AKSA AKRİLİK KİMYA SANAYİİ A.Ş.

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016 TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

(ORIGINALLY ISSUED IN TURKISH)

CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITOR'S REPORT
ORIGINALLY ISSUED IN TURKISH

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Aksa Akrilik Kimya Sanayii A.Ş.;

Report on the Consolidated Financial Statements

1. We have audited the accompanying consolidated financial statements of Aksa Akrilik Kimya Sanayii A.Ş. (the "Company") and its Subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016 and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

2. The Group's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Turkish Accounting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditor's Responsibility

3. 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 Independent Auditing Standards which is part of the Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority. Those 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 independent audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on independent 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 independent 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 Group's internal control. An independent audit includes also 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 independent audit evidence we have obtained during our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Emphasis of Matter

5. As explained in Note 2.5 to the consolidated financial statements, US Dollar ("USD") amounts shown in the accompanying consolidated financial statements have been translated from Turkish Lira "TL", as a matter of arithmetic computation only, at the official USD bid rate announced by the Central Bank of the Republic of Turkey ("CBRT") at 31 December 2016 for consolidated statement of financial position; and the official USD average CBRT bid rates of the year 2016 for the consolidated statement of consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows and they do not form part of these consolidated financial statements.

Other Responsibilities Arising From Regulatory Requirements

6. In accordance with subparagraph 4 of Article 398 of the Turkish Commercial Code ("TCC") No: 6102; auditor's report on the early risk identification system and committee has been submitted to the Company's Board of Directors on 17 February 2017.

7. In accordance with subparagraph 4 of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 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.

8. In accordance with subparagraph 4 of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and submitted required documents within the context of audit.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

ORIGINAL TURKISH VERSION WAS SIGNED OFF

Ediz Günsel, SMMM
Partner

Istanbul, 17 February 2017

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH (NOTE 2.5)

AKSA AKRİLİK KİMYA SANAYİİ A.Ş.

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

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CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH (NOTE 2.5)

AKSA AKRİLİK KİMYA SANAYİİ A.Ş.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2016 AND 2015

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

	Notes	31 December 2016 USD (*)	*Audited* 31 December 2016 TL	*Audited* 31 December 2015 TL
ASSETS				
Current assets		**394,287**	**1,387,576**	**1,075,543**
Cash and cash equivalents	4	130,229	458,301	342,810
Trade receivables				
- Trade receivables due from unrelated parties	7	114,983	404,647	275,326
- Trade receivables due from related parties	25	60,644	213,420	192,501
Other receivables				
- Other receivables due from related parties	25	24	83	11,089
- Other receivables due from unrelated parties	8	192	677	257
Derivative financial assets	16	191	673	7,189
Inventories	9	61,810	217,522	185,074
Prepayments	15	3,876	13,641	10,482
Other current assets	15	22,338	78,612	50,815
Non-current assets		**353,885**	**1,245,394**	**1,178,532**
Other receivables				
- Other receivables due from related parties	25	29,943	105,374	79,456
Derivative financial assets	16	534	1,881	535
Investments accounted for using equity method	5	60,881	214,252	243,337
Investment property	10	13,399	47,155	48,418
Property, plant and equipment	11	215,060	756,840	718,574
Intangible assets and goodwill	12	22,257	78,326	82,956
Prepayments	15	11,811	41,566	5,256
TOTAL ASSETS		**748,172**	**2,632,970**	**2,254,075**

(*) United States Dollar ("USD") amounts presented above have been translated from Turkish Lira ("TL") for convenience purposes only, at the official TL bid rate announced by the Central Bank of the Republic of Turkey ("CBRT") at 31 December 2016, and therefore do not form part of these consolidated financial statements (Note 2.5)

These consolidated financial statements at 31 December 2016 have been reviewed by the Audit Committee and approved for issue by the Board of Directors on 17 February 2017.

AKSA AKRİLİK KİMYA SANAYİİ A.Ş.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AT 31 DECEMBER 2016 AND 2015

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

	Notes	31 December 2016 USD (*)	*Audited* 31 December 2016 TL	*Audited* 31 December 2015 TL
LIABILITIES				
Current liabilities		**311,933**	**1,097,750**	**751,107**
Current borrowings	6	133,360	469,319	337,407
Current proportion of non-current borrowings	6	31,677	111,479	70,886
Trade payables				
- Trade payables to unrelated parties	7	128,992	453,949	277,895
- Trade payables to related parties	25	9,581	33,716	27,510
Employee benefits obligations	14	775	2,727	2,243
Other payables				
- Other payables to unrelated parties	8	116	409	508
Derivative financial liabilities	16	470	1,653	-
Deferred income	15	939	3,304	7,108
Current tax liabilities, current	23	2,106	7,411	14,544
Current provisions				
- Current provisions for employee benefits	14	3,231	11,369	10,793
- Other current provisions	13	686	2,414	2,213
Non-current liabilities		**81,130**	**285,515**	**254,372**
Long-term borrowings	6	72,054	253,574	212,946
Trade payables				
- Trade payables to related parties	25	-	-	13,974
Derivative financial liabilities	16	323	1,137	-
Non-current provisions				
- Non-current provisions for employee benefits	14	5,436	19,131	20,226
Deferred tax liabilities	23	3,317	11,673	7,226
Total liabilities		**393,063**	**1,383,265**	**1,005,479**
EQUITY		**355,109**	**1,249,705**	**1,248,596**
Attributable to equity holders of the parent		**355,109**	**1,249,705**	**1,248,548**
Issued capital	17	52,569	185,000	185,000
Inflation adjustments on capital	17	55,460	195,175	195,175
Share premium		13	44	44
Other accumulated comprehensive income/(loss) that will not be reclassified in profit and loss				
- Gains/(losses) on remeasurements of defined benefit plans		(888)	(3,125)	(5,194)
Other comprehensive income/(loss) that will be reclassified in profit and loss				
- Exchange differences on translation		44,083	155,147	120,438
- Gains/(losses) on hedge		-	-	330
Restricted reserves appropriated from profits	17	34,862	122,685	107,501
Prior years' profits or losses		133,264	468,981	445,779
Current period net profit or loss		35,746	125,798	199,475
Non-controlling interests		**-**	**-**	**48**
TOTAL LIABILITIES AND EQUITY		**748,172**	**2,632,970**	**2,254,075**

(*) USD amounts presented above have been translated from Turkish Lira ("TL") for convenience purposes only, at the official TL bid rate announced by the CBRT at 31 December 2016, and therefore do not form part of these consolidated financial statements (Note 2.5).

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

AKSA AKRİLİK KİMYA SANAYİİ A.Ş.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

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

	Notes	2016 USD (*)	*Audited* 2016 TL	*Audited* 2015 TL
Revenue	18	651,353	1,954,385	2,030,006
Cost of sales	18, 19	(505,706)	(1,517,371)	(1,634,362)
Gross profit/(loss)		**145,647**	**437,014**	**395,644**
General administrative expenses	19	(19,083)	(57,260)	(45,938)
Marketing expenses	19	(18,714)	(56,150)	(59,200)
Research and development expense	19	(1,808)	(5,426)	(4,744)
Other income from operating activities	20	54,919	164,785	163,274
Other expenses from operating activities	20	(36,083)	(108,268)	(96,376)
Profit/(loss) from operating activities		**124,878**	**374,695**	**352,660**
Share of profit/(loss) of investment accounted for using equity method	5	(26,380)	(79,152)	(59,094)
Profit/(loss) before financing income/(expense)		**98,498**	**295,543**	**293,566**
Finance income	21	61,799	185,428	166,812
Finance cost	22	(99,420)	(298,311)	(203,188)
Profit/(loss) from continuing operations, before tax		**60,877**	**182,660**	**257,190**
Tax (expense)/income, continuing operations				
- Current period tax (expense)/income	23	(17,659)	(52,985)	(60,418)
- Deferred tax (expense)/income	23	(1,308)	(3,925)	2,694
Profit/(loss)		**41,910**	**125,750**	**199,466**
Profit/(loss), attributable to:				
Owners of parent		41,926	125,798	199,475
Non-controlling interests		(16)	(48)	(9)
		41,910	**125,750**	**199,466**
Basic earnings/(loss) per share for owners of parent (Kr)	24	0.23	0.68	1.08
Other comprehensive income/(loss):		**12,138**	**36,448**	**60,961**
Other comprehensive income that will not be reclassified to profit or loss				
Gains/(losses) on remeasurements of defined benefit plans	14	862	2,586	1,746
Taxes relating to components of other comprehensive income that will not be reclassified to profit or loss	23	(172)	(517)	(349)
Other comprehensive income that will be reclassified to profit or loss				
Other comprehensive income (loss) related with cash flow hedges		(138)	(413)	845
Exchange differences on translation		11,568	34,709	58,888
Taxes relating to components of other comprehensive income that will be reclassified to profit or loss	23	28	83	(169)
Total comprehensive income/(loss)		**54,058**	**162,198**	**260,427**
Total comprehensive income/(loss) attributable to:				
Owners of parent		54,074	162,246	260,436
Non-controlling interests		(16)	(48)	(9)
		54,058	**162,198**	**260,427**

(*) USD amounts presented above have been translated from TL for convenience purposes only, at the USD average CBRT bid rates for the year ended 31 December 2016, and therefore do not form part of these consolidated financial statements (Note 2.5).

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

AKSA AKRİLİK KİMYA SANAYİİ A.Ş.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

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

	Attributable to equity holders of the parent											
	Issued capital	**Inflation adjustments on capital**	**Share premium**	**Restricted reserves appropriated from profits**	**Exchange differences on translation (1)**	**Gains/ (losses) on hedge (1)**	**Gains/(losses) on remeasurements of defined benefit plans(2)**	**Prior years' profits or losses**	**Current period net profit or loss**	**Total**	**Non-controlling interests**	**Total equity**
1 January 2015	**185,000**	**195,175**	**44**	**95,907**	**61,550**	**(346)**	**(6,591)**	**419,718**	**162,849**	**1,113,306**	**57**	**1,113,363**
Transfers	-	-	-	11,594	-	-	-	151,255	(162,849)	-	-	-
Dividend paid	-	-	-	-	-	-	-	(125,194)	-	(125,194)	-	(125,194)
Total comprehensive income/(loss)	-	-	-	-	58,888	676	1,397	-	199,475	260,436	(9)	260,427
31 December 2015	**185,000**	**195,175**	**44**	**107,501**	**120,438**	**330**	**(5,194)**	**445,779**	**199,475**	**1,248,548**	**48**	**1,248,596**

	Attributable to equity holders of the parent											
	Issued capital	**Inflation adjustments on capital**	**Share premium**	**Restricted reserves appropriated from profits**	**Exchange differences on translation (1)**	**Gains/ (losses) on hedge (1)**	**Gains/(losses) on remeasurements of defined benefit plans(2)**	**Prior years' profits or losses**	**Current period net profit or loss**	**Total**	**Non-controlling interests**	**Total equity**
1 January 2016	**185,000**	**195,175**	**44**	**107,501**	**120,438**	**330**	**(5,194)**	**445,779**	**199,475**	**1,248,548**	**48**	**1,248,596**
Transfers	-	-	-	15,184	-	-	-	184,291	(199,475)	-	-	-
Dividend paid	-	-	-	-	-	-	-	(161,089)	-	(161,089)	-	(161,089)
Total comprehensive income/(loss)	-	-	-	-	34,709	(330)	2,069	-	125,798	162,246	(48)	162,198
31 December 2016	**185,000**	**195,175**	**44**	**122,685**	**155,147**	**-**	**(3,125)**	**468,981**	**125,798**	**1,249,705**	**-**	**1,249,705**

(1) Items to be reclassified to profit and loss
(2) Items not to be reclassified to profit and loss

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

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH (NOTE 2.5)

AKSA AKRİLİK KİMYA SANAYİİ A.Ş.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

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

	Notes	2016 USD (*)	2016 TL	2015 TL
A. Cash Flows From/(Used in) Operating Activities		**98,823**	**296,517**	**276,732**
Profit/(loss)		41,910	125,750	199,466
Adjustments to reconcile Profit/(loss):		**96,806**	**290,466**	**192,116**
Adjustments for depreciation and amortization expense	19	23,821	71,476	64,294
Adjustments for impairment loss/(reversal of impairment loss)		(283)	(848)	946
Adjustments for provisions		1,999	5,997	2,002
Adjustments for interest (income)/expense	21, 22	569	1,708	(2,643)
Adjustments for unrealised foreign exchange losses/(gains)		25,296	75,900	30,699
Adjustments for undistributed profits of investments accounted for using equity method	5	26,380	79,152	59,094
Adjustments for tax (income)/expenses		18,967	56,910	57,724
Adjustments for losses/(gains) on disposal of non-current assets		(23)	(68)	(7,709)
Other adjustments for which cash effects are investing or financing cash flow			-	(11,776)
Other adjustments to reconcile profit/(loss)		80	239	(515)
Changes in working capital		**(23,000)**	**(69,011)**	**(75,734)**
Adjustments for decrease (increase) in inventories		(10,574)	(31,728)	50,687
Adjustments for decrease (increase) in trade accounts receivable		(34,324)	(102,989)	6,954
Adjustments for decrease (increase) in other receivables related with operations		984	2,953	5,146
Adjustments for increase (decrease) in trade accounts payable		43,637	130,934	(126,179)
Adjustments for increase (decrease) in other operating payables		(33)	(99)	(251)
Other adjustments for other increase (decrease) in working capital		(22,690)	(68,082)	(12,091)
Cash flows from/(used in) operating activities		**(16,893)**	**(50,688)**	**(39,116)**
Interest paid		(2,690)	(8,072)	(6,264)
Interest received		4,162	12,487	11,071
Income taxes refund/(paid)		(18,365)	(55,103)	(43,923)
B. Cash Flows From/(Used in) Investing Activities		**(41,217)**	**(123,669)**	**(182,573)**
Cash receipts from sales of equity or debt instruments of other entities		-	-	11,660
Cash payments to acquire equity or debt instruments of other entities		(5,611)	(16,835)	-
Proceeds from sales of property, plant, equipment and intangible assets		27	82	10,953
Purchase of property, plant, equipment and intangible assets		(35,633)	(106,916)	(205,186)
C. Cash Flows From/(Used in) Financing Activities		**(19,373)**	**(58,129)**	**62,026**
Proceeds from borrowings		227,727	683,296	564,004
Repayments of borrowings		(192,118)	(576,449)	(379,478)
Dividends paid		(53,687)	(161,089)	(125,194)
Interest received		4,694	14,084	12,148
Interest paid		(5,989)	(17,971)	(9,454)
Net increase/(decrease) in cash and cash equivalents before effect of exchange rate changes		**38,233**	**114,719**	**156,185**
D. Effect of exchange rate changes on cash and cash equivalents		**1,311**	**3,934**	**922**
Net increase/(decrease) in cash and cash equivalents		**39,544**	**118,653**	**157,107**
E. Cash and Cash Equivalents at The Beginning of The Period		**112,918**	**338,810**	**181,703**
Cash and cash equivalents the end of period	**4**	**152,462**	**457,463**	**338,810**

(*) US Dollar ''USD'' amounts presented above have been translated from TL for convenience purposes only, at the USD average CBRT bid rates for the year ended 31 December 2016, and therefore do not form part of these consolidated financial statements (Note 2.5).

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

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Aksa Akrilik Kimya Sanayii A.Ş. ("Aksa" or the "Company") was established on 21 November 1968 and registered in Turkey.

Aksa and its subsidiaries (together "the Group") have the following main activities; manufacturing of textile, chemical and other industrial products and all kinds of raw materials, auxiliary materials and intermediate substances, artificial, synthetic and natural fibers, carbon fibers, filament and polymers, and any equipment, machinery or spare parts used in the production, processing or storage of these, importing exporting, establishment of domestic, foreign and international branches, marketing and trading, establishment and start-up and rental of energy generation plant, electricity generation and sale of generated electricity or capacity to customers.

Aksa is registered with the Capital Markets Board ("CMB") and its shares have been quoted in the Borsa İstanbul A.Ş. ("BİST") since 1986. As of 31 December 2016, the principal shareholders and their respective shareholding rates in the Company are as follows:

	%
Akkök Holding A.Ş. ("Akkök Holding")	39.59
Emniyet Ticaret ve Sanayi A.Ş.	18.72
Other (*)	41.69
Total	**100.00**

(*) As of 31 December 2016, 37.19% of the Group's shares are traded on Borsa Istanbul ("BIST") and Somerset em.mar.d.v.g hold 5.41% of the shares.

Akkök Holding, which is the main shareholder of the Company, is controlled by Dinçkök family members.

The address of the registered office of the Company is as follows:

Gümüşsuyu Miralay Şefik Bey Sokak
Akhan No: 15 34437 Beyoğlu – İstanbul

Main operations of the Group are in Turkey and for the purpose of segment reporting, the operations are summarized in three operational segments as fibers, energy and other (Note 3).

- Fibers
- Energy
- Other

The Company has the following subsidiaries and joint venture. County, nature of operations and segmental information of these companies are as follows:

Subsidiaries	**Country**	**Nature of business**	**Segment**
Fitco BV ("Fitco")	Holland	Investment	Other
Aksa Egypt Acrylic Fiber Industry SAE ("Aksa Egypt")	Egypt	Textile	Fiber

Joint ventures	**Country**	**Nature of business**
DowAksa Advanced Composites Holdings BV ("DowAksa Holdings")	Holland	Investment

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of preparation

2.1.1 Financial Reporting Standards Applied

The accompanying consolidated financial statements are prepared in accordance with Communiqué Serial II, No:14.1, "Principles of Financial Reporting in Capital Markets" (the "Communiqué") published in the Official Gazette numbered 28676 on 13 June 2013. According to Article 5 of the Communiqué, consolidated financial statements are prepared in accordance with the Turkish Accounting Standards (''TAS'') issued by Public Oversight Accounting and Auditing Standards Authority ("POA"). TAS contains Turkish Accounting Standards, Turkish Financial Reporting Standards ("TFRS") and its addendum and interpretations ("IFRIC").

The consolidated financial statements and notes of the Group are prepared as per the Capital Market Board ("CMB'') announcement of Communique Serial XII, No: 14.1 of relating to financial statements presentation.

The Company maintains its books of accounts and prepare their statutory financial statements in accordance with the Turkish Commercial Code ("TCC"), tax legislation, the Uniform Chart of Accounts issued by the Ministry of Finance and principles issued by CMB. The foreign subsidiaries and joint ventures maintain their books of account in accordance with the laws and regulations in force in the countries in which they are registered. These consolidated financial statements have been prepared under historical cost conventions except for financial assets and liabilities which are carried at fair value and are based on the statutory records with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with TAS.

The consolidated financial statements have been prepared under historical cost conventions except for derivative instruments and financial investments which are carried at fair value and in the case of business combinations, revaluation resulting from the difference between the fair value and the carrying value of tangible and intangible assets.

Currency and Financial Statements Presentation Currency

Each item in the financial statements of the companies within the Group is accounted by using the currency of the primary economic environment in which the company operates ('functional currency'). The consolidated financial statements are presented in TL which is functional currency of Aksa as parent company.

Amendments and Interpretations in TAS

Group has applied revised standards and interpretations which are published by POA and valid after 1 January 2016.

a) Amendments in TAS which affect the consolidated financial statements and its related notes

None

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

b) Standards, amendments and interpretations applicable as at 31 December 2016:

- TFRS 14, 'Regulatory deferral accounts', effective from annual periods beginning on or after 1 January 2016. TFRS 14, 'Regulatory deferral accounts' permits first–time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt TFRS. However, to enhance comparability with entities that already apply TFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

- Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 4 standards:

    - TFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
    - TFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to TFRS 1) regarding servicing contracts.
    - TAS 19, 'Employee benefits' regarding discount rates.
    - TAS 34, 'Interim financial reporting' regarding disclosure of information.

- Amendment to TFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

- Amendments to TAS 16, 'Property, plant and equipment', and TAS 41, 'Agriculture', regarding bearer plants, effective from annual periods beginning on or after 1 January 2016. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. It has been decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of TAS 16, instead of TAS 41. The produce growing on bearer plants will remain within the scope of TAS 41.

- Amendment to TAS 16, 'Property, plant and equipment' and TAS 38, 'Intangible assets', on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment, it has been clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

- Amendments to TAS 27, 'Separate financial statements' on the equity method, effective from annual periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

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

b) Standards, amendments and interpretations applicable as at 31 December 2016 (continued):

- Amendment to TFRS 10, 'Consolidated financial statements' and TAS 28, 'Investments in associates and joint ventures', effective from annual periods beginning on or after 1 January 2016.These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

- Amendment to TAS 1, 'Presentation of financial statements' on the disclosure initiative, effective from annual periods beginning on or after 1 January 2016, these amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports.

c) Standards, amendments and interpretations effective after 1 January 2017:

- Amendments to TAS 7 'Statement of cash flows' on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

- Amendments TAS 12, 'Income Taxes', effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarify certain other aspects of accounting for deferred tax assets.

- Amendments to TFRS 2, 'Share based payments' on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in TFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

- TFRS 9, 'Financial instruments', effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

- TFRS 15 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. TFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

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

c) Standards, amendments and interpretations effective after 1 January 2017:

- Amendment to TFRS 15, 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

- TFRS 16, 'Leases', effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in TAS 17 and is a farreaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

- Amendments to TFRS 4, 'Insurance contracts' regarding the implementation of TFRS 9, 'Financial instruments', effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

    - give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when TFRS 9 is applied before the new insurance contracts standard is issued; and
    - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying TFRS 9 until 2021. The entities that defer the application of TFRS 9 will continue to apply the existing financial instruments standard - TAS 39.

- Amendment to TAS 40, Investment property' relating to transfers of investment property, effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

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

- Annual improvements 2014-2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 3 standards:

  - TFRS 1,' First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19, and TFRS 10 effective 1 January 2018.

  - TFRS 12,'Disclosure of interests in other entities' regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.

  - TAS 28,'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective 1 January 2018.

- IFRIC 22,' Foreign currency transactions and advance consideration', effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice

The Group will evaluate the impact of these amendments and apply where necessary.

2.1.2 Basis of Consolidation

a) The consolidated financial statements include the accounts of the parent company, Aksa, and its subsidiaries on the basis set out in sections (b), The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the consolidated financial statements and have been prepared in accordance with TAS by applying uniform accounting policies and presentation The results of operations of subsidiaries are included or excluded from their effective dates of acquisition or disposal respectively.

b) Subsidiaries are all companies over which Aksa has control. Thus, the principle of control sets out the following three elements of control:

   - Power over the investee
   - Exposure or rights, to variable returns from involvement with the investee; and
   - The ability to use power over the investee to affect the amount of the investor's returns.

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

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

2.1.2 Basis of Consolidation (continued)

The table below sets out all subsidiaries and demonstrates their shareholding structure as of 31 December 2016 and 2015:

	The Group's direct and indirect ownership interest (%)	
Subsidiary	**31 December 2016**	**31 December 2015**
Fitco	100.00	100.00
Aksa Egypt	99.50	99.50

Subsidiaries are consolidated from the date on which the control is transferred to the Group and are deconsolidated from the date that the control ceases. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Carrying values of the subsidiaries' shares held by the Company are eliminated against the related equity of subsidiaries. Intercompany transactions and balances between Aksa and its subsidiaries are eliminated on consolidation. Dividends arising from shares held by the Group in its subsidiaries are eliminated from income for the period and equity, respectively.

The minority shareholders' share in the net assets and results of subsidiaries for the period are separately classified as "non-controlling interests" in the consolidated balance sheets and statements of comprehensive income.

c) Joint ventures

Joint ventures are companies in respect of which there are contractual arrangements through which an economic activity is undertaken subject to joint control by the Group and one or more other parties. The Group exercises such joint control through direct and indirect ownership interest held by itself and related shareholders majority of who declared their intention to exercise their voting power in favour of Company.

Joint ventures are accounted for using the equity method of accounting in accordance with TFRS 11 "Joint Arrangements" (Note 5).

Financial information of joint ventures are prepared in accordance with the Group's accounting policies and principles.

Joint venture's operating results are included or excluded at the effective date of transaction dates of acquisition or disposal of the joint venture.

	The Group's direct and indirect ownership interest (%)	
Joint venture	**31 December 2016**	**31 December 2015**
DowAksa Holdings	50.00	50.00

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

2.2 Changes in Accounting Policies, Accounting Estimates and Errors

Significant changes in accounting policies or significant errors are corrected, retrospectively; by restating the prior period consolidated financial statements. The effect of changes in accounting estimates affecting the current period is recognized in the current period; the effect of changes in accounting estimates affecting current and future periods is recognized in the current and future periods.

Comparative Figures and the Restatement to the Financial Statements of the Prior Period

Besides, according to CMB's decision on 7 June 2013 dated and 20/670 numbered meeting, for capital markets foundations which are fall under CMB Communique on Principles Regarding Financial Reporting, financial statement examples and usage directory which are become effective since interim period ended after 31 March 2014, are published. In accordance with mentioned examples, various classifications have been made on Group's consolidated financial statements.

2.3 Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks and short-term highly liquid investments whose risk of value change is not material including time deposits generally having original maturities of three months or less (Note 4).

Financial Assets

Financial assets within the scope of TAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

As of 31 December 2016 and 31 December 2015 the Group does not have any financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

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

2.3 Summary of Significant Accounting Policies (continued)

Available-for-sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for-sale or that are not classified in any of the three categories (a) loans and receivables, (b) held-to-maturity investments and (c) assets at fair value through profit or loss. A gain or loss on an available for- sale financial asset after initial recognition shall be recognized directly in equity, through the statement of changes in equity, except for impairment losses, dividend and interest gains, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss. If a fair value loss on an available-for-sale asset has been recognized directly in equity, and there is objective evidence that the asset is impaired, the cumulative loss that has been recognized directly in equity should be recycled into profit or loss even though the financial asset has not been sold.

Available-for-sale financial assets are subsequently measured at fair value. Available-for-sale financial assets that are quoted in active markets are measured based on current bid prices. If the market for a financial asset is not active the fair value is determined by using valuation techniques such as discounted cash flow analysis and option pricing model.

Subsidiaries that are excluded from the scope of consolidation on the grounds of materiality are carried at cost less any impairment in value where there is no quoted market price and where a reasonable estimate of fair value cannot be determined.

Trade receivables

Trade receivables have a maturity range of 30-120 days and are recognized at original invoice amount and carried at amortized cost less an allowance for any uncollectible amounts. An estimate for doubtful debt is made when collection of the full amount is no longer probable. A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The allowance is an estimated amount which is difference between existing receivable and collectible amount. Collectible amount is the discounted value of trade receivables, all cash flows including collections from guarantees by using original effective interest rate. The receivables determined not possible to be collected are written off (Note 7).

Finance Lease

As lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. A finance lease receivable is recorded an amount equal to the net investment in the lease. Interest income is recognized using a rate that equalizes the fair value of the leased asset to the sum of lease payments and unguaranteed residual value. Interest yet to be recognized is presented as "unearned finance income".

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

2.3 Summary of Significant Accounting Policies (continued)

Trade payables

Trade payables have average maturities changing between 30 - 210 days and consist of the amounts invoiced or not invoiced related with the realized material or service purchases, and are carried at amortized cost (Note 7).

Inventories

Inventories are valued at the lower of cost or net realizable value less costs to sell. Cost of inventories comprises the purchase cost and the cost of bringing inventories into their present location and condition. Cost is determined by the monthly moving weighted average method. Net realizable value less costs to sell is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. The unrecoverable amount is charged as an expense in the year when the write-down incurred (Note 9).

Investment properties

Investment property is a land or building held to earn rentals or for capital appreciation or both, rather than for; use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business (Note 10) and carried at cost less accumulated depreciation in accordance with the cost model. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure.

The average useful life of investment properties are forty (40) years.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. When assets are sold or retired, their costs and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

2.3 Summary of Significant Accounting Policies (Continued)

Depreciation is provided for property, plant and equipment on a straight-line basis (Note 11). Useful life and the depreciation method are constantly reviewed, and accordingly, parallels are sought between the depreciation method and the period and the useful life to be derived from the related asset. As of 31 December 2016, the depreciation periods for property, plant and equipment, which approximate the economic useful lives of such assets, are as follows:

	Period (Year)
Land improvements	2 - 50
Buildings	5 - 50
Machinery and equipment	3 - 40
Motor vehicles	4 - 8
Furniture and fixtures	2 - 20

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the event of circumstances indicating that an impairment has occurred in the tangible assets, an inspection is performed for the purpose of determining a possible impairment, and if the registered value of the tangible asset is higher than its recoverable value, the registered value is reduced to its recoverable value by reserving a provision. The recoverable value is considered either the net cash flow to be caused by the current use of the respective tangible assets or the nest sales price, whichever is higher.

Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with their restated carrying amounts and are included in the related income and expense accounts, as appropriate.

Repairs and maintenance are charged to the income statements during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset.

Intangible assets

Intangible assets acquired separately from a business are capitalized at cost. Intangible assets, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. They are initially recognized at acquisition cost and amortized on a straight-line basis over their estimated useful lives. The depreciation period for the intangibles capitalized in relation with the new models will be started after the production of these models is started. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable (Note 12).

Usage rights in relation to property, plant and equipment acquired collectively with other participants in Yalova Kompozit ve Kimya İhtisas Islah Organize Sanayi Bölgesi ("Yalkim OSB") are classified as intangible assets.

Useful lives of use rights are determined as 3-24 years except usage rights related to lands.

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

2.3 Summary of Significant Accounting Policies (Continued)

Research and development costs

Expenditures for research and development are charged against income in the period incurred except for project development costs which comply with the following criteria. In accordance with IAS 38, "Intangible assets", the costs related to the development projects are capitalized when the criteria below are met and amortized by straight-line basis over the useful lives of related (Note 12).

- The product or process is clearly defined and costs are separately identified and measured reliably,
- The technical feasibility of the product is demonstrated,
- The product or process will be sold or used in-house,
- A potential market exists for the product or its usefulness in case of internal use is demonstrated, and
- Adequate technical, financial and other resources required for completion of the project are available.

Revenue recognition

Significant part of revenue of the Group is received from fiber and energy sales. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues are stated net of discounts, value added and sales taxes. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Net sales are invoiced amounts of delivered goods excluding sales returns and sales discounts.

Interest income is recognized using the effective interest rate until maturity and considering the effective interest rate.

When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized on an accrual basis as credit sale financial income (Note 20).

Dividend income is recognized when the Group has the right to receive the dividend payment. Rent income is recognized in the financial statements when the Groups right to receive the monthly rent income is established.

Commission income is recognized when the intermediary goods' invoice has been booked by the seller.

The Group has accrued discount premiums in line with the fibers customers' purchase targets to be paid at the end of the year. In the current period, the Group has classified the discount premiums under "other discount" account in sales.

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

2.3 Summary of Significant Accounting Policies (Continued)

Bank borrowings

All bank borrowings are initially recognized at cost, being the fair value of the consideration received net of issue cost associated with the borrowing. After initial recognition, bank borrowings are subsequently measured at amortized cost using the effective yield method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement (Note 6). In factoring transactions, the Group, where necessary, may prefer early collection of some of its receivables. These transactions are treated as factoring transactions with resource; consequently, cash received is accounted for as a borrowing disclosed in notes (Note 6).

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, one that takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale. Without this context, the borrowing costs are expensed as incurred. Capitalized borrowing costs are presented as purchases of property, plant and equipment and intangibles in the consolidated statement of cash flow.

Fair value of financial instruments

Fair (market) value is the amount for which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists. The fair values of the financial instruments are determined in accordance with the following methods and assumptions as follows:

Financial assets

Monetary assets for which fair value approximates carrying value are carried at cost in the financial statements and consists of cash and cash equivalents, their interest accruals, and other financial assets; and considered to approximate their respective carrying values due to their short-term nature and negligible credit losses. The carrying value of accounts receivable along with the related allowance for unearned income and uncollectability are estimated to be their fair values.

Financial liabilities

Monetary liabilities for which fair value approximates carrying value including accounts payable, short-term bank borrowings and other monetary liabilities are considered approximate their respective carrying values due to their short-term nature. The bank borrowings are stated at their amortized costs and transaction costs are included in the initial measurement of bank borrowings. The fair value of bank borrowings are considered to state their respective carrying values since the interest rate applied to bank borrowings are updated periodically by the lender to reflect active market price quotations. The carrying value of accounts payable along with the related allowance for unrealized cost is estimated to be their fair values.

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

2.3 Summary of Significant Accounting Policies (Continued)

Employee termination benefits

The provision for employment termination benefits, as required by Turkish Labor Law represents the present value of the future probable obligation of the group arising from the retirement of its employees based on the actuarial projections. TAS 19 "Employee Benefits" requires actuarial assumptions (net discount rate, turnover rate to estimate the probability of retirement etc.) to estimate the entity's obligation for employment termination benefits. The effects of differences between the actuarial assumptions and actual outcome together with the effects of changes in actuarial assumptions compose the acturial gains/losses.

In accordance with TAS 19 "Employee Benefits" effective before 1 January 2013, the acturial gains/losses were recognised in the statement of income whereas the amendment, effective as of 1 January 2013, requires the actuarial gains/losses to be recognised under other comprehensive income. With this amendment, the Group accounted for its actuarial gains/losses under other comprehensive income in conformity with the translation provisions stated in TAS 19 "Employee Benefits".

Unused vacation rights

Liabilities for unused vacation rights are accrued in the relevant period.

Seniority Incentive Bonus

The Group has an employee benefit plan called "Seniority Incentive Bonus" ("Bonus") which is paid to employees with a certain level of seniority. The Group accounts for this bonus according to TAS 19 "Employee Benefits". Seniority incentive bonus provision which is disclosed within the employee termination benefit represents the present value of the estimated total liabilities of the probable future obligations.

Current and deferred income tax

Tax expense or income is the aggregate of current income tax and deferred taxes which are based on the gains and losses for the period.

Deferred income tax is determined, using the liability method and tax rates (and laws) that have been enacted by the balance sheet date. Deferred income tax is provided in full, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Deferred taxes arising from income and expenses accounted under equity are recorded under equity, accordingly.

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

2.3 Summary of Significant Accounting Policies (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. The carrying amount of deferred income tax assets is reviewed by the Group at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized (Note 23).

Earnings per share

Earnings per share disclosed in the income statement are determined by dividing net income by the weighted average number of shares that have been outstanding during the related period concerned (Note 24).

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“bonus shares”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them retroactive effect for the year in which they were issued and for each earlier period.

Events after the balance sheet date

The Group adjusts the amounts recognized in its financial statements to reflect the adjusting events after the balance sheet date. If non-adjusting events after the balance sheet date have material influence on the economic decisions of users of the financial statements, they are disclosed in the notes to the consolidated financial statements.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate (Note 13).

Contingent assets and liabilities

Probable obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in financial statements and are treated as contingent liabilities. A contingent asset is not recognized in the financial statements, but disclosed when an inflow of economic benefits is probable (Note 13).

Offsetting

If the essence of the transaction and events requires offsetting, presentation of these transactions and events at their net values or following up of the assets at their amounts after the deduction of impairment, is not evaluated as a breach of the non-deductibility rule.

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

2.3 Summary of Significant Accounting Policies (Continued)

Foreign currency transactions

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated using the exchange rates at the balance sheet date. Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of income.

Goodwill

The cost of a business combination is allocated by recognizing the acquiree's identifiable assets at the date of acquisition. Any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, over the business combination cost is accounted for as goodwill.

The carrying value of goodwill is reviewed annually and presented after deducting cumulative impairment in the balance sheet. Goodwill is monitored at the cash generating business units. The cash generating unit is determined according to expected benefits from related business combination. The goodwill impairment assessment is annually performed by the Group. Any impairment is not subsequently reversed. Gains/losses from the sale of business unit also include its carrying value of goodwill.

Segment reporting

Operating segments are reported in a manner consistent with the reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

For an operating segment to be identified as a reportable segment, its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments; the absolute amount of its reported profit or loss is 10 per cent or more of the combined profit or loss or its assets are 10 per cent or more of the combined assets of all operating segments. Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if the management believes that information about the segment would be useful to users of the financial statements.

For at the Group the reportable segments are industrial segments. Reportable segment, its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments; the absolute amount of its reported profit or loss is 10 per cent or more of the combined profit or loss or its assets are 10 per cent or more of the combined assets of all operating segments (Note 3).

The Group assesses the performance of the operating segments based on a measure of adjusted Earnings Before Interest, Tax, Depreciation and Amortization, "EBITDA".

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

2.3 Summary of Significant Accounting Policies (Continued)

The Group's reportable business segments are "fibers", "energy" and the remained operations are reported as "other", Aksa Egypt and DowAksa ,"fibers" and Fitco are reported under "other" segment (Note 3).

The supportive functions of industrial segments namely Financial Affairs, Human Resources and Management of Systems, Purchasing, Business Development, Research and Development, Head Office Expenses and other general administrative and operating expenses are classified under unallocated corporate expenses. Unallocated corporate expenses are followed at the Group level by management as the expenses are made to ensure the integrity of the Group by the management.

Derivative instruments

The derivative instruments of the Group mainly consist of foreign exchange swap instruments. These derivative transactions, even though providing effective economic hedges under the Group risk management position, do not generally qualify for hedge accounting under the specific rules according to TAS 39 ''Financial Instruments: Recognition and Measurement''. The gain and losses from hedge transactions are accounted in the equity under "hedging reserve".

The currency option transactions are treated as derivatives held for trading due to do not providing the requirements of TAS 39 ''Financial Instruments: Recognition and Measurement'' and the fair value changes in these hedge transactions are accounted under the income statement.

If the fair value change of derivate financial instruments is positive or not, the change affected at assets or liabilities in the balance sheet (Note 16).

Related parties

Parties are considered related to the Group if;

a) directly, or indirectly through one or more intermediaries, the party:
   i) controls, is controlled by, or is under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries);
   ii) has an interest in the Group that gives it significant influence over the Group; or
   iii) has joint control over the Group;
b) the party is an associate of the Group;
c) the party is a joint venture in which the Group is a venture;
d) the party is member of the key management personnel of the Group or its parent;
e) the party is a close member of the family of any individual referred to in (a) or (d);
f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to In (d) or (e); or
g) the party has a post-employment benefit plan for the benefit of employees of the Group, or of an entity that is a related party of the Group.

Related party transactions are transfer of resources or obligations between related parties, regardless of whether a price is charged. A number of transactions are entered into with related parties in the ordinary course of business (Note 25).

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

2.3 Summary of Significant Accounting Policies (Continued)

Reporting of cash flow

Cash flows during the period are classified and reported by operating, investing and financing activities in the cash flow statements.

Cash flows from operating activities represent the cash flows of the Group generated from retailing activities.

Cash flows related to investing activities represent the cash flows that are used in or provided from the investing activities of the Group (capital expenditure and financial investments).

Cash flows arising from financing activities represent the cash proceeds from the financing activities of the Group and the repayments of these funds.

Cash and cash equivalents comprise cash on hand and bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities equal or less than three months and which are subject to an insignificant risk of changes in value (Note 4).

Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants relating to costs are recognized in the income statement by deducting from research and development expenses. Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.4 Critical Accounting Judgments, Estimates and Assumptions

The preparation of financial statements requires the use of estimates and assumptions that affect asset and liability amounts reported as of the balance sheet date, explanations of contingent liabilities and assets; and income and expense amounts reported for the accounting period. Although these estimates and assumptions are based on all management information related to the events and transactions, actual results may differ from them.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities for the next reporting period are outlined below:

a) Provisions

As discussed in Note 2.3, provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when reliable estimate can be made of the amount of the obligation (Note 13).

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

2.4 Critical Accounting Judgments, Estimates and Assumptions (continued)

b) Deferred Tax

The Group accounts deferred income tax from its financial losses to be expected to account in future corporate tax calculations at strategic plan and budget work. As of 31 December 2016 and 2015, the group accounts deferred income tax from the portion of the financial losses, which is appropriate to strategic plans, of its joint venture DowAksa İleri Kompozit Malzemeler San. Ltd. Şti..

c) Useful lives of property, plants and equipment and intangibles

According to accounting policy which is specified in Note 2.3, property, plant and equipment and intangibles are presented as net-off accumulated depreciation and impairment (if any) from acquisition cost. Depreciation is applied with using straight line method of depreciation based on useful lives of property, plant and equipment. Useful lives are estimated by the management to the best of their knowledge; and reviewed and revised if necessary at every balance sheet date.

2.5 Convenience Translation into English of Consolidated Financial Statements

USD amounts shown in the consolidated balance sheet prepared in accordance with CMB Financial Reporting Standards have been translated from TL, as a matter of arithmetic computation only, at the official USD bid rates announced by the Central Bank of the Republic of Turkey on 31 December 2016 of TL3,5192 = USD1 and USD amounts shown in the consolidated statements of income, comprehensive income and cash flow have been translated from TL, as a matter of arithmetic computation only, at the average official USD bid rates calculated from the official daily bid rates announced by the Central Bank of the Republic of Turkey for the period ended 31 December 2016 of TL3,0005 = USD1, and do not form part of these consolidated financial statements.

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

NOTE 3 - SEGMENT REPORTING

Segmental information of the Group is as follows:

	1 January - 31 December 2016			
	Fibers	**Energy**	**Other**	**Total**
Total segment revenue	1,818,826	122,755	12,804	1,954,385
External revenues	**1,818,826**	**122,755**	**12,804**	**1,954,385**
Adjusted EBITDA (*)	**418,161**	**21,058**	**5,461**	**444,680**
Unallocated corporate expenses (**)	-	-	-	(55,026)
EBITDA	**-**	**-**	**-**	**389,654**
Amortization and depreciation	(49,347)	(16,754)	(5,375)	(71,476)
Other income from operating activities, net	-	-	-	56,517
Share of profit/(loss) of investment accounted for using equity method	(79,152)	-	-	(79,152)
Finance income/(expense), net	-	-	-	(112,883)
Profit before tax				**182,660**

(*) Adjusted Earnings Before, Interest, Taxes, Depreciation, Amortization. EBITDA is not financial performance indicator that is defined in TAS and may not be comparable between different entities.

(**) Unallocated corporate expenses consist of unallocated parts of general administrative expenses as of 31 December 2016.

	1 January - 31 December 2016			
	Fibers	**Energy**	**Unallocated**	**Total**
Capital expenditure	49,276	19,444	38,196	106,916
				31 December 2016
Total segment assets	1,277,797	406,609	-	1,684,406
Investments accounted for using equity method	214,252	-	-	214,252
Unallocated corporate assets	-	-	734,312	734,312
Total assets	**1,492,049**	**406,609**	**734,312**	**2,632,970**
Total segment liabilities	504,494	3,395	-	507,889
Unallocated corporate liabilities	-	-	875,376	875,376
Total liabilities	**504,494**	**3,395**	**875,379**	**1,383,265**

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

NOTE 3 - SEGMENT REPORTING (Continued)

	1 January - 31 December 2015			
	Fibers	**Energy**	**Other**	**Total**
Total segment revenue	1,888,915	131,409	9,682	2,030,006
External revenues	**1,888,915**	**131,409**	**9,682**	**2,030,006**
Adjusted EBITDA (*)	**374,211**	**14,770**	**5,542**	**394,523**
Unallocated corporate expenses (**)	-	-	-	(44,467)
EBITDA	**-**	**-**	**-**	**350,056**
Amortization and depreciation	(43,784)	(15,967)	(4,543)	(64,294)
Other income from operating activities, net	-	-	-	66,898
Share of profit/(loss) of investment accounted for using equity method	(59,094)	-	-	(59,094)
Finance income/(expense), net	-	-	-	(36,376)
Profit before tax				**257,190**

(*) Adjusted Earnings Before, Interest, Taxes, Depreciation, Amortization. EBITDA is not financial performance indicator that is defined in TAS and may not be comparable between different entities.

(**) Unallocated corporate expenses consist of unallocated parts of general administrative expenses as of 31 December 2015.

	1 January - 31 December 2015			
	Fibers	**Energy**	**Unallocated**	**Total**
Capital expenditure	87,294	66,118	72,463	225,875
				31 December 2015
Total segment assets	1,044,011	395,972	-	1,439,983
Investments accounted for using equity method	243,337	-	-	243,337
Unallocated corporate assets	-	-	570,755	570,755
Total assets	**1,287,348**	**395,972**	**570,755**	**2,254,075**
Total segment liabilities	340,317	2,741	-	343,058
Unallocated corporate liabilities	-	-	662,421	662,421
Total liabilities	**340,317**	**2,741**	**662,421**	**1,005,479**

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

NOTE 3 - SEGMENT REPORTING (Continued)

Segment Assets

Reconciliation between the reportable segment assets and total assets is as follows:

	31 December 2016	31 December 2015
Reportable segment assets	**1,898,658**	**1,683,320**
Cash and cash equivalents	458,301	342,810
Other assets	89,643	54,303
Derivative financial assets	2,554	7,724
Property, plants and equipment and intangibles	183,814	165,918
Total assets	**2,632,970**	**2,254,075**

Segment Liabilities

Reconciliation between the reportable segment liabilities and total liabilities is as follows:

	31 December 2016	31 December 2015
Reportable segment liabilities	**507,889**	**343,058**
Borrowings (*)	834,372	621,239
Derivative financial liabilities	2,790	-
Other payables	409	508
Current provisions	2,414	2,213
Current tax liabilities, current	7,411	14,544
Provision for employment benefits	13,580	14,448
Employee benefit obligations	2,727	2,243
Deferred income tax liabilities	11,673	7,226
Total liabilities	**1,383,265**	**1,005,479**

(*) As of 31 December 2016, TL365.053 (31 December 2015: TL283,832) of the borrowings issued for fiber investment and TL469.319 (31 December 2015: TL337,407) issued for working capital.

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

NOTE 4 - CASH AND CASH EQUIVALENTS

Details of cash and cash equivalents of the Group are as follows:

	31 December 2016	31 December 2015
Cash	67	70
Bank		
Demand deposit (TL)	9,210	7,390
Foreign currency demand deposit	14,472	45,493
Time deposits (TL)	139,933	75,556
Foreign currency time deposit	294,619	210,448
Other	-	3,853
Total	**458,301**	**342,810**

Maturity of time deposits are less than three months and weighted average effective interest rates on TL denominated time deposits at 31 December 2016 is %11.03 (31 December 2015: 12.69%) for USD denominated time deposits it is %3.09 (31 December 2015: USD 2.65%) and for EUR denominated time deposits it is %1.65 (31 December 2015: EUR 1.40%), respectively.

The reconciliations of cash and cash equivalents to the consolidated statements of cash flows are as follows:

	31 December 2016	31 December 2015	31 December 2014
Cash and cash equivalents	458,301	342,810	192,492
Less: Restricted cash with maturity of three months or less	-	(3,853)	(10,771)
Interest accrual	(838)	(147)	(18)
Cash and cash equivalents, net	**457,463**	**338,810**	**181,703**

NOTE 5 - INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Joint Ventures

	31 December 2016	31 December 2015
DowAksa Holdings	214,252	243,337

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

NOTE 5 - INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (Continued)

Summarized financial information of DowAksa Holding is presented below;

	31 December 2016	31 December 2015
Current assets	150,572	181,257
Non-current assets	862,246	765,272
Total Assets	**1,012,818**	**946,529**
Short-term liabilities	272,217	205,492
Long-term liabilities	312,097	254,363
Equity	428,504	486,674
Total Liabilities	**1,012,818**	**946,529**
Equity corresponding to Group's interest of 50%	**214,252**	**243,337**

	2016	2015
Revenue	72,392	74,258
Net loss	(158,304)	(118,188)
Net loss corresponding to Group's interest of 50%	**(79,152)**	**(59,094)**

Movement of joint ventures accounted for using equity method as follows:

	2016	2015
1 January	**243,337**	**242,588**
Net loss corresponding to Group's interest of 50%	(79,152)	(59,094)
Currency translation differences	33,232	57,372
Adjustment to gain on sale	-	2,471
Capital increase (*)	16,835	-
31 December	**214,252**	**243,337**

(*) Capital increase amounting to USD5,000,000 have been contributed to DowAksa Holdings B.V., joint venture of the Group, in accordance with its business, and with preconditions of required contributions of Dow Europe B.V., the joint venture partner of Aksa, and with a maximum limit of USD15,000,000 for each joint venture partner, in total.

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

NOTE 6 - BORROWINGS

Group's financial liabilities are as follows:

	31 December 2016	31 December 2015
Short-term bank borrowings	439,277	323,879
Short-term factoring liabilities	30,042	13,528
Short-term portion of long-term bank borrowings	111,479	70,886
Total short-term borrowings	**580,798**	**408,293**
Long-term bank borrowings	253,574	212,946
Total long-term borrowings	**253,574**	**212,946**
Total borrowings	**834,372**	**621,239**

Bank Borrowings

	31 December 2016		31 December 2015	
	Yearly weighted average interest rate %	TL	Yearly weighted average interest rate %	TL
a) Short-term bank borrowings:				
USD borrowings	2.13	380,074	1.53	319,836
EUR borrowing	-	-	2.28	1,611
TL borrowings	12.85	59,203	-	2,432
Total short-term bank borrowings:		**439,277**		**323,879**
Factoring liabilities	1.89	30,042	1.60	13,528
b) Short-term portion of long-term bank borrowings:				
USD bank borrowings	3.27	57,107	3.85	24,230
EUR bank borrowings	2.36	54,372	2.44	46,656
Total short-term portion of long-term bank borrowings		**111,479**		**70,886**
Total short-term borrowings		**580,798**		**408,293**
c) Long-term bank borrowings:				
USD bank borrowings	3.20	144,029	3.85	72,690
EUR bank borrowings	2.09	109,545	2.32	140,256
Total long-term borrowings		**253,574**		**212,946**

The Group does not have any covenant breaches in relation to its borrowings.

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

NOTE 6 - BORROWINGS (Continued)

The long-term bank borrowings' fair values and book values are as follows:

	31 December 2016		31 December 2015	
	Fair value	**Book value**	**Fair value**	**Book value**
EUR borrowings	114,913	109,545	151,049	140,256
USD borrowings (*)	150,010	144,029	79,651	72,690

(*) Calculated by taking into account swap interest rates.

The redemption schedule of borrowings based on the agreements is as follows:

	31 December 2016	**31 December 2015**
Less than 3 months	226,962	174,789
Between 3-12 months	353,836	233,504
Between 1-2 years	98,384	70,658
Between 2-3 years	91,892	65,097
Between 3-4 years	41,955	59,537
4 years and longer	21,343	17,654
	834,372	**621,239**

As of 31 December 2016, according to the general credit agreements, the Group has unused credit limit amounting to TL2,167,499 (31 December 2015: TL1,883,278).

NOTE 7 - TRADE RECEIVABLES AND PAYABLES

Details of trade receivables and payables of the Group are as follows:

a) Short-term Trade Receivables:

	31 December 2016	**31 December 2015**
Trade receivables due from unrelated parties	293,770	243,344
Notes receivable and cheques	156,936	77,277
Less: Provision for doubtful receivables	(41,664)	(42,388)
Less: Unearned finance income on credit sales	(4,395)	(2,907)
Total short-term trade receivables, net	**404,647**	**275,326**

TL and foreign currency denominated trade receivables as of 31 December 2016 have an average maturity of 3 months (31 December 2015: 3 months) and are discounted with an average annual interest rate of 5% (31 December 2015: 7%).

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

The past experience of the Group in collecting receivables has been taken into consideration when determining the provision amount for doubtful receivables. Therefore, the Group believes that, there are no further collection risks for trade receivables other than already provided for.

Movements of provision for doubtful receivables for 31 December 2016 and 2015 are as follows:

	2016	**2015**
1 January	**42,388**	**42,973**
Collections	(1,430)	(2,015)
Current period charge	706	1,430
31 December	**41,664**	**42,388**

The explanation for the nature and level of the risk in trade receivables is shown in Note 26, Credit Risk section.

b) Short-term trade payables:

	31 December 2016	**31 December 2015**
Suppliers	456,868	279,366
Less: Unaccrued finance costs on credit purchases (-)	(2,919)	(1,471)
Total	**453,949**	**277,895**

TL and foreign currency denominated trade payables as of 31 December 2016 have an average maturity of 3 months and they are discounted with an average annual interest rate of 4% in USD terms (31 December 2015: 4%).

NOTE 8 - OTHER RECEIVABLES AND PAYABLES

Details of other receivables and payables of the Group are as follows:

a) Short-term other receivables:	**31 December 2016**	**31 December 2015**
Deposits and guarantees given	677	257

b) Short-term other payables:	**31 December 2016**	**31 December 2015**
Taxes and funds payable	224	310
Other	185	198
Total	**409**	**508**

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

NOTE 9 - INVENTORIES

	31 December 2016	31 December 2015
Raw materials	114,544	116,040
Semi-finished goods	6,528	12,726
Finished goods	67,606	33,517
Other stocks and spare parts	30,292	24,363
Less: Provision for impairment on inventories	(1,448)	(1,572)
Total	**217,522**	**185,074**

The inventory impairment provision is related with the finished goods.

Group has included the movements in the provision for impairment between 31 December 2016 and 2015 in the cost of sales (The decrease in provision for the impairment on inventories is due to cost of relevant inventory that is sold during the current period, and recognised in income statement).

Group has insured its inventory amounting to TL202,843 (excluding raw materials in transit) as of 31 December 2016 (TL138,620 as of 31 December 2015) for USD 55 million (31 December 2015: USD 65 million).

As of 31 December 2016 raw materials include goods in transit amounting 14,679 TL (31 December 2015: TL46,454).

As of 31 December 2016, the cost of raw material and goods is shown in Note 19.

NOTE 10 - INVESTMENT PROPERTY

	1 January 2016	Additions	31 December 2016
Cost			
Land and buildings	47,509	-	47,509
Independent units	3,091	-	3,091
	50,600	**-**	**50,600**
Accumulated depreciation			
Land and buildings	396	1,187	1,583
Independent units	1,786	76	1,862
	2,182	**1,263**	**3,445**
Net book value	**48,418**		**47,155**

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

NOTE 10 - INVESTMENT PROPERTY (Continued)

Land and Buildings

The land and buildings classified as investment properties consist of land and buildings at the city of Yalova, town of Çiftlikköy, village of Deniz Çalı, locality of Topçuçiftliği at plots no. 1126, 1145 and city block no. 151 / plot no. 1. According to the valuation report, the fair value of these land and buildings is TL53,400 and provides rent income amounting to 77 thousand USD and TL16 per month.

Independent Units

Independent units consist of offices of the Company located in Gümüşsuyu and Maçka. According to the valuation report dated 30 December 2016, the fair value of the independent units is TL24,560 and it provides rent income amounting to 25 thousand USD per month.

Rent income from investment properties has been disclosed as "Other" in "Segment Reporting" under the revenue (Note 3) and the rent income from investment properties is TL4,788 as of 31 December 2016 (31 December 2015: TL2,510).

At the date of reporting, Group's investment properties are insured for USD 10 million.

	1 January 2015	Additions	Transfers (*)	31 December 2015
Cost				
Land and buildings	-	47.509	-	47.509
Independent units	-	-	3.091	3.091
	-	**47.509**	**3.091**	**50.600**
Accumulated depreciation				
Land and buildings	-	396	-	396
Independent units	-	76	1.710	1.786
	-	**472**	**1.710**	**2.182**
Net book value	**-**			**48.418**

(*) Assets in the nature of investment properties in tangible assets have been classified as "Investment Properties" as of balance sheet date.

Current year depreciation expense of investment properties are charged to general and administrative expenses.

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

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2016	Additions	Disposals	Transfers	Currency translation differences	31 December 2016
Cost						
Land	64,083	2,576	-	-	(808)	65,851
Land improvements	99,518	45	-	13,867	-	113,430
Buildings	183,872	-	-	25,940	(1,683)	208,129
Machinery and equipment	1,037,537	7,199	(600)	47,425	(3,580)	1,087,981
Motor vehicles	1,210	238	-	-	(203)	1,245
Furniture and fixture	48,844	1,530	(73)	4,243	(145)	54,399
Construction in progress	57,398	94,870	-	(91,475)	-	60,793
	1,492,462	**106,458**	**(673)**	**-**	**(6,419)**	**1,591,828**
Accumulated depreciation						
Land improvements	42,904	3,137	-	-	-	46,041
Buildings	46,060	4,813	-	-	(869)	50,004
Machinery and equipment	656,629	53,796	(600)	-	(3,059)	706,766
Motor vehicles	967	73	-	-	(203)	837
Furniture and fixtures	27,328	4,200	(59)	-	(129)	31,340
	773,888	**66,019**	**(659)**	**-**	**(4,260)**	**834,988**
Net book value	**718,574**					**756,840**

The borrowing cost amounting to TL6,465 for the borrowings obtained for construction of plant and efficiency projects have been capitalized as of 31 December 2016.

TL64,035 of current year depreciation and amortization expense is charged to "cost of sales", TL506 is charged to "research and development expenses", TL792 is charged to "general administrative expenses'', TL38 is charged to "marketing, selling and distribution expenses'', TL52 is charged to "construction in progress'' as the depreciation amount of unfinished project development cost and TL596 is charged to "inventory".

As of 31 December 2016 there is no mortgage on property, plant and equipment. At the date of reporting, Group's property, plants and equipment is insured for USD580 million.

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

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2015	Additions	Disposals (*)	Transfers (*)	Currency translation differences	31 December 2015
Cost						
Land	61,823	5,037	(2,993)	-	216	64,083
Land improvements	95,938	-	-	3,580	-	99,518
Buildings	160,793	29	-	22,603	447	183,872
Machinery and equipment	950,341	4,087	(3,467)	85,709	867	1,037,537
Motor vehicles	1,244	92	(180)	-	54	1,210
Furniture and fixture	40,533	2,214	(7)	6,068	36	48,844
Construction in progress	84,245	97,799	-	(124,646)	-	57,398
	1,394,917	**109,258**	**(6,647)**	**(6,686)**	**1,620**	**1,492,462**
Accumulated depreciation						
Land improvements	39,727	3,177	-	-	-	42,904
Buildings	43,175	4,385	-	(1,710)	210	46,060
Machinery and equipment	608,733	50,293	(3,219)	-	822	656,629
Motor vehicles	1,049	44	(180)	-	54	967
Furniture and fixtures	23,698	3,600	(4)	-	34	27,328
	716,382	**61,499**	**(3,403)**	**(1,710)**	**1,120**	**773,888**
Net book value	**678,535**					**718,574**

(*) TL3,091 of transfers is related to the classification of tangible assets in the nature of investment properties as "Investment Properties" as the balance sheet date and TL3,595 of transfers is due to the classification to intangible assets.

The borrowing cost amounting to TL6,461 for the borrowings obtained for construction of plant and efficiency projects have been capitalized as of 31 December 2015.

TL59,276 of current year depreciation and amortization expense is charged to "cost of sales", TL501 is charged to "research and development expenses", TL720 is charged to "general administrative expenses'', TL38 is charged to "marketing, selling and distribution expenses'', TL40 is charged to "construction in progress'' as the depreciation amount of unfinished project development cost and TL924 is charged to "inventory".

As of 31 December 2015, there is no mortgage on property, plant and equipment. At the date of reporting, Group's property, plants and equipment is insured for USD515 million.

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

NOTE 12 - INTANGIBLE ASSETS AND GOODWILL

	1 January 2016	Additions	Disposals	Transfers	Currency translation differences	31 December 2016
Cost						
Rights	74,173	319	(47)	-	(793)	73,652
Development cost	10,583	-	-	-	-	10,583
Goodwill	5,989	-	-	-	-	5,989
Other intangible assets	5,539	191	-	-	-	5,730
	96,284	**510**	**(47)**	**-**	**(793)**	**95,954**
Accumulated depreciation						
Rights	2,969	1,697	(47)	-	(495)	4,124
Development cost	6,924	2,055	-	-	-	8,979
Other intangible assets	3,435	1,090	-	-	-	4,525
	13,328	**4,842**	**(47)**	**-**	**(495)**	**17,628**
Net book value	**82,956**					**78,326**

TL2,613 (2015: TL889) of the current amortization expense is charged to "cost of sales", TL2,050 (2015: TL2,119) is charged to "research and development expenses", TL179 (2015: TL279) is charged to "general administrative expenses''.

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

NOTE 12 - INTANGIBLE ASSETS AND GOODWILL (Continued)

	1 January 2015	Additions	Disposals	Transfers (*)	Currency translation differences	31 December 2015
Cost						
Rights (*)	3,515	68,945	-	1,505	208	74,173
Development cost	10,583	-	-	-	-	10,583
Goodwill	5,989	-	-	-	-	5,989
Other intangible assets	3,246	203	-	2,090	-	5,539
	23,333	**69,148**	**-**	**3,595**	**208**	**96,284**
Accumulated depreciation						
Rights	2,575	280	-	-	114	2,969
Development cost	4,808	2,116	-	-	-	6,924
Other intangible assets	2,544	891	-	-	-	3,435
	9,927	**3,287**	**-**	**-**	**114**	**13,328**
Net book value	**13,406**					**82,956**

(*) Consists of the capitalized cost of development projects.

The goodwill balance with the carrying amount of TRY5,989 (2015: TL5,989) as of 31 December 2016 resulted from the acquisition of 50% of shares Ak-Tops Tekstil Sanayi A.Ş. during 2007.

There is no change in the book value of the goodwill, which is TRY5,989 for the period ended as of 31 December 2016 (31 December 2015: TL5,989).

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

NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Provisions:

	31 December 2016	31 December 2015
Provision for lawsuits	2,414	2,213

Contingent assets and liabilities are as follows:

a) The details of collaterals, pledges and mortgages of the Group for the periods are as follows:

	31 December 2016	31 December 2015
Collaterals given	368,440	194,572
Letter of credit commitments	184,304	225,984
Total	**552,744**	**420,556**

b) Collaterals, mortgages, guarantee notes and cheques, guarantee letters and other commitments received for short-term trade receivables are as follows:

	31 December 2016	31 December 2015
Credit insurance	430,371	505,111
Pledged cheques and notes receivable	87,107	53,662
Pledges received	64,776	42,992
Guarantee letters received	39,629	25,788
Confirmed/unconfirmed letters of credit	51,480	57,342
Limits of Direct Debiting System ("DDS")	15,956	19,563
Total	**689,319**	**704,458**

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

NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

c) Given Collaterals, Pledges, Mortgages ("CPM"):

		31 December 2016	31 December 2015
A.	CPM given on behalf of the Company's legal personality	552,744	390,408
	- USD	*450,475*	*202,597*
	- Turkish Lira	*52,334*	*187,201*
	- EUR	*49,935*	*610*
	- Other	-	-
B.	CPM given on behalf of fully consolidated subsidiaries	-	-
C.	CPM given for continuation of its economic activities on behalf of third parties	-	30,148
	- USD	-	*30,148*
D.	Total amount of other CPM given	-	-
	i) Total amount of CPM given on behalf of the majority shareholder	-	-
	ii) Total amount of CPM given to on behalf of other group companies which are not in scope of B and C	-	-
	iii)Total amount of CPM given on behalf of third parties which are not in scope of C	-	-
Total		**552,744**	**420,556**

As of 31 December 2016, since Company does not have any other CPMs given, ratio to equity is none (31 December 2015: None).

NOTE 14 - EMPLOYEE BENEFIT OBLIGATIONS

Payables for employee benefit obligations	31 December 2016	31 December 2015
Social security premiums payable	2,710	2,229
Payables to employees	17	14
Total	**2,727**	**2,243**

Current provisions for employee benefits	31 December 2016	31 December 2015
Provision for premium	10,000	9,662
Provision for unused vacation rights	1,369	1,131
Total	**11,369**	**10,793**

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

NOTE 14 - EMPLOYEE BENEFIT OBLIGATIONS (Continued)

Non-current provisions for employee benefits	**31 December 2016**	**31 December 2015**
Provision for employee termination benefits and employee termination incentive	19,131	20,226

Provision for employee termination benefits

Employee termination benefit provision is recorded according to the following descriptions.

Under the Turkish Labor Law, the Company is required to pay termination benefits to each employee who has completed one year of service and left from the group or retired, completed 25 service years (20 for women) and who reaches the retirement age (58 for women and 60 for men), whose employment is terminated without due cause, is called up for military service or passed away. Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to length of service prior to retirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees.

TAS 19 'Employee Benefits' require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly the following actuarial assumptions have been used in the calculation of the total liability:

	31 December 2016	**31 December 2015**
Discount rate (%)	4.59	3.27
Probability of retirement (%)	98.54	98.44

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. . As the maximum liability is revised once every six months, the maximum amount of TL4,426.16 effective from 1 January 2017 (1 January 2016: TL4,092.53) has been taken into consideration in calculating the reserve for employment termination benefit of the Group.

Movements in the Provision for employee termination benefits and employee termination incentive are as follows:

	2016	**2015**
Balances as of 1 January	**20,226**	**21,587**
Service cost	5,068	1,634
Interest cost	929	368
Compensation paid	(4,506)	(1,617)
(Gains)/losses on remeasurements of defined benefit plans	(2,586)	(1,746)
Balances as of 31 December	**19,131**	**20,226**

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

NOTE 15 - OTHER ASSETS AND LIABILITIES

a) Other current assets:

	31 December 2016	31 December 2015
Value Added Taxes ("VAT") receivables	78,612	50,815

b) Prepayments - Short-term:

	31 December 2016	31 December 2015
Order advances given	8,397	5,466
Prepaid expenses	5,237	4,941
Job advances given	7	75
Total	**13,641**	**10,482**

c) Prepayments - Long-term:

	31 December 2016	31 December 2015
Advances given for purchase of property, plant and equipment	40,896	5,172
Prepaid expenses	670	84
Total	**41,566**	**5,256**

d) Deferred Income:

	31 December 2016	31 December 2015
Order advances received	3,304	7,108

NOTE 16 - DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2016		31 December 2015	
	Asset	Liability	Asset	Liability
Held for trading	-	2,502	7,311	-
Subject to hedge accounting	2,266	-	413	-
Total	**2,266**	**2,502**	**7,724**	**-**

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

NOTE 16 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Derivative instruments held for hedging:

	31 December 2016		31 December 2015	
	Contract amount USD thousand	Fair value Asset amount TL	Contract amount USD thousand	Fair value Asset amount TL
Interest rate swap	56,459	2,266	33,333	413

Derivative financial instruments are initially recognized in the balance sheet at cost (including transaction cost) and are subsequently re-measured at their fair value. Group accepts initial cost of derivative financial instruments equal to their fair value. Derivative financial instruments of the Group generally consist of forward foreign exchange contracts and interest rate swap instruments.

The Group designates to transactions that protect against effect of profit/loss (protection of cash flow risk) and cash flows transactions, which are likely to happen and relation can be established with certain risk or registered asset or liability, caused with specific reason on the date of derivative contract is signed.

These derivative transactions provide effective economic hedges under the Group risk management position and qualify for hedge accounting. Changes in the fair value of such derivatives are recognized directly in statement of profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, or when a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement. The realization of promised or probable future transactions are recorded in the income statement, if not realized, accumulated gains or losses are recognized as profit/(loss) in the consolidated financial statements.

At 31 December 2016, fixed interest rates are 1.13% and 1.35% (31 December 2015: 1.35%). Main floating interest rates that Group is subject to are EURIBOR and LIBOR.

Derivative financial instruments held for trading

The Group has option contracts regarding to foreign exchange trading transactions as of 31 December 2016. The mentioned option transactions are accounted for as derivative financial instruments held for trading in the consolidated financial statements, as they do not qualify for hedge accounting and changes in fair value of these financial instruments are recognized in the consolidated statement of income.

	31 December 2016		31 December 2015	
	Fair value		Fair value	
	Contract amount (thousand)	Liability amount TL	Contract amount (thousand)	Asset amount TL
Foreign exchange held for trading transactions:		2,502		7,311
- USD	28,840	2,502	39,531	1,140
- EUR	-	-	68,500	6,171

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

NOTE 17 - EQUITY

Aksa has adopted the registered share capital system applicable to companies registered on the CMB and set a limit on its registered share capital representing type of registered shares with a nominal value of Kr 1. Historical, authorized and issued capital of Aksa as of 31 December 2016 and 2015 is presented below:

	31 December 2016	**31 December 2015**
Limit on registered share capital	425,000	425,000
Issued share capital	185,000	185,000

The Group's shareholders and their respective shareholding structure as follows:

	Share %	**31 December 2016**	**Share %**	**31 December 2015**
Akkök Holding	39.59	73,237	39.59	73,237
Emniyet Ticaret ve Sanayi A.Ş.	18.72	34,638	18.72	34,638
Other	41.69	77,125	41.69	77,125
	100.00	**185,000**	**100.00**	**185,000**
Inflation adjustments on capital		195,175		195,175
Total paid-in share capital		**380,175**		**380,175**

The approved and paid-in share capital of the Company consists of 18,500,000,000 (31 December 2015: 18,500,000,000) shares issued on bearer with a nominal value of Kr 1 (31 December 2015: Kr 1) each. All shareholders have same rights and there are not issued different type of shares such as privilege. Adjustment to share capital represents the difference between the amounts of the restatement effect of cash and cash equivalents contributions to share capital and the amounts before the restatements.

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"), The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company's paid-in capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in capital. According to the TCC, the legal reserve does not exceed half of the capital or issued capital can be used only to offset losses, to continue the business when things did not go well or to get ahead of unemployment and to take favourable measures to manage its results.

In accordance with TAS, the Company classified the above mentioned amounts under "Restricted reserves", the amount of restricted reserves is TL122,865 as of 31 December 2016 (31 December 2015: TL107,501). This amount fully consists of legal reserves.

NOTE 17 – EQUITY (Continued)

In accordance with the CMB regulations effective until 1 January 2008, the inflation adjustment differences arising at the initial application of inflation accounting which are recorded under "accumulated losses" could be netted off from the profit to be distributed based on CMB profit distribution regulations. In addition, the aforementioned amount recorded under "accumulated losses" could be netted off with net income for the period, if any, undistributed prior period profits, and inflation adjustment differences of extraordinary reserves, legal reserves and capital, respectively.

In accordance with the CMB regulations effective until 1 January 2008, "Capital, Share Premiums, Legal Reserves, Special Reserves and Extraordinary Reserves" were recorded at their statutory carrying amounts and the inflation adjustment differences related to such accounts were recorded under "inflation adjustment differences" at the initial application of inflation accounting. "Equity inflation adjustment differences" could have been utilized in issuing bonus shares and offsetting accumulated losses, carrying amount of extraordinary reserves could have been utilized in issuing bonus shares, cash dividend distribution and offsetting accumulated losses.

In accordance with the Communiqué No:XI-29 and related announcements of CMB, effective from 1 January 2008, "Share Capital", "Restricted Reserves" and "Share Premiums" shall be carried at their statutory amount. The valuation differences shall be classified as follows:

- The difference arising from the "Paid-in Capital" and if has not been transferred to capital yet, shall be classified under the "Adjustments to Share Capital", following the "Paid-in capital";

- The difference due to the inflation adjustment of "Restricted Reserves" and "Share Premium" and the amount has not been utilized in dividend distribution or capital increase yet, shall be classified under "Retained Earnings",

Other equity items shall be carried at the amounts calculated based on CMB Financial Reporting Standards.

Adjustment to share capital has no use other than being transferred to paid-in share capital.

Dividend Distribution

Regarding the dividend distribution, the entities are to distribute their profits under the scope of CMB Communiqué Serial: II-19.1, their articles of association and their previously publicly declared profit distribution policies.

Besides that, it is regulated that companies which are obligated to prepare consolidated financial statements under CMB policies, if it's allowed in their statutory reserves, amount of profit available for distribution, in accordance with CMB Communiqué No. II -14.1 announced publicly consolidated financial statements taking into account net profit of the period.

In the case of making decision on dividend payment, dividend is paid cash or distributed "bonus shares" to shareholders by adding dividend to capital or distributed cash and bonus shares in certain amounts according to decision taken in the general assembly of the company.

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

NOTE 18 - REVENUE AND COST OF SALES

Sales and cost of goods sold for the years ended 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Domestic sales	1,288,095	1,396,566
Export sales	771,299	812,996
Less: Sales returns	(2,212)	(3,141)
Less: Other discounts	(102,797)	(176,415)
Net sales income	**1,954,385**	**2,030,006**
Cost of sales (-)	**(1,517,371)**	**(1,634,362)**
Gross profit	**437,014**	**395,644**

NOTE 19 - EXPENSES BY NATURE

Cost of sales, marketing expenses, general administrative expenses and research and development expenses by nature for the years ended as of 31 December 2016 and 2015 are as follows;

	31 December 2016	31 December 2015
Raw materials and goods	1,257,793	1,405,839
Employee benefits	110,552	98,852
Depreciation and amortization	71,476	64,294
Maintenance, repair and cleaning expenses	33,955	26,575
Consumables	30,770	39,104
Commission expenses	26,010	23,075
Export expenses	20,607	25,913
Consultancy and audit expenses	13,566	10,948
Information technologies expense	9,723	6,560
Insurance expenses	6,042	5,105
Rent expenses	5,681	5,645
Miscellaneous tax expenses	3,246	2,370
Other	46,786	29,964
Total	**1,636,207**	**1,744,244**

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

NOTE 20 - OTHER INCOME AND EXPENSE FROM OPERATING ACTIVITIES

Income from other operating activities by nature for the years ended as of 31 December 2016 and 2015 are as follows;

	31 December 2016	31 December 2015
Foreign exchange income from trading transactions	147,558	128,300
Interest income from credit sales	12,487	11,071
Released provisions	1,730	2,015
Income from fixed assets sales	202	7,724
Income from sales of subsidiary/joint venture shares	-	11,776
Other	2,808	2,388
Total	**164,785**	**163,274**

Expense from other operating activities by nature for the years ended as of 31 December 2016 and 2015 are as follows;

	31 December 2016	31 December 2015
Foreign exchange expense from trading transactions	97,136	87,505
Interest expense from credit purchases	8,072	6,264
Provision for doubtful receivables (Note 7)	706	1,430
Other	2,354	1,177
Total	**108,268**	**96,376**

NOTE 21 - FINANCE INCOME

Financial income for the years ended at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Foreign exchange income	169,165	154,715
Interest income	16,263	12,097
Total	**185,428**	**166,812**

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

NOTE 22 – FINANCE COSTS

Financial expense for the years ended at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Foreign exchange loss	280,340	193,734
Borrowing costs	17,971	9,454
Total	**298,311**	**203,188**

NOTE 23 - TAX ASSETS AND LIABILITIES

Tax expenses for the years ended at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Income tax expense	(52,985)	(60,418)
Deferred tax (expense)/income	(3,925)	2,694
Total tax expense	**(56,910)**	**(57,724)**

Deferred Income Tax Assets and Liabilities

The breakdown of cumulative temporary differences and deferred income tax assets and liabilities provided using enacted tax rates as of 31 December 2016 and 2015 are as follows:

	Temporary taxable differences		Deferred income tax asset/liability	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Property, plant and equipment and intangible assets	(74,893)	(55,539)	(14,979)	(11,108)
Inventories	(3,287)	-	(657)	-
Trade payables	(2,919)	(1,471)	(584)	(294)
Derivative instruments	-	(7,724)	-	(1,545)
Deferred income tax liabilities			**(16,220)**	**(12,947)**
Employee termination benefits	20,500	21,357	4,100	4,271
Trade receivables	538	3,876	108	775
Derivative instruments	236	-	47	-
Inventories	-	1,982	-	396
Other short-term liabilities	1,459	1,395	292	279
Deferred income tax assets			**4,547**	**5,721**
Deferred income tax assets/(liabilities), net			**(11,673)**	**(7,226)**

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

NOTE 23 - TAX ASSETS AND LIABILITIES (Continued)

Movement for the deferred income tax liabilities for the periods ended at 31 December 2016 and 2015 are as follows:

	2016	2015
1 January	**7,226**	**9,386**
Deferred tax expense/(income)	3,925	(2,694)
Credited to equity	434	518
Currency translation differences	88	16
31 December	**11,673**	**7,226**

	31 December 2016	31 December 2015
Calculated corporate income tax	52,985	60,418
Amount offset from VAT receivables and prepaid corporate taxes	(45,574)	(45,874)
Current tax liabilities, current	**7,411**	**14,544**

The reconciliation of tax expenses stated in consolidated income statements for the years ended 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Profit before tax	182,660	257,190
Expected tax expense of the Group (20%)	**36,532**	**51,438**
The effect of application of equity method	79,152	59,094
The effect of foreign subsidiaries	17,552	45
Expenses not deductible for tax purposes	848	1,842
Impact of tax exemption for profit from lands sold	-	(5,067)
Impact of tax exemption for profit from joint venture sold	-	(7,148)
Impact of tax exemption for sale and leaseback transaction	-	(18,024)
Other	4,338	690
Tax effect (20%)	20,378	6,286
Current period tax expense of the Group	**56,910**	**57,724**

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

NOTE 24 - EARNINGS PER SHARE

Earnings per share disclosed in the consolidated statements of income are determined by dividing the net income by the weighted average number of shares that have been outstanding during the period. The earnings per share calculation for the years ended 31 December 2016 and 2015 as follows:

	31 December 2016	31 December 2015
Net income attributable to the equity holders of the parent (TL) (*) (A)	125,798,137	199,474,944
Weighted average number of shares (B)	18,500,000,000	18,500,000,000
Earnings per share (Kr) (A/B)	0.68	1.08

(*) Amounts expressed in Turkish Lira.

NOTE 25 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a) Short-term trade receivables due from related parties

As of 31 December 2016 and 2015, trade receivables from related parties are as follows:

	31 December 2016	31 December 2015
Ak-Pa (*)	206,241	182,737
Akkim Kimya San. ve Tic. A.Ş.	4,313	4,391
DowAksa İleri Kompozit Malzemeler San. Ltd. Şti. ("DowAksa")	2,665	5,456
Other	482	16
Less: Unearned finance income on credit sales (-)	(281)	(99)
Total	**213,420**	**192,501**

(*) Sales to Ak-Pa comprise of export sales made to third party customers by export register and the balance consists of trade receivables arising from these transactions.

Foreign currency denominated trade receivables have average 3 months maturity as of 31 December 2016 and 2015 and are discounted with annual average discount rate of 1% (31 December 2015:1%) based on USD.

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

NOTE 25 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

b) Short-term trade payables due to related parties

As of 31 December 2016 and 2015, short-term trade payables to related parties are as follows:

	31 December 2016	31 December 2015
Ak-Pa	10,312	5,105
Akkim Kimya San. ve Tic. A.Ş.	8,814	7,126
Akgirişim Müt, Müş, Çevre Tek. San. Tic. A,Ş. ("Akgirişim")	7,583	3,553
Dinkal Sigorta Acenteliği A.Ş. (*)	1,952	2,126
Akkök Holding	2,233	1,666
Yalova Kompozit ve Kimya İhtisas Islah Organize Sanayi Bölgesi ("Yalkim OSB")	1,313	6,715
Aktek Bilgi İşlem Tekn. San. ve Tic. A.Ş.	1,083	687
Other	426	532
Total	**33,716**	**27,510**

(*) Consists of balance to be paid to insurance companies by means of Dinkal Sigorta Acenteliği A.Ş.

d) Long-Term Trade Payables due to related parties

As of 31 December 2016 and 2015, long-term trade payables to related parties are as follows:

	31 December 2016	31 December 2015
Yalkim OSB	-	13,974

d) Financial Liabilities

As of 31 December 2016 and 2015, short-term borrowings from related parties are as follows:

	31 December 2016	31 December 2015
Ak-Pa	30,042	13,528

Borrowings comprise cash received from factoring transactions (Note 6).

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

NOTE 25 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

e) Other receivables due to related parties

Other receivables from joint ventures for the year ended as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December2015
DowAksa - Leasing receivables	927	13,017
DowAksa - Unearned finance income (-)	(844)	(1,928)
Other short-term receivables	**83**	**11,089**
DowAksa - Leasing receivables	122,493	87,020
DowAksa - Unearned finance income (-)	(17,119)	(7,564)
Other long-term receivables	**105,374**	**79,456**
Total	**105,457**	**90,545**

Leasing receivables are shown as below in terms of period the collection as of 31 December 2016:

	31 December 2016			31 December 2015		
	Leasing	Interest	Total	Leasing	Interest	Total
Less than 3 months	83	211	294	4,358	501	4,859
Between 3-12 months	-	633	633	6,731	1,427	8,158
Between 1-2 years	9,483	2,367	11,850	9,156	1,721	10,877
Between 2-3 years	11,618	2,433	14,051	9,367	1,510	10,877
Between 3-4 years	11,884	2,168	14,052	9,584	1,293	10,877
4 years and longer	72,389	10,151	82,540	51,349	3,040	54,389
	105,457	**17,963**	**123,420**	**90,545**	**9,492**	**100,037**

f) Advances Given

Advances given to related parties for the year ended as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Akgirişim	5,357	1,969
Yalkim OSB	2,250	1,859

Advances given to related parties consist of advance payment related to various investment projects in the facilities located in Yalova.

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

NOTE 25 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

g) Sales and other income

Sales and other income to related parties for the years ended as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Ak-Pa (*)	770,141	785,535
Akkim Kimya San. ve Tic. A.Ş.	46,924	43,828
DowAksa	24,573	33,237
Yalkim OSB	403	6,000
Akkök Holding	630	12,223
Other	1,808	1,762
Total	**844,479**	**882,585**

(*) The sales to Ak-pa consist of export sales to third parties via Ak-Pa.

Other sales to related parties mainly consist of rent income, steam and electricity sales.

h) Foreing Exchange Gain/Loss

Foreing exchange income from related parties for the years ended at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Ak-Pa	22,974	38,733

i) Purchases of goods and services

Product and service purchases from related parties for the years ended 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Akkim Kimya San. ve Tic. A.Ş.	73,648	71,532
Akgirişim	38,095	27,776
Yalkim OSB (*)	14,683	71,748
Dinkal Sigorta Acenteliği A.Ş. (**)	12,965	11,492
Ak-Pa	12,110	12,904
Aktek Bilgi İşlem Tekn. San. ve Tic. A.Ş.	10,278	7,217
Akkök Holding	7,184	8,666
Akiş Gayrimenkul Yatırımı A.Ş.	-	46,560
Other	1,937	1,965
Total	**170,900**	**259,860**

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

NOTE 25 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Purchases from related parties consist of chemicals, insurance, construction business, consulting, commission, rent expenses and various service procurement.

(*) Purchases from Yalkim OSB consist of usage rights acquired for waste treatment facility and other property, plant and equipment owned by Yalkim OSB and operating costs of Yalkim OSB, which are charged to its participants. In 2015, other than mentioned services, balance includes land usages rights.

(**) Purchases comprise insurance payments for which Dinkal Sigorta Acenteliği A.Ş. acts as an agent.

The Company defined its key management personnel as board of directors and members of the executive committee. Benefits provided to key management personnel as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Salary and other short-term employee benefits	5,935	5,838
Employment termination benefits	62	41
Post-employment benefits	-	-
Other long-term benefits	-	-
Share based compensations	-	-
Total	**5,997**	**5,879**

Benefits provided to the Board of Directors, for the years ended 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Salary and other short-term employee benefits	1,557	1,467
Employment termination benefit	-	-
Post-employment benefits	-	-
Other long-term benefits	-	-
Share based compensations	-	-
Total	**1,557**	**1,467**

NOTE 26 - NATURE OF LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS

Financial risk factors

The Groups principal financial instruments are cash and cash equivalents, trade receivables and financial liabilities. The main purpose of these financial instruments is to generate financing resources for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk and credit risk. The Group management reviews and agrees policies for managing each of the risks as summarized below.

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

NOTE 26 - NATURE OF LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of the counterparties. It is the Group policy that all customers who wish to trade on credit terms are subject to credit screening procedures and the Group also obtains collaterals from customers when appropriate. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Trade receivables are evaluated by management based on their past experiences and current economic condition, and are presented in financial statements net of provision for doubtful receivables (Note 7).

Trade Receivable Aging Analysis

Aging of the receivables which are overdue but not impaired is as follows:

31 December 2016	**Trade Receivables**
1-30 days overdue	47,788
1-3 months overdue	28,969
3-12 months overdue	4,892
More than 12 months overdue	-
Total (*)	**81,649**
Secured with guarantees	**65,202**

(*) TRY51,191 of the amount has been collected as of the date the report.

31 December 2015	**Trade Receivables**
1-30 days overdue	29,351
1-3 months overdue	19,362
3-12 months overdue	1,645
More than 12 months overdue	634
Total	**50,992**
Secured with guarantees	**28,615**

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

NOTE 26 - NATURE OF LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

As of 31 December 2016 the Group's maximum exposure to credit risk is presented below:

	Trade receivables		**Other receivables**		**Deposits at bank**	
31 December 2016	**Related Parties**	**Unrelated Parties**	**Related Parties**	**Unrelated Parties**	**Related Parties**	**Other**
Maximum credit risk exposure as of reporting date	**213,420**	**404,647**	**105,457**	**677**	**-**	**458,234**
- Secured portion of maximum credit risk by guarantees (*)	***167,787***	***310,109***	**-**	**-**	**-**	**-**
Net book value of financial assets either are not due or not impaired	199,224	333,589	105,457	677	-	458,234
Net book value of the expired or not impaired financial assets	14,196	67,453	-	-	-	-
- Secured portion with guarantees	8,706	56,496	-	-	-	-
Net book value of impaired assets	-	3,605	-	-	-	-
- Matured (gross book value)	-	45,268	-	-	-	-
- Impairment (-) (Note 8)	-	(41,664)	-	-	-	-
- Secured portion with guarantees	-	*(3,605)*	-	-	-	-
Off balance sheet credit risks						

(*) Guarantees taken from the related parties consist of Ak-Pa's guarantees received from export customers.

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

NOTE 26 - NATURE OF LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

As of 31 December 2015 the Group's maximum exposure to credit risk is presented below:

	Trade receivables		Other receivables		Deposits at bank	
31 December 2015	**Related Parties**	**Unrelated Parties**	**Related Parties**	**Unrelated Parties**	**Related Parties**	**Other**
Maximum credit risk exposure as of reporting date	**192,501**	**275,326**	**90,545**	**257**	**-**	**342,740**
- Secured portion of maximum credit risk by guarantees (*)	***148,807***	***245,361***	**-**	**-**	**-**	**-**
Net book value of financial assets either are not due or not impaired	167,135	245,292	90,545	257	-	342,740
Net book value of the expired or not impaired financial assets	25,366	25,626	-	-	-	-
- Secured portion with guarantees	13,239	15,376	-	-	-	-
Net book value of impaired assets	-	4,408	-	-	-	-
- Matured (gross book value)	-	46,796	-	-	-	-
- Impairment (-) (Note 8)	-	(42,388)	-	-	-	-
- Secured portion with guarantees	-	*4,408*	-	-	-	-
Off balance sheet credit risks	-	-	-	-	-	-

(*) Guarantees taken from the related parties consist of Ak-Pa's guarantees received from export customers.

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

NOTE 26 - NATURE OF LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

Foreign Exchange Risk

The Group is exposed to foreign exchange risk arising from the ownership of foreign currency denominated assets and liabilities in the translation of the Turkish Lira. The exchange rate risk is monitored by the analysing the foreign currency position. The Group is exposed to foreign exchange risk arising from the ownership of foreign currency denominated assets and liabilities.

Foreign currency position presented in TL is as follows:

	31 December 2016	**31 December 2015**
Assets	1,026,204	797,774
Liabilities	(1,249,324)	(863,643)
Net balance sheet position	**(223,120)**	**(65,869)**

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

NOTE 26 - NATURE OF LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

Foreign currency position as of 31 December 2016 and 2015 are as follows:

	31 December 2016			
	TL equivalent	**USD position**	**EUR position**	**Other**
1. Trade Receivables	611,614	158,791	14,232	-
2a. Monetary Financial Assets) (including cash and bank accounts)	309,133	81,367	4,491	6,124
2b. Non-monetary Financial Assets	-	-	-	-
3. Other	83	24	-	-
4. Current Assets (1+2+3)	**920,830**	**240,182**	**18,723**	**6,124**
5. Trade Receivables	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-
6b. Non-monetary Financial Assets	-	-	-	-
7. Other	105,374	29,943	-	-
8. Non-Current Assets (5+6+7)	**105,374**	**29,943**	-	-
9. Total Assets (4+8)	**1,026,204**	**270,125**	**18,723**	**6,124**
10. Trade Payables	474,155	130,825	3,689	69
11. Financial Liabilities	521,595	132,764	14,656	-
12a. Monetary Other Liabilities	-	-	-	-
12b. Non-monetary Other Liabilities	-	-	-	-
13. Short-Term Liabilities (10+11+12)	**995,750**	**263,589**	**18,345**	**69**
14. Trade Payables	-	-	-	-
15. Financial Liabilities	253,574	40,927	29,528	-
16 a. Other Monetary Liabilities	-	-	-	-
16 b. Other Non-monetary Liabilities	-	-	-	-
17. Long-Term Liabilities (14+15+16)	**253,574**	**40,927**	**29,528**	-
18. Total Liabilities (13+17)	**1,249,324**	**304,516**	**47,873**	**69**
19. Off Balance Sheet Derivative Items' Net Asset/(Liability) Position (19a-19b)	**(38,806)**	**(26,840)**	**15,000**	-
19a. Off balance sheet derivative asset amount	55,649	-	15,000	-
19b. Off balance sheet derivative liability amount	94,455	26,840	-	-
20. Net Foreign Currency Asset / (Liability) Position (9-18+19)	**(261,926)**	**(61,231)**	**(14,150)**	**6,055**
21. Monetary Net Foreign Currency Assets/(Liabilities) Position (=1+2a+5+6a-10-11-12a-14-15-16a)	**(328,577)**	**(64,358)**	**(29,150)**	**6,055**
22. Fair Value of Financial Instruments Used for Foreign Hedge	(2,502)	-	(674)	-
23. Amount of Hedged Foreign Currency Assets	-	-	-	-
24. Amount of Hedged Foreign Currency Liabilities	-	-	-	-

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

NOTE 26 - NATURE OF LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

	31 December 2015			
	TL equivalent	**USD position**	**EUR position**	**Other**
1. Trade Receivables	447,385	136,535	15,860	-
2a. Monetary Financial Assets (including cash and bank accounts)	259,844	75,877	1,533	34,354
2b. Non-monetary Financial Assets	-	-	-	-
3. Other	11,089	3,814	-	-
4. Current Assets (1+2+3)	**718,318**	**216,226**	**17,393**	**34,354**
5. Trade Receivables	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-
6b. Non-monetary Financial Assets	-	-	-	-
7. Other	79,456	27,327	-	-
8. Non-Current Assets (5+6+7)	**79,456**	**27,327**	**-**	**-**
9. Total Assets (4+8)	**797,774**	**243,553**	**17,393**	**34,354**
10. Trade Payables	244,836	83,243	874	22
11. Financial Liabilities	405,861	122,986	15,190	-
12a. Monetary Other Liabilities	-	-	-	-
12b. Non-monetary Other Liabilities	-	-	-	-
13. Short-Term Liabilities (10+11+12)	**650,697**	**206,229**	**16,064**	**22**
14. Trade Payables	-	-	-	-
15. Financial Liabilities	212,946	25,000	44,139	-
16 a. Other Monetary Liabilities	-	-	-	-
16 b. Other Non-monetary Liabilities	-	-	-	-
17. Long-Term Liabilities (14+15+16)	**212,946**	**25,000**	**44,139**	**-**
18. Total Liabilities (13+17)	**863,643**	**231,229**	**60,203**	**22**
19. Off Balance Sheet Derivative Items' Net Asset/(Liability) Position (19a-19b)	**(1,720)**	**38,533**	**(35,800)**	**-**
19a. Off balance sheet derivative asset amount	330,886	78,064	32,700	-
19b. Off balance sheet derivative liability amount	332,606	39,531	68,500	-
20. Net Foreign Currency Asset / (Liability) Position (9-18+19)	**(67,589)**	**50,857**	**(78,610)**	**34,332**
21. Monetary Net Foreign Currency Assets/(Liabilities) Position (=1+2a+5+6a-10-11-12a-14-15-16a)	**(156,414)**	**(18,817)**	**(42,810)**	**34,332**
22. Fair Value of Financial Instruments Used for Foreign Hedge	7,311	392	1,942	-
23. Amount of Hedged Foreign Currency Assets	-	-	-	-
24. Amount of Hedged Foreign Currency Liabilities	**-**	**-**	**-**	**-**

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

NOTE 26 - NATURE OF LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

As of 31 December 2016 and 2015, the situations to reach of net foreign position in the Group's balance sheet with the changes in exchange rates are summarized in the table below:

31 December 2016	**Profit/Loss**		**Equity**	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
In case 10% change of USD against TL				
USD net asset/ (liability)	(12,103)	12,103	21,425	(21,425)
Amount hedged for USD risk	-	-	-	-
USD net effect	**(12,103)**	**12,103**	**21,425**	**(21,425)**
In case 10% change of EUR against TL				
EUR net asset/ (liability)	(10,814)	10,814	-	-
Amount hedged for EUR risk	-	-	-	-
EUR net effect	**(10,814)**	**10,814**	**-**	**-**

31 December 2015	**Profit/Loss**		**Equity**	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
In case 10% change of USD against TL				
USD net asset/ (liability)	3,583	(3,583)	24,334	(24,334)
Amount hedged for USD risk	-	-	-	-
USD net effect	**3,583**	**(3,583)**	**24,334**	**(24,334)**
In case 10% change of EUR against TL				
EUR net asset/ (liability)	(13,603)	13,603	-	-
Amount hedged for EUR risk	-	-	-	-
EUR net effect	**(13,603)**	**13,603**	**-**	**-**

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

NOTE 26 - NATURE OF LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

Interest Risk

The Group is exposed to interest risk arising from the borrowings interest rate changes. According to balance sheet position of the floating interest rate financial liabilities as of 31 December 2016, other things being constant, if the interest rate depreciate/ appreciate by 1%, profit before tax would TL49 (31 December 2015: TL59), capitalized financial cost on construction in progress would TL3 (31 December 2015: TL9).

	31 December 2016	**31 December 2015**
Fixed interest rate financial instruments		
Financial assets		
Cash and cash equivalents (Note 4) (*)	*434,552*	*286,004*
Financial liabilities		
USD borrowings (fixed due to interest rate swap)	611,252	430,284
TL borrowings	59,203	2,432
EUR borrowings	-	1,611
Floating interest rate financial instruments		
Financial assets		
Cash and cash equivalents (Note 4) (*)	-	-
Financial liabilities		
EUR bank borrowings	163,917	186,912

(*) Cash and cash equivalents consist of bank deposits with maturity less than three months.

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

NOTE 26 - NATURE OF LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

Liquidity risk comprises the risks arising from the inability to fund the increase in the assets, the inability to cover the liabilities due and the operations performed in illiquid In the framework of liquidity risk management, funding sources are being diversified, and sufficient cash and cash equivalents are held.

The breakdown of financial assets and liabilities according to their maturities is disclosed considering from balance sheet date to due date period. Financial assets and liabilities that have no certain due dates are classified in over one year column.

31 December 2016:

Expected or maturities per agreement	Carrying value	Contractual cash flows	Up to 3 months	3-12 months	1-5 years	Over than 5 years
Non-derivative financial liabilities						
Financial liabilities	834,372	854,130	229,970	359,391	264,769	-
Trade payables	453,949	456,868	283,922	172,946	-	-
Due to related parties	33,716	33,716	28,118	5,598	-	-
	1,322,037	**1,344,714**	**542,010**	**537,935**	**264,769**	**-**

31 December 2015:

Expected or maturities per agreement	Carrying value	Contractual cash flows	Up to 3 months	3-12 months	1-5 years	Over than 5 years
Non-derivative financial liabilities						
Financial liabilities	621,239	638,637	175,410	240,136	223,091	-
Trade payables	277,895	279,366	170,857	108,509	-	-
Due to related parties	41,484	41,484	20,362	7,148	13,974	-
	940,618	**959,487**	**366,629**	**355,793**	**237,065**	**-**

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

NOTE 26 - NATURE OF LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

Import and export information:

Import and export for the years ended at 31 December 2016 and 2015 are as follows:

Export

	31 December 2016	31 December 2015
USD	419,664	513,367
EUR	215,276	207,053
Other	136,359	92,576
Total	**771,299**	**812,996**

Import

	31 December 2016	31 December 2015
USD	852,613	942,577
EUR	127,884	81,090
Other	6,449	1,212
Total	**986,946**	**1,024,879**

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and maintain an optimal structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including financial liabilities, trade payables and due to related parties, as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The ratio of net debt to equity is as follows:

	31 December 2016	31 December 2015
Total monetary liabilities (*)	1,322,037	940,618
Less: Cash and cash equivalents (Note 4)	(458,301)	(342,810)
Net debt	**863,736**	**597,808**
Total shareholders' equity	1,249,705	1,248,596
Total capital	**2,113,441**	**1,846,404**
Debt/equity ratio	**41%**	**32%**

(*) Short-term and long-term liabilities comprised from trade payable to related parties and trade payables to other parties.

NOTE 27 - FINANCIAL INSTRUMENTS

Fair value estimation of financial insturments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Group, using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

The following methods and assumptions are used to estimate the fair value of the financial instruments:

Financial assets

Monetary assets and liabilities denominated in foreign currencies have been translated at the exchange rates prevailing at the balance sheet dates. These balances are anticipated to close their book value.

The carrying values of significant portion of cash and cash equivalents are assumed to approximate to their fair value due to their short-term nature.

The carrying values of trade receivables are assumed to approximate to their fair value.

Financial liabilities

The fair values of short-term borrowings and trade payables are assumed to approximate to their carrying values due to their short-term nature.

The estimated fair values of foreign currency long-term borrowings are assumed to approximate to their carrying values due to bearing floating interest rates. The estimated fair values of long-term borrowings are calculated based on the effective market interest rates and the cash flow calculations are discounted accordingly (Note 6).

Fair Value Estimation:

Effective 1 January 2010, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);

Level 3 Inputs for the asset or liability that is not based on observable market data (that is, unobservable inputs).

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

NOTE 27 - FINANCIAL INSTRUMENTS (Continued)

31 December 2016

	Level 1	**Level 2**	**Level 3**
Foreign currency held for trading	-	(2,502)	-
Hedging derivative financial instruments	-	2,266	-
Total asset / (liabilities)	**-**	**(236)**	**-**

31 December 2015

	Level 1	**Level 2**	**Level 3**
Foreign currency held for trading	-	7,311	-
Hedging derivative financial instruments	-	413	-
Total asset / (liabilities)	**-**	**7,724**	**-**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instruments are observable, the instrument is included in level 2.

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