounted by Equity Method	12	(57.238)	(51.962)
- Allowance for Taxation	30	108.615	66.524
- Adjustments for Gain/Loss on Sale of Fixed Assets	27	(2.906)	(9.620)
- Adjustments for Gain/Loss on Sales of Assets Held for Sale	27	(1.355)	-
Movements in Working Capital		401.799	(22.141)
- Changes in Trade Receivables	8	(129.632)	(277.497)
- Changes in Other Assets		(81.609)	(16.886)
- Changes in Receivables from Ongoing Construction Contracts	11	59.396	(42.254)
- Changes in Inventories	10	(51.967)	(154.984)
- Changes in Trade Payables	8	358.840	30.266
- Changes in Ongoing Construction Progress Payments	11	222.482	107.297
- Changes in Other Liabilities		132.410	290.506
- Other Changes in Working Capital	6	(108.121)	41.411
Cash Generated by Operating Activities		915.779	274.028
Interest Paid		(46.718)	(38.956)
Interest Received		68.427	87.888
Provision Paid Related to Employee Benefits	20	(46.722)	(54.875)
Other Provision Paid	18	(63.693)	(4.360)
Tax Paid / Return	30	(140.651)	(69.004)
B. CASH FLOWS FROM INVESTING ACTIVITIES			
		(163.651)	(200.879)
Proceeds from Disposal of Subsidiary Resulting in Loss of Control	29	2.716	-
Acquisition of Non-controlling Interests' Shares		(109)	-
Payments due to Share Acquisition or Capital Increase of Associates or Joint Ventures		-	(900)
Cash Outflows for Acquisition of Shares in Other Entities or Shares in Funds or Borrowing Instruments	6	(56.414)	-
Proceeds from Sales of Tangible and Intangible Assets	14,15	4.682	16.736
Acquisition of Tangible and Intangible Assets	14,15	(155.671)	(237.840)
Acquisition of Investment Properties	13	(770)	(1.737)
Proceeds from Sales of Assets Held for Sale		1.005	-
Advances and Debts Given	16	2.611	3.730
Dividend Received	12,27	38.299	19.132
C. CASH FLOWS FROM FINANCING ACTIVITIES			
		(207.581)	(120.409)
Proceeds from Borrowings		911.879	1.084.389
Repayments of Borrowings		(1.047.341)	(1.137.508)
Payments of Financial Lease Obligations		(8.453)	(26.241)
Dividend paid	22	(63.666)	(41.049)
CHANGE IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION RESERVE EFFECT			
		315.190	(126.567)
D. CURRENCY TRANSLATION RESERVE EFFECT ON CASH AND CASH EQUIVALENTS			
		136.037	111.320
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)			
		451.227	(15.247)
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD			
		1.032.202	1.047.449
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)			
	5	1.483.429	1.032.202

The accompanying notes form an integral part of these consolidated financial statements.
Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

1. ORGANIZATION AND OPERATIONS OF THE GROUP

Majority shares of Tekfen Holding A.Ş. (“the Company”) are controlled by Akçağlılar Family, Berker Family, and Gökyiğit Family. The Company and its subsidiaries are referred to as the “Group” in the accompanying notes to the consolidated financial statements.

As of 31 December 2016, the Group has employees 14.295 (31 December 2015: 13.234) including the personnel of subcontractors. Registered address of the Company is Kültür Mahallesi, Budak Sokak, Tekfen Sitesi, A Blok, No: 7, Beşiktaş, İstanbul, Türkiye.

Company shares are listed on Borsa İstanbul since 23 November 2007.

As of 31 December 2016 the details of registered names of the subsidiaries, joint ventures and branches, their nature of business, their countries of origin, their business segments and their direct / effective share participation rates are listed below:

Subsidiaries	Nature of Business	Country of Origin	Direct/Effective Share Participation		Business Segment
			2016	2015	
Tekfen İnşaat ve Tesisat A.Ş. “Tekfen İnşaat”	Construction	Turkey	100	100	Contracting
Tekfen Mühendislik A.Ş. “Temaş”	Engineering	Turkey	100	100	Contracting
Tekfen İmalat ve Mühendislik A.Ş. “Timaş”	Manufacturing	Turkey	100	100	Contracting
Cenub Tikinti Servis ASC “Cenub Tikinti”	Construction	Azerbaijan	51	51	Contracting
HMB Hallesche Mitteldeutsche Bau- Aktiengesellschaft “HMB”	Trading	Germany	100	100	Contracting
Tekfen International Limited “Tekfen International Ltd”	Investment	United Kingdom	100	100	Contracting
Tekfen Cons. and Inst. Co. Ltd. “Tekfen Construction”	Construction	Ireland	100	100	Contracting
Toros Tarım Sanayi ve Ticaret A.Ş. “Toros Tarım”	Agriculture- Shipping Agent	Turkey	100	100	Agriculture
Toros Adana Yumurtalık Serbest Bölgesi Kur. ve İşleticisi A.Ş. “Tayseb”	Service	Turkey	100	100	Agriculture
Toros Terminal Servisleri ve Denizcilik A.Ş. “Toros Terminal”	Service	Turkey	100	100	Agriculture
Türk Arap Gübre A.Ş. “Türk Arap Gübre” (*)	Manufacturing	Turkey	-	100	Agriculture
Toros Gemi Acenteliği ve Ticaret A.Ş. “Toros Gemi”	Shipping Agent	Turkey	100	100	Agriculture
Toros Tarımsal Ürünler Pazarlama Hizmet ve Ticaret A.Ş. “Toros Tarımsal” (*)	Fertilizier Agent	Turkey	-	100	Agriculture
TST International Trading Limited “TST Trading”	Trading	Ireland	100	100	Agriculture
TST International Limited “TST Ltd.”	Trading	United Kingdom	100	100	Agriculture
Industrial Supply and Trading Company Limited “Industrial Supply”	Trading	United Kingdom	100	100	Agriculture
Petrofertil Trd. Ltd “Petrofertil Trading”	Trading	United Kingdom	100	100	Agriculture

(*) Türk Arap Gübre and Toros Tarımsal have been combined with Toros Tarım.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

1. ORGANIZATION AND OPERATIONS OF THE GROUP (cont’d)

Subsidiaries	Nature of Business	Country of Origin	Direct/Effective Share Participation		Business Segment
			2016	2015	
Tekfen Turizm ve İşletmecilik A.Ş. “Tekfen Turizm”	Service	Turkey	100	100	Real Estate
Tekfen Emlak Geliştirme Yatırım ve Ticaret A.Ş. “Tekfen Emlak”	Real Estate	Turkey	100	100	Real Estate
Tekfen Gayrimenkul Yatırım A.Ş. “Tekfen Gayrimenkul”	Investment	Turkey	100	100	Other
Belpa Belediye Tüketim Malları İthalat İhracat Ticaret ve Yatırım A.Ş. “Belpa”	Trading	Turkey	96	94	Other
Tekfen Sigorta Aracılık Hizmetleri A.Ş. “Tekfen Sigorta”	Insurance Service	Turkey	100	100	Other
Tekfen Endüstri ve Ticaret A.Ş. “Tekfen Endüstri”	Trading	Turkey	100	100	Other
Papfen Limited Liability Company “Papfen” (*)	Textile	Uzbekistan	-	100	Other
Tekfen International Finance and Investments S.A. “Tekfen Finance”	Investment	Luxembourg	100	100	Other
Antalya Stüdyoları A.Ş. “Antalya Stüdyoları”	Studio Management	Turkey	100	100	Other
Tekfen Teknoloji Yatırım ve Ticaret A.Ş. “Tekfen Teknoloji”	Investment	Turkey	100	-	Other
Tekfen Ventures L.P. “Tekfen Ventures”	Investment	USA	100	-	Other
Tekfen Venture Management LLC “Venture Management”	Management Service	USA	100	-	Other
Petrofertil Shipping S.A. “Petrofertil Shipping”	Service	Panama	100	100	Agriculture/ Contracting/ Other

(*) All shares of Papfen Limited Liability Company were transferred on 23 May 2016.

Joint Ventures	Nature of Business	Country of Origin	Direct/Effective Share Participation		Business Segment
			2016	2015	
Blacksea Gübre Ticaret A.Ş. “Black Sea”	Fertilizier Trade	Turkey	30	30	Agriculture
Hishtil Toros Fidecilik San. ve Tic. A.Ş. “H-T Fidecilik”	Agriculture	Turkey	50	50	Agriculture
Azfen Birge Müessesesi “Azfen”	Construction	Azerbaijan	40	40	Contracting
Florya Gayrimenkul Yatırım İnş. Tur. San. Tic. A.Ş. “Florya Gayrimenkul”	Real Estate	Turkey	50	50	Real Estate

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

1. ORGANIZATION AND OPERATIONS OF THE GROUP (cont’d)

As of 31 December 2016, branches included in the Group’s consolidation are as follows:

Branches	Nature of Business	Country of Origin	Business Segment
Tekfen İnşaat – Baku Branch	Construction	Azerbaijan	Contracting
Tekfen İnşaat – Saudi Arabia Branch	Construction	Saudi Arabia	Contracting
Tekfen İnşaat – Morocco Branch	Construction	Morocco	Contracting
Tekfen İnşaat – Qatar Branch	Construction	Qatar	Contracting
Tekfen İnşaat – Dubai Branch	Construction	United Arab Emirates	Contracting
Tekfen İnşaat – Turkmenistan Branch	Construction	Turkmenistan	Contracting

The Group’s management conducts its operations within four principal business segments; Contracting, Agriculture, Real Estate and Other operations. Each segment company has liability to prepare financial statements according to the Group’s accounting policies. Natures of businesses of the Group companies are summarized below.

Contracting Group

Contracting group undertakes infrastructure and industrial construction projects in Turkey, Azerbaijan, Kazakhstan, Turkmenistan, Saudi Arabia, Qatar, the UAE and Morocco. Petroleum, gas and petrochemical facilities, pipelines, land and marine terminals, off-shore platforms, tank farms, oil refineries, pumping stations, power plants, and highway, subway, bridge and tunnel construction, electrical and instrumentation projects, infrastructure projects, production facilities, commercial and technical building complexes and major sports complexes are included in Contracting group’s scope of activity. Tekfen İnşaat’s income provided from the consolidation of Azfen by equity method is disclosed in this group.

Agricultural Group

Agricultural group has operations in chemical fertilizer, ground and vegetable grain, production, distribution and trade of seedling and sapling. In addition to these operations, harbor and free zone operations are included in the operations of agricultural group. Toros Tarım’s income provided from the consolidation of H-T Fidecilik and Black Sea by equity method is disclosed in this group.

Real Estate Group

Real Estate group operates in designing, constructing, renting, and sale of real estate such as residents, offices, shopping centers and hotels. Income provided from the consolidation of Florya Gayrimenkul by equity method is disclosed in this group.

Other Operations

Operations of “Other” segment comprise of insurance services and holding operations. Holding operations are executed by the Company and include responding to Group’s financial needs when needed. Dividend income and rent income provided constitute Holding’s revenue.

Approval of consolidated financial statements

Consolidated financial statements are approved by the Board of Directors and have been granted authorization to be published on the date of 23 February 2017. The General Assembly and other regulatory organs reserve their right to modify and change these consolidated financial statements.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 The Basis of Presentation

Basis of Preparation of Financial Statements and Summary of Significant Accounting Policies

The Company and its subsidiaries registered in Turkey maintain their books of account and prepare their statutory financial statements in accordance with accounting principles in the Turkish Commercial Code (“TCC”) and Tax Legislation. Subsidiaries, associates, joint ventures and branches that are registered in foreign countries maintain their books of account and prepare their statutory statements in the currency of their registered countries and in accordance with the prevailing accounting principles in their registered countries.

The accompanying consolidated financial statements have been prepared in accordance with the Communiqué Series II, 14.1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) announced by the Capital Markets Board (“CMB”) on 13 June 2013 which is published on Official Gazette numbered 28676. Turkish Accounting Standards and additions and interpretations regarding these standards (“TAS”) as adopted by the Public Oversight Accounting and Auditing Standards Authority (“POA”) are predicated on in accordance with article 5th of the Communiqué.

Additionally, the consolidated financial statements and notes are presented in accordance with the formats complying with CMB’s announcement dated 7 June 2013.

Consolidated financial statements are prepared on the historical cost basis. Determination of historical cost is generally based on the fair value of the consideration paid for the assets.

Functional and Reporting Currency

The separate financial statements of each Group entity are prepared in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira (“TRY”), which is the functional currency of the Company, and the reporting currency for the consolidated financial statements.

In accordance with TAS 21 (The Effects of Changes in Foreign Exchange Rates), balance sheet items of functional currencies are differed from TRY, are translated with the rate prevailing at the balance sheet date and revenue, expenses and cash flows are translated with the exchange rates at the transaction date (historical rates) or yearly average rate in the case of uncertain transaction date. Gain/loss arising from the translation is recognized in the currency translation reserve under equity.

The exchange rates used in the consolidation process as of 31 December 2016 is; 1 USD= 3,5192 TRY, 1 EUR= 3,7099 TRY, 1 MAD= 0,3481 TRY, 1 SAR= 0,9385 TRY, 1 QAR= 0,9642 TRY (As of 31 December 2015; 1 USD= 2,9076 TRY, 1 EUR= 3,1776 TRY, 1 MAD= 0,2951 TRY, 1 SAR= 0,7754 TRY, 1 QAR= 0,7966 TRY)

Comparative Information and Reclassification of Prior Period Consolidated Financial Statements

Consolidated financial statements of the Group have been prepared comparatively with the prior period in order to give information about financial position and performance. In order to maintain consistency with current year consolidated financial statements, comparative information is reclassified and significant changes are disclosed if necessary.

Consolidation Principles

Consolidated financial statements are made of entities’ financial statements that are either controlled by the Company or its subsidiaries. The Company and its subsidiaries control an investee when it is exposed, or have rights, to variable returns from its involvement with the investee and have the ability to affect those returns through its power over the investee.

Control is maintained by the Company where it has less voting rights than the majority of an investee but still voting rights are sufficient to give the practical ability to direct or manage relevant activities of the related investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company’s voting rights in an investee are sufficient to maintain power.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. The results of the purchased or sold subsidiaries of the Group are shown in the consolidated profit or loss and consolidated other comprehensive income statement that belongs to the dates after they purchased or the dates before they sold.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 The Basis of Presentation (cont’d)

Consolidation Principles (cont’d)

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are included in these consolidated financial statements using the equity method of accounting, except the ones that are classified as assets held for sale in accordance with TFRS 5. Under the equity method, an investment in associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group’s share of the profit or loss and other comprehensive income of the associate or joint venture and any impairment. When the Group’s share of losses of an associate or a joint venture exceeds the Group’s interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Any additional losses are recognized if Group is exposed to any legal or constructive obligation or Group has made payments on behalf of the associate or a joint venture.

Profits and losses arising from the transactions between one of the Group companies and Group’s associate are eliminated pro-rata per Group’s share in the related associate or joint venture.

Interests in Joint Operations:

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The details of the joints operations of the Group as of 31 December 2016 are as follows:

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.1 The Basis of Presentation (cont'd)

Investments in associates and joint ventures (cont'd)

<u>Joint Operations</u>	<u>Nature of Business</u>	<u>Country of Origin</u>	<u>Direct/Effective Share Participation Rate %</u>		<u>Business Segment</u>
			<u>2016</u>	<u>2015</u>	
Gate İnşaat Taahhüt San. ve Tic. A.Ş. "Gate J.V." (*)	Construction	Turkey	50	50	Contracting
Tekfen-Tubin-Özdemir J.V. "TÖT J.V."	Construction	Turkey	71	71	Contracting
Tubin-Tekfen-Özdemir J.V. "TTÖ J.V."	Construction	Turkey	25	25	Contracting
Gama-Tekfen-Tokar J.V. "GTT J.V."	Construction	Turkey	35	35	Contracting
Tekfen TML J.V. "Tekfen TML J.V."	Construction	Libya	67	67	Contracting
Tekfen Impresit J.V. "Impresit" (**)	Construction	Turkey	-	100	Contracting
North Caspian Constr. B.V. "NCC J.V." (*)	Construction	Netherlands	50	50	Contracting
Doğuş - Tekfen Adi Ortaklığı "Doğuş - Tekfen"	Construction	Turkey	50	-	Contracting
Tekfen Rönesans Adi Ortaklığı "Tekfen Rönesans"	Construction	Turkey	50	50	Real Estate

(*) Companies are joint ventures in terms of their operations; however, they are established as equity companies in terms of their legal structure.

(**) Liquidated within the year. (Note 3)

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognizes in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly,
- Its liabilities, including its share of any liabilities incurred jointly,
- Its revenue generated from the sale of any product/output arising from the joint operation,
- Its share of the revenue from the sale of the output by the joint operation,
- Its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the TAS applicable to the particular assets, liabilities, revenues and expenses.

2.2 Changes in Accounting Policies

Significant changes in accounting policies have been applied retrospectively and prior period consolidated financial statements are restated.

2.3 Changes in Accounting Estimates and Errors

If changes in accounting estimates and errors are for only one period, changes are applied in the current year but if the estimated changes affect the following periods, changes are applied both on the current and following years prospectively. In the current year, there are not any material changes in accounting estimate methods of the Group.

If any significant accounting errors are found out, changes are applied retrospectively and prior year's financial statements are restated. The Group did not determine any significant accounting errors in the current year.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.4 Adoption of New and Revised Turkey Accounting Standards

New and revised standards and interpretations are presented below:

(a) Amendments in TAS affecting the notes and amounts in the consolidated financial statements:

None.

(b) Standards and interpretations and amendments to existing standards that are effective as of the year 2016, but not affecting the consolidated financial statements of the Group:

- TAS 16 and TAS 38 (amendments), “Clarification of Acceptable Methods of Depreciation and Amortization”, will be effective for annual periods beginning after 31 December 2015.
- TAS 16 and TAS 41 (amendments) and TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40 (amendments), “Agriculture: Bearer Plants”, will be effective for annual periods beginning after 31 December 2015.
- TFRS 11 and TFRS 1 (amendments), “Accounting for Acquisition of Interests in Joint Operations”, will be effective for annual periods beginning after 31 December 2015.
- Annual Improvements to 2011-2013 Cycle (TFRS 1), will be effective for annual periods beginning after 1 January 2016.
- TAS 1 (amendments), “Disclosure Initiative”, will be effective for annual periods beginning after 1 January 2016.
- Annual Improvements to 2012-2014 Cycle (TFRS 5, TFRS 7, TAS 34, TAS 19), will be effective for annual periods beginning after 1 January 2016.
- TAS 27 (amendments), “Equity Method in Separate Financial Statements”, will be effective for annual periods beginning after 1 January 2016.
- TFRS 10 and TAS 28 (amendments), “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”, will be effective for annual periods beginning after 1 January 2016.
- TFRS 10, TFRS 12 and TAS 28 (amendments), “Investment Entities: Applying the Consolidation Exception”, will be effective for annual periods beginning after 1 January 2016.
- TFRS 14, “Regulatory Deferral Accounts”, will be effective for annual periods beginning after 1 January 2016.

(c) Standards and interpretations and amendments to existing standards that are issued but not yet effective and have not been early adopted by the Group:

- TFRS 9, “Financial Instruments”, TFRS 9 and TFRS 7 (amendments), “Mandatory Effective Date of TFRS 9 and Transition Disclosures”, mandatory effective date of TFRS 9 has been postponed and it will not be earlier than 1 January 2018.
- TFRS 15, “Revenue from Contracts with Customers” will be effective for annual periods beginning after 1 January 2018.

The Group evaluates the effects of these standards on the consolidated financial statements.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of Significant Accounting Policies

Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated and actual customer returns, discounts, commissions, rebates, and taxes related to sales.

Sale of goods:

Revenue from sale of goods is recognized when all the following conditions are satisfied:

- The Group transfers the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold,
- The amount of revenue can be measured reliably,
- It is probable that the economic benefits associated with the transaction will flow to the entity and,
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rental income:

Rental income from investment properties is recognized on an accrual basis over the term of the relevant lease.

Construction Contracts:

In contracts where third parties undertake the management, control and coordination of the construction activities are referred to as service contracts and they are only recognized as revenues when they are presented to third parties.

When the revenue of a construction contract can be estimated reliably, contract revenue associated with the construction contract shall be recognized by reference to the percentage of completion of the contract activity at the balance sheet date. Percentage of completion is measured by the proportion of the contract costs incurred for work performed to date divided by the estimated total contract costs. This calculation does not apply if the percentage of completion cannot be measured reliably. Changes in construction contract, additional receivable claims and incentive payments are included in the project revenue in accordance with the probable consent of the employer if the revenue is measured reliably.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

Construction contract costs consist of direct costs such as; all raw materials and direct labor expenses and indirect labor costs related with contract performance, equipment, maintenance, and depreciation expenses. Selling and general administration expenses are recognized when they occur. Provision for cost of estimated loss of incomplete contracts is recognized immediately in the year, which such loss is forecasted. Changes in estimated profitability due to business efficiency, business conditions, provisions for contract penalties and final contract arrangements can cause revisions in costs incurred and revenues obtained at the end of the project. Impact of these revisions is accounted for in the year, in which such revision is made.

Receivables from ongoing construction contracts indicates the revenue recognized on construction contracts in excess of billings, and ongoing construction progress payments indicate the billings in excess of the revenue recognized on construction contracts.

Group management does not recognize the additional receivables under compensation outside the scope of the contract that may be subject to litigation as income, unless negotiations have reached to an advanced stage such that it is probable that the customer will accept the claim and the amount of the additional receivable can be measured reliably.

Retention Receivables from Contractors

The Group’s interim progress billings from its employees are subject to retention deductions, which vary, based on the individual agreements. These balances are collected from the contractors upon successful completion of the contract at the end of the warranty period. Retention receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of Significant Accounting Policies (cont’d)

Retention Payables to Subcontractors

The Group’s interim progress billings to its subcontractors are subject to retention deductions, which vary, based on the individual agreements. These payables are paid to subcontractors after they successfully complete the guarantee periods. Retention payables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a weighted average basis. Net realizable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and costs necessary to make a sale.

For construction projects, the materials have been produced especially for these projects are included in the project costs when they are delivered to contract sites.

Property, Plant and Equipment

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

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes legal fees. In case of the qualifying assets which necessarily take a substantial period of time to get ready for its intended use or sale, borrowing costs are capitalized. When the construction of these assets is completed and they are ready for use, they are transferred to the relevant property, plant and equipment class. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of property, plant and equipment, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Property, plant and equipment purchased through financial lease is depreciated same as the property, plant and equipment with the shorter of expected useful life and financial lease term.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Financial Leasing Operations

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group’s general policy on borrowing costs.

Intangible Assets

Intangible assets acquired separately are reported at cost less accumulated amortization and any accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of Significant Accounting Policies (cont’d)

Impairment of Assets

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. When the Group borrows funds specifically for the purpose of the qualifying assets, the amount of borrowing costs eligible for capitalization is the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

Financial Instruments

Financial assets

Financial assets are classified into the following specified categories: financial assets as “at fair value through profit or loss”, “held-to-maturity financial assets”, “available-for-sale financial assets” and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets that are bought and sold in the normal way transaction (the delivery date) on the date of is recorded. Financial assets are measured at initial recognition at fair value. Fair value of financial assets and financial liabilities that are not reflected in profit or loss at initial recognition, transaction costs that are directly attributable to the acquisition of a financial asset to fair value are added.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. These financial assets are presented at fair value and any gain or loss after valuation is recognized in profit or loss.

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment and relevant income is calculated through effective interest method.

Available-for-sale financial assets

Quoted equity investments held by the Group that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value. The Group also has unquoted equity investments that are not traded in an active market but are also classified as available-for-sale financial assets and stated at cost since their value can’t be reliably measured. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the gain / (loss) on revaluation and reclassification with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the gain / (loss) on revaluation and reclassification reserve is reclassified to profit or loss.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of Significant Accounting Policies (cont’d)

Financial Instruments (cont’d)

Financial assets (cont’d)

Loans and receivables

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

Cash and cash equivalents

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

Financial liabilities

During the initial recognition, a financial liability measured at fair value. At fair value during the initial recognition of financial liabilities that are not reflected in profit or loss, transaction costs that are directly attributable to the financial liability related to fair value are added. In subsequent periods, interest expense is calculated on the effective interest rate financial liabilities that are accounted at amortized cost with using the effective interest method.

Derivative financial instruments and hedge accounting

The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

If the cash flow hedge of a firm commitment or an expected forward transaction result in the recognition of an asset or liability, at the initial recognition of this asset or liability the gain or loss previously recognized under equity related to derivatives are included in the measurement of the initial amount of the asset or liability. In a hedge accounting that does not result in the recognition of an asset or liability, the amounts previously recognized under equity are transferred to statement of profit or loss in the period in which the hedged item has an effect on profit or loss. The changes in the fair value of derivatives that do not meet the criteria for hedge accounting are recognized in the statement of profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Foreign Currency Transactions

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TRY, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise except for which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of Significant Accounting Policies (cont’d)

Foreign Currency Transactions (cont’d)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group’s foreign operations are expressed in TRY using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Arising translation differences are recognized in other comprehensive income and transferred to accumulated other comprehensive income (loss) that will be reclassified in profit or loss under equity. Such translation differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Earnings Per Share

Earnings per share disclosed in the accompanying consolidated statement of income is determined by dividing net income by the weighted average number of shares in existence during the year concerned.

In Turkey, companies can raise their share capital by distributing “bonus shares” to shareholders from retained earnings. In computing earnings per share, such “bonus share” distributions are assessed as issued shares. Accordingly, the retrospective effect for those share distributions is taken into consideration in determining the weighted-average number of shares outstanding used in this computation.

Events After the Reporting Period

Events after the reporting period comprise of events which occur between the reporting date and the date on which the financial statements are authorized for issue, even if they occur after an announcement related with the profit for the year or after public disclosure of any other selected financial information.

The Group adjusts the amounts recognized in its financial statements if adjusting events occur after the balance sheet date.

Provisions, Contingent Assets and Liabilities

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

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

Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as a provision.

An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Warranties

Provisions of warranty costs are recognized at the date of sale of the relevant products, at management’s best estimate of the expenditure required to settle the Group’s obligation.

Reporting of Financial Information According to Segments

The Group has four operating segments which are Contracting, Agriculture, Real Estate and Other including information in order to monitor performance and to allocate resources. These segments are managed separately because of the risk and benefits attributable to these segments are influenced from different economical environments and different geographical locations.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of Significant Accounting Policies (cont’d)

Government Grants and Incentives

Government incentives are not recognized in the financial statements unless there is a reasonable assurance that Group will comply with the conditions attaching to them and the incentives will be received.

Government incentives are accounted systematically in profit or loss where they are matched with the relevant costs recorded as expenses during the period. Government incentives as a financial instrument should be associated with the balance sheet as unearned revenue to offset the related expense item instead of being recognized in profit or loss and have to be accounted systematically in profit or loss depending on useful lives of the related assets.

Government incentives that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Investment Property

Investment property, which is property, held to earn rentals and/or for capital appreciation is carried at cost less accumulated depreciation and any accumulated impairment losses. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Depreciation is provided on investment property on a straight line basis.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property is included in profit or loss in the period in which the property is derecognized.

Corporate Income Tax

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

Tax expense represents the sum of the period tax expense and deferred tax income / (expense).

Controlled foreign corporation income:

Turkish CFC regime was introduced in 2006 by Turkish Corporate Income Tax Act. Due to CFC regulations, Turkish Corporate income tax payer which manages their investments via foreign subsidiaries will need to declare and pay corporate income tax in Turkey under certain conditions regardless of whether or not the income generated through foreign subsidiaries is transferred to Turkey. In other words to gain the profit is forced to be free from the distribution of the generated profit. Corporations which are established in foreign companies directly or indirectly controlled by a Turkish individual or corporation which holds (separately or together) at least 50% of their capital, dividend or voting rights which will be deemed as CFC. The other conditions of CFC are; 25% or more of the income of the foreign subsidiary should be passive income (such as rent, dividend, interest), the foreign subsidiary should be subject to less than 10% effective tax burden over its corporate income and the gross revenue of foreign company should exceed the foreign currency equivalent of TRY 100.000.

If the CFC earnings, which are declared in Turkey and related taxes are paid, will be brought up to scene as dividend in the forthcoming periods; they will not be included into taxable income to prevent double taxation.

Current tax

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

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of Significant Accounting Policies (cont’d)

Corporate Income Tax (cont’d)

Deferred tax

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

Current and deferred tax for the period

Current and deferred tax are recognized in profit or loss except when they are directly related to a transaction which is accounted under equity. Otherwise they are recognized in equity, along with the related transaction.

Assets Held For Sale

Non-current assets are classified as “assets held for sale” and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. These assets may be a component of an entity, a disposal group or an individual non-current asset.

Employee Benefits

Termination and retirement benefits:

Under Turkish law and union agreements, lump sum payments are made to employees retiring, involuntarily leaving the Group or when the conditions presented in law are met. Such payments are considered as being part of defined retirement benefit plan according to the revised TAS 19 *Employee Benefits* (“TAS 19”).

The retirement benefit obligation recognized in the consolidated financial statements represents the net present value of the defined benefit obligation. The actuarial gains and losses are recognized in other comprehensive income.

The Company and its subsidiaries are liable to pay retirement benefit for its qualified personnel. In addition to this, according to Group's retirement benefit policy, the Group pays retirement benefits to its retirees. The Group and its consolidated subsidiaries, regarding the retirement benefits of its personnel employed abroad, is subject to laws and regulations of the countries its personnel is located within. Regarding the laws mentioned, required provision has been provided for in the consolidated financial statements.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of Significant Accounting Policies (cont’d)

Redeemed Shares

As determined in the articles of association of Tekfen Holding A.Ş., 30 of the registered redeemed shares belong to Tekfen Eğitim Sağlık Kültür Sanat ve Doğal Varlıkları Koruma Vakfı (“Tekfen Vakfı”). The constitutive redeemed shares grant no voting rights or any membership rights to their owners.

As explained in the articles of association of the Company, after the first dividend is distributed in the ratio of 30% in accordance with the communiqués of Capital Market Board, a maximum ratio of 3%, which is determined by the General Assembly, of the remaining net distributable profit amount is allocated to the Tekfen Vakfı.

According to TAS 32, if, as a result of contingent settlement provisions, the issuer does not have an unconditional right to avoid settlement by delivery of cash or other financial instrument, the instrument is a financial liability of the issuer.

Redeemed shares owned by Tekfen Vakfı are considered as negotiable instruments and realized as a financial liability assuming that they will continue to take advantage of the right at upper limit as long as the Group’s existing shareholders structure and management remains the same. In assessment of fair values of related constitutive redeemed shares, the Group’s market value as of balance sheet date is taken into consideration. Calculated fair value depends on different conditions which may occur in foreseeable future and is therefore discounted and realized as liability in the consolidated financial statements.

2.6 Critical Accounting Judgments, Key Sources of Estimation Uncertainty and Assumptions

In the process of applying accounting policies, which are described in Note 2.5, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements:

Deferred taxes

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for TAS purposes and its statutory tax financial statements. These differences usually arise from the fact that certain income and expense items are recognized in different reporting periods for TAS and tax purposes. In the subsidiaries of the Group, there are deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. As a result of the assessment made, the Group recognizes deferred tax assets in certain entities because it is probable that taxable profit will be available sufficient to recognize deferred tax assets in those entities.

Income tax

The Group operates in various tax jurisdictions and is subject to applicable tax legislation and tax laws in these countries. The Group requires the use of significant estimates of determining provision of income tax. The Group estimates the usage of financial losses carried forward and the tax provision arising from tax liabilities. When the final tax results are determined, realized amounts may be different than the estimated amounts and as of the balance sheet date an adjustment may be made on the recognized income tax provision.

Change in contract fee

Changes in contract fees are recognized in the consolidated financial statements to the extent that those changes are likely to be approved by the customers, based on the percentage of completion method of the construction projects. Estimates on the collection of those changes are made based on the Group management’s past experiences, the related contract terms and the related legislation.

Percentage of completion

The Group uses the percentage of completion method in accounting for its construction contracts. Use of the percentage of completion method requires the Group to estimate the proportion of work performed to date as a proportion of the total work to be performed.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.6 Critical Accounting Judgments, Key Sources of Estimation Uncertainty and Assumptions (cont’d)

Construction costing estimates

The Group calculates the remaining costs to complete on construction projects through its internally developed projections. Factors such as escalations in material prices, labour costs and other costs are included in these projections based on best estimate as of the balance sheet dates. Any unanticipated escalation in the subsequent periods will require the reassessment of the remaining costs.

Non-current retention receivables

Non-current retention receivable and payable are stated at their fair value each period end by discounting the Group’s effective deposit and borrowing rates respectively, which management considers to be the appropriate discount rates for these assets and liabilities.

Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques based on market-observable data, market comparable approach that reflects recent transaction prices for similar properties and discounted cash flows (Note 33).

3. JOINT OPERATIONS

Group’s significant partnerships subject to joint operations are described in Note 2.

Financial information related to these joint operations is as follows:

	31 December 2016	31 December 2015
Current assets	75.502	40.822
Non-current assets	6.066	19.967
Current liabilities	238.266	270.943
Non-current liabilities	1.439	8.470
Shareholders' equity	(158.137)	(218.624)
	1 January- 31 December 2016	1 January- 31 December 2015
Revenue	24.531	23.395
Cost of revenue (-)	(29.514)	(61.686)
Loss for the period	(10.702)	(61.386)

Since the operations of Tekfen Impresit, a joint arrangement of the Group, ended, it has been liquidated within the year and has transferred its accumulated profit amount of 98.289 to Tekfen İnşaat, a subsidiary of the Group.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

4. SEGMENTAL REPORTING

a) Segmental results

	1 January - 31 December 2016				
	Contracting	Agriculture	Real Estate	Other	Total
Revenue	2.823.581	1.851.309	32.714	29.793	4.737.397
Cost of revenue (-)	(2.577.125)	(1.469.063)	(29.761)	(7.903)	(4.083.852)
GROSS PROFIT	246.456	382.246	2.953	21.890	653.545
General administrative expenses (-)	(98.372)	(28.245)	(8.651)	(36.367)	(171.635)
Marketing expenses (-)	(1.780)	(116.023)	(5.909)	-	(123.712)
Research and development expenses (-)	-	-	-	(1.256)	(1.256)
Other operating income	158.190	107.956	715	2.812	269.673
Other operating expenses (-)	(165.408)	(192.483)	(520)	(12.149)	(370.560)
Share on profit (loss) of investments valued using equity method	54.522	2.719	(3)	-	57.238
OPERATING PROFIT (LOSS)	193.608	156.170	(11.415)	(25.070)	313.293
Investment income	1.680	2.555	-	9.140	13.375
Investment expense (-)	(121)	(1)	(10)	(8)	(140)
PROFIT (LOSS) BEFORE FINANCIAL INCOME (EXPENSE)	195.167	158.724	(11.425)	(15.938)	326.528
Financial income	9.312	73.249	3.122	222.018	307.701
Financial expenses (-)	(39.289)	(86.066)	(835)	(69.101)	(195.291)
PROFIT (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXATION	165.190	145.907	(9.138)	136.979	438.938
Tax (expense) income from continuing operations	(83.887)	(6.297)	19.941	(38.372)	(108.615)
PROFIT FROM CONTINUING OPERATIONS FOR THE PERIOD	81.303	139.610	10.803	98.607	330.323

The Group has 136.679 of revenue and 82.936 of operating income from terminal operations classified as agricultural operation in 2016.

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

4. SEGMENTAL REPORTING (cont’d)

a) Segmental results (cont’d)

	1 January - 31 December 2015				
	Real				
	Contracting	Agriculture	Estate	Other	Total
Revenue	2.153.133	1.659.155	27.678	48.206	3.888.172
Cost of revenue (-)	(2.037.852)	(1.387.894)	(25.269)	(28.283)	(3.479.298)
GROSS PROFIT	115.281	271.261	2.409	19.923	408.874
General administrative expenses (-)	(75.098)	(33.994)	(4.342)	(30.543)	(143.977)
Marketing expenses (-)	(1.387)	(114.611)	(4.560)	(2.514)	(123.072)
Research and development expenses (-)	-	-	-	-	-
Other operating income	197.582	91.542	1.302	2.741	293.167
Other operating expenses (-)	(185.103)	(180.619)	(207)	(4.502)	(370.431)
Share on profit (loss) of investments valued using equity method	51.571	398	(7)	-	51.962
OPERATING PROFIT (LOSS)	102.846	33.977	(5.405)	(14.895)	116.523
Investment income	5.295	5.646	58	7.762	18.761
Investment expense (-)	(2.124)	(15)	(19)	(10)	(2.168)
PROFIT (LOSS) BEFORE FINANCIAL INCOME (EXPENSE)	106.017	39.608	(5.366)	(7.143)	133.116
Financial income	15.827	60.772	3.272	175.551	255.422
Financial expenses (-)	(53.851)	(14.488)	(495)	(60.144)	(128.978)
PROFIT (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXATION	67.993	85.892	(2.589)	108.264	259.560
Tax (expense) income from continuing operations	(25.588)	(10.786)	523	(30.673)	(66.524)
PROFIT (LOSS) FROM CONTINUING OPERATIONS FOR THE PERIOD	42.405	75.106	(2.066)	77.591	193.036

The Group has 123.101 of revenue and 67.994 of operating income from terminal operations classified as agricultural operation in 2015.

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

4. SEGMENTAL REPORTING (cont’d)

b) As of 31 December 2016 and 2015 segmental assets and liabilities are as follows:

Balance sheet	31 December 2016				Total
	Contracting	Agriculture	Real Estate	Other	
Total assets	2.620.960	2.273.292	583.594	1.190.963	6.668.809
Current and non-current liabilities	2.432.790	1.129.705	598.783	128.074	4.289.352
Equity attributable to owners of the parents	(133.072)	868.149	12.970	1.601.634	2.349.681
Non-controlling interests	29.632	192	-	(48)	29.776

Balance sheet	31 December 2015				Total
	Contracting	Agriculture	Real Estate	Other	
Total assets	2.315.058	1.840.059	326.462	1.144.476	5.626.055
Current and non-current liabilities	2.249.302	900.899	315.331	75.388	3.540.920
Equity attributable to owners of the parents	(139.328)	732.900	13.708	1.450.078	2.057.358
Non-controlling interests	27.550	170	-	57	27.777

c) Segmental information related to intra and inter segment revenue, property, plant and equipment, intangible assets and investment property for the year ended 31 December 2016 and 2015 are as follows:

	1 January - 31 December 2016				Total
	Contracting	Agriculture	Real Estate	Other	
Capital expenditures (*)	45.730	119.984	2.577	1.362	169.653
Depreciation and amortization expense for the period (**)	60.593	48.873	871	4.059	114.396
Intra-segment revenue	38.856	35.358	40	297	74.551
Inter-segment revenue	18	934	1.598	10.546	13.096

	1 January - 31 December 2015				Total
	Contracting	Agriculture	Real Estate	Other	
Capital expenditures (*)	17.289	275.008	1.927	1.859	296.083
Depreciation and amortization expense for the period (**)	73.975	21.514	677	4.441	100.607
Intra-segment revenue	80.705	27.094	40	243	108.082
Inter-segment revenue	32	1.278	1.026	8.697	11.033

(*) Fixed assets purchases through financial lease amounting to 690 (2015: 6.916) and additional capitalized borrowing costs amounting to 12.522 (2015: 49.590 additional capitalized borrowing costs) are also included.

(**) Depreciation expense is added to the cost of inventory 5.932 (2015: 3.823).

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

4. SEGMENTAL REPORTING (cont’d)

d) Geographical segmental information is as follows:

	Turkey	CIS	Northern Africa	Middle Eastern Countries	Other	Eliminations	Total
Revenue (1 January - 31 December 2016)	2.918.200	1.141.920	(1.406)	761.262	5.068	(87.647)	4.737.397
Total assets (31 December 2016)	9.041.938	2.484.914	738.860	727.912	99.883	(6.424.698)	6.668.809
Capital expenditures (1 January - 31 December 2016) (*)	164.865	4.356	-	432	-	-	169.653
	Turkey	CIS	Northern Africa	Middle Eastern Countries	Other	Eliminations	Total
Revenue (1 January - 31 December 2015)	2.306.027	980.005	(4.160)	720.516	4.899	(119.115)	3.888.172
Total assets (31 December 2015)	7.267.411	2.060.440	619.287	816.103	62.431	(5.199.617)	5.626.055
Capital expenditures (1 January - 31 December 2015) (*)	291.656	1.985	-	2.442	-	-	296.083

(*) Fixed assets purchases through financial lease amounting to 690 (2015: 6.916) and additional capitalized borrowing costs amounting to 12.522 (2015: 49.590 additional capitalized borrowing costs) are also included.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

5. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash on hand	2.141	1.160
Cash at banks		
Demand deposits	134.403	85.312
Time deposits with maturity of three months or less	1.305.930	928.939
Other cash equivalents	40.955	16.791
	<u>1.483.429</u>	<u>1.032.202</u>

Explanations about the nature and level of risks related to cash and cash equivalents are provided in Note 34.

6. FINANCIAL INVESTMENTS

	31 December 2016	31 December 2015
<u>Short-term financial investments</u>		
Time deposits with maturity of longer than three months	108.121	-
<u>Long-term financial investments</u>		
Available for sale financial investments	175.435	70.770

Short-term financial investments consists of time deposits with maturity of longer than three months with an annual interest rate of 3,74% (2015: None) amounting to 108.121 (30.723 Thousand USD) (31 December 2015: None).

Details	Share %	31 December 2016	Share %	31 December 2015
<u>Traded</u>				
Akmerkez Gayrimenkul Yatırım Ortaklığı A.Ş.	10,79	88.436	10,79	67.734
Türkiye Sınai Kalkınma Bankası A.Ş.	<1	1.375	<1	1.256
Akçansa Çimento Sanayi ve Ticareti A.Ş.	<1	77	<1	74
Turcas Petrolcülük A.Ş.	<1	7	<1	7
		<u>89.895</u>		<u>69.071</u>
<u>Non-traded</u>				
Toren Doğalgaz Depolama ve Madencilik A.Ş.	2,50	42.349	-	-
Gaz Depo ve Madencilik A.Ş.	2,50	41.501	-	-
Sınai ve Mali Yatırımlar Holding A.Ş.	<1	2.536	<1	2.536
Mersin Serbest Bölge İşleticisi A.Ş.	9,56	898	9,56	898
Akmerkez Lokantacılık Gıda San. ve Tic. A.Ş. (*)	30,50	441	30,50	441
Üçgen Bakım ve Yönetim Hizmetleri A.Ş. (*)	27,45	109	27,45	109
Tümteks Tekstil Sanayi ve Ticaret A.Ş.	7,45	6.147	7,45	6.147
Other		<u>1.593</u>		<u>1.449</u>
		95.574		11.580
<u>Less: Allowance for impairment</u>				
Sınai ve Mali Yatırımlar Holding A.Ş.		(2.536)		(2.536)
Tümteks Tekstil Sanayi ve Ticaret A.Ş.		(6.147)		(6.147)
Other		<u>(1.351)</u>		<u>(1.198)</u>
		<u>(10.034)</u>		<u>(9.881)</u>
		<u>175.435</u>		<u>70.770</u>

(*) As of 31 December 2016 and 2015, entities classified as financial investment are shown at cost due to the fact that their total assets do not have a significant effect at the accompanying consolidated financial statements.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

6. FINANCIAL INVESTMENTS (cont'd)

Traded available for sale financial investments actively are carried at quoted market prices. The positive difference of 71.775 (31 December 2015: 51.995) in the fair value of the available for sale financial investments traded in active markets is directly recognized in equity. There is a positive difference amount of 3 (31 December 2015: 15 negative) in the fair value of the available for sale financial investments traded in active markets is directly recognized in the statement of profit or loss.

85.540 (31 December 2015: 1.699) of the above available for sale financial investments that do not have a quoted market value and their fair values cannot be reliably measured as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. For this reason they are stated at cost less provision for impairment in value, if any.

Explanations about the nature and level of risks related to financial investments are provided in Note 34.

7. SHORT AND LONG-TERM BORROWINGS

	31 December 2016	31 December 2015
Short-term bank loans	916.751	615.133
Short-term portion of long-term bank loans and interest payments	85.024	320.716
Short-term obligation under finance leases	3.890	-
Short-term portion of long term obligation under finance leases	3.750	6.991
Total short-term financial debts	1.009.415	942.840
Long-term bank loans	249.660	268.170
Long-term obligation under finance leases	1.890	3.900
Total long-term financial debts	251.550	272.070
Total financial debts	1.260.965	1.214.910

The details of bank loans are as follows:

Original currency	Weighted average interest rate %		31 December 2016		
	Short-term	Long-term	Short-term	Long-term	Total
US Dollars	3,70	-	620.213	-	620.213
EUR	2,14	2,76	153.841	249.660	403.501
TRY	12,75	-	227.721	-	227.721
			1.001.775	249.660	1.251.435

Original currency	Weighted average interest rate %		31 December 2015		
	Short-term	Long-term	Short-term	Long-term	Total
US Dollars	2,87	-	726.480	-	726.480
EUR	2,44	2,90	104.418	268.170	372.588
TRY	10,38	-	104.951	-	104.951
			935.849	268.170	1.204.019

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

7. SHORT AND LONG-TERM BORROWINGS (cont’d)

Repayment schedule of bank loans is as follows:

	31 December 2016	31 December 2015
To be paid within 1 year	1.001.775	935.849
To be paid within 1-2 year	83.220	67.044
To be paid within 2-3 year	83.220	67.042
To be paid within 3-4 year	83.220	67.042
To be paid within 4-5 year	-	67.042
	<u>1.251.435</u>	<u>1.204.019</u>

Group’s bank loans; as of 31 December 2016 in the amounts of 176.237 Thousand USD (620.213), 18.556 Thousand EUR (68.841) and 227.721 are subject to fixed interest rates and expose the Group to fair value interest risk (31 December 2015: 249.856 Thousand USD (726.480), 11.279 Thousand EUR (35.841), 104.951). Other bank loans are borrowed at floating interest rates thus exposing the Group’s cash flow to interest rate risk.

The subsidiary of the Company, Toros Tarım, has borrowed ECA (SACE) bank loan from Unicredit Bank Austria AG in August, 2013 for sulfuric acid facility in Samsun factory. The duration of repayments for Unicredit Bank Austria AG loan will last 7 years, including no principal payment within the first 2 years and 10 equal payments in 5 years where duration of repayments for Deutsche Bank AG loan will last 6,5 years with 10 equal payments, including no principal payment within first 1,5 years. The interest rates for Unicredit Bank Austria AG and Deutsche Bank AG loans are 6 months Euribor plus 2% and 6 months Euribor plus 0,9% respectively. Toros Tarım fulfilled the financial performance criteris obliged due to the agreement as of 31 December 2016. As of 31 December 2016, remaining balance of the loans used from Unicredit Bank Austria AG and Deutsche Bank AG after principle payments is 165.060 (44.492 Thousand EUR) and 167.820 (45.236 Thousand EUR) respectively. Principle payments made to the loans from Unicredit Bank Austria AG an Deutsche Bank AG for the period ended 31 December 2016 is 41.265 (11.123 Thousand EUR) and 39.151 (10.553 Thousand EUR) respectively.

Details of obligations under finance leases are as follows:

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Obligations under finance leases				
Within one year	7.895	7.374	7.640	6.991
Within 2-5 year	2.041	4.109	1.890	3.900
	<u>9.936</u>	<u>11.483</u>	<u>9.530</u>	<u>10.891</u>
Less: finance expenses related to following years	(406)	(592)	-	-
Present value of obligations finance leases	<u>9.530</u>	<u>10.891</u>	<u>9.530</u>	<u>10.891</u>
Less: Payments within 12 months (in short term payables)			<u>7.640</u>	<u>6.991</u>
Due beyond 12 months			<u>1.890</u>	<u>3.900</u>

It is the Group policy to lease some of its furniture, fixtures and equipment under finance leases. Average lease term varies between 12 months and 48 months (2015: 24 – 48 months). For the year ended 31 December 2016 effective weighted average interest is 3,95% for USD and 4,23% for EUR (31 December 2015: 4,59% for USD, 5,47% for EUR). Financial lease obligations currency type distribution is disclosed in Note 34. The fair value of the Group’s lease obligations approximates their carrying amount.

Explanations about the nature and level of risks related to financial debts are provided in Note 34.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

8. TRADE RECEIVABLES AND PAYABLES

a) Trade Receivables:

As at balance sheet date, details of trade receivables of the Group are as follows:

	31 December 2016	31 December 2015
<u>Short term trade receivables</u>		
Receivables from Contracting group operations	842.204	767.768
Receivables from Agriculture group operations	92.569	75.369
Receivables from Real Estate group operations	36.933	31.767
Receivables from Other group operations	7.566	5.383
Provision for doubtful receivables	(30.850)	(26.068)
Retention receivables (Note: 11)	98.056	66.403
Due from related parties (Note: 32)	20.680	26.677
Other	8.164	12.347
	<u>1.075.322</u>	<u>959.646</u>
<u>Long term trade receivables</u>		
Retention receivables (Note: 11)	143.163	105.715
Receivables from Real Estate group operations	9.379	22.892
	<u>152.542</u>	<u>128.607</u>

Postdated cheques amounting to 59.339 (31 December 2015: 47.695), notes receivables amounting to 42.269 (31 December 2015: 52.995), positive foreign currency differences amounting to 155 (31 December 2015: positive foreign currency differences amounting to 385), and due date differences amounting to 110 (31 December 2015: 1) are included in short and long-term trade receivables.

Average maturity date for trade receivables varies between the segments. Average maturity date for Contracting group, for projects in abroad is 123 days (31 December 2015: 116 days), for domestic projects is 47 days (31 December 2015: 39 days), for Agriculture group is 40 days (31 December 2015: 40 days), for Real Estate group for short-term trade receivables are 84 days, for long-term trade receivables is 647 days (31 December 2015: short-term trade receivables is 166 days, long-term trade receivables are 447 days) and for other segment is 30 days (31 December 2015: 39 days).

Amount of provision for doubtful receivables was determined based on past uncollectible receivable cases encountered. As of 31 December 2016, trade receivables of 30.850 (31 December 2015: 26.068) is provided provision for in the amount of 30.850 (31 December 2015: 26.068).

The movement of the Group's provision for doubtful receivables is as follows:

	2016	2015
Provision as at 1 January	(26.068)	(56.292)
Charge for the year	(3.302)	(1.436)
Collected	165	36
Provision released	-	9.117
Write off of bad debt	-	29.368
Currency translation effect	(1.645)	(6.861)
Provision as at 31 December	<u>(30.850)</u>	<u>(26.068)</u>

Doubtful receivable charge for the period has been charged to general administrative expenses (2015: Doubtful receivable charge for the period has been charged to general administrative expenses). In 2015, doubtful receivable income had been realized due to the receivables written off in the previous periods becoming collectable. Doubtful receivable income had been charged to cost of revenue as income (Note 23).

Explanations about the nature and level of risks related to trade receivables are provided in Note 34.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

8. TRADE RECEIVABLES AND PAYABLES (cont’d)

b) Trade Payables:

As at balance sheet date, details of trade payables of the Group are as follows:

	31 December 2016	31 December 2015
Short term trade payables		
Payables from Contracting group operations	718.254	612.964
Payables from Agriculture group operations	677.546	473.736
Payables from Real Estate group operations	27.315	6.879
Payables from Other group operations	14.300	11.192
Due to related parties (Note: 32)	10.919	490
Retention payables (Note: 11)	80.457	106.423
Other trade payables	32	63
	1.528.823	1.211.747
Long term trade payables		
Payables from Agriculture group operations	30.684	-
Retention payables (Note: 11)	12.979	1.830
Trade payables from Contracting group operations	370	439
	44.033	2.269

Notes payables amounting to 533 (31 December 2015: 5.960), and foreign currency differences amounting to 176.147 (31 December 2015: 76.825) are included in short and long-term trade payables, there are not any postdated cheques in the current year (31 December 2015: None).

For Agriculture Group, payables attributable to inventory supplied through imports constitute 95% (31 December 2015: 92%) of trade payables as at balance sheet date and average payable period for these import purchases is 219 days (31 December 2015: 179 days) whereas average payable period for domestic purchases is 30 days (31 December 2015: 30 days). For Contracting group, import purchases through letter of credit constitute 7% (31 December 2015: 5%) of trade payables as at balance sheet date. The average payable period for these import purchases is 88 days (31 December 2015: 91 days) whereas the average payable period for other purchases is 122 days (31 December 2015: 158 days). The average payable period for Real Estate group is 31 days (31 December 2015: 33 days). For the other operations of the Group, the average payable period is 59 days (31 December 2015: 46 days).

Explanations about the nature and level of risks related to trade payables are provided in Note 34.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

9. OTHER RECEIVABLES AND PAYABLES

a) Other Receivables:

	31 December 2016	31 December 2015
<u>Other short term receivables</u>		
Related party receivables (Note: 32)	53.922	2.944
Deposits and guarantees given	5.370	1.609
Other doubtful receivables	571	571
Other doubtful receivable provision (-)	(571)	(571)
Other receivables	1.791	1.154
	<u>61.083</u>	<u>5.707</u>
<u>Other long term receivables</u>		
Deposits and guarantees given	3.823	2.957
	<u>3.823</u>	<u>2.957</u>

b) Other Payables:

	31 December 2016	31 December 2015
<u>Other short term payables</u>		
Taxes and funds payable	33.397	19.644
Payables related to share acquisitions	29.679	-
Deposits and guarantees received	7.510	3.409
Other payables	3.229	2.310
	<u>73.815</u>	<u>25.363</u>
<u>Other long term payables</u>		
Fair value of redeemed shares	25.097	15.695
Deposits and guarantees received	3.420	2.690
	<u>28.517</u>	<u>18.385</u>

Explanations about the nature and level of risks related to other receivables and payables are provided in Note 34.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

10. INVENTORIES

	31 December 2016	31 December 2015
Raw materials	103.605	116.391
Work in progress	171.762	177.366
Finished goods	26.635	83.766
Trading goods	41.922	62.246
Goods in transit	35.846	82.028
Inventory from real estate projects	432.253	214.030
Inventory at construction sites	115.721	120.434
Other inventories	40.997	35.185
Allowance for impairment on inventory (-)	-	-
	<u>968.741</u>	<u>891.446</u>

During the year ended 31 December 2016, borrowing costs capitalized in inventory amount to 15.901 (31 December 2015: 8.343).

Movement of allowance for impairment on inventory	2016	2015
Provision as of 1 January	-	(1.039)
Provision released	-	1.039
Provision as of 31 December	<u>-</u>	<u>-</u>

The Group does not have any inventories whose net realizable value is less than its current cost (31 December 2015: None). Accordingly, there is not any provision for allowance for impairment on inventory (31 December 2015: None).

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

11. CONSTRUCTION CONTRACTS

	31 December 2016	31 December 2015
Cost incurred on uncompleted contracts	13.884.066	11.281.208
Recognised gain less losses (net)	784.831	290.938
	<u>14.668.897</u>	<u>11.572.146</u>
Less: Billings to date (-)	(14.661.735)	(11.283.106)
	<u>7.162</u>	<u>289.040</u>

Costs and billings incurred on uncompleted contracts in consolidated financial statements are follows:

	31 December 2016	31 December 2015
From customers under construction contracts	391.944	451.340
To customers under construction contracts	(384.782)	(162.300)
	<u>7.162</u>	<u>289.040</u>

	31 December 2016	31 December 2015
<u>Receivables from uncompleted contracts</u>		
Contracts undersigned abroad	340.773	435.212
Contracts undersigned in Turkey	51.171	16.128
	<u>391.944</u>	<u>451.340</u>
<u>Payables from uncompleted contracts</u>		
Contracts undersigned abroad	(20.511)	(57.493)
Contracts undersigned in Turkey	(364.271)	(104.807)
	<u>(384.782)</u>	<u>(162.300)</u>
	<u>7.162</u>	<u>289.040</u>

The Group has 48.437 of advances given to subcontractors and other suppliers for construction projects classified in short-term prepaid expenses (31 December 2015: 35.497). Also, the Group has 302.765 of advances received for contracting projects classified in deferred revenue (31 December 2015: 347.417) (Note 16).

As of 31 December 2016, the Group has 93.436 of retention payables to subcontractors (31 December 2015: 108.253). Also, the amount of retention receivables is 241.219 (31 December 2015: 172.118) (Note 8).

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

12. INVESTMENTS VALUED BY EQUITY METHOD

The details of the joints ventures of the Group, which are valued by equity method, are as follows:

Joint Ventures	Location of foundation and operation	31 December 2016		31 December 2015		Power to appoint	Industry
		Participation Rate	Amount	Participation Rate	Amount		
H-T Fidecilik	Turkey	50,00 %	10.039	50,00 %	7.548	50,00 %	Agriculture
Azfen	Azerbaijan	40,00 %	47.608	40,00 %	78.465	40,00 %	Construction
Black Sea	Turkey	30,00 %	1.034	30,00 %	807	30,00 %	Fertilizer Trade
Florya Gayrimenkul	Turkey	50,00 %	59.764	50,00 %	61.028	50,00 %	Real Estate
			<u>118.445</u>		<u>147.848</u>		

Movement of Group's joint ventures during the year is as follows:

	2016	2015
Opening balance as at 1 January	147.848	149.307
Group's share on profit (loss)	57.238	51.962
Dividends	(90.588)	(11.211)
Capital increases	-	900
Currency translation effect	5.211	(42.896)
Profit eliminations	(1.264)	(214)
Closing balance as at 31 December	<u>118.445</u>	<u>147.848</u>

Group's share on profit /loss of joint ventures is as follows:

H-T Fidecilik	2.491	588
Azfen	54.522	51.571
Black Sea	228	(190)
Florya Gayrimenkul	(3)	(7)
Shares on profit (loss) of joint ventures consolidated by equity method	<u>57.238</u>	<u>51.962</u>

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

12. INVESTMENTS VALUED BY EQUITY METHOD (cont’d)

Information related to financial position:

	H-T Fidecilik	Azfen	Black Sea	Florya Gayrimenkul	Total
31 December 2016					
Cash and cash equivalents	58	103.072	8.000	83	111.213
Other current assets	41.183	732.506	663	57.652	832.004
Other non-current assets	18.326	123.338	31	114.585	256.280
Total Assets	59.567	958.916	8.694	172.320	1.199.497
Short-term financial debts	21.107	-	-	-	21.107
Other short-term liabilities	16.919	839.895	5.237	50.335	912.386
Long-term financial debts	244	-	-	-	244
Other long-term liabilities	1.220	-	10	2.458	3.688
Total Liabilities	39.490	839.895	5.247	52.793	937.425
Net Assets	20.077	119.021	3.447	119.527	262.072
Group's Ownership Rate	50,00%	40,00%	30,00%	50,00%	
Group's share on Net Assets	10.039	47.608	1.034	59.764	118.445
31 December 2015					
Cash and cash equivalents	21	53.183	2.257	125	55.586
Other current assets	30.959	436.949	450	70.841	539.199
Other non-current assets	17.292	81.875	196	59.834	159.197
Total Assets	48.272	572.007	2.903	130.800	753.982
Short-term financial debts	20.958	-	-	-	20.958
Other short-term liabilities	11.297	375.846	201	6.286	393.630
Long-term financial debts	3	-	-	-	3
Other long-term liabilities	919	-	13	2.458	3.390
Total Liabilities	33.177	375.846	214	8.744	417.981
Net Assets	15.095	196.161	2.689	122.056	336.001
Group's Ownership Rate	50,00%	40,00%	30,00%	50,00%	
Group's share on Net Assets	7.548	78.465	807	61.028	147.848

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

12. INVESTMENTS VALUED BY EQUITY METHOD (cont’d)

Information related to profit or loss statement:

31 December 2016	H-T Fidecilik	Azfen	Black Sea	Florya Gayrimenkul	Total
Revenue	49.968	1.785.108	229.943	-	2.065.019
Depreciation and amortization expense	1.719	24.920	126	-	26.765
Operating profit (loss)	8.257	174.214	(3.772)	-	178.699
Financial income	2	-	7.734	3	7.739
Financial expense (-)	(2.367)	-	(3.168)	(7)	(5.542)
Tax expense (-)	(855)	(37.789)	(36)	(1)	(38.681)
Profit (loss) for the Period	4.982	136.305	759	(5)	142.041
Group's Ownership Rate	50,00%	40,00%	30,00%	50,00%	
Group's share on Profit (Loss) for the year	2.491	54.522	228	(3)	57.238

31 December 2015	H-T Fidecilik	Azfen	Black Sea	Florya Gayrimenkul	Total
Revenue	41.864	1.496.368	98.168	-	1.636.400
Depreciation and amortization expense	1.547	24.758	125	-	26.430
Operating profit (loss)	3.067	124.673	(6.050)	-	121.690
Financial income	6	43.796	9.673	-	53.475
Financial expense (-)	(1.727)	-	(4.230)	(1)	(5.958)
Tax expense (-)	(169)	(39.542)	(27)	(13)	(39.751)
Profit (Loss) for the Period	1.177	128.927	(634)	(14)	129.456
Group's Ownership Rate	%50,00	%40,00	%30,00	%50,00	
Group's share on Profit (Loss) for the year	588	51.571	(190)	(7)	51.962

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

13. INVESTMENT PROPERTY

Investment property as at 31 December 2016 and 2015 is as follows:

Cost	Land	Buildings	Total
Opening balance as at 1 January 2016	21.208	99.184	120.392
Currency translation effect	195	-	195
Additions	-	770	770
Transfers	-	(8.646)	(8.646)
Closing balance as at 31 December 2016	21.403	91.308	112.711

Accumulated Depreciation

Opening balance as at 1 January 2016	-	(31.562)	(31.562)
Charge for the year	-	(2.875)	(2.875)
Transfers	-	4.285	4.285
Closing balance as at 31 December 2016	-	(30.152)	(30.152)

Carrying value as at 31 December 2016

21.403	61.156	82.559
--------	--------	--------

Cost	Land	Buildings	Total
Opening balance as at 1 January 2015	7.916	99.663	107.579
Currency translation effect	(1.749)	-	(1.749)
Additions	-	1.737	1.737
Transfers	15.041	(2.216)	12.825
Closing balance as at 31 December 2015	21.208	99.184	120.392

Accumulated Depreciation

Opening balance as at 1 January 2015	-	(29.245)	(29.245)
Charge for the year	-	(2.840)	(2.840)
Transfers to property, plant and equipment	-	523	523
Closing balance as at 31 December 2015	-	(31.562)	(31.562)

Carrying value as at 31 December 2015

21.208	67.622	88.830
--------	--------	--------

Investment Property includes buildings over rental income earned and lands that are held for the investment purposes. Useful lives of investment properties are within 4 and 50 years.

Depreciation expense of 2.646 (2015: 2.317) has been charged to cost of revenue, 229 (2015: 523) to general administrative expenses.

For the year ended 31 December 2016 total rental income earned from investment properties is 29.774 (31 December 2015: 28.763). Direct operating and depreciation expenses arising on the investment properties in the year amounted to 7.099 (31 December 2015: 6.092).

The fair value of the Group's investment property has been arrived based on a valuation carried out by independent expertise not connected with the Group which is one of the accredited independent valuers by Capital Market Board. The fair values of the lands were determined based on the market comparable approach that reflects recent transaction prices for similar properties. The fair market value of the investment properties as of 31 December 2016 is 484.182 (31 December 2015: 518.845) according to the valuation carried out by independent expert.

There are not any restrictions on the realizability of investment property or any remittances of income and proceeds of disposal and there are not any contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

14. PROPERTY, PLANT AND EQUIPMENT

	Land and land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Construction in progress	Leasehold improvements	Total
Cost Value								
Opening balance as at 1 January 2016	393.352	385.614	1.820.663	36.221	89.568	74.310	145.415	2.945.143
Currency translation effect	41.563	21.128	165.271	6.098	11.610	-	1.589	247.259
Additions	25.643	1.186	19.101	843	7.213	108.857	2.964	165.807
Disposals	(925)	(853)	(33.161)	(2.286)	(12.793)	-	(4.995)	(55.013)
Transfers	12.765	9.367	110.815	204	1.290	(140.562)	1.571	(4.550)
Closing balance as at 31 December 2016	<u>472.398</u>	<u>416.442</u>	<u>2.082.689</u>	<u>41.080</u>	<u>96.888</u>	<u>42.605</u>	<u>146.544</u>	<u>3.298.646</u>
Accumulated Depreciation								
Opening balance as at 1 January 2016	(143.559)	(174.893)	(1.048.696)	(33.418)	(73.939)	-	(91.394)	(1.565.899)
Currency translation effect	(24.313)	(10.416)	(136.179)	(5.630)	(10.203)	-	(1.243)	(187.984)
Charge for the year	(12.071)	(7.669)	(84.625)	(890)	(5.627)	-	(4.470)	(115.352)
Allowance for impairment	-	-	(2)	-	-	-	-	(2)
Disposals	642	307	32.439	2.195	12.693	-	4.961	53.237
Transfers	-	5.027	-	-	-	-	-	5.027
Closing balance as at 31 December 2016	<u>(179.301)</u>	<u>(187.644)</u>	<u>(1.237.063)</u>	<u>(37.743)</u>	<u>(77.076)</u>	<u>-</u>	<u>(92.146)</u>	<u>(1.810.973)</u>
Carrying value as at 31 December 2016	<u>293.097</u>	<u>228.798</u>	<u>845.626</u>	<u>3.337</u>	<u>19.812</u>	<u>42.605</u>	<u>54.398</u>	<u>1.487.673</u>

Property, plant and equipment include fixed assets with carrying value of 12.117 purchased through financial lease. These property, plant and equipment purchased through financial lease consist of various prefabricated buildings, machinery, equipment and vehicles employed in construction sites. During the current period, property, plant and equipment purchases through financial lease amount to 690 (31 December 2015: 6.916). For the year ended as of 31 December 2016, additional capitalized borrowing costs amounting to 12.522 (31 December 2015: 49.590 additional capitalized borrowing costs) are included in property, plant and equipment. The rate used to determine the amount of borrowing costs eligible for capitalization is 18,75% (2015:18,64%).

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

14. PROPERTY, PLANT AND EQUIPMENT (cont’d)

	Land and land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Construction in progress	Leasehold improvements	Total
Cost Value								
Opening balance as at 1 January 2015	356.224	334.224	1.190.773	33.776	78.480	498.063	136.957	2.628.497
Currency translation effect	(690)	20.421	162.423	6.322	9.710	(30)	1.258	199.414
Additions	36.247	707	13.021	201	5.124	236.259	106	291.665
Disposals	(1.760)	(6.485)	(99.960)	(4.078)	(5.276)	(1.227)	(158)	(118.944)
Transfers	3.331	36.747	554.406	-	1.530	(658.755)	7.252	(55.489)
Closing balance as at 31 December 2015	<u>393.352</u>	<u>385.614</u>	<u>1.820.663</u>	<u>36.221</u>	<u>89.568</u>	<u>74.310</u>	<u>145.415</u>	<u>2.945.143</u>
Accumulated Depreciation								
Opening balance as at 1 January 2015	(117.044)	(190.440)	(959.426)	(28.716)	(61.932)	-	(85.180)	(1.442.738)
Currency translation effect	(13.325)	(9.693)	(125.288)	(5.471)	(8.259)	-	(995)	(163.031)
Charge for the year	(14.162)	(6.417)	(61.678)	(3.506)	(8.706)	-	(5.234)	(99.703)
Disposals	971	4.054	97.625	4.231	4.815	-	132	111.828
Transfers	1	27.603	71	44	143	-	(117)	27.745
Closing balance as at 31 December 2015	<u>(143.559)</u>	<u>(174.893)</u>	<u>(1.048.696)</u>	<u>(33.418)</u>	<u>(73.939)</u>	<u>-</u>	<u>(91.394)</u>	<u>(1.565.899)</u>
Carrying value as at 31 December 2015	<u>249.793</u>	<u>210.721</u>	<u>771.967</u>	<u>2.803</u>	<u>15.629</u>	<u>74.310</u>	<u>54.021</u>	<u>1.379.244</u>

Property, plant and equipment include fixed assets with carrying value of 46.301 purchased through financial lease.

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

14. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Property, plant and equipment are depreciated over the following useful lives:

	<u>Useful life</u>
Land and land improvements	2-50 years
Buildings	5-50 years
Machinery and equipment	2-50 years
Vehicles	2-12 years
Furniture and fixtures	2-50 years
Leasehold improvements	3-50 years

Depreciation expense of 105.699 (2015: 91.971) has been charged to cost of revenue, 1.303 (2015: 1.039) to marketing expenses, 2.418 (2015: 2.870) to general administrative expenses and 5.932 (2015: 3.823) to cost of inventory.

15. INTANGIBLE ASSETS

<u>Cost value</u>	<u>Rights</u>	<u>Other</u>	<u>Total</u>
Opening balance as at 1 January 2016	36.280	2.383	38.663
Currency translation effect	4.754	38	4.792
Additions	2.309	767	3.076
Transfers	389	-	389
Closing balance as at 31 December 2016	<u>43.732</u>	<u>3.188</u>	<u>46.920</u>
<u>Accumulated amortization</u>			
Opening balance as at 1 January 2016	(23.754)	(305)	(24.059)
Currency translation effect	(4.044)	(38)	(4.082)
Charge for the year	(2.101)	-	(2.101)
Closing balance as at 31 December 2016	<u>(29.899)</u>	<u>(343)</u>	<u>(30.242)</u>
Carrying value as at 31 December 2016	<u>13.833</u>	<u>2.845</u>	<u>16.678</u>
<u>Cost value</u>	<u>Rights</u>	<u>Other</u>	<u>Total</u>
Opening balance as at 1 January 2015	22.055	1.347	23.402
Currency translation effect	4.145	26	4.171
Additions	1.671	1.010	2.681
Disposals	(1)	-	(1)
Transfers	8.410	-	8.410
Closing balance as at 31 December 2015	<u>36.280</u>	<u>2.383</u>	<u>38.663</u>
<u>Accumulated amortization</u>			
Opening balance as at 1 January 2015	(18.387)	(301)	(18.688)
Currency translation effect	(3.558)	(26)	(3.584)
Charge for the year	(1.887)	-	(1.887)
Disposals	1	-	1
Transfers	77	22	99
Closing balance as at 31 December 2015	<u>(23.754)</u>	<u>(305)</u>	<u>(24.059)</u>
Carrying value as at 31 December 2015	<u>12.526</u>	<u>2.078</u>	<u>14.604</u>

Intangible assets are amortized over useful lives of rights through 2 to 25 years and useful lives of other intangibles through 2 to 5 years.

Amortization expense of 1.806 (2015: 1.866) has been charged to general administrative expenses, 295 (2015: 21) to cost of revenue.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

16. PREPAID EXPENSES AND DEFERRED REVENUE

	31 December 2016	31 December 2015
Short term prepaid expenses		
Advances paid for construction projects (Note: 11)	48.437	35.497
Prepaid expenses	26.109	17.329
Order advances given	15.892	9.412
Business advances given	775	434
	<u>91.213</u>	<u>62.672</u>
Long term prepaid expenses		
Prepaid expenses	4.225	6.539
Advances given for fixed assets	2.123	4.734
	<u>6.348</u>	<u>11.273</u>
Short-term deferred revenue		
Advances received for Real Estate projects	330.626	28
Advances received for construction projects (Note: 11)	302.765	347.417
Other advances received	45.162	7.989
Income relating to future months	6.700	5.730
	<u>685.253</u>	<u>361.164</u>
Long-term deferred revenue		
Advances received for Real Estate projects	-	247.921
	<u>-</u>	<u>247.921</u>

17. GOVERNMENT GRANTS AND INCENTIVES

Toros Tarım benefits from the certified seed production support according to the support amounts determined in the Communiqué about “Supporting Domestic Certified Seed Production” published in the Official Gazette for its production of certified wheat and potato seeds.

Before the harvest period, the support amounts per kilogram are conveyed in the Official Gazette by Republic of Turkey Ministry of Food, Agriculture and Livestock annually. For the harvest period in 2016, unit prices conveyed in 2015 for wheat is 0,10 TRY/kg and for potato is 0,08 TRY/kg. As of 31 December 2016, income generated from wheat support is 912 whereas the income generated from potato support is 219 which make a total income of 1.131 (31 December 2015: wheat supporting 1.295, potato supporting 144, total 1.439) (Note 26). Support income generated from current year sales is recognized as income accrual every reporting period is collected in the following period.

Within the scope of Tübitak, The Scientific and Technological Research Council of Turkey Teydeb (The Scientific and Technological Research Council of Turkey Technology and Innovation Grant Programs Directorate), several programs are being conducted for private sector entities on a project basis in order to provide support for Research and Development activities. 1511 numbered Research Technology Development and Innovation Projects in Priority Areas Grant Program is one of those programs. Toros Tarım applied for support within the context of this program with “Wheat Breeding Project” and its project is approved. The purpose of the project is to breed high quality and efficient wheat types that are resistant to biotic and abiotic stress conditions for different ecological zones of our country. 36 month long support duration began on 1 September 2013 and ended on 31 August 2016. In parallel with the budget given to Tübitak; personnel expenses, fixed asset and material acquisitions, service and labor costs are taken in the scope of the support. Support fees are paid in cash after the assessment of financial and technical reports presented to Tübitak semi-annually.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

18. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Provisions

	31 December 2016	31 December 2015
<u>Short term other provisions</u>		
Provision for litigation	9.998	64.904
Other provisions	32	372
	<u>10.030</u>	<u>65.276</u>

	31 December 2016	31 December 2015
<u>Long term other provisions</u>		
Other provisions	81	75
	<u>81</u>	<u>75</u>

	Provision for litigation	Other liability provisions	Total Other Provisions
Opening balance as at 1 January 2016	64.904	447	65.351
Currency translation effect	2.833	19	2.852
Charge for the period	6.480	6	6.486
Provision paid	(63.693)	-	(63.693)
Provision released	(526)	(359)	(885)
Closing balance as at 31 December 2016	<u>9.998</u>	<u>113</u>	<u>10.111</u>
Opening balance as at 1 January 2015	23.152	4.375	27.527
Currency translation effect	4.513	695	5.208
Charge for the period	38.577	13	38.590
Provision paid	(602)	(3.758)	(4.360)
Provision released	(736)	(878)	(1.614)
Closing balance as at 31 December 2015	<u>64.904</u>	<u>447</u>	<u>65.351</u>

b) Contingent Assets and Liabilities

Contractual Obligations:

Defects Liabilities

Based on the agreements signed with customers, the Group's subsidiary Tekfen İnşaat ensures to maintain its contract operations until the end of guarantee period and undertake the construction, maintenance, and general maintenance of related assets for the periods stated on the agreements. In case the customer determines any defects subsequent to the provisional acceptance of the contract, Tekfen İnşaat is obliged to remedy the defect.

Penalty of Default

Based on the agreements signed with the customers, if Tekfen İnşaat fails to complete in full or partially its contract operations within the determined period, it shall pay penalty amount for such defaults to its customers.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

18. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont’d)

b) Contingent Assets and Liabilities (cont’d)

Litigations:

As of 31 December 2016, except Libya counterclaim, lawsuit filed against the Group is totally 106.822 (31 December 2015: 122.083) and the management has decided to accrue 9.998 (31 December 2015: 64.904) of provision for lawsuits that might have high probability of potential outflow from the Group upon the consultation of legal advisors. Based on the legal advice of lawyers, no significant risks is foreseen regarding of lawsuits filed against the Group.

Libya Arbitration Claim

Tekfen-TML J.V., a joint operation of which 67% is owned by the Group, had to suspend its operations and evacuate its sites in Libya from 2011 February for an uncertain period of time due to the civil unrest in the country.

The Group resolved to proceed with an International Arbitration claim for recovery of project-related rights, receivables and assets in Libya. In line with this decision, on 16 June 2015, a plea of commercial arbitration was placed with the International Court of Arbitration of the International Chamber of Commerce (ICC) against the contracting management for the project, Libyan Man-Made River Authority (MMRA), and Libyan State via offering “Request for Arbitration”.

Besides, an additional plea of commercial arbitration was placed with ICC against Libyan State in the context of Treaty on Bilateral Investment Protection signed between Libyan and Turkish States. MMRA initiated a counterclaim against Tekfen TML J.V. with ICC.

Based on the legal advice of lawyers, no significant risks is foreseen regarding of lawsuit filed against the Group. Letters of guarantees given related to Libya project to various institutions amount to 119.

Other

The financial, economic, and social policies of the foreign countries in which the Group has operations may affect the Group’s profitability.

National and international commodity market price volatility may affect the Group operations and profitability.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

19. COMMITMENTS

Guarantee, pledge and mortgage position of the Group as of 31 December 2016 and 2015 is as follows:

31 December 2016	Equivalent of Thousands TRY	Thousands of US Dollars	Thousands of EUR	Other (Equivalent of Thousands TRY)
A. GPM given on behalf of its own legal entity	-	-	-	-
-Guarantee	-	-	-	-
-Pledge	-	-	-	-
-Mortgage	-	-	-	-
B. GPM given on behalf of subsidiaries that are included in full consolidation	8.763.286	1.554.919	67.676	3.040.146
-Guarantee	8.758.786	1.554.919	67.676	3.035.646
-Pledge	-	-	-	-
-Mortgage	4.500	-	-	4.500
C. GPM given in order to guarantee third parties' debts for the routine trade operations	125.662	-	-	125.662
-Guarantee	125.662	-	-	125.662
-Pledge	-	-	-	-
-Mortgage	-	-	-	-
D. Total amounts of other GPM given	-	-	-	-
i. Total amount of GPM given on behalf of parent company	-	-	-	-
ii. Total amount of GPM given on behalf of other group companies that are not included group B and C	-	-	-	-
iii. Total amount of GPM given on behalf of third parties that are not included group C	-	-	-	-
Total as of 31 December 2016	8.888.948	1.554.919	67.676	3.165.808
31 December 2015	Equivalent of Thousands TRY	Thousands of US Dollars	Thousands of EUR	Other (Equivalent of Thousands TRY)
A. GPM given on behalf of its own legal entity	-	-	-	-
-Guarantee	-	-	-	-
-Pledge	-	-	-	-
-Mortgage	-	-	-	-
B. GPM given on behalf of subsidiaries that are included in full consolidation	5.696.722	1.664.489	59.691	667.380
-Guarantee	5.692.222	1.664.489	59.691	662.880
-Pledge	-	-	-	-
-Mortgage	4.500	-	-	4.500
C. GPM given in order to guarantee third parties' debts for the routine trade operations	96.609	-	-	96.609
-Guarantee	96.609	-	-	96.609
-Pledge	-	-	-	-
-Mortgage	-	-	-	-
D. Total amounts of other GPM given	-	-	-	-
i. Total amount of GPM given on behalf of parent company	-	-	-	-
ii. Total amount of GPM given on behalf of other group companies that are not included group B and C	-	-	-	-
iii. Total amount of GPM given on behalf of third parties that are not included group C	-	-	-	-
Total as of 31 December 2015	5.793.331	1.664.489	59.691	763.989

Since there are not any GPMs mentioned in D item, the ratio to the total equity is not presented.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

20. EMPLOYEE BENEFITS

Employee benefit payables

	31 December 2016	31 December 2015
Salary accruals	37.720	26.371
Social security withholding payables	32.729	10.125
	<u>70.449</u>	<u>36.496</u>

	31 December 2016	31 December 2015
Short term provisions attributable to employee benefits		
Retirement pay provision	40.483	4.533
Unused vacation pay liability provision	18.453	13.594
Premium provision	13.969	14.284
	<u>72.905</u>	<u>32.411</u>

Long term provisions attributable to employee benefits

Retirement pay provision	40.054	60.977
--------------------------	--------	--------

	31 December 2016	31 December 2015
Short term retirement pay provision	40.483	4.533
Long term retirement pay provision	40.054	60.977
	<u>80.537</u>	<u>65.510</u>

Retirement pay provision:

Retirement pay provision regarding Turkish employees located abroad:

The Group is liable to pay retirement benefit for its qualified personnel. In addition to this, according to Group's retirement benefit policy, the Group pays retirement benefits to its retirees.

Retirement pay provision for Turkish personnel employed in Turkey:

Group is obliged to pay severance pay to each employee who is retiring (58 years for women and 60 years for men) after over 25 years working life by completing at least one year of service, whose business relationship is terminated, who is called for military service or who is died, according to the Turkish Labor Law.

Group has calculated current year's amount by using the upper limit 4.426,16 TRY which is effective on or after 1 January 2017 (31 December 2015: 4.092,53 TRY). The amount payable to the employee is limited to employee's one month worth salary or to the upper limit of retirement pay provision for each period of service as of 31 December 2016.

There is no legal funding requirement for retirement pay liability.

The provision is calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees (not applicable for employees who are working in construction projects). TAS 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the Group's obligation under defined benefit plans. Accordingly, the following actuarial assumptions are used in the calculation of the total liability.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

20. EMPLOYEE BENEFITS (cont'd)

Retirement pay provision (cont'd):

Retirement pay provision for Turkish personnel employed in Turkey (cont'd):

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the consolidated financial statements as of 31 December 2016, the provision has been calculated by estimating the present value of the future probable obligation arising from the retirement of the employees. As of 31 December 2016, the provisions have been calculated by taking the real discount rate as approximately 6,56% (31 December 2015: 4,53%). Approximately proportion of voluntarily terminations requiring no payments are also taken into account.

Retirement pay provision of foreign employees located abroad:

The Group and its consolidated subsidiaries are subject to regulations where they operate in. Provisional amounts for the subject matter laws have been provided in the consolidated financial statements.

Retirement pay provision for subcontractor employee:

The Group and the subcontractor companies are conjointly responsible for the retirement pay provision of subcontractor employees at the construction projects. In order to guarantee subcontractors commitment, the Group provides deductions from subcontractor's progress billings and letter of guarantee. Retirement pay provision calculation for subcontractor's personnel is subject to regulations where they operate in and the agreements between the Group and the subcontractors.

	Retirement Pay Provision	Premium Provision	Unused vacation pay liability provision	Total provisions attributable to employee benefits
Opening balance as at 1 January 2016	65.510	14.284	13.594	93.388
Currency translation effect	8.082	717	1.989	10.788
Charge for the period	34.585	12.314	10.982	57.881
Interest expense	1.523	-	-	1.523
Provision paid	(26.819)	(12.335)	(7.568)	(46.722)
Provision released	(187)	(1.011)	(544)	(1.742)
Actuarial gain	(2.157)	-	-	(2.157)
Closing balance as at 31 December 2016	<u>80.537</u>	<u>13.969</u>	<u>18.453</u>	<u>112.959</u>
Opening balance as at 1 January 2015	53.970	13.818	15.526	83.314
Currency translation effect	5.677	1.486	1.633	8.796
Charge for the period	31.768	17.747	6.989	56.504
Interest expense	903	-	-	903
Provision paid	(26.277)	(18.767)	(9.831)	(54.875)
Provision released	(5)	-	(723)	(728)
Actuarial gain	(526)	-	-	(526)
Closing balance as at 31 December 2015	<u>65.510</u>	<u>14.284</u>	<u>13.594</u>	<u>93.388</u>

32.334 (2015: 28.127) of current year charge and released provision for retirement pay has been included in cost of revenue, 3.429 (2015: 4.249) has been included in general administrative expenses and 158 (2015: 290) has been included in marketing expenses.

3.074 (2015: 2.544), 7.480 (2015: 14.548) and 749 (2015: 645) of current year charge and released provision for premiums have been included in cost of revenue, in general administrative expenses and in marketing expenses respectively.

8.247 (2015: 6.150) of current year charge and released provision for unused vacation pay liability has been included in cost of revenue, 2.113 (2015: 96) has been included in general administrative expenses and 78 (2015: 20) has been included in marketing expenses.

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

21. OTHER CURRENT/NON-CURRENT ASSETS AND OTHER SHORT-TERM LIABILITIES

	31 December 2016	31 December 2015
Other current assets		
VAT receivables	240.103	194.683
Withholding tax of ongoing construction contracts	37.047	47.646
Other current assets	2.028	431
	<u>279.178</u>	<u>242.760</u>
Other non-current assets		
Withholding tax of ongoing construction contracts	40.526	25.026
VAT receivables	-	1.800
	<u>40.526</u>	<u>26.826</u>
Other-short term liabilities		
VAT calculated	3.761	3.319
Other	137	146
	<u>3.898</u>	<u>3.465</u>

22. SHAREHOLDERS' EQUITY

a) Share Capital

After the changes in the shareholders' structure during the period, the structure of the paid in capital as of 31 December 2016 and 2015 is as follows:

Shareholders	(%)	31 December 2016	(%)	31 December 2015
Berker family	19,30%	71.426	19,30%	71.426
Gökyiğit family	19,30%	71.426	19,30%	71.426
Akçağlılar family	6,65%	24.611	10,87%	40.216
Other (*)	4,21%	15.593	4,21%	15.593
Publicly traded (**)	50,53%	186.944	46,31%	171.339
Paid in capital	100,00%	370.000	100,00%	370.000
Capital structure adjustments		3.475		3.475
Restated capital		<u>373.475</u>		<u>373.475</u>

(*) Indicates the total of owners with shares less than 5%.

(**) 24.737.369 (6,69%) shares at 1 TRY par value of publicly traded shares are under the control of founding shareholder families as of 31 December 2016 (31 December 2015: 24.983.368 share; 6,75%).

Registered and issued capital comprises 370.000.000 shares at 1 TRY par value (31 December 2015: 370.000.000). All these shares consist of bearer common shares.

According to the articles of association of the Company, 5% of the net profit is reserved as first order legal reserves up to 20% of the paid-up capital. At least 30% but not less than the rate and amount determined by the CMB of the amount that to be found by the addition of donations made within the year to the remaining part of the net profit is distributed as first dividend. Up to 3% of the remaining net profit is devoted to Tekfen Eğitim Sağlık Kültür Sanat ve Doğal Varlıkları Koruma Vakfı which holds redeemed shares.

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

22. SHAREHOLDERS’ EQUITY (cont’d)

b) Accumulated other comprehensive income or loss that will be not reclassified / reclassified in profit or loss

	31 December 2016	31 December 2015
Accumulated other comprehensive income or loss that will not be reclassified in profit or loss		
- Profit (loss) on revaluation of defined retirement benefit plans	1.369	(376)
	<u>1.369</u>	<u>(376)</u>
Accumulated other comprehensive income or loss that will be reclassified in profit or loss		
- Currency translation reserve	125.977	108.234
- Gain on revaluation and reclassification (Note: 6)	71.775	51.995
- Gains on hedging (Note: 33)	1.621	-
	<u>199.373</u>	<u>160.229</u>

Gain (loss) on revaluation and remeasurement:

Gain (loss) on revaluation and remeasurement consists of all actuarial gains and losses, which are calculated in accordance with revised TAS 19 and recognized in other comprehensive income.

Currency Translation Reserve:

Group’s consolidated reporting currency is TRY. In accordance with TAS 21 (The Effects of Changes in Foreign Exchange Rates), balance sheet items of the companies, whose functional currencies are differed from TRY, are translated into TRY with the rates prevailing at the balance sheet date and revenue, expenses and cash flows are translated with the exchange rates at the transaction date (historical rates) or yearly average rate in the presentation of Group’s consolidated financial statements. Gain or loss arising from the translation is recognized in the foreign currency translation reserve under equity which is 125.977 (31 December 2015: 108.234).

Gain / (loss) on revaluation and reclassification:

Gain / (loss) on revaluation and reclassification consists of changes in fair value of financial assets available for sale. In the event of the disposition of a revalued financial asset at fair value, revalued portion and the sale proceed difference is directly accounted in profit or loss. In case of a revalued at fair value financial assets impairment, amount impaired is accounted in profit or loss.

Gains (loss) on hedging:

The hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges under equity. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognized and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

22. SHAREHOLDERS' EQUITY (cont'd)

c) Restricted Profit Reserves

	31 December 2016	31 December 2015
Restricted profit reserves	194.145	176.413

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions.

Profit Distribution:

Listed companies distribute profit in accordance with the Communiqué No. II-19.1 issued by CMB which is effective from 1 February 2014.

Companies distribute profit in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute profit in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on interim financial statement of the Company.

In accordance with TCC, unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution of the company are set aside, no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

As of 23 February 2017, Board of Directors offered to pay shareholders 0,31 TRY (2015: 0,16 TRY) gross dividends per share. That dividend payment is subject to approval of the shareholders in General Shareholders' Meeting and so that the amount is not accounted as liability to the consolidated financial statements. Projected gross dividend amount to be paid to shareholders and the holders of the redeemed shares is 113.546 (2015: 60.081) and 6.746 (2015: 3.585), respectively.

Resources That Can Be Subject To Profit Distribution:

Total amount of other resources that may be subject to profit distribution in the statutory records of Tekfen Holding A.Ş. is 1.577.393 (31 December 2015: 1.477.058). 1.102.516 portion of this amount belongs to shares issued and 474.877 portion of this amount belongs to bonus shares issued (31 December 2015: shares issued 1.002.181, bonus shares issued 474.877).

d) Premiums in Capital Stock

Group has done public offering (22,50%) of issued 66.775 shares by increased capital on 23 November 2007. The income from this public offering is 380.618. After 12.859 expenses directly related to the public offering deducted, 300.984 is accounted as premium in capital stock in shareholder's equity.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

23. REVENUE AND COST OF REVENUE

Revenue	1 January- 31 December 2016	1 January 31 December 2015
Contract revenue	2.823.581	2.153.133
- Contract revenue – abroad	1.880.888	1.669.659
- Contract revenue – domestic	923.614	461.328
- Joint operations – abroad	12.388	7.683
- Joint operations – domestic	6.691	14.463
Good and merchandise sales	1.851.634	1.669.343
- Domestic goods and merchandise sales	1.797.815	1.627.791
- Export goods and merchandise sales	55.957	47.338
- Sales returns and discounts from goods and merchandise sales (-)	(2.138)	(5.786)
Other sales	62.182	65.696
	4.737.397	3.888.172
	1 January- 31 December 2016	1 January- 31 December 2015
Cost of revenue (-)		
Cost of raw materials used	(1.680.713)	(1.590.334)
Subcontractor expenses	(928.427)	(685.517)
Personnel expenses	(691.829)	(496.800)
Construction site expenses	(197.010)	(142.423)
Machinery, vehicle and other rent expenses	(133.632)	(104.671)
Depreciation expenses (Note: 13, 14, 15)	(108.640)	(94.309)
Energy and fuel expenses	(79.611)	(80.440)
Transportation expenses	(36.310)	(34.717)
Outsourcing expenses	(35.819)	(31.460)
Maintenance expenses	(35.329)	(40.356)
Consultancy expenses	(24.425)	(32.781)
Insurance expenses	(20.579)	(10.217)
Custom expenses	(10.927)	(12.216)
Cost of merchandises sold	(4.901)	(13.275)
Engineering expenses	(2.727)	(16.792)
Consumable and other material expenses	(1.759)	(547)
Provision for doubtful receivables (Note: 8)	-	9.117
Other	(91.214)	(101.560)
	(4.083.852)	(3.479.298)

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

24. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES

	1 January- 31 December 2016	1 January- 31 December 2015
General administrative expenses (-)	(171.635)	(143.977)
Marketing expenses (-)	(123.712)	(123.072)
Research and development expenses (-)	(1.256)	-
	<u>(296.603)</u>	<u>(267.049)</u>
	1 January- 31 December 2016	1 January- 31 December 2015
<u>Details of general administrative expenses</u>		
Personnel expenses	(102.312)	(89.422)
Consultancy expenses	(14.080)	(11.925)
Office and administration expenses	(13.065)	(13.490)
Depreciation and amortization expenses (Note: 13, 14, 15)	(4.453)	(5.259)
Tender preparation expenses	(4.293)	(775)
Provision for doubtful receivables (Note: 8)	(3.302)	(1.436)
Rent expenses	(3.140)	(1.805)
Duties, charges and other tax expenses	(2.962)	(1.725)
Communication expenses	(2.203)	(1.576)
Bank and notary expenses	(1.663)	(3.741)
Traveling expenses	(1.521)	(1.318)
Maintenance expenses	(1.159)	(623)
Hospitality expenses	(568)	(1.891)
Energy and fuel expenses	(525)	(411)
Reversal of doubtful receivable provision (Note: 8)	102	36
Other expenses	(16.491)	(8.616)
	<u>(171.635)</u>	<u>(143.977)</u>
<u>Details of marketing expenses</u>		
Transportation expenses	(93.832)	(94.448)
Personnel expenses	(9.843)	(9.241)
Advertisement expenses	(6.547)	(5.396)
Depreciation and amortization expenses (Note: 14)	(1.303)	(1.039)
Rent expenses	(925)	(1.259)
Energy and fuel expenses	(860)	(901)
Duties, charges and other tax expenses	(713)	(1.304)
Traveling expenses	(600)	(592)
Maintenance expenses	(419)	(395)
Consultancy expenses	(393)	(316)
Hospitality expenses	(388)	(596)
Office and administration expenses	(317)	(447)
Communication expenses	(256)	(296)
Other expenses	(7.316)	(6.842)
	<u>(123.712)</u>	<u>(123.072)</u>

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

24. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES (cont'd)

	1 January- 31 December 2016	1 January- 31 December 2015
<u>Details of research and development expenses</u>		
Consultancy expenses	(729)	-
Rent expenses	(47)	-
Traveling expenses	(10)	-
Other expenses	(470)	-
	<u>(1.256)</u>	<u>-</u>

25. QUALITATIVE EXPENSES

	1 January - 31 December 2016	1 January - 31 December 2015
Personnel expenses	(112.155)	(98.663)
Transportation expenses	(93.832)	(94.448)
Consultancy expenses	(15.202)	(12.241)
Office and administration expenses	(13.382)	(13.937)
Advertisement expenses	(6.547)	(5.396)
Depreciation and amortization expenses (Note: 13, 14, 15)	(5.756)	(6.298)
Tender preparation expenses	(4.293)	(775)
Rent expenses	(4.112)	(3.064)
Duties, charges and other tax expenses	(3.675)	(3.029)
Provision for doubtful receivables (Note: 8)	(3.302)	(1.436)
Communication expenses	(2.459)	(1.872)
Traveling expenses	(2.131)	(1.910)
Bank and notary expenses	(1.663)	(3.741)
Maintenance expenses	(1.578)	(1.018)
Energy and fuel expenses	(1.385)	(1.312)
Hospitality expenses	(956)	(2.487)
Reversal of doubtful receivable provision (Note: 8)	102	36
Other expenses	(24.277)	(15.458)
	<u>(296.603)</u>	<u>(267.049)</u>

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

26. OTHER OPERATING INCOME AND EXPENSES

	1 January - 31 December 2016	1 January - 31 December 2015
Other operating income		
Foreign exchange gains	219.354	254.309
Due date difference income	23.486	17.396
Rent income	4.116	3.962
Indemnity income	5.244	2.835
Discount income	3.195	3.322
Refundment income of social benefit	1.920	1.551
Scrap sale income	1.442	1.658
Government grants and incentives income (Note: 17)	1.131	1.439
Reversal of litigation provision (Note: 18)	526	736
Reversal of other unnecessary provisions	359	726
Project management income	314	-
Other income	8.586	5.233
	269.673	293.167
Other operating expenses (-)		
Foreign exchange losses	(332.854)	(340.494)
Due date difference expenses	(10.146)	(6.349)
Grants and contributions	(7.344)	(638)
Litigation provision (Note: 18)	(3.516)	(13.138)
Discount expenses	(2.332)	(177)
Additional tax expenses	(2.157)	(77)
Penalty and damages expenses	(373)	(292)
Rent expenses	(262)	(183)
Other provision expenses	(6)	(13)
Damages subject to litigation	-	(117)
Other expenses	(11.570)	(8.953)
	(370.560)	(370.431)

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

27. INVESTMENT INCOME AND EXPENSES

	1 January - 31 December 2016	1 January - 31 December 2015
<u>Investment income</u>		
Gain on sale of fixed asset	3.038	10.840
Dividend income	8.972	7.921
Gain on sale of assets classified as held for sale	1.355	-
Other	10	-
	<u>13.375</u>	<u>18.761</u>
	1 January - 31 December 2016	1 January - 31 December 2015
<u>Investment expense (-)</u>		
Loss on sale of fixed assets	(132)	(1.220)
Impairment of fixed assets (Note: 14,29)	(2)	(939)
Other	(6)	(9)
	<u>(140)</u>	<u>(2.168)</u>

28. FINANCIAL INCOME AND FINANCIAL EXPENSES

	1 January - 31 December 2016	1 January - 31 December 2015
<u>Financial income</u>		
Foreign exchange gains	235.504	161.373
Interest income	69.835	89.065
Currency translation reserve gains	2.362	4.884
Other finance income	-	100
	<u>307.701</u>	<u>255.422</u>
	1 January - 31 December 2016	1 January - 31 December 2015
<u>Financial expenses (-)</u>		
Foreign exchange losses	(156.061)	(113.219)
Interest expenses	(47.722)	(41.248)
Currency translation reserve losses	(11.901)	(26.223)
Other finance expenses	(8.030)	(6.221)
Less: Financial expenses included in costs of property, plant and equipment and inventories	28.423	57.933
	<u>(195.291)</u>	<u>(128.978)</u>

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

29. ASSETS CLASSIFIED AS HELD FOR SALE

Assets classified as held for sale consist of Group's assets which are being actively marketed at a price that is reasonable.

	31 December 2016	31 December 2015
Assets classified as held for sale	24.181	23.851
	<u>24.181</u>	<u>23.851</u>

The movement of assets classified as held for sale is as follows:

	2016	2015
Net book value as at 1 January	23.851	19.485
Currency translation effect	3.816	3.802
Allowance for impairment (Note: 27)	-	(939)
Disposals	(2.360)	-
Impairment of subsidiary	(1.126)	(4.384)
Transfers	-	5.887
Net book value as at 31 December	<u>24.181</u>	<u>23.851</u>

All shares of Papfen, a subsidiary of the Group, whose net assets had been classified to the account of "Assets classified as held for sale" in the consolidated financial statements as of 31 December 2015 were transferred on 23 May 2016.

30. TAX INCOME AND EXPENSES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

	31 December 2016	31 December 2015
Assets related to current tax		
Prepaid corporate tax	48.324	43.658
	<u>48.324</u>	<u>43.658</u>
	31 December 2016	31 December 2015
Current tax liability		
Corporate tax provision	57.062	48.486
Less: Prepaid taxes and funds	(48.324)	(43.658)
	<u>8.738</u>	<u>4.828</u>

Tax expense in the statement of profit or loss:

	1 January - 31 December 2016	1 January - 31 December 2015
Tax expense comprises as follows:		
Current tax provision	144.562	80.971
Deferred tax income	(35.947)	(14.447)
	<u>108.615</u>	<u>66.524</u>

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

30. TAX INCOME AND EXPENSES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (cont'd)

Tax legislation in Turkey:

Corporate Tax:

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

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective rate of tax in 2016 is 20% (2015: 20%).

In Turkey, advance tax returns are calculated, accrued and paid on a quarterly basis. The advance corporate income tax rate in 2016 is 20% (2015: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. Losses cannot be carried back for offset against profits from previous periods.

The Group is able to use its losses carried forward occurred in 2015 until 2020.

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

75% of sale proceeds from subsidiary and fixed asset acquisitions are exempt from corporate tax with the condition that these assets are held more than two years and the proceeds are included in equity for five years. There are not any restrictions for these proceeds to be added to capital.

Income Withholding Tax:

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies.

The rate of income withholding tax is 10% between 24 April 2003 and 22 July 2006. This rate was changed to 15% commencing from 22 July 2006 with the Cabinet Decision 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

30. TAX INCOME AND EXPENSES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (cont'd)

Taxation of Foreign Subsidiaries and Operations:

Subsidiaries and operations included in consolidation in the accompanying consolidated financial statements are subject to corporate tax and withholding tax effective in the relevant country. Effective tax rates in those countries in which the Group operates are summarized below:

Countries	Corporate Tax Rate %	Withholding Tax Rate %
Azerbaijan	20%	10% - 14%
Kazakhstan	20%	15% - 20%
Uzbekistan	7,5%	10% - 20%
Germany	15% - 33%	0% - 25%
Saudi Arabia	20%	5% - 15%
Luxembourg	21%	0% - 15%
Ireland	12,5% - 25%	0% - 20%
United Kingdom	20%	0% - 20%
Morocco	31%	10%
United Arab Emirates	0%	0%
Qatar	10%	0% - 7%
Turkmenistan	0% - 20%	15%

Exemption of Foreign Branch Earnings:

In accordance with private judgment related with overseas construction earnings in Corporate Tax Law's Article 5/1-h: "Earnings, which are provided from overseas construction, maintenance, installation or technical services, are transferred to income statement in Turkey" are exempted from corporate tax. According to the judgment, the only requirement is transferring of these earnings to income statement in Turkey. It is not obligatory that the earnings to be brought in Turkey.

General Directorate of Exports of Ministry of Economy of Turkey has given tax, duties and charge incentive for the below mentioned contract undertaken by Tekfen İnşaat and its joint operations.

- Ankara – İzmir High Speed Train Project's Afyonkarahisar-Uşak (Banaz) Section and Afyonkarahisar Transpassing's Infrastructure. Incentive will be applied until 8 May 2019.

Investment Incentive Tax Exemption:

Concerning the investment undertaken relating to Samsun Facility, Toros Tarım has obtained Investment Incentive Certificate as of 3 April 2013 in the scheme of "Large Scale Investment" from Republic of Turkey Ministry of Economy. The features of this incentive are employer's share of social security premium support, VAT exemption, and customs duty exemption and this incentive provides a tax exemption of 60% in the taxation of the income arising from the investment within the framework of 35% investment contribution ratio. Additionally, Toros Tarım has obtained 5th Region Investment Incentive Certificate (investments priority subject) as of 7 July 2014 from Ministry of Economy. The features of this incentive are employer's share of social security premium support, VAT exemption, and customs duty exemption and this incentive provides a tax exemption of 80% in the taxation of the income arising from the investment within the framework of 40% investment contribution ratio. In the scope of incentive, deferred tax asset has been created arising from timing differences in the amount of 34.148 on the basis of two years over Toros Tarım's profit projections. (2015: 24.398).

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

30. TAX INCOME AND EXPENSES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (cont'd)

Deferred Tax:

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for TAS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for TAS and tax purposes and shown below. Tax rate used in calculating deferred tax assets and liabilities is the effective tax rate in the relevant countries where the Group undertakes its operations.

Due to entities in Turkey are not allowed to declare consolidated tax returns, subsidiaries titled to deferred assets may not be netted of with their subsidiaries titled to deferred tax liabilities; hence are required to declare separately.

	31 December 2016	31 December 2015
<u>Components of deferred tax (assets) liabilities bases:</u>		
Restatement and depreciation / amortization		
differences of tangible and intangible assets	122.208	123.251
Provision for retirement benefits and vacation liability	(40.647)	(35.122)
Investment incentive undertaken	(170.739)	(121.990)
Contract costs and progress billings (net)	82.651	116.455
Undistributed profits of joint operations	(2.463)	37.488
Provision for doubtful receivables	(11.279)	(16.085)
Effect of income accruals	1.046	2.116
Tax losses carried forward	(25.813)	(7.016)
Provision for litigation	(8.939)	(6.127)
Available for sale investments	75.490	54.666
Provision for premium payments	(12.769)	(7.779)
Other	(52.383)	(28.277)
Deferred tax liabilities / (assets)	<u>(43.637)</u>	<u>111.580</u>
	31 December	31 December
<u>Components of deferred tax (assets) liabilities:</u>	<u>2016</u>	<u>2015</u>
Restatement and depreciation / amortization		
differences of tangible and intangible assets	18.584	17.343
Provision for retirement benefits and vacation liability	(8.130)	(7.054)
Investment incentive undertaken	(34.148)	(24.398)
Contract costs and progress billings (net)	16.546	23.284
Undistributed profits of joint operations	(492)	7.497
Provision for doubtful receivables	(3.279)	(3.215)
Effect of income accruals	209	423
Tax losses carried forward	(5.196)	(1.402)
Provision for litigation	(1.786)	(1.225)
Available for sale investments	3.775	2.733
Provision for premium payments	(2.565)	(1.552)
Other	(7.157)	(5.666)
Deferred tax liabilities / (assets)	<u>(23.639)</u>	<u>6.768</u>
Deferred tax assets	(50.999)	(41.814)
Deferred tax liabilities	27.360	48.582
	<u>(23.639)</u>	<u>6.768</u>

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

30. TAX INCOME AND EXPENSES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (cont'd)

Deferred Tax (cont'd):

Movement of deferred tax assets and liabilities for the year ended 31 December 2016 is as follows:

Movement of deferred tax liabilities (assets)	2016	2015
Opening balance as at 1 January	6.768	16.862
Deferred tax (income) / expense	(35.947)	(14.447)
Effect of available for sale investments in comprehensive income	1.042	102
Effect of actuarial gain / (loss) in comprehensive income	424	144
Hedge effect	405	-
Currency translation effect	3.669	4.107
Closing balance as at 31 December	(23.639)	6.768

Reconciliation of tax expense for the year with the profit for the year:

	1 January- 31 December 2016	1 January- 31 December 2015
Reconciliation of taxation:		
Profit before tax	438.938	259.560
Expected taxation (*)	162.164	104.808
Reconciliation of expected tax to actual tax:		
- Undeductable expenses	372	7.431
- Dividend and other non-taxable income	(27.937)	(49.767)
- Carryforward tax losses deducted in current year	(11.015)	(3.462)
- Effects of unrealizable tax (losses) / income (net)	30.314	43.234
- Investment incentive undertaken	(9.750)	(11.633)
- Effects of joint ventures	(8.206)	(552)
- Effect of change in tax rates and consolidation adjustments	(11.019)	(24.410)
- Other	(16.308)	875
Income tax expense recognized in statement of profit or loss	108.615	66.524

(*) Different rates are applied for different countries where the foreign companies and joint ventures are located.

31. EARNINGS PER SHARE

Calculation of earnings per share for the current year is made in accordance with TAS 33 considering the effects of shares and bonus shares issued.

As of 31 December 2016 and 2015, the Group's weighted average number of shares and computation of earnings per share (which corresponds to per share amounting to 1 TRY) set out here are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Average number of ordinary shares outstanding during the period (in full)	370.000.000	370.000.000
Net profit for the period attributable to owners of the Parent (Thousands TRY)	324.411	185.466
Earnings per share from operations (TRY)	0,877	0,501

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

32. RELATED PARTY TRANSACTIONS

The Group has various transactions with related parties during the course of its operations. Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated in consolidation and are not disclosed in this note.

Due from and due to balances are unsecured and will be settled in cash. No bad debt provision is made for balances due from related parties in the current year.

	31 December 2016		31 December 2015	
	Due from	Due to	Due from	Due to
	Short-term	Short-term	Short-term	Short-term
Balances with related parties				
Azfen	35.720	-	6.609	-
Florya Gayrimenkul	25.132	1.032	3.138	1
Agromak	8.836	6	13.322	3
H-T Fidecilik	96	4	79	3
Tekzen	56	2.845	397	227
Black Sea	-	22	-	5
Turquoise Construction	-	3.913	1.237	-
Pelit Yapı Çelik	545	-	-	-
Other	180	122	167	86
<i>Shareholders and key management</i>	268	114	173	100
<i>Joint operations</i>	3.769	2.861	4.499	65
	<u>74.602</u>	<u>10.919</u>	<u>29.621</u>	<u>490</u>

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

32. RELATED PARTY TRANSACTIONS (cont’d)

1 January - 31 December 2016								
Transactions with related parties	Purchases	Sales	Interest income	Dividend income	Rent income	Rent expense	Other income	Other costs and expenses
Black Sea	42.100	1	-	-	-	-	242	1.255
Azfen	-	3.492	-	90.588	7.550	-	-	-
Agromak	-	345	1.164	-	-	-	-	-
H-T Fidecilik	-	17	-	-	-	-	38	4
Florya Gayrimenkul	-	5.452	680	-	-	-	-	-
Tekzen	3.539	847	-	-	94	-	4	-
Üçgen Bakım	62	144	-	120	-	-	-	341
Akmerkez Gayrimenkul	-	22	-	8.281	-	844	-	-
Tekfen Vakfi	-	5	-	-	2	-	-	-
Turquoise Construction	15.761	-	-	-	-	-	-	-
Other	107	110	-	571	32	-	-	-
<i>Shareholders and key management</i>	-	312	-	-	2	-	-	-
<i>Joint operations</i>	-	11	3.151	-	-	-	48	-
	61.569	10.758	4.995	99.560	7.680	844	332	1.600
1 January - 31 December 2015								
Transactions with related parties	Purchases	Sales	Interest income	Dividend income	Rent income	Rent expense	Other income	Other costs and expenses
Black Sea	-	7.219	-	-	-	-	331	377
Azfen	-	13.364	-	11.211	3.854	-	-	-
Agromak	-	11.696	622	-	-	-	-	-
H-T Fidecilik	-	14	-	-	-	-	68	-
Florya Gayrimenkul	-	1.231	80	-	-	-	-	-
Akmerkez Lokantacılık	-	-	-	770	-	-	-	-
Tekzen	194	991	-	-	57	-	-	-
Üçgen Bakım	-	142	-	150	-	-	-	261
Akmerkez Gayrimenkul	-	5	-	6.432	-	858	-	-
Tekfen Vakfi	-	21	-	-	1	-	-	-
Turquoise Construction	1.760	-	-	-	-	-	-	-
Other	316	51	-	569	21	-	-	-
<i>Shareholders and key management</i>	-	250	-	-	1	-	-	-
<i>Joint operations</i>	-	79	3.704	-	-	-	-	-
	2.270	35.063	4.406	19.132	3.934	858	399	638

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

32. RELATED PARTY TRANSACTIONS (cont'd)

Compensation of key management personnel:

The remuneration of key management during the year is as follows:

	31 December 2016	31 December 2015
Salaries and other short term benefits	10.774	12.516
	<u>10.774</u>	<u>12.516</u>

33. DERIVATIVE INSTRUMENTS

	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Forward foreign exchange contracts	2.245	131	-	-
Current	2.245	131	-	-
Non-current	-	-	-	-
	<u>2.245</u>	<u>131</u>	<u>-</u>	<u>-</u>

Currency derivatives:

The Group utilizes currency derivatives to hedge significant future transactions and cash flows. The Group is party to a variety of foreign currency forward contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

At the end of the reporting period, the total notional amount of outstanding forward foreign exchange contracts to which the Group is committed are as follows:

	31 December 2016	31 December 2015
Forward foreign exchange contracts	51.082	-
	<u>51.082</u>	<u>-</u>

At 31 December 2016, the fair value of the Group's currency derivatives is estimated to be approximately 2.114 (2015: None). These amounts are based on quoted market prices for equivalent instruments at the balance sheet date, comprising 2.245 (2015: None) assets and 131 (2015: None) liabilities. The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to 1.621 (2015: None) has been deferred in equity. 87 (2015:None) of ineffective part has been recognized in profit or loss. There are no matured derivative contracts during the period (2015:None).

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

a) Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of financial debts as explained in Note 7 and equity items comprising paid in capital, premiums in capital stock, restricted profit reserves and retained earnings.

Within the framework of risk management activities, Group defines the undertaken risks, estimates the loss amounts caused by these risks and defines the capital base amount related to these loss amounts. Thus, Group aims to minimize its capital risk.

After the capital base is defined, the steadily management of funding structure is aimed by obtaining new debts, repayment of existing debts, and dividend payments.

Net cash position as of 31 December 2016 and 2015 are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Total Financial Debts	(1.260.965)	(1.214.910)
Less: Cash and cash equivalents	1.483.429	1.032.202
Less: Time deposits with maturity of longer than three months	108.121	-
Net Cash Position	330.585	(182.708)

b) Financial Risk Factors

The Group’s activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance.

Management provides services to the business, coordinates access to domestic and international markets, monitors, and manages the financial risks relating to the operations of the Group through internal risk reports, which analyses exposures by degree and magnitude of risk. These risks include market risk (including currency risk, fair value interest rate risk, and price risk) credit risk, liquidity risk, and cash flow interest rate risk.

The Group does not obtain any kind of financial instruments, including those of which derivative financial instruments for speculative purposes and is not associated with the trading of these financial instruments.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

b) Financial Risk Factors (cont’d)

b.1) Credit risk management

Credit risk exposure based on financial instrument categories	Receivables				
	Trade Receivables		Other Receivables		Bank Deposit (***)
	Related Party	Third Party	Related Party	Third Party	
31 December 2016					
Minimum credit risk exposure at balance sheet date (*)	20.680	1.207.184	53.922	10.984	1.548.454
- Secured portion of minimum credit risk via guarantee or etc. (**)	-	41.962	-	-	-
A. Net book value of not due or not impaired financial assets	6.203	872.493	53.922	10.984	1.548.454
B. Net book value of assets that are due but not impaired	14.477	334.691	-	-	-
- Secured portion via guarantee or etc.	-	109	-	-	-
C. Net book value of impaired assets	-	-	-	-	-
- Over due (gross book value)	-	30.711	-	571	-
- Impairment (-)	-	(30.711)	-	(571)	-
- Secured net value via guarantee or etc.	-	-	-	-	-
- Not due (gross book value)	-	139	-	-	-
- Impairment (-)	-	(139)	-	-	-
- Secured net value via guarantee or etc.	-	-	-	-	-
31 December 2015					
Minimum credit risk exposure at balance sheet date (*)	26.677	1.061.576	2.944	5.720	1.014.251
- Secured portion of minimum credit risk via guarantee or etc. (**)	-	16.348	-	-	-
A. Net book value of not due or not impaired financial assets	8.151	716.294	2.944	5.720	1.014.251
B. Net book value of assets that are due but not impaired	18.526	345.282	-	-	-
- Secured portion via guarantee or etc.	-	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-
- Over due (gross book value)	-	25.396	-	571	-
- Impairment (-)	-	(25.396)	-	(571)	-
- Secured net value via guarantee or etc.	-	-	-	-	-
- Not due (gross book value)	-	672	-	-	-
- Impairment (-)	-	(672)	-	-	-
- Secured net value via guarantee or etc.	-	-	-	-	-

(*) In determining the amounts, elements providing increase in loan credibility such as warrants received are not considered.

(**) Warrants consist of collateral bills, letters of guarantees and mortgages.

(***) Bank deposits include the times deposits classified under financial investments and other receivables.

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial Risk Factors (cont'd)

b.1) Credit risk management (cont'd)

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed and approved by the board of directors of the Group companies the risk management committee annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivables.

31 December 2016	Trade Receivables	Other Receivables	Total
Not due receivables	878.835	64.906	943.741
Overdue by 1-30 days	4.052	-	4.052
Overdue by 1-3 months	2.891	-	2.891
Overdue by 3-12 months	332.375	-	332.375
Overdue 1-5 years	30.078	-	30.078
Overdue by more than 5 years	10.483	571	11.054
Total receivables	1.258.714	65.477	1.324.191
Total overdue receivables	379.879	571	380.450
Secured portion via guarantee or etc.	109	-	109
Total provision provided	(30.711)	(571)	(31.282)
Total provision provided for overdue receivables	(139)	-	(139)
Secured portion of all impaired receivables via guarantee or etc.	-	-	-

31 December 2015	Trade Receivables	Other Receivables	Total
Not due receivables	725.117	8.664	733.781
Overdue by 1-30 days	2.664	-	2.664
Overdue by 1-3 months	47.792	-	47.792
Overdue by 3-12 months	302.018	-	302.018
Overdue 1-5 years	26.743	-	26.743
Overdue by more than 5 years	9.987	571	10.558
Total receivables	1.114.321	9.235	1.123.556
Total overdue receivables	389.204	571	389.775
Secured portion via guarantee or etc.	-	-	-
Total provision provided	(25.396)	(571)	(25.967)
Total provision provided for overdue receivables	(672)	-	(672)
Secured portion of all impaired receivables via guarantee or etc.	-	-	-

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

b) Financial Risk Factors (cont’d)

b.1) Credit risk management (cont’d)

As at balance sheet date, collaterals held for the past due trade receivables which are not impaired is amounting 109 (2015: None). There are no collaterals held for the past due trade receivables which are impaired (2015: None).

b.2) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group’s short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group’s remaining contractual maturity for its derivative financial instruments and its non-derivative financial liabilities. The tables below have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The liquidity analysis for its derivative financial instruments has been drawn up based on the undiscounted net cash inflows/ (outflows) on the derivative instrument that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

Liquidity risk table:

31 December 2016

Due date on agreement	Carrying Value	Cash outflows according to agreements (I+II+III+IV)	Less than 3 months (I)	Between 3-12 months (II)	Between 1-5 years (III)	More than 5 years (IV)
Financial liabilities						
Bank loans	1.251.435	1.292.698	407.620	629.501	255.577	-
Finance lease obligations	9.530	9.936	4.001	3.894	2.041	-
Trade payables (due to related parties included)	1.572.856	1.579.343	954.820	580.490	43.801	232
Employee benefit payables	70.449	70.449	70.449	-	-	-
Other payables (due to related parties included)	102.332	102.332	36.625	37.190	28.260	257
Total liabilities	3.006.602	3.054.758	1.473.515	1.251.075	329.679	489

Due date on agreement	Carrying Value	Cash outflows according to agreements (I+II+III+IV)	Less than 3 months (I)	Between 3-12 months (II)	Between 1-5 years (III)	More than 5 years (IV)
Derivative instruments						
Cash inflows	2.114	50.194	-	50.194	-	-
Cash outflows	-	51.082	-	51.082	-	-

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

b) Financial Risk Factors (cont’d)

b.2) Liquidity risk management (cont’d)

31 December 2015

Due date on agreement	Carrying Value	Cash outflows according to agreements (I+II+III+IV)	Less than 3 months (I)	Between 3-12 months (II)	Between 1-5 years (III)	More than 5 years (IV)
Financial liabilities						
Bank loans	1.204.019	1.231.777	281.221	575.416	375.140	-
Finance lease obligations	10.891	11.483	2.486	4.888	4.109	-
Trade payables (due to related parties included)	1.214.016	1.217.758	909.315	306.174	2.004	265
Employee benefit payables	36.496	36.496	36.496	-	-	-
Other payables (due to related parties included)	43.748	43.748	23.301	2.062	18.282	103
Total liabilities	2.509.170	2.541.262	1.252.819	888.540	399.535	368

Due date on agreement	Carrying Value	Cash outflows according to agreements (I+II+III+IV)	Less than 3 months (I)	Between 3-12 months (II)	Between 1-5 years (III)	More than 5 years (IV)
Derivative instruments						
Cash inflows	-	-	-	-	-	-
Cash outflows	-	-	-	-	-	-

b.3) Market risk management

The Group’s activities expose it primarily to the financial risks of changes in foreign exchange rates (refer to section b.3.1) and interest rates (refer to section b.3.2).

There has been no change to the Group’s exposure to market risks or the manner which it manages and measures the risks.

b.3.1) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The details of the Group’s foreign currency denominated monetary and non-monetary assets and monetary and non-monetary liabilities as of balance sheet date are shown below:

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

b) Financial Risk Factors (cont’d)

b.3) Market risk management (cont’d)

b.3.1) Foreign currency risk management (cont’d)

31 December 2016	Equivalent of Thousands of TL	Thousands of US Dollars	Thousands of EUR	Thousands of GBP	Other (Equivalent of Thousands of TL)
1. Trade Receivables	114.991	17.771	3.785	-	38.409
2. Monetary Financial Assets	1.151.256	295.031	24.330	10	22.678
3. Other	14.265	224	862	564	7.853
4. CURRENT ASSETS	1.280.512	313.026	28.977	574	68.940
5. Trade Receivables	25	-	-	-	25
6. Monetary Financial Assets	538	-	-	-	538
7. Other	9.588	10	2.575	-	-
8. NON-CURRENT ASSETS	10.151	10	2.575	-	563
9. TOTAL ASSETS	1.290.663	313.036	31.552	574	69.503
10. Trade Payables	1.081.847	196.647	16.528	152	327.836
11. Financial Liabilities	90.161	1.056	23.301	-	-
12. Monetary Other Liabilities	107.273	127	8.613	-	74.873
12b. Non-Monetary Other Liabilities	414	107	10	-	-
13. CURRENT LIABILITIES	1.279.695	197.937	48.452	152	402.709
14. Trade Payables	313	-	-	-	313
15. Financial Liabilities	250.003	98	67.295	-	-
16. Monetary Other Liabilities	21.161	885	4	-	18.032
17. NON-CURRENT LIABILITIES	271.477	983	67.299	-	18.345
18. TOTAL LIABILITIES	1.551.172	198.920	115.751	152	421.054
19. Off-balance sheet derivative instruments net position (19a-19b)	50.194	14.263	-	-	-
19a. Derivative assets	50.194	14.263	-	-	-
19b. Derivative liabilities	-	-	-	-	-
20. Net foreign currency assets / liabilities position	(210.315)	128.379	(84.199)	422	(351.551)
21. Monetary items net foreign currency assets / liabilities position (1+2+5+6-10-11-12-14-15-16)	(283.948)	113.989	(87.626)	(142)	(359.404)
22. Fair value of derivative instruments held for hedging	2.115	601	-	-	-

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

b) Financial Risk Factors (cont’d)

b.3) Market risk management (cont’d)

b.3.1) Foreign currency risk management (cont’d)

31 December 2015	Equivalent of Thousands of TL	Thousands of US Dollars	Thousands of EUR	Thousands of GBP	Other (Equivalent of Thousands of TL)
1. Trade Receivables	59.596	11.572	2.877	1	16.803
2. Monetary Financial Assets	421.545	139.455	939	6	13.056
3. Other	11.837	467	709	208	7.332
4. CURRENT ASSETS	492.978	151.494	4.525	215	37.191
5. Trade Receivables	21.886	7.527	-	-	-
6. Monetary Financial Assets	358	-	-	-	358
7. Other	22.002	11	6.914	-	-
8. NON-CURRENT ASSETS	44.246	7.538	6.914	-	358
9. TOTAL ASSETS	537.224	159.032	11.439	215	37.549
10. Trade Payables	776.322	171.929	6.458	224	254.937
11. Financial Liabilities	79.235	1.029	22.127	-	5.932
12. Monetary Other Liabilities	60.028	3.300	6.428	-	30.007
12b. Non-Monetary Other Liabilities	1.743	524	66	-	10
13. CURRENT LIABILITIES	917.328	176.782	35.079	224	290.886
14. Trade Payables	-	-	-	-	-
15. Financial Liabilities	269.522	289	84.555	-	-
16. Monetary Other Liabilities	15.142	914	4	-	12.472
17. NON-CURRENT LIABILITIES	284.664	1.203	84.559	-	12.472
18. TOTAL LIABILITIES	1.201.992	177.985	119.638	224	303.358
19. Off-balance sheet derivative instruments net position (19a-19b)	-	-	-	-	-
19a. Derivative assets	-	-	-	-	-
19b. Derivative liabilities	-	-	-	-	-
20. Net foreign currency assets / liabilities position	(664.768)	(18.953)	(108.199)	(9)	(265.809)
21. Monetary items net foreign currency assets / liabilities position (1+2+5+6-10-11-12-14-15-16)	(696.864)	(18.907)	(115.756)	(217)	(273.131)
22. Fair value of derivative instruments held for hedging	-	-	-	-	-

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial Risk Factors (cont'd)

b.3) Market risk management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

Foreign currency sensitivity

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

The following table details the Group's sensitivity to a 5% increase and decrease in the US Dollars and Euro. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss.

	31 December 2016	
	Appreciation of foreign currencies	Depreciation of foreign currencies
	If US Dollars changes 5% against TL	If US Dollars changes 5% against TL
US Dollars net assets / liabilities	22.590	(22.590)
	If Euro changes 5% against TL	If Euro changes 5% against TL
Euro net assets / liabilities	(15.618)	15.618
	If other foreign currencies changes 5% against TL	If other foreign currencies changes 5% against TL
Other foreign currency net assets / liabilities	(17.488)	17.488
TOTAL	(10.516)	10.516
	31 December 2015	
	Appreciation of foreign currencies	Depreciation of foreign currencies
	If US Dollars change 5% against TL	If US Dollars change 5% against TL
US Dollars net assets / liabilities	(2.755)	2.755
	If Euro changes 5% against TL	If Euro changes 5% against TL
Euro net assets / liabilities	(17.191)	17.191
	If other foreign currencies changes 5% against TL	If other foreign currencies changes 5% against TL
Other foreign currency net assets / liabilities	(13.292)	13.292
TOTAL	(33.238)	33.238

Forward foreign exchange contracts

The Group enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions the exposure generated. The following table details the forward foreign currency contracts outstanding as at reporting date:

Outstanding contracts	Average rate		Foreign currency		Contract value		Fair value	
	2016	2015	2016	2015	2016	2015	2016	2015
<i>Buy USD</i>								
Less than 3 months	-	-	-	-	-	-	-	-
3 to 12 months	3,5800	-	14.263	-	51.082	-	2.114	-
							2.114	-

As of 31 December 2016, 1.621 (2015: None) of unrealized gains arising from changes in fair values of forward foreign exchange contracts is classified as hedging reserve under shareholders' equity.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial Risk Factors (cont'd)

b.3) Market risk management (cont'd)

b.3.2) Interest rate risk management

Interest rate sensitivity

Detail of the Group's financial instruments exposed to interest rate sensitivity is as follows:

	31 December 2016	31 December 2015
Financial liabilities - Fixed Interest Rate Instruments	926.305	878.163
Financial liabilities - Floating Interest Rate Instruments	334.660	336.747

At 31 December 2016 if the interest rates had been 50 basis points higher/lower and all other variables held constant, profit before tax and non-controlling interest would decrease/increase by 1.673 (31 December 2015: 1.684).

b.3.3) Other price risks

Equity pricing sensitivity

The sensitivity analyses below have been determined based on the exposure to price risks for stock.

At reporting date, if variables used in valuation methods had been 10% higher/lower and all other variables held constant:

- As at 31 December 2016, unless available for sale financial investments are disposed of and if are not subject to any impairment, they will have no effect over net profit/loss.
- There will be an increase/decrease of 8.532 (31 December 2015: 6.554 increase/decrease) in gain on revaluation and reclassification. This is mainly caused as a result of changes in fair values of available for sale financial investments.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira (“TRY”) unless otherwise stated.)

35. FINANCIAL INSTRUMENTS

31 December 2016	Loans and receivables (including cash and cash equivalents)	Available for sale financial investments	Financial liabilities at amortized cost	Fair Value	Carrying value (*)	Note
Financial assets						
Cash and cash equivalents	1.483.429	-	-	-	1.483.429	5
Trade receivables (due from related parties included)	1.227.864	-	-	-	1.227.864	8, 34
Financial investments	108.121	175.435	-	-	283.556	6
Other current and non-current assets (due from related parties included)	64.906	-	-	-	64.906	9, 34
Derivative instruments	-	-	-	2.245	2.245	33, 34
Financial liabilities						
Financial debts	-	-	1.260.965	-	1.260.965	7, 34
Trade payables (due to related parties included)	-	-	1.572.856	-	1.572.856	8, 34
Employee benefit payables	-	-	70.449	-	70.449	20, 34
Other short and long-term liabilities	-	-	102.332	-	102.332	9, 34
Derivative instruments	-	-	-	131	131	33, 34
31 December 2015						
Financial assets						
Cash and cash equivalents	1.032.202	-	-	-	1.032.202	5
Trade receivables (due from related parties included)	1.088.253	-	-	-	1.088.253	8, 34
Financial investments	-	70.770	-	-	70.770	6
Other current and non-current assets (due from related parties included)	8.664	-	-	-	8.664	9, 34
Financial liabilities						
Financial debts	-	-	1.214.910	-	1.214.910	7, 34
Trade payables (due to related parties included)	-	-	1.214.016	-	1.214.016	8, 34
Employee benefit payables	-	-	36.496	-	36.496	20, 34
Other short and long-term liabilities	-	-	43.748	-	43.748	9, 34

(*) The Group believes that the carrying values of its financial instruments reflect their fair values.

Translated into English from the report originally issued in Turkish.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

35. FINANCIAL INSTRUMENTS (cont'd)

Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined and grouped as follows:

- Level 1: The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- Level 2: The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on using prices from direct or indirect observable current market transactions.
- Level 3: The fair value of the financial assets and financial liabilities are determined where there is no observable market data.

The fair values of financial assets are as follows:

	31 December 2016	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
<u>Financial investments</u>				
Available for sale financial investments	89.895	89.895	-	-
Derivative instruments	2.114	-	2.114	-
Total	<u>92.009</u>	<u>89.895</u>	<u>2.114</u>	<u>-</u>

	31 December 2015	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
<u>Financial investments</u>				
Available for sale financial investments	69.071	69.071	-	-
Derivative instruments	-	-	-	-
Total	<u>69.071</u>	<u>69.071</u>	<u>-</u>	<u>-</u>

36. OTHER MATTERS MATERIALLY AFFECTING FINANCIAL STATEMENTS

Tekfen İnşaat secured 1.608.274 (457 Million USD) deal as the part of Trans Anatolian Natural Gas Pipeline (TANAP) Project that involves compressor and metering stations for the engineering, procurement and construction jobs. The duration of the project is 39 months.

Tekfen İnşaat and Doğu İnşaat ve Ticaret A.Ş. Joint Operation (50%-50%) secured 879 Million TL deal as part of the construction works of Ankara – İzmir High Speed Train Project's Afyonkarahisar-Uşak (Banaz) Section and Afyonkarahisar Transpassing's Infrastructure. The duration of the project is 36 months.

Tekfen İnşaat secured 330.805 (94 Million USD) deal as part of the shell and core construction works for the new headquarter building of Ministry of Taxes of the Republic of Azerbaijan.

Tekfen İnşaat has signed a Letter of Intent for the construction of the 20" gasoline and 24" jet fuel pipeline project, which will extend for a total of 333 km between Yanbu and Jeddah; the investment in Saudi Arabia is made by Aramco, and the total cost of the project is 1.053.339 (299,3 Million USD). The duration of the project is 47 months.

Tekfen İnşaat has signed a Protocol of Intent with TSGI JV concerning the completion of electromechanical works on a unit-price basis of the Coker Unit at the Star Refinery under construction in Aliğa, Izmir. Negotiations regarding the conditions of the protocol and the quantity estimates will be concluded shortly, after which the definite contract value will be determined. The duration of the project is 17 months.

TEKFEN HOLDİNG ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed in Thousands of Turkish Lira ("TRY") unless otherwise stated.)

36. OTHER MATTERS MATERIALLY AFFECTING FINANCIAL STATEMENTS (cont'd)

The Consortium, established by Tekfen İnşaat and HMB Hallesche Mitteldeutsche Bau AG (HMB) with Entrepote Contracting from the French Vinci Group, has signed two agreements worth a total of 8.951.989 (2,4 Billion EUR) with licensed investors Toren Doğalgaz Depolama ve Madencilik A.Ş., and Gaz Depo Madencilik A.Ş. for the EPC (Engineering-Procurement-Construction-Commissioning) construction of Underground Natural Gas Storage Facilities to be built at two nearby sites in the Tarsus-Mersin region, with a total storage capacity of 4 billion cubic meters (4 bcm). The total share of Tekfen İnşaat and HMB accruing from the contracts is 2.682.258 (723 Million EUR). The contracted work will begin as soon as the investor companies complete the project finance and the share of the work for Group's subsidiaries party to the Consortium is scheduled to be completed within 5 years after the beginning date of work.

Tekfen İnşaat and Ministry of Municipality and Environment of the State of Qatar have signed the final agreement worth 7.327.649 (7.600.000.000 Qatari Riyal) on the construction of highly prestigious "Al Khor Expressway" project which is 34 km in length with 10 lanes, various intersections, viaducts, underpasses and overpasses. The duration of the project is 36 months.

37. SUBSEQUENT EVENTS

Tekfen-Al Jaber Engineering Joint Arrangement, which Tekfen İnşaat will hold 50% partnership, received a Letter of Invitation to the Contract from Qatar Supreme Committee for Delivery and Legacy on 16 February 2017 to undertake turnkey engineering and construction work for the "Main Works for the Fifth Precinct Stadium" project which is one of the stadium complexes in Qatar where 2022 World Cup Finals will take place. The Group's share in the project is 602.603 (625.000.000 Qatari Riyal). The Company will give a letter of guarantee to the employer on behalf of Tekfen İnşaat in the amount of the contract price.

Tekfen İnşaat and BP Iraq N.V. have signed a unit-price based contract to provide man power and machinery for installation of Rumalia Oil Field Water Separation & Salt Separation Units. Duration of the project is 3 years. It is expected that the total amount of the works to be done according to the contract will reach approximately 348.401 (99 Million USD) by the end of the project period. The Company will give a letter of guarantee to the employer on behalf of Tekfen İnşaat in the amount of the contract price.

The Group collected 1.465.530 (1.520.000.000 Qatari Riyal) on 19 January 2017 as advance payment which is 20% of the contract price of Al Khor Expressway project that was signed with Ministry of Municipality and Environment of the State of Qatar on 13 October 2016.

Partial deliveries concerning HEP İstanbul housing project of Real Estate group started on 23 January 2017.

The Company acquired 4,5% shares of its subsidiary Belpa on 2 January 2017. After the acquisition, direct share participation rate of the Company in Belpa has reached 100%.