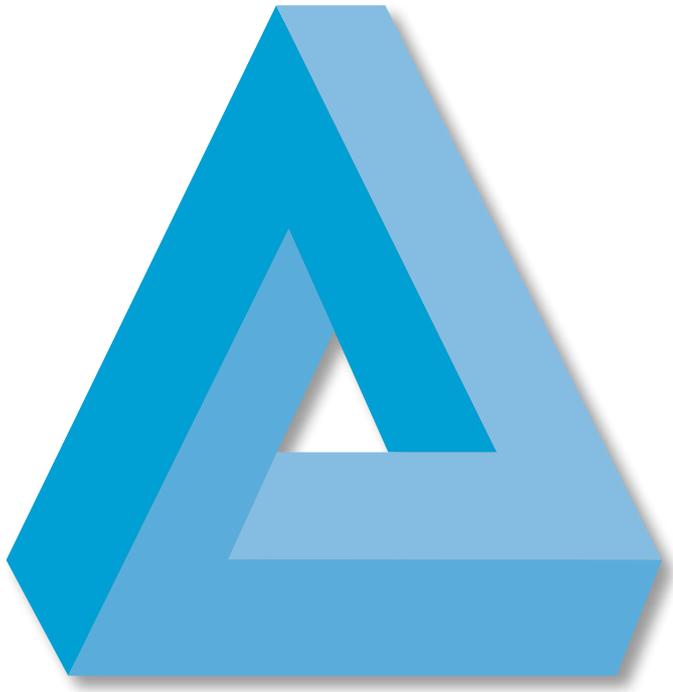




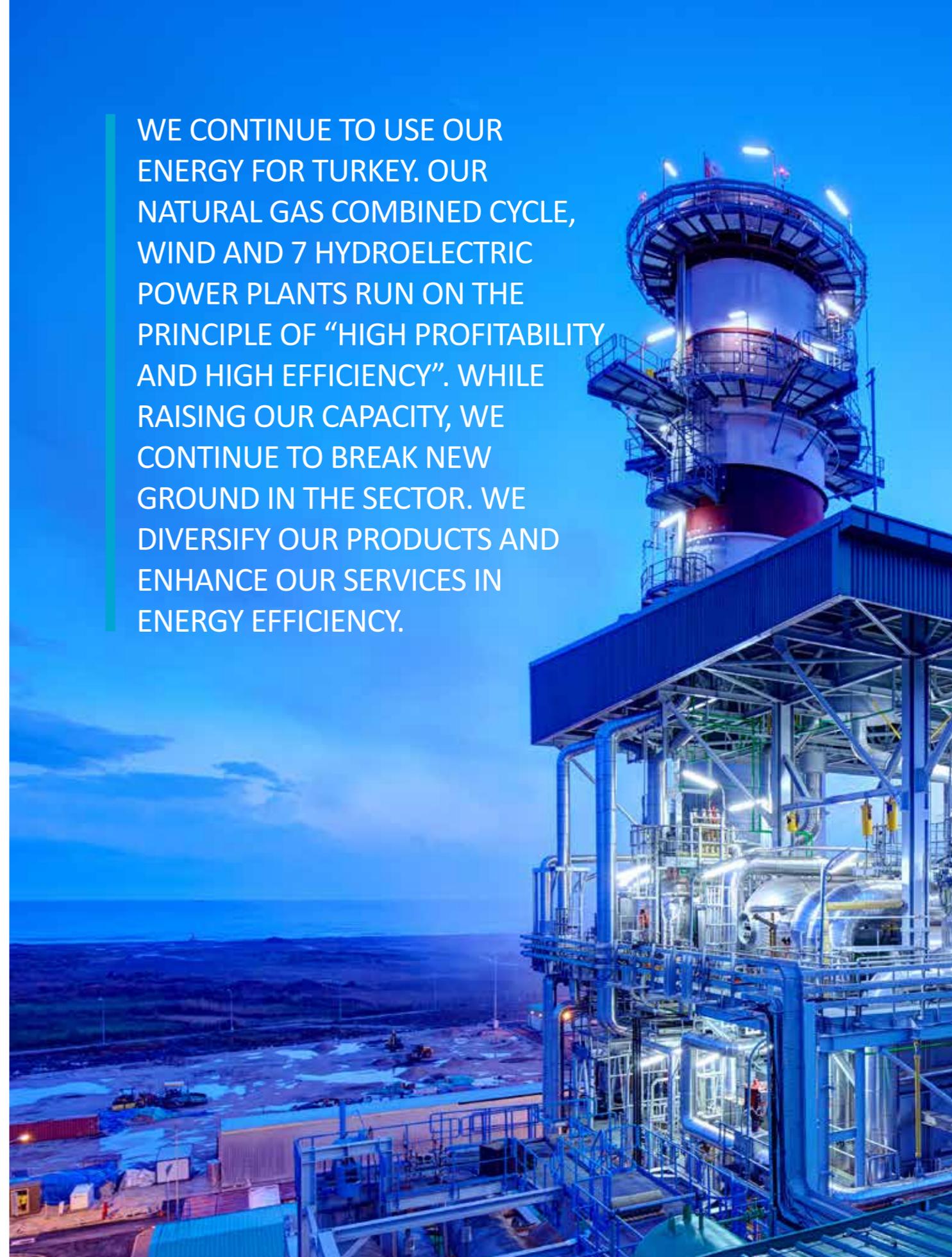
Annual Report 2016



CONTENTS

02	Company General Information
04	Akenerji in Brief
08	Operations Map
10	Financial and Operational Highlights
12	Milestones
18	Akkök Holding in Brief
20	ČEZ in Brief
22	Vision, Mission, Corporate Values and Akenerji Employees
24	Message From the Chairman of the Board of Directors
26	Message From the CEO
28	Energy Sector in Turkey and the World
32	Operations in 2016
32	Generation
36	Wholesale Electricity Sales
40	Retail Electricity Sales
42	Carbon Management
44	Sustainability
54	Human Resources Activities and Employee Profile
58	Board of Directors
62	Executive Management
64	Organizational Structure
66	Independency Statement for Independent Board Members
68	Evaluation of the Board of Directors on Working Principles and Effectiveness of the Committees of the Board of Directors
69	Investor Relations Annual Report
71	Corporate Governance Principles Compliance Report
84	Major Developments in the Past Year
85	Other Statements
86	Risk Management
87	Dividend Distribution Policy
88	Dividend Distribution Proposal of the Board of Directors
89	Statement of Responsibility
90	Independent Auditor's Report
92	Consolidated Financial Statements as at 31 December 2016

WE CONTINUE TO USE OUR ENERGY FOR TURKEY. OUR NATURAL GAS COMBINED CYCLE, WIND AND 7 HYDROELECTRIC POWER PLANTS RUN ON THE PRINCIPLE OF “HIGH PROFITABILITY AND HIGH EFFICIENCY”. WHILE RAISING OUR CAPACITY, WE CONTINUE TO BREAK NEW GROUND IN THE SECTOR. WE DIVERSIFY OUR PRODUCTS AND ENHANCE OUR SERVICES IN ENERGY EFFICIENCY.



This Annual Report ('Report') herein is issued in accordance with the provision of Article 516 of the Turkish Code of Commerce, the provisions of 'The Regulation Related to the Determination of the Minimum Content of Companies' Annual Reports', published by the Ministry of Customs and Trade in the Official Gazette dated 28.08.2012 and numbered 28395, provision of Article 8 of the 'Communiqué on the Principles of Financial Reporting in Capital Markets' numbered (II-14.1), and published by the Capital Markets Board, provisions of the related article of 'Corporate Governance Communiqué' numbered (II-17.1), and provision of Article 39 of the 'Communiqué on the Principles of Real Estate Investment Funds' numbered (III-48.1), and the purpose of this Report is to evaluate the Company's operating activities in the period 01.01.2016 - 31.12.2016 , and to inform our investors.

Company Information:

Company Information:	Akenerji Elektrik Üretim A.Ş.
Old Company Name:	Ak Enerji Elektrik Üretimi Otoprodüktör Grubu A.Ş.
Stock Exchange Traded:	BIST
Ticker Symbol:	AKENR
HQ Address:	Miralay Şefik Bey Sokak, Akhan No: 15, 34437 Gümüşsuyu, İstanbul
Web Site:	www.akenerji.com.tr
E-Mail:	info@akenerji.com.tr
Trade Registry Date:	12.05.1989
Trade Registry Number:	255005
Tax Office and Number:	Büyük Mükellefler Vergi Dairesi, 0110031317
Phone No:	0212 249 82 82
Fax No:	0212 249 73 55
Mersis (Central Registration System) No:	0011003131700018
Uluabat Branch Address:	Akçalar Fadıllı Köyü Yolu 5 Km, Nilüfer, Bursa
Bandırma Branch Address:	Edincik Beldesi Aldede ve Deliklikaş Mevkii, Bandırma, Balıkesir
Burç Branch Address:	Besni İlçesi Aşağı Ağzı Köyü, Burç Mahallesi, Adıyaman
Feke-I Branch Address:	Sülemişli Mah, Sülemişli Küme Evler, No:1 Feke, Adana
Feke-II Branch Address:	Kısacıklı Mah., Alıçlı Sok, No:8 Feke, Adana
Gökkaya Branch Address:	Himmetli Mah. Su Çatı Sok. No:112 Saimbeyli, Adana
Himmetli Branch Address:	Himmetli Mah. Dravlı Sok. No:84 Saimbeyli, Adana
Bulam Branch Address:	Doğanlı Köyü Mevkii, Merkez, Adıyaman

COMPANY GENERAL INFORMATION

AKENERJİ IN BRIEF

WE CONTINUE TO DETERMINE
THE STANDARDS IN THE
ENERGY MARKET

Generation Capacity (By the end of 2016)

Elektrik 1211 MW

Power Plants

Erzin NGPP 904 MW

Ayyıldız RES 15 MW

Uluabat HEPP 100 MW

Feke II HEPP 70 MW

Gökkaya HEPP 30 MW

Investments in project phase

Ayyıldız* 13,2 MW

* In addition to the 15 MW in operation

Number of Employees

232

Operations

Electricity Generation and Sale
Electricity Import, Export and Wholesale
Electricity Retail Sale
Natural Gas Import, Export and Wholesale
Energy Services

Feke I HEPP 30 MW

Burç Bendi HEPP 28 MW

Himmetli HEPP 27 MW

Bulam HEPP 7 MW

Kemah HEPP 198 MW

2016 Turnover

1.421*

*TRY million

Akenerji in Brief

WE OPERATE OUR POWER PLANTS IN AN OPTIMUM MANNER. WE FOCUS ON PROJECTS THAT WILL CREATE ADDED VALUE.

High performance with accurate market analyses

With more than 27 years experience in the energy sector, Akenerji is listed among Turkey's longest established companies, and in 2016 the Company focused on operating its existing power plants in an optimum manner relative to the market prices, and developing new projects that will create added value.

In addition to the electricity energy generated at its existing power plants in the previous year, the Company also continued to trade energy procured from other market participants. Akenerji's total trade volume grew by 56% in 2016 compared to the previous year, with a total volume of 16.5 TWh.

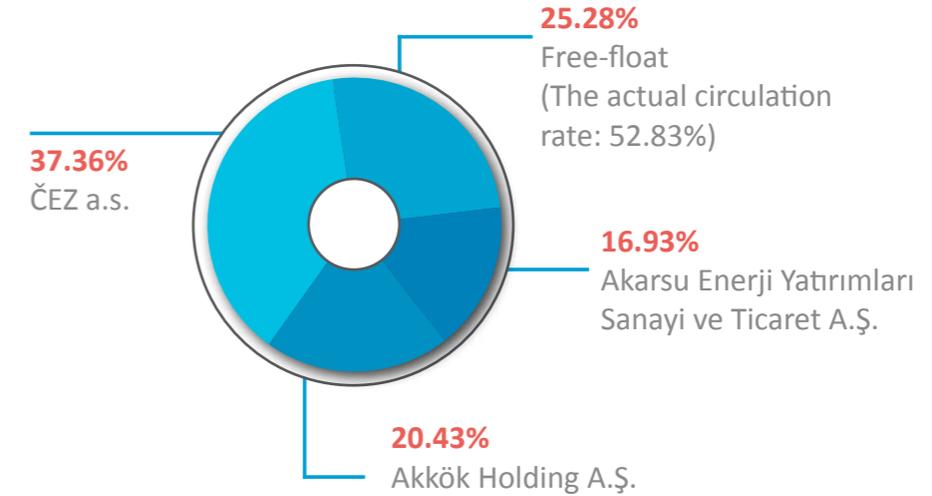
Renewable energy is one of the hot topics in recent years, not only in our country but also across the world. Following its initiatives in this area, Akenerji has become the representative of vision and stability in the sector. The Company has gone on to reshape its generation strategies to squeeze maximum benefit from renewable energy sources, and has continued operations oriented towards the necessary measures. One after the other, Akenerji has put 7 hydroelectric plants and 1 wind power plant into operation. As a result, 307 MW, which corresponds to 25% of Akenerji's installed power, is supplied from renewable sources as of 2016 year-end.

In 2016, Akenerji focused on evaluating capacity enhancement opportunities in the power plants that generate with renewable resources. Accordingly, the investment activity to boost the installed power in Ayyıldız to 28.2 MW from 15 MW, growing by 13.2 MW, was almost completed, and the additional investment was finalized towards the end of 2016. Market research is on going centered on adding wind and solar power based projects, which are high in capacity utilization rate and profitability in renewable energy, into the Company's portfolio.

Besides renewable energy, efficiency in energy generation is among the primary issues for Akenerji. The relevant works are maintained under a wide umbrella, from integrating new and efficient technologies into existing power plants, to employees' occupational training processes. The Company focuses on producing new ideas and projects that will enhance energy efficiency for industrial and commercial customers, with energy systems optimization and management services. Akenerji Energy Services aims to reduce energy costs and enhance their competitive edge with the wide variety of services on offer, from consultancy to asset management. The breakthroughs achieved by Akenerji, by effectively following the market conditions, will continue to serve as an example in the electricity generation sector.

Direct and indirect ownership interest by Akenerji and its Subsidiaries (%)

Affiliates	December 31, 2016	December 31, 2015
Akenerji Elektrik Enerjisi İthalat İhracat ve Toptan Tic. A.Ş.	100.00	100.00
Ak-El Yalova Elektrik Üretim A.Ş.	100.00	100.00
Egemer Elektrik Üretim A.Ş.	100.00	100.00
Ak-El Kemah Elektrik Üretim A.Ş.	100.00	100.00
Akenerji Doğal Gaz İthalat İhracat ve Toptan Tic. A.Ş.	100.00	100.00



A quarter-century success story

Having commenced operations in 1989 as an auto-producer group under the umbrella of the Akkök Group of Companies, Akenerji has been operating as an independent electricity generation company since 2005. Akenerji, the 50/50 joint venture between Akkök Holding, and Europe's leading power company, the ČEZ Group, has the sole capacity to meet 3.2% of Turkey's power need, with its total installed power of 1,211 MW as of 2016 year-end.

The Company sets an example in the sector with more than 27 years of know-how and prominence. Accordingly, the Company aims to sustain its balanced portfolio structure to protect its robust position in the sector, and to make electricity supply more secure. Akenerji completed the 904 MW Erzin Natural Gas Combined Cycle Power Plant in Hatay, and put it into operation during Q3 2014. With an annual generation capacity of 7.4 TWh, the power plant is one of the Akkök-ČEZ joint venture's key projects. Project works for Kemah Hydroelectric Power Plant, with 198 MW, which is planned to be established in Erzincan, are still continuing.

Corporate social responsibility is our crucial element

In recognition of the responsibility that befalls power companies in the creation of a secure future, Akenerji has taken each and every step with due consideration of its environmental and social responsibilities, throughout more than 27 years of experience.

In 2016, Akenerji was once again awarded in the 7th Turkey Energy Summit, which was first held in Ankara in 2010. At the Summit, Akenerji won the "Altın Voltaj" (Golden Voltage) award in the "Electricity, Fuel and LPG Sector Performance Awards" category, on the back of its "Virtual Power Plant Tender", the first of which was held in April and the second in November. This tender opened the capacity of Erzin Natural Gas Combined Cycle Power Plant to the stakeholders.

Boosting our brand value on the one hand, we also continued hydroelectric power plant introductions and informative presentations, developed for "living with locals" in the regions where our power plants are located. These activities continue among the best examples that Akenerji does, for and hand in hand with society. Hydroelectric power plant introduction and informative presentations, developed with the consciousness of living with locals, continued to be among the finest samples of the works that Akenerji conducts for and with society.

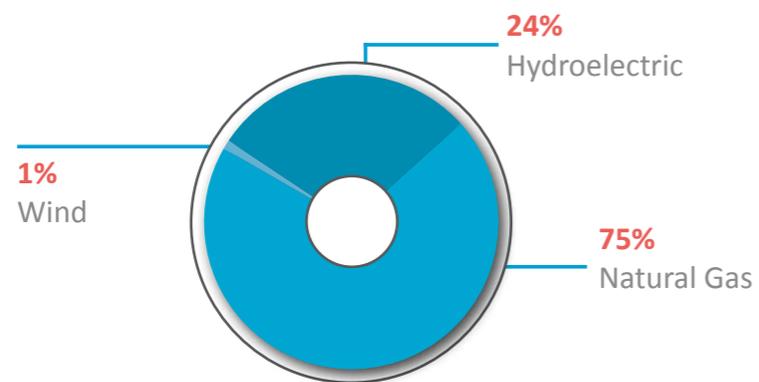
Operations Map

SMART POWER ALL
AROUND TURKEY WITH
AKENERJİ...



* Kemah is in the project phase.

Akenerji Breakdown of Installed Capacity by Source



Total Installed Capacity as of the End of 2016: 1211 MW

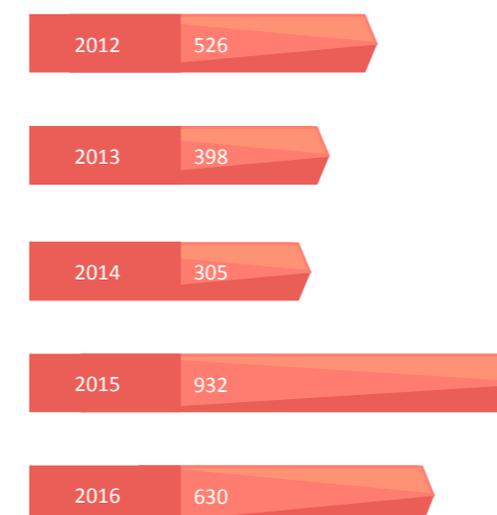


FINANCIAL AND OPERATIONAL HIGHLIGHTS

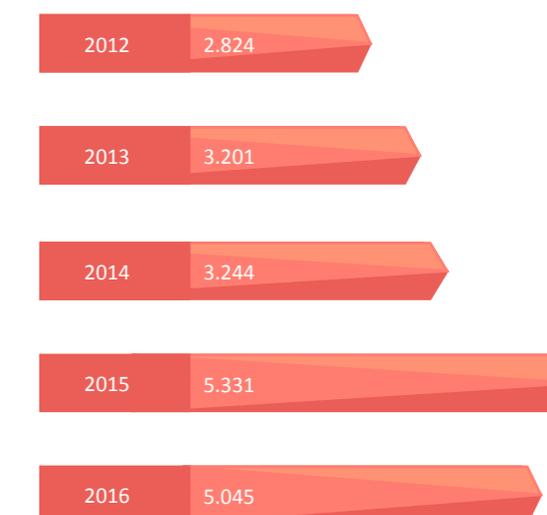
Consolidated Financial Indicators (TL million)	2012	2013	2014	2015	2016
Net Sales	802	771	1,125	1,803	1,421
Gross Profit from Sales	139	149	-11	159	44
Operating Profit	82	76	-75	140	64
Profit before Interest, Taxes, Depreciation and Amortization	136	136	26	296	234
Net Profit / (Loss)	81	-127	-321	-351	-549
Total Current Assets	526	398	305	932	630
Short Term Liabilities	485	382	614	370	566
Working Capital	11	-12	70	-13	-19
Tangible and Intangible Assets	1,720	2,513	2,617	4,165	4,088
Total Financial Liabilities	1,459	2,052	2,476	3,106	3,277
Total Assets	2,824	3,201	3,244	5,331	5,045
Total Liabilities	1,879	2,373	2,736	3,696	3,944
Total Shareholders' Equity	941	828	508	1,635	1,100
Cash and Cash Equivalents at the End of the Period	174	243	82	477	434
Capital Expenditures	239	899	224	10	109
Market Capitalization at the End of the Period - BIST	1,196	875	933	693	620
Average Number of Employees	314	310	288	265	232

As Kemalpaşa plant has been shut down due to the market conditions, the provision for impairment negatively affected 2013 EBITDA in the amount of TL 35.5 million.

Total Current Assets (TL million)



Total Assets (TL million)



Milestones

OUR EVERLASTING POSITIVE ENERGY STANDS BEHIND OUR ACHIEVEMENTS...

- 1989**
- ▶ Akenerji was founded on May 16, 1989 as the first electricity generation auto producer group in Turkey under Law No. 3096 on the "Assignment of Entities Other Than Turkish Electricity Authority (TEK) on Electricity Generation, Transmission, Distribution and Trading."
- 1993**
- ▶ Yalova Power Plant, which has an installed capacity of 59.5 MW, was gradually taken over from Aksa Akriklik Kimya Sanayi A.Ş.
 - ▶ Akenerji ranked 188th on the "Turkey's Top 500 Industrial Enterprises (ISO 500)" list compiled by the Istanbul Chamber of Commerce (ISO).
- 1996**
- ▶ Çerkezköy Power Plant with an installed capacity of 98 MW progressively became operational.
 - ▶ Alaplı Power Plant with an installed capacity of 6.3 MW was activated.
- 1997**
- ▶ Bozüyük Power Plant with an installed capacity of 132 MW became operational.
- 2000**
- ▶ Twenty-five percent of the Company's shares were offered to the public. Akenerji shares began to trade on the ISE under the "AKENR" ticker symbol.
- 2001**
- ▶ Çorlu Power Plant (10.40 MW), Orhangazi Power Plant (5.08 MW), Denizli Power Plant (15.60 MW), Uşak Power Plant (15.24 MW), Yalova Akal Power Plant (10.40 MW) and two turbines of the Gürsu Power Plant (10.40 MW) became operational.
- 2002**
- ▶ The capacity of Gürsu Power Plant increased to 15.60 MW.
- 2003**
- ▶ İzmir-Batıçım Power Plant was activated with an installed capacity of 45 MW.
- 2005**
- ▶ Akenerji underwent a status change and started to operate under the trade name of Akenerji Elektrik Üretim A.Ş. as an independent power generation company.
 - ▶ Akenerji was granted the right to operate Uluabat Hydroelectric Power Plant (100 MW) and Akocak Hydroelectric Power Plant (81 MW) for a period of 49 years at the hydroelectric power plant auctions held by the Energy Market Regulatory Authority (EMRA).



- 2006**
- ▶ İzmir Kemalpaşa Power Plant with an installed capacity of 127.2 MW was activated.
 - ▶ Akenerji acquired Akkur Enerji Üretim Tic. ve San. A.Ş., which has the licenses of Burç Bendi (28 MW), Feke I (30 MW) and Feke II (70 MW) hydroelectric power plants.
- 2007**
- ▶ Operations at Orhangazi, Uşak, Gürsu, Çorlu and Denizli power plants were ceased and the respective licenses were cancelled due to developments in the market.
 - ▶ Mem Enerji Elektrik Üretim Sanayi T.A.Ş., which held the license application for the Yamanlı III (Himmetli-Gökkaya 57 MW) project and the license of the Bulam Regulator and Hydroelectric Power Plant (7 MW), was acquired.
- 2008**
- ▶ Batıçım Power Plant was sold to Batıçım Enerji Elektrik Üretim A.Ş. and the license was transferred accordingly.
 - ▶ The license of Alaplı Power Plant was terminated as a result of market developments.
 - ▶ Akenerji won the SEDAŞ tender with the AkÇEZ consortium that was formed with the participation of the Akkök Group and Czech power company ČEZ.
 - ▶ Akkök Holding and ČEZ Group signed a 50/50 joint venture agreement in Akenerji.
- 2009**
- ▶ SEDAŞ management was handed over to AkÇEZ consortium with a ceremony held in Ankara on February 11, 2009.
 - ▶ Akenerji acquired Egemer Elektrik Üretim A.Ş. on March 20, 2009. Egemer, having a natural gas power plant project with a capacity of the approximately 900 MW in Erzin, Hatay, was the first investment of the Akkök-ÇEZ partnership and, at the same time, largest ever single investment decision made by Akenerji up to that date.
 - ▶ The license of the Yalova Power Plant was transferred to Aksa Akriklik Kimya Sanayi A.Ş. on April 30, 2009.
 - ▶ The share transfer transactions between Akkök Group and ČEZ were completed; ČEZ took over a 37.36% stake in Akenerji on May 14, 2009.
- 2010**
- ▶ Ayyıldız Wind Power Plant with an installed capacity of 15 MW was activated in September.
 - ▶ Akenerji acquired İçkale Enerji Elektrik Üretim ve Tic. A.Ş., which holds the license of Kemah Dam and Hydroelectric Power Plant with an installed capacity of 160 MW (later the company's name was changed to Ak-El Kemah Elektrik Üretim A.Ş. (Ak-El Kemah Electricity Generation Co.))

- ▶ Akenerji signed the first agreement for the purchase of the production capacity of a wind power plant with Polat Enerji. According to the agreement signed, Akenerji would purchase the entire production capacity of the company's power plants with an installed capacity of 100 MW by the end of 2010.
- ▶ Çınarcık Dam and Uluabat Kuvvet Tüneli Hydroelectric Power Plant started operations with an installed capacity of 100 MW.
- ▶ Akocak Regulators and Akocak Hydroelectric Power Plants became operational with an installed capacity of 81 MW.
- ▶ Burç Bendi Hydroelectric Power Plant with an installed capacity of 28 MW was activated.
- ▶ Bulam Hydroelectric Power Plant with an installed capacity of 7 MW was activated.
- ▶ Feke II Hydroelectric Power Plant with an installed capacity of 70 MW was activated.
- ▶ Akenerji's 2009 Annual Report was presented with Gold and Bronze awards in two categories at the League of American Communications Professionals (LACP), and with a Gold Award at the 24th "Academy Awards of Annual Reports" (ARC) competition.
- ▶ For the Head Office and Çerkezköy, Bozüyük, Kemalpaşa Power Plants, ISO 9001:2008 Quality Management System, ISO 14001:2004 Environmental Management System and OHSAS 18001:2007 Occupational Health and Safety documents and certifications were granted.
- ▶ Akenerji's first and most comprehensive Environmental, Health and Safety Annual Report was published and disclosed to all stakeholders.

2011

- ▶ Akenerji became the first energy company in Turkey that started to implement the EFET (European Federation of Energy Traders) agreement.
- ▶ Akenerji participated in the Crossborder Transmission Capacity Tender held by TEİAŞ (Turkish Electricity Transmission Co.) and started its energy import and export activities.



- ▶ Akenerji was awarded with the Energy Oscar, given for the first time in 2011 at the 17th International Energy and Environment Fair and Conference - ICCI. Having established the first cogeneration plant in Turkey, the Company won the award in the category of "Best Leading Investor of the Year."
- ▶ Ayyıldız Wind Power Plant joined the plants that have ISO 9001:2008 Quality, ISO 14001:2004 Environmental and OHSAS 18001:2007 Occupational Health and Safety Management Systems certifications.
- ▶ Akenerji joined the Carbon Development Project (CDP) Turkey and became one of the two energy companies that perform CDP reporting.
- ▶ Akocak, Uluabat, Burç Bendi, Bulam and Feke II HEPPs received ISO 9001:2008 Quality, ISO 14001:2004 Environmental and OHSAS 18001:2007 Occupational Health and Safety Management Systems certifications.
- ▶ Bozüyük Natural Gas Power Plant was selected the "The Cleanest Industrial Plant" and awarded with an "Environmental Certificate" within the scope of June 5th, World Environment Day.
- ▶ Himmetli Hydroelectric Power Plant with an installed capacity of 27 MW commenced operations.
- ▶ Feke I Regulator and Hydroelectric Power Plant with an installed capacity of 30 MW commenced operations.
- ▶ Gökkaya Dam and Hydroelectric Power Plant with an installed capacity of 30 MW commenced operations.
- ▶ The license of Çerkezköy Natural Gas Power Plant was terminated on December 31, 2012 in consideration of current and future market conditions.

2013

- ▶ The necessary additional investment of Feke II Plant was ensured with an installed capacity of 70 MW to deliver secondary frequency service.
- ▶ Akenerji carried out Turkey's first options transaction for electricity capacity trade at SEPAŞ for 250 MW.
- ▶ Egemer Elektrik Üretim A.Ş. financed the construction of the Şehit Uğur Ekiz Technical and Industrial Vocational High School in the Erzin district of Hatay.



2014

- ▶ ISO 9001:2008 Quality, ISO 14001:2004 Environmental and OHSAS 18001:2007 Occupational Health and Safety Management Systems certification of the Head Office and Bozüyük, Kemalpaşa, Ayyıldız, Akocak, Uluabat, Burç Bendi, Bulam and Feke II power plants were renewed successfully.
- ▶ The Company initiated CRM projects designed to maximize customer satisfaction.
- ▶ At the Corporate Social Responsibility (Bronze) and Environment (Gold) Awards competition by the Aegean Region Chamber of Industry (EBSO), Akenerji received Second Prize in the Environment category and Third Prize in the Environmental Corporate Social Responsibility category.
- ▶ The Carbon Management Project was launched.
- ▶ Akenerji issued its Sustainability Report 2012 in line with Global Reporting Initiative principles and shared it with stakeholders.
- ▶ Provisional acceptance by the Republic of Turkey Ministry of Energy and Natural Resources of the 904 MW-installed capacity Erzin Natural Gas Combined Cycle Power Plant, construction of which began in October 2011, has been completed in all units, and the plant started business operations at full capacity as of June 5, 2014.
- ▶ The licenses for the Kemalpaşa and Bozüyük Natural Gas Combined Cycle Power Plants were terminated as of October 30, 2014 pursuant to the application made by the Company.
- ▶ The necessary studies for the establishment of an Authorized Agency Network have been completed, and the Company began signing contracts with agencies.
- ▶ As well as creating a competitive advantage, customer satisfaction was also improved by introducing new products and services to meet customers' energy needs, with the "Smart Power" approach.
- ▶ Feke I, Himmetli and Gökkaya HEPP have joined the plants which were granted the ISO 9001:2008 Quality Management System, ISO 14001:2004 Environmental Management System and OHSAS 18001:2007 Occupational Health and Safety documents and certifications.

2015

- ▶ Erzin Natural Gas Combined Cycle Power Plant was among the power plants obtaining ISO 9001:2008 Quality, ISO 14001:2004 Environment and OHSAS Occupational Health and Safety Management System certifications.
- ▶ ISO 27001 Information Security Management Systems Certification was awarded for Head Office, Ulubat Hydroelectric Energy Power Plant and Erzin Natural Gas Combined Cycle Power Plant.
- ▶ Akenerji became the first Turkish power company to publish a 2014 Sustainability Report using G4, the most recent version of The Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI).
- ▶ Akenerji ranked as the first power company in Turkey to be included in the CDP Water program on a voluntary basis in 2015.
- ▶ EMRA's approval was obtained to expand Ayyıldız WPP's capacity from 15 MW to 28.2 MW.
- ▶ Taking a proactive line, Akenerji signed a US\$ 1.1 billion loan agreement with Yapı Kredi to refinance the existing loans, in order to maintain its operations in a healthy financial structure.

2016

- ▶ Akenerji was the first company to apply virtual power plant tender in Turkey.
- ▶ Upon the 2015 revision of ISO 9001 Quality management systems and ISO 14001 Environment management systems standards, Akenerji obtained the ISO 9001:2015 Quality and ISO 14001:2015 Environment Management Systems certifications for Egemer Head Office, Ayyıldız WPP, Ulubat HPP, Burç HPP, Bulam HPP, Feke I HPP, Feke II HPP, Himmetli HPP, Gökkaya HPP and Erzin NGCCPP. Continuity of OHSAS 18001:2007 Occupational Health and Safety and ISO 27001 Information Security Management System certifications was ensured.
- ▶ Sale of Akocak Hydroelectric Power Plant and related equipment was completed as of 04.02.2016.
- ▶ Akenerji 2015 Sustainability Report received the Bronze Award in the League of American Communication Professionals (LACP).
- ▶ Akenerji is the only electricity generation company participating in the CDP (Carbon Disclosure Project) Turkey 2016 Water Program, and raised its performance from C to B.
- ▶ Investment activities to boost the installed power in Ayyıldız Wind Power Plant to 28.2 MW were almost completed, and the additional investment was finalized towards the end of 2016.



THE UNDERSTANDING OF “SUSTAINABLE DEVELOPMENT” IS A KEY COMPONENT IN CREATING AKKÖK HOLDING’S FUTURE PERSPECTIVES AND STRATEGIES. IN ADDITION TO FULFILLING THEIR FINANCIAL OBLIGATIONS, ALL GROUP COMPANIES ACT AS GOOD CORPORATE CITIZENS, AND STRIVE TO ADD VALUE TO SOCIETY, THE NATURAL ENVIRONMENT, AND THE ECONOMY AS A WHOLE IN ALL THEIR OPERATIONS.

Founded in 1952 by the late Raif Dinçkök, and with deep know-how spanning 65 years, Akkök Holding ranks among the most well established industrial groups in Turkey. The Group conducts operations in the fields of chemicals, energy and real estate, with 18 commercial and industrial enterprises, one of which is overseas, and with 18 production plants. By closely following the trends in the world’s markets and in its operating industries, Akkök Holding aims to catch up with the global competition, and achieve world-class standards together with all the companies under its roof.

With an annual installed production capacity of 315,000 tons, Aksa is the only domestic acrylic fiber manufacturer in Turkey. The Company holds a 17% global market share in acrylic fiber production, and supplies the textile and industrial textile industries in more than 50 countries across five continents. In 2009, after improving its technology infrastructure, Aksa commenced production of carbon fiber, which is considered one of the most vital raw materials of the 21st century.

DowAksa was established in 2012 as a joint venture of the Dow Chemical Company and Aksa Acrylic San A.Ş., with the aim of providing a wide range of products and technical services to the global composites industry, whose raw material is carbon fiber. Thanks to Dow’s knowledge and experience in resins, and Aksa’s infrastructure, which allows for growth, today DowAksa is one of the strongest companies vying for leadership in the production of carbon fiber and carbon fiber intermediate materials market. Moreover, DowAksa is the first and only Turkish company in the carbon fiber industry. DowAksa provides carbon fiber composite solutions to industrial sectors, namely the energy, transportation, defense and infrastructure sectors. The Company develops solutions aiming to reduce total costs, and offers a wide range of products to the fast-growing carbon fiber composite sector. With the support of technical service, DowAksa expanded its product range, and the Company also conducts global scale business development activities.

Turkey’s pioneer chemicals company Ak-Kim was established in Yalova in 1977, and over time it expanded its production activities in various locations around Turkey. Ak-Kim is a global chemicals company serving customers on 5 continents with its broad product portfolio, including Chlor Alkali and derivatives, Methylamines, Persulfates, Hydrogen Peroxides, Bisulfites, Textile auxiliaries, Paper and Water treatment chemicals, Cement and concrete additives. With a total capacity of 600,000 tons, Ak-Kim produces more than 500 chemical substances and auxiliary materials, and it produces with high environment friendly technology. Since 2002, the Company has sold its know-how and technologies to companies abroad, and offers different types of services from engineering engagements to key-ready commitments. In line with its growth strategy, Ak-Kim established AKFERAL in 2013, on an equal partnership basis with the Feralco Group, the second major producer of water treatment chemicals and coagulants in Europe. In 2015 Ak-Kim, acquired Gizem Frit, one of the world’s leading enamel and ceramic frit producers, and thus entered a new market. Expanding its activities in water treatment solutions with the Ultrafiltration Module, which uses perforated fiber made from high quality PVDF materials, and is produced by Ak-Kim with a formula it developed in 2015, Ak-Kim has also been the leader of the Ultrafiltration Module production sector with this investment in Turkey and its near periphery.

Akiş REIT, the real estate investment company operating under Akkök Holding, continues to develop projects that help improve quality of life in the regions where it operates. The Company runs Akbatı Shopping Mall and Life Center, as well as the Akasya projects, and it is also developing street retail projects on Bağdat Street as an alternative to shopping mall investments. The Company aims to provide consistent dividend income to shareholders through regular rental incomes, which will be augmented by these investments. Akiş REIT became one of the key players of the sector upon the merger with Saf REIT, registered on January 18, 2017. Akiş REIT consistently follows changing sector trends and socio-economic developments closely, and aims to sign off on prominent projects in the real estate sector.

Since its opening, Akmerkez has been investing in the future and has been the leader in creating new values. Akmerkez has been a hotspot for intimate experiences, and the most popular meeting point in the city, with distinguished brands and stores, shopping, entertainment facilities and food court, since 1993.

Another company belonging to Akkök Holding, whose success in the real estate industry has been inscribed with the Akmerkez Shopping Mall investment, is SAF REIT, which has reinforced the holding’s reputation in the real estate industry with activities that add value to society as a whole. Akasya, opened

in the first quarter of 2014, bringing a breath of fresh air to the Anatolian Side, and the KidZania Istanbul is a vital social platform to teach children, while also entertaining them. Akiş REIT and Saf REIT have become the key players of the sector, merging under Akiş REIT.

Starting its activities as an auto-producer group in the Akkök Group of Companies in 1989, Akenerji has been operating as an independent power generation company since 2005. The Company, a 50:50 strategic joint venture of Akkök Holding and CEZ Group, Europe’s leading energy company, has the sole capacity to meet 3.2% of Turkey’s energy need, with total installed capacity of 1,211 MW. Having made notable strides in sustainable energy, Akenerji, with a total installed capacity of 307 MW, has raised the share of sustainable energy sources to 25%, with 7 hydroelectric power plants and one wind power plant. Project design works for the Kemah Hydroelectric Power Plant, with a capacity of 198 MW, and which is planned to be built in Erzincan, are ongoing.

Sepaş Enerji was separated from the distribution companies as per the Energy Market Regulatory Authority’s decision, “Practices and Principles on Legal Separation of Distribution and Retail Sales Activities”, and was established on January 1, 2013. Sepaş Enerji extends its services across Turkey, mainly in Bolu, Düzce, Sakarya and Kocaeli, the supply region, to a total portfolio of 1.6 million, with combined domestic and international strength. In 2016, Sepaş Enerji supplied energy to an average portfolio of 1,026 MW, and its total sales volume reached 8.989 GWh.

Sakarya Elektrik Dağıtım A.Ş. (SEDAŞ) has been running power distribution services 24 hours a day in Sakarya, Kocaeli, Bolu and Düzce, covering a total area of 19,421 square kilometers across 4 provinces, 45 districts, 47 municipalities, 1,441 villages, 1.6 million consumers and a population of 3.4 million, with 1,700 employees. Within the scope of power distribution activities, SEDAŞ aims to provide high-quality, uninterrupted power distribution services to the subscribers in its region, and immediately intervenes in the event of breakdowns. SEDAŞ conducts power distribution services through 33 distribution centers and 21 Customer Service Centers.

For a sustainable future The understanding of “Sustainable Development” is a key component in creating Akkök Holding’s future perspectives and strategies. Akkök Holding prepared its first Sustainability Report in 2012, with detailed information on the performances and practices regarding the environment and society, as well as ethics and the economy. The report applied international reporting standards in accordance with GRI (Global Reporting Initiative), and acquired an approval of level C. In the 2013-2014 period, a second sustainability report, which consisted of the operations of Akkök Holding, Aksa Akriplik, Ak-Kim Kimya, Akenerji and Akiş REIT, was prepared and published within the framework of G4 reporting. Akkök Holding continues to share its sustainability engagements with the public through the Global Compact Progress Report.

Akkök Holding signed the United Nations Global Compact in 2007, and thus further strengthened the principles of openness and accountability that are adopted by all Group companies. In the Group’s relationships with all social stakeholders, particularly employees, customers, suppliers and shareholders, Akkök Holding adheres to these two fundamental principles. In addition to fulfilling their financial obligations, all Group companies act as good corporate citizens, and strive to add value to society, the natural environment, and the economy as a whole in all their operations.

Akkök Business Ethics Principles

“Akkök Holding Business Ethics Principles” are determined in line with the corporatization process, both in personal attitude and business ethics rules, with its long-established practices.

Akkök Holding Business Ethics Principles and supporting policies are instructive in relations with employees, shareholders, suppliers, customers, vendors, other stakeholders and the public. Acting in accordance with Akkök Holding Business Ethics Principles means a working environment with cooperation involving mutual respect, as well as reputation and compliance with the law.

Employer Brand

Today, Akkök Holding has a total of 5,000 employees. As part of Employer Brand engagements, values are internally reinforced, while the brand is expanded with external activities.

AKKÖK HOLDING IN BRIEF

BESIDE THE CZECH REPUBLIC ČEZ GROUP SELLS ELECTRICITY OR NATURAL GAS TO END CUSTOMERS IN ROMANIA, BULGARIA, TURKEY, HUNGARY, POLAND, AND SLOVAKIA, IN PARTICULAR.

Headquartered in the Czech Republic, ČEZ Group is an established, integrated energy conglomerate with operations in a number of Central and South-eastern European countries and Turkey. The Group's core business is the generation, distribution, trade in and sales of electricity and heat, trade in and sales of natural gas, coal extraction, and energy services. ČEZ Group companies employ over 26,000 people.

The largest shareholder of its parent company, ČEZ, a. s., is the Czech Republic with a nearly 70% stake in the Company's share capital (as at May 27, 2016). ČEZ, a. s. shares are traded on the Prague and Warsaw stock exchanges and included in the PX and WIG-CEE exchange indices.

ČEZ Group's mission is to provide safe, reliable, and positive energy to its customers and society as a whole; its goal is to bring innovations for resolving energy needs and to help improve the quality of life. Its strategy reflects the major transformation of Europe's energy market. ČEZ Group wants to operate its power assets as efficiently as possible and adapt to the growing share of decentralized and zero-emission generation. Another of its priorities is to offer its customers a wide range of products and services in synergy with the sale of electricity and gas. Its third priority is to invest actively in promising energy assets with focus on the Central European region and in support for advanced technologies in an early stage of development.

ČEZ Group companies in the Czech Republic extract and sell coal, generate and distribute electricity and heat, trade in electricity and other commodities. They sell electricity, heat, and natural gas to end customers, offer them electricity generation and storage facilities, and provide them with other services, especially in relation to energy savings. Their power generation portfolio consists of nuclear, coal-fired, gas-fired, hydroelectric, photovoltaic, wind and biogas facilities. To ensure continuity of ČEZ Group's successful market presence in the Czech Republic, which it considers crucial for its business, its power generation portfolio is being renewed, upgraded, and developed extensively, as well as its distribution network.

ČEZ Group's activities abroad consist mainly of electricity distribution, generation, trading, and sale. ČEZ Group is the owner or co-owner of generation and distribution assets in Germany, Poland, Romania, Bulgaria, Turkey, and Slovakia. ČEZ Group's subsidiaries in the Netherlands and Ireland are ownership intermediaries and companies providing its financing.

In Germany, ČEZ Group operates several wind parks and is active in new decentralized energy through its investment fund, INVEN CAPITAL. In Poland, ČEZ Group operates two hard coal-fired power plants and two hydropower plants near the country's border with the Czech Republic and owns a developer preparing the construction of wind parks. In Romania, ČEZ Group operates hydropower plants, the biggest onshore wind park in Europe and is involved in electricity distribution and sales. In Bulgaria, it distributes and sells electricity in the western part of the country. In Turkey, ČEZ Group and its local partner operate a distribution and sales company and generate electricity in gas-fired and hydroelectric power plants and a wind park.

In many European countries, ČEZ Group trades in electricity and other commodities on wholesale markets. Beside the Czech Republic ČEZ Group sells electricity or natural gas to end customers in Romania, Bulgaria, Turkey, Hungary, Poland, and Slovakia, in particular.

ČEZ Group's business activities are governed by strict ethical standards that include responsible behaviour toward employees, society and the environment. In its business activities, ČEZ Group embraces the principles of sustainable development, supports energy efficiency, promotes new technologies, and creates an environment for employees' professional growth. Its corporate culture emphasizes safety, continuous growth in internal efficiency, and support for innovation in order to increase ČEZ Group's value.

For more information you may visit ČEZ Group website www.ČEZ.cz/en.

ČEZ IN BRIEF



VISION, MISSION, CORPORATE VALUES AND AKENERJI EMPLOYEES

Mission

To make reliable and long-term contributions to Turkey's energy needs by operating with a quality-focused approach at every stage of the energy sector value chain.

Vision

To maintain its leading position in the Turkish energy sector and become one of the largest integrated companies that shape the industry.

Corporate Values

Reliability

Reliability and stability are among the leading and indispensable values in the energy sector. In this context, Akenerji sets out the principles of openness and reliability in its activities at the forefront. The Company shares accurate and up-to-date information with its customers, shareholders, suppliers and employees in a clear and understandable manner. In addition, the Company pays attention to fulfilling its commitments in a timely and thorough manner in all circumstances.

Integrity

As an integral part of Akenerji's corporate culture, integrity and high ethical professional values have been reflected in all activities of the Company since its inception. Akenerji always remains loyal to these values in its relations with customers, employees, shareholders, group companies, banks, and other institutions and organizations.

Accountability

Akenerji's Board of Directors and senior management carry out their duties by giving priority to the Company's profitability and the interests of the shareholders; the Board and executive management are accountable to the Company's legal entity and therefore to the shareholders.

Transparency

Knowing that effective communication is the foundation of reliability, Akenerji discloses developments regarding the Company with its customers, employees, shareholders, the supervisory authorities and with the public on a regular basis. With the exception of information regarded as trade secrets and not yet publicly disclosed, financial and non-financial information related to the Company are disclosed to the public in an accurate, understandable, interpretable and easily accessible manner and simultaneously to all stakeholders. The Company's customers are informed in a clear and understandable manner about the products of Akenerji.

Customer Satisfaction

The Company always gives top priority to customers' needs and expectations and aims to provide continuity in customer satisfaction via sustainable quality and superior service.

Social Responsibility

Akenerji pays attention to providing benefit to society and the environment through its investments and supports social and cultural activities in this respect. With its careful, consistent and reliable management style, the Company adds value to society with its environmentally aware approach, in addition to its operational excellence and profitability.

Competences of Akenerji Employees

Communication

Akenerji employees place emphasis on sharing information and ideas, and utilize a variety of written and/or verbal tools for this purpose. They ensure that information conveyed to individuals and/or groups is understood, and follow up developments in this respect.

Persuasion

Akenerji employees carry out activities within the framework of the corporate culture on the basis of ideas and plans they believe to be correct. They exhibit appropriate attitudes and conduct towards different people, situations and tasks through their communication skills.

Results Orientation

Akenerji employees, who are driven for continuous improvement, work with determination to meet or exceed the high targets set both for them and for their teams, and, by regularly measuring the progress made towards these targets, develop new strategies.

Creating Collaboration

Akenerji employees effectively attain their business goals through collaborations established within their work area, with other work areas, teams, departments and units.

Planning and Organizing

Akenerji employees create action plans for themselves and their teams to complete their work with the highest degree of quality and efficiency.

Decision Making

The first action of an Akenerji employee facing a challenging situation is to identify and understand problems and opportunities. Employees analyze data from different sources. Taking into account the data provided, constraints and the possible consequences, they determine the approach that would lead to an optimal solution, and take action accordingly.

Customer Focus

Akenerji employees accept the customers' needs and expectations as the core of all business activities, and place importance on improving the efficiency of customer relations for this purpose.

Message From the Chairman of the Board of Directors

Dear Shareholders,

2016 bore witness to a slew of incidents that affect regional and global balances, for the world and equally so for Turkey. The “July 15 coup attempt” and terror incidents occurring one after another in our country shook us all to the core. Other developments in the world also marked the year. The violence in Syria rages on, and the refugee drama continues. Republican Donald Trump became the new President of the USA. Brexit, England’s decision to exit the EU, was also among the most significant developments of the year.

As for our country, it was another challenging year for the energy sector with the impact of the decline in growth figures, depreciation in the Turkish Lira, surplus in electricity markets, low prices, and developments in the global economy. We expect that the impacts of these developments in 2016 will continue into 2017.

In spite of all the fluctuations in our country and the global economy, our fundamental strategy at Akenerji is to operate our existing power plants to the optimum in line with market prices, and to develop new projects that will create added value for our company.

With more than 27 years of experience in the sector, our company is still among the leading companies directing Turkey’s energy sector, with an installed capacity of 1,211 MW as of 2016 year-end.

However, we face another challenging year.

Bearing in mind the fact that private sector foreign long-term loan debt reached US\$ 207.5 billion as of November 2016, the hike in exchange rates concerns us.

Despite these figures, the “energy sector” has managed to incessantly continue on its path.

At Akenerji, we prefer to focus not simply on generating energy, but on generating efficient energy. One of the sector’s most crucial issues is the extent of efficiency problems at energy power plants in Turkey. The power plants belonging to the public sector, and operating with old generation technology, continue with inefficient generation. Allied with the failure of new generation power plants to operate at an optimum level, this continues to create additional costs for the economy, not to mention the fact that the old power plants are running on the build-operate-transfer model.

We believe that the distortionary effect on the market should be eliminated, primarily by cutting the public sector’s weight in the electricity market, in 2017. Taking efficiency as a base, while operating the existing power plants ensures cost advantages on the one hand, it will also help reduce the current account deficit arising from natural gas consumption.

In order for the sector to healthily fulfill its function, and to ensure the security of sustainable supply in the middle and long term, it is crucial that we advance and quickly complete the engagements to establish liberalization and a competition based market.

In a free market system, electricity tariffs must be determined on a cost basis, and the public sector should not interfere in market price formation. Intervention on tariffs or applied subventions lead to an atmosphere of uncertainty in the long term, and have a disruptive effect on market structure, which also makes it difficult to make investment decisions. Cost based pricing, one of the fundamental features of a free and competitive market, is essential both for optimal operation of existing power plants, and for

PREDICTABILITY AND TRANSPARENCY IN THE MARKET IS THE MOST SIGNIFICANT FACTOR FOR INVESTORS. SINCE INVESTMENTS IN THE ENERGY SECTOR ARE LONG-TERM, THIS FURTHER REINFORCES THE VALUE OF PREDICTABILITY IN THE SECTOR.



“With more than 27 years of experience in the sector, our company is still among the leading companies directing Turkey’s energy sector, with an installed capacity of 1,211 MW as of 2016 year-end.”

Ahmet Cemal Dördüncü
Chairman of the Board of Directors

ensuring supply security by giving an accurate price signal for investments that will come into play. A solution for this situation can only be possible when the public sector operates the existing power plants it owns in free and competitive market conditions, and by forming cost based pricing as a market player until the privatization is completed, and the public sector’s share is curtailed.

Akenerji will continue engagements on capacity utilization in the renewable power field in 2017, and our advances in energy efficiency will carry on without pause. The work that we do under the principles of respect for nature, sustainability and social responsibility will continue to add value to Turkey in 2017.

I extend my sincere gratitude to our invaluable employees, who contribute hugely towards Akenerji’s recognition for power and reliability, our shareholders, loyal customers, financiers who support us in all circumstances, and all of our esteemed stakeholders, whose trust we strive to be worthy of.

Sincerely,

Ahmet Cemal Dördüncü
Chairman of the Board of Directors

Message From The CEO

Dear Shareholders,

2016 was a challenging year for the energy sector with the impact of a decline in economic growth figures, depreciation in the Turkish Lira, surplus in the electricity market, low prices and developments in the global economy. We predict that the impacts of these developments will continue in 2017.

Akenerji's fundamental strategy in 2016 was to operate our existing power plants optimally according to market prices, and to develop new projects which will add value to our company.

Despite fateful incidents such as the "July 15 coup attempt" and terror attacks occurring one after another, at Akenerji we continued our activities without pause, to carry our country onward.

The year panned out in line with our expectations for operational profitability, thanks to the precautions we took, the proper trade strategy we adopted, and our product diversification and risk management, in spite of all the turbulence. As for Akenerji, our earnings before interest, taxes, depreciation and amortization ("EBITDA") as of 2016 year-end registered at TL 234 million. Despite low market prices, Erzin Natural Gas Combined Cycle Power Plant operated with the low cost advantage made possible by its high efficiency. We also achieved positive results from our hydroelectric power plants in terms of production and hydrology. Alert to all short and long term liabilities, Akenerji took the necessary steps to sustain its operations in a healthy financial structure, with a proactive approach. Renewable Energy Sources Support Mechanism sales, and the fact that a portion of a dollar-based cash and refinance loan was used in TL, minimized Akenerji's exposure to exchange rate risk.

In the previous year, we focused on evaluating capacity enhancement opportunities in the power plants that generate with renewable resources. Accordingly, the investment activity to boost the installed power in Ayyıldız to 28.2 MW from 15 MW, growing by 13.2 MW, was almost completed, and the additional investment was finalized in the last days of 2016. The capacity expansion of Ayyıldız power plant corresponds to the electricity requirements of 15,000 homes as per "Gold Standard" criteria, within the scope of reducing Green House Gas Emissions.

Just like in the previous year, we plan to continue virtual power plant tenders, which are among the projects that we pioneer in the sector. We will maintain our projects oriented towards energy efficiency, which is key to added value.

Energy trade is one of the key activity areas adding value to Akenerji without incurring asset based capital expenditure. In 2016, Akenerji power plants generated a total of 3.7 TWh, 24% of which is from renewable resources. Akenerji's total trade volume grew by 56% over the previous year, to 16.5 TWh. In 2016 we participated in RERSM (Renewable Energy Resources Support Mechanism), which we had only partially applied in previous years, with all of our renewable electricity generation resources, and gained 74% supplementary income compared to spot income. In addition to our generation portfolio, Akenerji included the additional resource of 4.0 TWh that we obtained from other market participants into our portfolio, and hence boosted our trade significantly and gained added value.

As an indicator of the value we place on "product diversity", in 2016 we initiated the "market access services", the foundations of which were laid in 2015. We provided 1.8 TWh of the market's energy supply for our customers.

Just as in previous years, we continued our success and awards with our activities in social responsibility and sustainability in 2016. In all of our activities, our fundamental principles were to add value to our country, contribute to the environment and be beneficial for society.

With this principle, "We say that water is vital for us and we continue to do our best to protect water and pass it on to the following generations." These efforts were appreciated by CDP, the "world's strongest and most efficient non-governmental organization, which focuses on the protection of natural resources." We were the "only electricity company" in the CDP Turkey 2016 Water program, and our performance score rose from C to B.

We reinforced our high-standard environment and society friendly service concept with the Carbon Development Project (CDP), Turkey Climate Change Report, and Water Report, in which we participate voluntarily, informative meetings for locals that we organize in power plant regions, and with our GRI Sustainability Report.

Our pioneer steps in the energy sector were deemed noteworthy this year as well, and Akenerji was once again awarded in the 7th Turkey Energy Summit. The project "Virtual Power Plant Tender", organized by Akenerji, first in April then in November, and where Akenerji opened the capacity of the Erzin Natural Gas Combined Cycle Power Plant to its stakeholders, won the "Altın Voltaj" (Golden Voltage) award.

AS AN INDICATOR OF THE VALUE WE PLACE ON "PRODUCT DIVERSITY", IN 2016 WE INITIATED THE "MARKET ACCESS SERVICES", THE FOUNDATIONS OF WHICH WERE LAID IN 2015.



"The year panned out in line with our expectations for operational profitability, thanks to the precautions we took, the proper trade strategy we adopted, and our product diversification and risk management, in spite of all the turbulence."

Ahmet Ümit Danişman
Chief Executive Officer

For 2017, an environment is expected in which the economy will be more stable compared to the previous year, and exchange rate balance will be achieved. We hope that uncertainties will be eliminated for investors, and a better investment environment will be established with reliable and predictable growth.

A transparent, competitive and predictable market system is vital for the operating power plants to sustain their activities, and for the new investments that will ensure power supply security in the medium and long term.

Dear colleagues and esteemed business partners,

This is my farewell message as "Akenerji General Manager". My Akenerji journey started in January 2008, and has run its course as of January 2017. Together we have achieved historic success in this period. Our first period saw intensive investments, and we implemented one major project after another. We opened the 15 MW Ayyıldız Wind Power Plant in 2009; 81 MW Akocak, 100 MW Uluabat, 28 MW Burc Bendi, 7 MW Bulam, 70 MW Feke II Hydroelectric power plants in 2010; 27 MW Himmetli, 30 MW Feke I and 30 MW Gökkaya Hydraulic power plants in 2012; and finally we opened the 904 MW Erzin Natural Gas Combined Power Plant in 2014. We subsequently persevered with making breakthroughs in operational excellence and energy trade, which made us one of the foremost institutions directing the energy sector in Turkey.

I wish the greatest of success to my successor, the new General Manager Serhan Gençer, to whom I handed over this privileged position as of January 1, 2017. I am fully confident that Akenerji will make further strides under Mr. Gençer's leadership and with your continuous dedication.

I extend my sincere gratitude to the Akenerji Board Members and CEZ and Akkök Group representatives, and to the invaluable shareholders who have always supported me during my tenure.

I thank each and every one of you for your 9-year companionship and contribution to Akenerji.

Sincerely,

Ahmet Ümit Danişman
Chief Executive Officer

Energy Sector in Turkey and the World



World

Upon the execution of the Paris Agreement in the last months of 2016, combatting climate change has become one of the intense topics of international society. While the threats created by climate change become more evident for humanity, the failure of global economic growth to attain the desired pace exposes countries to a double-sided menace. In this conjuncture, it is expected that the transformation in energy will lead to considerable structural changes.

According to the projections* of the International Energy Agency (IEA), global energy demand will grow by 30% by 2040. It is expected that global natural gas demand will also expand by 50% within the same period. While it is envisaged that oil demand growth will decelerate, the increment in coal demand is predicted to come to a halt as a result of environmental concerns. It is accepted that a considerable portion of global investment capital will be transferred from conventional resources to renewable resources in this period. Again, as per the IEA's estimates, almost 60% of the total capacity established by 2040 will come from renewable resources. It is understood that one of the main reasons for this remarkable rise in the share of renewable energy is rapidly falling costs.

The majority of the renewable energy capacity growth by 2035 is expected to come from large energy markets such as China, the USA, the European Union and India. Allied with the boost in renewable resources' share of energy generation, their system integration and renewal of their existing infrastructure accordingly are critical.

Combatting climate change will accelerate in the coming period. The upward trend of energy based carbon oscillations came to a halt in 2015. Along with the efforts of certain countries to meet the conditions of the Paris Agreement, these are already promising developments. In this context, even though the Paris Agreement is a notable step, it is critical to establish the mechanisms which will enable follow-up and implementation of countries' commitments towards the goal of keeping global warming under 2°C, and eliminating the threats caused by climate change for humanity.

In addition to the spread of renewable energy, the prospective reduction in the use of fossil fuels, the future positive developments in energy efficiency, the coming developments in carbon storage, technologies such as electric cars, and appropriate government policies will play significant roles in the struggle against climate change. In light of the foregoing, the IEA estimates that emissions arising from power generation will drop from 515 g CO₂/kWh to 335 g CO₂/kWh by 2040.

UPON THE EXECUTION OF THE PARIS AGREEMENT IN THE LAST MONTHS OF 2016, COMBATTING CLIMATE CHANGE HAS BECOME ONE OF THE INTENSE TOPICS OF INTERNATIONAL SOCIETY.

* World Energy Outlook (WEO), November 2016

Turkey

Manufacturing companies in the private sector enhanced their share in total electricity generation from 48% in 2015 to 56% in 2016. About 33% of total generation came from natural gas power plants in 2016, while 33% was generated by coal power plants, followed by hydroelectric power plants with 25%, and wind power plants with 6%.

Turkey's total installed capacity has reached 78,497 MW with the addition of 5,350 MW installed capacity that came into operation in 2016.

Upon the establishment of Enerji Piyasaları İşletme Anonim Şirketi (EPIAŞ), significant steps were taken towards the liberalization and transparency of Turkey's energy sector. Growth was recorded in the share of free producers with continuing privatizations in 2016. The year saw privatization tenders for a total capacity of 482 MW. Furthermore, tenders were announced to utilize coalfields and renewable resource areas in energy production by the private sector, in order to benefit from local resources and reduce foreign source dependency. It is critical for Turkey that both public and private sector players work jointly to make all these privatization transactions in the most productive and efficient way possible, and that they integrate the renewable resources into the current system and curtail the dependency on foreign sources in 2017. Natural gas outages that occurred in the last weeks of 2016, and the problems in the infrastructure and consequent large-scale power cuts, once again demonstrated the crux of the matter.

The share of renewable energy in the installed power portfolio goes up by the year in Turkey, just as in the whole world. Renewable energy's share in total installed power was recorded at 44% in 2016. In parallel with the global energy sector, the share of solar energy is expected to climb in Turkey in 2017 and after. After the certified solar energy power plant projects became operational in 2016, total installed power rose to 832 MW.

The Renewable Energy Resources Support Mechanism (RERSM) became more attractive to free producers due to the recent fluctuations in power sales prices and exchange rates, which also continued in 2016. 647 power plants, with a total installed power of 17,382 MW, will benefit from RERSM in 2017. 64% of these are hydroelectric power plants, followed by wind power plants with 30%, and geothermal power plants with 4%.



“While growth of 2.2% was observed in Turkey's economy during the first three quarters of 2016, total electricity demand in 2016 rose by 4.1% over the same period, reaching almost 275 GWh.”

Petr Dokládál
Deputy General Manager

Energy Sector in Turkey and the World

TURKEY'S TOTAL INSTALLED CAPACITY REACHED 78,497 MW IN TOTAL, WITH THE ADDITIONAL INSTALLED CAPACITY OF 5,350 MW, WHICH BECAME OPERATIONAL IN 2016.

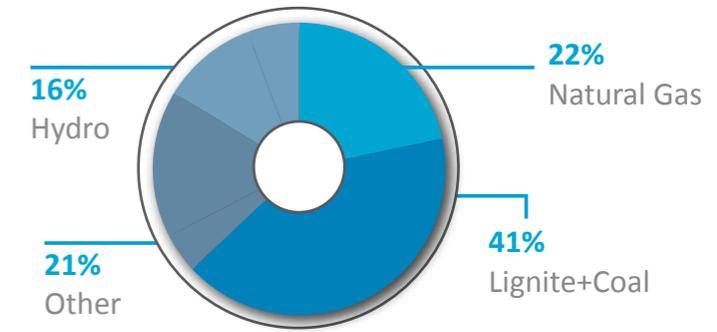
Average Per Capita Electricity Consumption (MWh)



“RERSM sales and utilization of a portion of a dollar-based cash and refinance loan in TL reduced Akenerji’s exposure to exchange rate risk.”

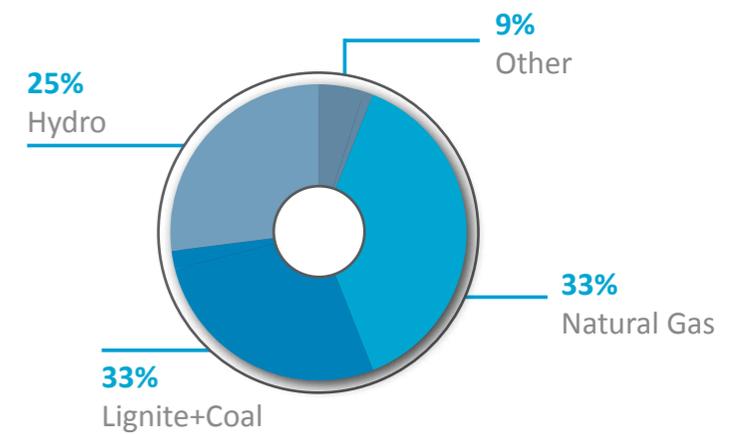
Petr Sedlák
Assistant General Manager - Accounting and Finance

Breakdown of Sources in Electricity Generation (World)



2014 data. Source: International Energy Agency, Key World Energy Statistics, 2015.

Breakdown of Sources in Electricity Generation (Turkey)



2016 data are provisional.
Source: TEİAŞ

Operations in 2016 / Production

OUR EXPERIENCE, EXPERTISE, AND DECISIONS SHAPING THE FUTURE ARE BEHIND OUR INVESTMENTS.

Acquiring a balanced production portfolio by diversifying its sources, Akenerji acknowledges the significance of renewable energy sources against climate change, and in 2016 it will sustain its consistent stance in this area by taking Turkey's long-term energy policy into account. The Company is taking firm steps towards being one of the most competitive private sector power generation firms, with 1,211 MW of installed power in 2016, and a flexible portfolio structure that rapidly harmonized with market conditions.



Commencing its engagements in renewable energy in 2005, Akenerji conducted many simultaneous projects, and has raised the number of alternative energy based power plants over the years, and ensured that these sources contribute to the economy in a reliable, economical and high-quality manner. Setting out to meet Turkey's electricity demand, Akenerji has demonstrated its strength in and commitment to this field with 8 different hydroelectric power plants that it completed and put into operation, and with 1 wind power plant investment.

Ayyıldız Wind Power Plant, which is the first generation facility that Akenerji put into operation in the renewable energy area, and established in Bandırma in the province of Balıkesir, with installed power of 15 MW, is ranked in the top places among its peers. In 2016, investment activities were implemented to raise Ayyıldız Wind Power Plant's installed power by 13.2 MW to 38.2 MW, and additional investment was completed in the last days of 2016.



“The Company is taking firm steps towards being one of the most competitive private sector power generation firms, with 1,211 MW of installed power in 2016, and a flexible portfolio structure that rapidly harmonized with market conditions.”

Serhan Gençer
Assistant General Manager -
Production



As a result of concomitant projects, Bulam (7 MW), Burç Bendi (28 MW), Feke II (70 MW) and Uluabat (100 MW), the constructions of which were completed in 2010, and Akocak (81 MW) hydroelectric power plants were activated. In 2012, the share of renewable resources in Akenerji's installed capacity reached 25% after Feke I (30 MW), Himmetli (27 MW) Hydroelectric Power Plant and Gökaya (30 MW) Hydroelectric Power Plants came on stream. Our hydroelectric power plant projects generated power of 0.8 billion kWh (0.8 TWh) with 99.98% availability in 2016, and had a notable impact in balancing our generation portfolio and keeping our costs at competitive levels.

The construction of the 904 MW Erzin Natural Gas Combined Cycle Power Plant Project, which is one of the largest natural gas power plant investments in Turkey, was completed in the third quarter of 2014. One of the most significant projects by the Akkök-ÇEZ strategic partnership, the Erzin Natural Gas Combined Cycle Power Plant is considered one of most crucial investments in our country in terms of maximizing resource efficiency, enhancing competition in a manner that will please consumers, and contributing significantly to regional employment. The annual generation capacity of Erzin Natural Gas Combined Cycle Power Plant stands at approximately 7.4 TWh. Emission values are measured over 24 hours, and disclosed to the whole of Turkey, with a transparent management approach, through the website of the Ministry of Environment.

Integrated Management Systems

WE PERIODICALLY REVISE OUR STRATEGIES TO ALIGN WITH CHANGING MARKET CONDITIONS AND STRENGTHEN OUR COMPETITIVE POSITION, AND KEEP TAKING NEW STEPS TO THIS END. IN 2017, WE AIM TO MAINTAIN THE PROFIT OPTIMIZATION THAT WE ACHIEVED IN OUR POWER GENERATION ACTIVITIES AS A RESULT OF OUR 27-YEAR CORPORATE ACCUMULATION, HIGH QUALITY HUMAN RESOURCES, AND INNOVATIVE APPROACH.

Investments and Services

Akenerji completed project development and engineering works for the Kemah Hydroelectric Power Plant project with installed capacity of 198 MW, which is planned to be established in 2015 in Erzincan, and expected to generate approximately 560 GWh of electricity per annum. The New Location Plan and State Hydraulic Works Final Design approval transactions are continuing for Kemah HEPP, which is the biggest hydroelectric power plant in Akenerji's portfolio. For 2017, it is planned to execute the necessary preparation works for main equipment supply and construction works bids.

At Akenerji, one of our primary goals is to operate our power plants in the optimum manner as per market

conditions. All operating and maintenance activities of all power plants in our power generation portfolio are performed by our teams in an attentive and effective manner. Furthermore, we periodically revise our strategies to align with changing market conditions and strengthen our competitive position, and keep taking new steps to this end. In 2017, we aim to maintain the profit optimization that we achieved in our power generation activities as a result of our 27-year corporate accumulation, high quality human resources, and innovative approach. Moreover, we aim to evaluate new opportunities to enhance our presence in service areas with our corporate know-how in these matters.



AKENERJİ IS AMONG TURKEY'S LARGEST PRIVATE SECTOR ELECTRICITY PRODUCERS, WITH A DIVERSIFIED TOTAL INSTALLED CAPACITY OF 1,211 MW BASED ON WIND, HYDROELECTRIC AND NATURAL GAS.

Furthermore, we constantly follow up the performance of our existing power plants and evaluate, in detail, any sorts of potential related to capacity expansion and performance enhancement. As a result of these evaluations, works were initiated in 2016 to enhance the installed capacity of Ayyıldız Wind Power Plant by 13.2 MW, and all the necessary permissions were obtained to raise our wind power plant capacity to 28.2 MW. Accordingly Construction and Turbine mounting works were completed, and the activities to put it into operation were commenced. Besides, our market research into adding new wind and solar energy based projects into our company's portfolio, high in capacity utilization rate and profitability, still continue in the renewable energy field.



Operations in 2016 / Wholesale Electricity Sales

2016 was a year full of uncertainties, where liquidity also fell in the power market.

Despite all these adverse factors, Akenerji had a successful year in terms of operational profitability, by means of hedging and trade strategy applied throughout 2016.

In 2016, 3.7 TWh of power was generated at Akenerji power plants. 24% of this power generation is from renewable resources. In spite of the 37% decline in renewable resource-based power generation, owing to the low hydrologic flows compared to 2015, and with the loss of the Akocak-Erikli Regulator and HPP, whose sale was completed and handed over as of January 1, 2016, we still managed to sustain the operational profitability budgeted at the beginning of 2016 as a result of the positive impact of natural gas tariff reduction by 10%, which became effective as of October 1, 2016, on the Erzin Natural Gas Combined Cycle Power Plant.

The annual "Market Clearing Price" average, which is expected to be lower than the previous year as a natural consequence of higher growth in the power supply hike vs. power demand, rose by 1.8% over 2015's average with the impact of a historically high figure of 219.04 TL/MWh, arising from the problems in procuring natural gas in December 2016. According to the 11-month Market Clearing Price comparison, excluding December, the 2016 average figure is about 2% below that of 2015. This decline in spot prices pressured the thermal power plants, especially the natural gas power plants. Anticipating such risk, Akenerji Trade Department sold Erzin Natural Gas Combined Cycle Power Plant's capacity, with an amount identified through hedging engagements, at contract prices that are above the natural gas cost. In line with Akenerji's expectations, thanks to the day-ahead prices materializing below both the contract prices and power plant costs, the supply of these contracts was met from the spot market instead of power generation from the power plant, and operational profitability was enhanced.



In 2016, Akenerji's total trade volume rose by 56% compared to the previous year, reaching 16.5 TWh. The volume of commercial transactions, executed to attain maximum benefit from its own power generation capacity in consequence of the hedging strategy, reached 7.1 TWh, growing by 58%.

In 2016, we participated in RERSM (Renewable Energy Resources Support Mechanism), which we had partially attended in previous years, with all of our renewable electricity generation resources, and achieved 74% supplementary income compared to spot market income. Along with the RERSM regulation becoming effective as of May 1, 2016, the power generation units with the balancing unit feature earned the right to trade on the Balancing Power Market, even if they are in the RERSM portfolio. Akenerji, where the majority of the renewable resources is balancing unit, has benefited to the maximum from this change, and secured additional income of approximately TL 15 million.

In 2016, Akenerji maintained its decision, taken in 2015, to concentrate on energy trade activities. Thus, in addition to its power generation portfolio, Akenerji added an additional resource of 4.0 TWh that it obtained from other market participants, and hence boosted its trade significantly for further added value. Escalating liquidity, rising number of participants, and product diversity in the market all influenced Akenerji's climbing trade volume in 2016.

Another function of Akenerji Trade Unit, apart from the hedging of power generation assets, is to make speculative energy trade and add value to Akenerji. In parallel with this purpose, the volume it formed by means of buy-sell transactions based on the framework agreement that it signed with more than 100 market participants in Over the Counter-OTC, Derivatives Exchange within Borsa İstanbul (BİST) expanded by 73% in 2016 over the previous year, reaching almost 9.4 TWh. Hence, a key sales, arbitrage and risk management channel has been established.

AKENERJİ, WHOSE REGULATIONS, PRODUCT RANGE, TRADE PLATFORMS, AND DYNAMICS ARE UNDERGOING AN ALTERATION PROCESS, AND WHICH FULFILLS THE NEEDS AND REQUIREMENTS OF THE ENERGY SECTOR WHERE COMPETITIVENESS INTENSIFIES BY THE DAY, TAKES IT AS ITS MISSION TO MEET ITS PARTNERS AND SHAREHOLDERS' DEMANDS, WITH SPECIALLY DESIGNED LIQUID AND DERIVATE PRODUCTS.

New Products, New Services

Akenerji, whose regulations, product range, trade platforms, and dynamics are undergoing an alteration process, and which fulfills the needs and requirements of the energy sector where competitiveness intensifies by the day, takes it as its mission to meet its partners and shareholders' demands, with specially designed liquid and derivate products. Turkey's first "Virtual Power Plant" tender, which was designed with the needs of participants in mind, brought a new dimension and depth to the trade market. Virtual Power Plant Tenders, productized under the guidance of Akenerji, are also adopted by other companies, and began to be offered to the market under similar conditions.

In 2016, Akenerji initiated the market access services, the foundations of which were laid in 2015, and provided its customers with energy supply services of 1.8 TWh from the market. Moreover, agreements were signed and executed with 2 customers in 2016 within the scope of power plant management services, the design of which began in 2015.

The transaction volume of the Intra-Day Market, which became operational in July 2015, mounted up significantly, especially after RERSM power plants became responsible for the imbalance in costs. Akenerji also took a commercial position, mainly to manage the imbalances, and actively participated in the market 24 hours a day in 2016, attaining a trade volume of 58 GWh. This volume corresponds to 7% of the total market trade volume in the same period.

Reducing the costs arising from the energy imbalances is crucial in terms of profitability. Being conscious of this, Akenerji included different power generation and wholesale companies into its group, which is responsible for the balance, to further enhance the benefit of the group that Akenerji established since the first day the

regulation allowed it. The number of companies to be included in the group in charge of balance has multiplied, especially after the amendment in RERSM regulation, and Akenerji conducted the necessary works to include these companies into its group.

Ascending Productivity and Descending Costs with Profit Oriented Efficient Process Management

All commercial transactions can now be followed-up via fast and reliable interface by means of the ETRM (Energy Trading Risk Management) software. As a result, the agility required for efficient risk management has been obtained, and potential material errors are prevented. Operational mobilization escalated, and superior reporting opportunities have been achieved.

In order to gain maximum benefit from the experience and know-how in the European energy market of Czech Republic originated ČEZ, which holds 37.5% of Akenerji's shares, and to exchange information, working groups from both parties frequently contacted each other, and on-site market experience was attained via reciprocal visits.

Market Design and Evolution

Akenerji, the founding member of the Energy Trade Association, maintained its goal of being a proactive, sector leading company in 2016. In addition, Akenerji attended, both via the Energy Trade Association and its corporate identity, the "New Product Development" workshop organized after Borsa İstanbul's infrastructure renewal engagements, and conducted works that will provide mutual benefit. Natural gas cycle power plants,



the most reliable and flexible energy resource, especially in system supply security, hold a key position in terms of price formation and frequency control in the market. Accordingly, allied with market and public stakeholders, Akenerji conducted material works to put the capacity market into operation and it will maintain these works.

Regulations on energy markets integrity and transparency (REMIT) and EPIAŞ's development will play a key role in the sector's liberalization goal. Pertaining to these engagements, Akenerji maintains constant contact with EPIAŞ, EMRA, TEİAŞ, EÜAŞ, BOTAŞ and TETAŞ, with the aim to enhance market transparency.

LISTED AMONG TURKEY'S LARGEST PRIVATE SECTOR ENERGY COMPANIES, AKENERJİ ADDED ENERGY SERVICES INTO ITS PRODUCT RANGE IN LINE WITH ITS INNOVATIVE AND PIONEERING POSITION.

Retail Electricity Sales

AS ONE OF THE LARGEST PRIVATE ENERGY COMPANIES IN TURKEY, AKENERJİ ADDED NEW ENERGY SERVICES TO ITS PRODUCT RANGE, IN LINE WITH ITS INNOVATIVE AND LEADING POSITION IN THE SECTOR.

Akenerji Retailing Continues Innovative Projects

In accordance with positive reactions to the “Reactive Energy Monitoring and Management”, “Energy Efficiency Consultancy” and “Carbon Neutral Electricity” services, composing the content of the “Smart Power” approach it launched in 2015, Akenerji founded Akenerji Energy Services as of 2015 year-end. Akenerji identified the opportunities and challenges in “Energy Efficiency” by means of evaluating customer feedback, the results of market research conducted in 2015, and the experience of the Akkök and ÇEZ Groups. Akenerji created its sales and marketing strategies accordingly.

Akenerji Energy Services carried out a series of concurrent engagements in 2016 to raise awareness among private sector users, and to assess the potential in the “Energy Efficiency” field, which plays a key role in our country’s energy policies. Within the same period, Akenerji worked on projects to enhance the energy efficiency of industrial and commercial customers via energy systems optimization and management services, in line with its sustainable profitability.

Akenerji Energy Services brought a new perspective to the sector with the A to Z service package it offers to customers, considering the challenges in achieving the efficiency level pre-targeted at the beginning of the project, due to failure to manage the existing energy efficiency engagements in a centralized manner. Continuing its activities in many diversified areas of the energy sector for more than 27 years, Akenerji’s Energy Services Department offers customers Investigation and Reporting, Analysis and Consultancy, Project Development, Financing, Maintenance, Operation and Verification services under a single umbrella, with an integrated performance guarantee.

To this end, Akenerji works with business partners with the technical competence offering related services. In 2016, Akenerji maintained its activities with 4 local and foreign business partners in industry and business segments.

With the goal of enhancing businesses’ efficiencies and adding maximum value to their investments, while at the same time reducing their energy costs and energy related risks, Akenerji Energy Services maintain their activities in 2 main fields, in industry and commercial buildings.

Works have been conducted in 4 different sectors (automotive, cement, ceramic and food) on development of efficiency boosting potential projects, re-evaluation of the current projects, and research of the incentives to be provided for related projects. During these works, it is possible to offer best-fit projects for customer needs, and create synergy by gathering the sector’s various stakeholders together as a result of the collaboration with local and foreign expert engineering companies.

Following on from the Company’s works on air conditioning systems in commercial buildings, Akenerji aims to raise customer awareness and provide optimum maintenance and management of the current system and devices without an investment, and ensure energy saving. Accordingly, it is noted that almost 40% power energy saving was gained, without any investment, in a shopping center energy efficiency project initiated in 2016.

More efficiency and less expense with Akenerji Energy Services

We provide;

- Energy Systems Management and Optimization
- Remote Reading
- Cogeneration / Trigeration

services, which optimize the operation, maintenance and asset management of Shopping Mall, hotel, hospital, trade center, school and industry facilities.

We reduce companies’ energy investment costs and consumption, and energy related risks, whilst also enhancing their efficiency, and we add maximum value to their investments.

www.akenerji.com.tr | 0 212 249 82 82

Carbon Management

AKENERJİ IS SETTING AN EXAMPLE FOR THE INDUSTRY AS A WHOLE IN TERMS OF CUTTING CARBON EMISSIONS. IT HAS SUCCESSFULLY CARRIED OUT CARBON CERTIFICATION ACTIVITIES FOR ALL OF ITS RENEWABLE ENERGY INVESTMENTS.

Even as climate change remains one of the largest natural threats ever faced on Earth, power companies have assumed a significant role in the solution to the problem through their energy policies. Cognizant of this responsibility, Akenerji continues to invest in renewable energy.

Carbon Certification, Emissions Trading

Akenerji is setting an example for the industry as a whole in terms of cutting carbon emissions. It has successfully carried out carbon certification activities for all of its renewable energy investments. Ayyıldız Wind Power Plant and Bulam HEPP has been registered according to the "Gold Standard" criteria. The certification process for Uluabat, Burç, Feke I and Feke II power plants has been completed

within the scope of Voluntary Carbon Standards (VCS). Of these, Uluabat is the largest Turkish HEPP certified project according to Voluntary Carbon Standard (VCS) as of its certification date. The certification work for Himmetli and Gökkaya HEPPs activated in 2012 was also completed in 2013. The projects 'Social Carbon' (SC) has been registered according to the criteria.

Akenerji has set an example for other Turkish energy companies with its emission trade activities. The Company continued to actively trade the carbon emission reduction certifications, which it obtained from the renewable energy power plants, in the market. Accordingly, our customers can, if they desire, zero out the harmful effects of their power usage on the environment, and gain considerable advantage in sustainability engagements.



Carbon Disclosure Project

Akenerji is included in the Carbon Disclosure Project (CDP), which is a worldwide voluntary initiative. The Carbon Disclosure Project is a worldwide voluntary initiative established to collect and share information that will allow companies, investors and governments to take action against the threat of climate change. Every year, participating enterprises make public

disclosures about their climate change strategies and carbon emissions within the scope of the project, so that each company constitutes the basis for the creation of their country report. The data compiled from the annual country reports are evaluated to create strategies for the global campaign against climate change. Based on the public report that we presented in 2016 within the scope of CDP climate change, our previous year's rating rose from C (awareness) to B (management).

Carbon-Neutral Electricity

Considering the sensitivity of its customers on climate change, Akenerji provides customers, who want to reduce their carbon footprint, with "Carbon-Neutral Electricity" in a single package, including electricity as well as carbon emission reduction certificates obtained from the production of its renewable power plants. By means of "Carbon-Neutral Electricity", companies have the opportunity to compensate unavoidable carbon (greenhouse gas) emissions resulting from electricity consumption, with the emission reduction certificates of renewable source projects. Akenerji's "Carbon-Neutral Electricity" certificate, which is also approved by an independent and international institution, gives Akenerji customers the opportunity to eradicate any carbon footprint arising from electricity consumption.

WE VALUE THE FUTURE, WE DETERMINE OUR STRATEGY AS PER THE DATA OF OUR SUSTAINABILITY REPORT.

Akenerji is among Turkey's longest established energy generation companies, and it prioritizes solutions that will minimize environmental and social risks in all its activities, while at the same time not neglecting the problems threatening the world. The Company is aware of its responsibility in taking climate change under control, and therefore it uses its own technology and technical expertise to minimize the risks that the company's activities carry in terms of environment and society. The Company takes contemporary steps with its future oriented engagements, proactive approaches, and decision mechanism based on international standards. Akenerji is careful to preserve natural life and prevent environmental pollution in all business processes, and with its high-tech applications adopting efficiency as a principle, it enables maximum energy generation with the minimum possible resource utilization.

Considering the total feasibility generation capacity of Akenerji's current renewable energy power plants, it is possible to eliminate approximately 1 million tons of greenhouse gas emissions, equivalent to the fresh air produced by approximately 42 million trees. Motivated by the prospect of contributing to nature, Akenerji will continue to expand its renewable energy capacity, and

preserve its leadership in the field of sustainability with high efficiency generation processes. Raised awareness among consumers and new legislation are other factors that reinforce Akenerji's resolve in this area.

Monitoring of Greenhouse Gas Emissions

The Greenhouse Gas Monitoring Plan (Regulation on Monitoring of Greenhouse Gas Emissions, Communiqué on Monitoring and Reporting of Greenhouse Gas Emissions) of our Erzin Natural Gas Combined Cycle Power Plant, which is included in the scope of the Regulation on Monitoring of Greenhouse Gas Emissions, has been prepared. Information including the amount of greenhouse gases resulting from the production activities of the power plant, and the method to monitor and evaluate these emissions, has been submitted in the plan to the Ministry of Environment and Urbanization. In this way, greenhouse gases began to be monitored in 2015. As of 2016, monitoring, verification and reporting of greenhouse emissions in companies became functional, and Turkey has taken one step closer to measurable, reportable and verifiable emission data.



SUSTAINABILITY





Accordingly Akenerji has;

The company monitored its annual emissions as of January 1, 2015 - December 31 2015 and January 1, 2016 - December 31 2016,

It will report annual emissions as of January 1, 2017, 2015 and 2016,

The company will deliver its first verified emission amounts (1 January - 31 December 2015, 1 January - 31 December 2016) to the Ministry of Environment and Urbanization by April 30, 2017.

Natural Gas is burned with dry low NOx, producing NOx with low emissions, also in the Erzin Natural Gas Combined Cycle Power Plant, which became operational in the third quarter of 2014. A continuous emission measurement system has been installed for flue gas emissions. A continuous emission measurement system has been installed for flue gas emissions. A continuous emissions measurement system has been installed for our stack gas emissions, and emissions can be monitored via the online system of the Ministry of Environment and Urban Planning.

Sustainability Report

Having published the Environmental and Occupational Health and Safety Activity Report since 2010, Akenerji expanded its scope and prepared its first Sustainability Report for 2012 in accordance with the principles of the Global Reporting Initiative (GRI). The Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI), which is the foremost guideline in the world, was used in the preparation of sustainability reports. Data and information collection, and processes pertaining to expanding the Report content have been conducted through procuring out-source expert support by the Sustainability Committee established within Akenerji. The scope and depth of the matters covered in the report reflect the results of the prioritization analysis that we carried out during the reporting process. The report's content has been prepared in such a way as to cover sustainability matters, which are significant and a priority for Akenerji, and in accordance with G4 "basic" level under the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI). Our Sustainability Reports are shared on the company's website (www.akenerji.com.tr), in the "Sustainability" section.

Akenerji's 2015 Sustainability Report was awarded the Bronze Prize in the League of American Communications Professionals (LACP).

TOTAL GENERATION CAPACITY OF OUR RENEWABLE ENERGY POWER PLANTS PROVIDES THE SAME BENEFIT AS THE FRESH RECIRCULATED AIR FROM 42 MILLION TREES.

Integrated Management Systems

A major portion of work in the context of sustainability is performed with the management systems listed below:

- ▶ ISO 9001: 2015 Quality Management System
- ▶ ISO 14001: 2015 Environmental Management System Certificate
- ▶ OHSAS 18001: 2007 Occupational Health and Safety Management System Certificate
- ▶ ISO 27001:2013 Information Security Management System

Upon the 2015 revision of ISO 9001 Quality management systems and ISO 14001 Environment management systems standards, Akenerji obtained ISO 9001:2015

Quality and ISO 14001:2015 Environment Management Systems certifications for Egemer Head Office, Ayyıldız WPP, Ulubat HPP, Burç HPP, Bulam HPP, Feke I HPP, Feke II HPP, Himmetli HPP, Gökkaya HPP and Erzin NGCCPP. Continuity of OHSAS 18001:2007 Occupational Health and Safety and ISO 27001 Information Security Management System certifications was ensured for Head Office, Uluabat HPP and Erzin NGCCPP.

Locations with Certification within Akenerji Elektrik Üretim A.Ş.:

Headquarters, Ayyıldız Wind Power Plant, Uluabat Hydroelectric Power Plant, Burç Bendi Hydroelectric Power Plant, Feke I Hydroelectric Power Plant, Feke II Hydroelectric Power Plant, Bulam Hydroelectric Power Plant, Himmetli Hydroelectric Power Plant, Gökkaya Hydroelectric Power Plant.





Locations with Certification within Egemer Elektrik Üretim A.Ş.:

Erzin Natural Gas Combined Cycle Power Plant

Placing emphasis on operational excellence and profitability in investment decisions, Akenerji takes all steps with the principles of social responsibility and environmental awareness.

Eco-Friendly Production with Proper Waste Management

Focusing on the prevention of environmental pollution in all business processes, Akenerji displays this sensitivity especially in waste management practices. The Company's waste management practices include sending all waste generated in the plants, Akhan, Akenerji's head office, and Akenerji to corporations licensed by the Republic of Turkey Ministry of Environment and Urbanization, for

recycling or disposal in accordance with the requirements of the Environmental Legislation, and under the control of Akenerji's Environmental Management Unit.

In 2016, as a result of Akenerji's waste management efforts, over 109 tons of waste was recycled or disposed of.

As in previous years, waste batteries were collected separately from other waste at Akhan, the Company's headquarters, in 2016. All employees of Akenerji and its subsidiaries lent their full support to the collection of waste batteries. As a result, a total of 92 kg of waste batteries were collected from Akhan and the plants, and sent to the Portable Battery Manufacturers and Importers Association (TAP) in 2016.

Akenerji's eco-friendly approach has been adopted by all employees as part of the corporate culture. In this context, Akenerji employees contributed to the collection of recyclable waste in 2015, too. During the last year,

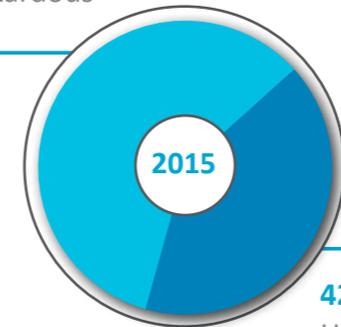
approximately 11 tons of waste paper and packaging was collected from all Akenerji plants and Akhan's sent to recycling centers. The Electronic Waste-Recycling Project, which was initiated at Akhan Headquarters and at Akenerji Group power plants in August 2012, continued in 2016. In the context of the project, electronic waste collection boxes were placed in Akhan's offices and in the power plants. Collected waste is sent to a company granted the Environment Permit and License by the Ministry of Environment and Urbanization. TEMA (Turkish Foundation for Combating Soil Erosion) plants trees and gives saplings to students on behalf of Akenerji, the company to which waste is donated. By the end of 2016, approximately 173 kg of electronic waste was recycled from Akenerji headquarters, within the scope of the Electronic Waste-Recycling Project.

Akenerji aims to continuously improve the level of knowledge and awareness of its employees on waste management, supported by effective projects. To this end, Akenerji Environment Management Unit organized various on-site trainings about environment aspects and environmental accidents, where the impacts of the Sites on the environment were evaluated. Meanwhile, trainings on environment legislation and waste management took place at the Head Office. Several seminars took place at all work sites in 2015, with the purpose of informing and awareness raising through training on Reporting Environmental Incidents and Complaints, about what should be done in the event of a possible environmental incident. Subsequent to these training sessions, Environmental Incident Drills were conducted within the scope of ISO 14001 at all sites. Thus, employee intervention in the event of any environmental incident was observed, and the adequacy of the intervention methods was reported.

Waste Quantities

58%

Non-hazardous
Waste

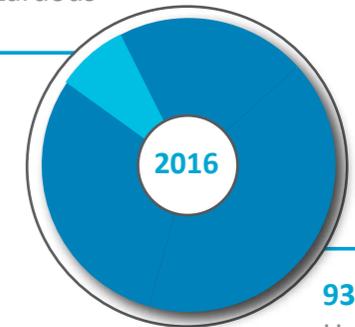


42%

Hazardous
Waste

6.6%

Non-hazardous
Waste



93.4%

Hazardous
Waste

The graphs' data are collected from Ayyıldız, Akocak, Uluabat, Burç, Bulam, Feke I, Feke II, Himmetli, Gökkaya, Erzin Plants, Central Office and Akhan.



Corporate Social Responsibility Projects Continue

While we generate power for Turkey, we continue to use environment friendly technologies and make our infrastructure compliant. Last year, Akenerji continued to receive awards with its environment sensitive stance and sector-leading new projects.

“Altın Voltaj” (Golden Voltage) Award for Akenerji

Akenerji once again came out a winner in the 7th Turkey Energy Summit, which has been held in Ankara since 2010. In the “Electricity, Fuel and LPG Sector Performance Awards”, Akenerji won the “Altın Voltaj” (Golden Voltage) award for the “Virtual Power Plant Tender”, the first of which was in April 2016 and the second in November 2016, where it opened the capacity of Erzin Natural Gas Combined Cycle Power Plant to its stakeholders. In contrast with the first tender, the Company transferred bid collection transactions to the electronic environment. With the Virtual Power Plant Tender, Akenerji offers its stakeholders the opportunity to utilize from power generation capacity, by which means they will not be affected by facility costs or crises.



Turkey is always at the core of our business and power...

We are Akenerji!

We are Turkey's most dynamic company, refreshing our quarter-century experience with innovative vision.

We meet 3% of Turkey's electricity need with high efficiency, state-of-the-art technology natural gas, hydroelectric and wind power plants. Thanks to our installed capacity of 1,211 MW, we add energy to our country's energy, add value to life, and share our power with Turkey.

We are Akenerji; we are Turkey's life energy.

www.akenerji.com.tr | 0 212 249 82 82



Projects Initiated through a 'Living with Locals' Consciousness

With an attentive, responsive, and trust-based management approach, Akenerji has implemented some practices to raise awareness among local people, and to protect them from potential hazards in the regions where the power plants are established. In 2016, booklets and posters, including potential hazards pertaining to the HPPs and preventive measures, were prepared in this context and distributed to communities in public areas that neighbor hydroelectric power plants in Adiyaman, Bursa and Adana, such as offices of mukhtars, schools, municipalities and local coffee houses. Akenerji plans to distribute more of these materials to a larger number of provinces in the coming years, where it will conduct awareness raising engagements for locals.

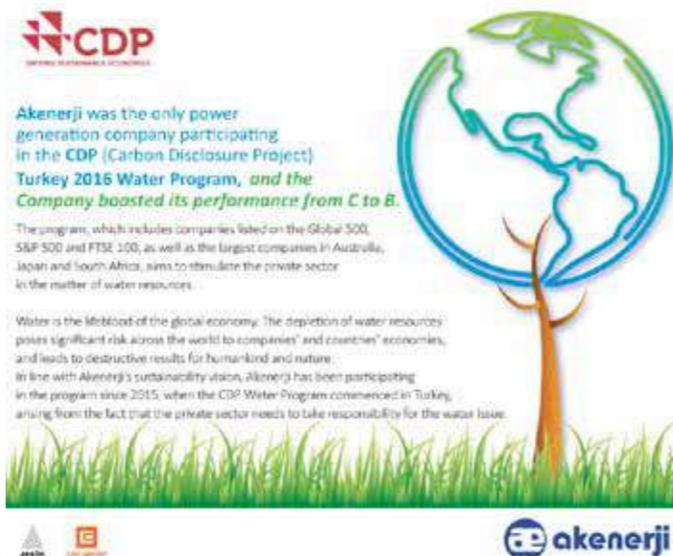
Informative presentations have been made to 3,914 students and 229 teachers in total since 2013. HEPP Informative Presentations, which explain the functioning of the hydroelectric power plants, and the personal security measures students should take in their daily lives, were organized in September 2016 attended by 1,450 students and 76 teachers in Adana, in November 2016 attended by 253 students and 25 teachers in Adiyaman and in December 2015 attended by 110 students and 6 teachers in Bursa, in order to raise the awareness of the local people in the region around the HEPPs.

WITH AN ATTENTIVE, RESPONSIVE, AND TRUST-BASED MANAGEMENT APPROACH, AKENERJI HAS IMPLEMENTED SOME PRACTICES TO RAISE AWARENESS AMONG LOCAL PEOPLE, AND TO PROTECT THEM FROM POTENTIAL HAZARDS IN THE REGIONS WHERE THE POWER PLANTS ARE ESTABLISHED.

CDP Water Program Participation We protect our water!

"We said that water is hugely important for us, and we continued to do our best to protect the water and pass it to the coming generations." Our efforts were appreciated by CDP, which is the world's strongest and most efficient non-governmental organization, focusing on protection of natural resources.

The CDP Water Program, which includes the companies listed in the Global 500, S&P 500 and FTSE 100, as well as the largest companies of Australia, Japan and South Africa as its participants, aims to drive the private sector in the matter of water resources. Turkey will be among the first countries to carry out the application of the CDP Water Program. The Program provides a platform for companies to disclose their water use transparently. Akenerji is the only power generation company participating in the CDP (Carbon Disclosure Project) Turkey 2016 Water Program, and the Company raised its performance from C to B.



CDP
Carbon Disclosure Project

Akenerji was the only power generation company participating in the CDP (Carbon Disclosure Project) Turkey 2016 Water Program, and the Company boosted its performance from C to B.

The program, which includes companies listed on the Global 500, S&P 500 and FTSE 100, as well as the largest companies in Australia, Japan and South Africa, aims to stimulate the private sector in the matter of water resources.

Water is the lifeblood of the global economy. The depletion of water resources poses significant risk across the world to companies' and countries' economies, and leads to destructive results for humankind and nature.

In line with Akenerji's sustainability vision, Akenerji has been participating in the program since 2015, when the CDP Water Program commenced in Turkey, arising from the fact that the private sector needs to take responsibility for the water issue.



The future lies in renewable energy, and **Akenerji** has the service and solution!

We meet 25% of our production from renewable resources.

With our state-of-the-art technology, high efficiency and renewable energy solutions, offered with an environment friendly approach, we provide project and operation services devoted to our customers' investments, and help to eliminate their carbon footprint.

While we make companies' energy consumption more efficient by means of our Energy Systems Management service, we also help reduce high energy bills.

www.akenerji.com.tr | 0 212 249 82 82





HUMAN RESOURCES ACTIVITIES AND EMPLOYEE PROFILE

Main Elements of Our Human Resources Policy

- ▶ We provide equal opportunity to everyone.
- ▶ We match the right person with the right job.
- ▶ We pay fair wages for work as a result of work assessment.
- ▶ We evaluate success with measured performance and proven abilities.
- ▶ We enhance efficiency by means of creating motivation and loyalty.
- ▶ We recognize and reward each other's accomplishments promptly.
- ▶ We work in collaboration, ensuring the continuity of work harmony.
- ▶ We inform promptly, accurately, openly and multi-dimensionally.

WHILE WE CONDUCT DEVELOPMENT PLANNING FOR OUR EMPLOYEES, OUR FUNDAMENTAL GOAL IS TO SUPPORT CONTINUOUS LEARNING AND DEVELOPMENT, AND TO ENSURE THAT THE COMPETENCIES ATTAINED ARE REFLECTED IN WORK RESULTS.



Through our human resources practices, we aim to support our employees in becoming team members who can refresh and develop themselves all-round, and to become a pace-setting organization, in which everyone in the sector would opt to be a member, with our high-quality workforce.

With the aim of serving our strategy and goals during the employee selection and recruitment process, we focus on recruiting candidates who conform with our corporate culture and values; who possess the know-how, talents, experience and competence required for the job; and who have the capacity to carry our Company further. Throughout the selection and recruitment process, contemporary assessment systems are applied with an equal and fair approach, and these principles guide us in recruiting the right person for the right job. No effort is spared in ensuring that our employees receive the support they need, in an appropriate and fair manner, and create equal opportunities for learning and development facilities.

Each and every employee is provided with opportunities for personal and professional development, with talent assessment, talent management and performance management processes conducted by Akenerji Human Resources. While company employees are included in different development programs specifically for the levels of specialist and executive, they are also encouraged to participate in sector related training, symposiums, panels, conferences, seminars, exhibitions, fairs and meetings. Thanks to the emphasis placed on education, Akenerji gathers under its umbrella individuals who can take initiative, express their thoughts explicitly and clearly, and add value to the organization with their creativity.

The Akenerji Salary and Benefits system is compared, annually, both with the whole market and the related groups, and revised regularly. The aim is to apply a competitive salary policy.

Akenerji's Performance Management System is a process that aims to ensure that individuals adopt our corporate goals and that reinforces our common corporate culture. The outcomes of this process are taken into account in training, development planning, and career & talent management processes.

While we conduct development planning for our employees, our fundamental goal is to support continuous learning and development, and to ensure that the competencies attained are reflected in work results. Within this scope, all employees are required to attend development programs that are organized by Akenerji in collaboration with Akkök Group.

The Company focused on the development of middle managers in 2016, and 3 of our managers were involved in the development program, organized with the collaboration of Sabancı University, within the framework of the Executive Development Program. Moreover, our 3 executives, who are to participate in the "Executive Development Program" have taken "Market Orientation" training, which is a prerequisite for this program.

We participated, with our executives and specialists, in a finance-based simulation program called "Managing Today's Business", and training programs called "Leadership at Trust Pace" and "Working at Trust Pace".

The "HR Cap Executive Program", aiming for executives to focus more on their roles and responsibilities in Human Resources processes, became operational in 2015, and 4 executives successfully attended the program in 2016.

A mentor program was put into practice in 2015 to support the development of employees who show high potential and performance, and this Mentor program was also implemented in 2016. After the mentors, fully composed of senior executives, and the mentees were determined, they received the necessary trainings about the procedures of the program and their roles. Mentees had regular meetings with their matched mentors, and they continue to get further training about business life and add value to our company.

In 2016, 11 employees, at senior level and specialists, attended "Presentation Techniques" training to improve their presentation and expression skills.

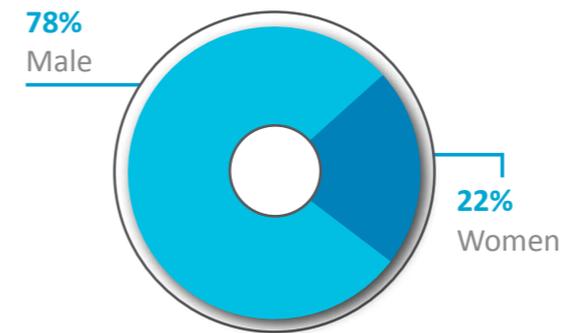
In addition to the self-development and executive development trainings, MS Excel trainings were planned to enhance our employees' technical know-how and skills. 56 employees attended and were certified in the trainings, which were categorized as Basic, Advanced, Expert and VBA.

The "Akenerjik" social committee, which was one of the action plans to emerge from the 2014 Employee Loyalty Project questionnaire results, and was implemented in

2015, organizes social activities to enhance employee loyalty, and to strengthen the communication of employees among themselves and with the senior management. In 2016 "Akenerjik" continued activities such as internal social meetings, power plant visits, city tours, bowling tournament, football tournament etc.

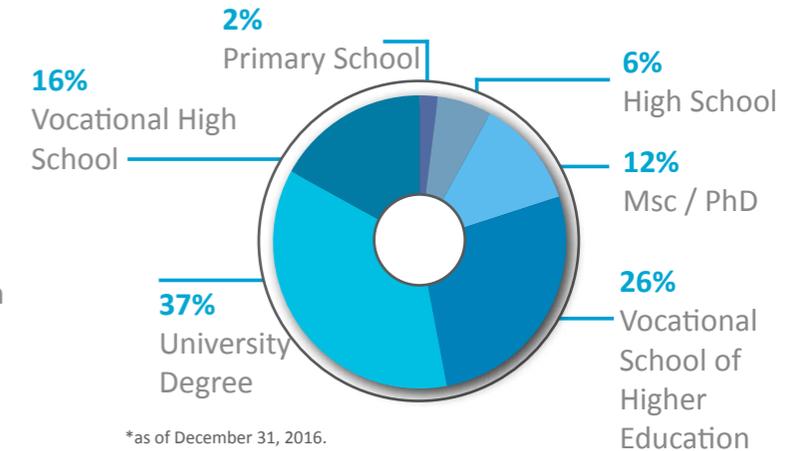
Akenerji takes great care to employ well-equipped and creative individuals who can take the initiative and, as of 2016, the Company's total workforce is 217-strong.

Gender Distribution



*as of December 31, 2016.

Education Level



*as of December 31, 2016.



Board of Directors



Ahmet Cemal Dördüncü
Chairman of the Board of Directors

Born in Istanbul in 1953, Ahmet C. Dördüncü, graduated from Çukurova University, Department of Business Administration. Later, he pursued his postgraduate studies at Mannheim and Hannover Universities. Mr. Dördüncü began his professional career at Claas OHG Company in Germany, and after returning to Turkey, he worked at Mercedes Benz A.Ş. between 1984 and 1987. He joined Sabancı Group in 1987, and assumed several positions at Kordsa A.Ş. until 1998. Mr. Dördüncü served as General Manager/President at DUSA South America, and later at DUSA North America in 1998. After working as Group President of Strategic Planning and Business Development at H.O. Sabancı Holding A.Ş. in 2004, he assumed the position of Chairman of the Executive Board of Sabancı Holding from 2005 to 2010. Mr. Dördüncü has served as Chairman of the Executive Board of Akkök Holding since January 2013. He also serves on the Boards of Directors at various Holding companies, as well as at Anadolu Isuzu Otomotiv Sanayii ve Ticaret A.Ş., Coca-Cola İçecek A.Ş., Anadolu Efes Biraçılık ve Malt Sanayii A.Ş., and International Paper Co.



Tomáš Pleskač
Vice Chairman of the Board of Directors

Born in 1966, Tomáš Pleskač graduated from Mendel University of Agriculture and Forestry (Brno), Faculty of Business and Economics in 1989, and received his MBA from Prague University. In 1994, Mr. Pleskač started his career at ČEZ Group and served as senior executive at various positions within the Group. Since 2006, Mr. Pleskač has served as member of the Board of Directors at the ČEZ, a. s. He became a Division International Chief Officer (in January 2008) and served as a Division International Chief Officer (until December 2016) while between April 2012 and May 2014 he led Division Distribution and International Affairs. Following the transformation of ČEZ, a. s., Mr. Pleskač has served as the Chief Renewables and Development Officer since January 1, 2016. Mr. Pleskač is member of the Board of Directors at Akenerji since May 2009. Currently he holds a position of Deputy Chairman of the Board of Directors at Akenerji.



Raif Ali Dinçök
Member of the Board of Directors

Born in Istanbul in 1971, Raif Ali Dinçök graduated from Boston University (USA), Department of Business Administration in 1993, and subsequently started working at Akkök Holding. He worked in the Purchasing Department of Ak-Al Tekstil San. A.Ş. between 1994 and 2000, and later served as Coordinator at Akenerji Elektrik Üretim A.Ş. from 2000 to 2003. Mr. Dinçök is currently a Member of the Board of Directors and the Executive Board of Akkök Holding companies.



Ahmet Ümit Danişman
Member of the Board of Directors/General Manager

Born in Ankara in 1958, Mr. Ahmet Ümit Danişman is a graduate of Ankara University, Faculty of Political Sciences, Department of Economics and Public Finance. He received his Masters in International Economics from the University of Lancaster in the UK. Mr. Danişman commenced his career in 1980 at the State Planning Office as an Assistant Specialist. From 1983 until 1987, he served the office as Specialist and Consultant to the Undersecretary at the General Directorate of Incentives, and as Group Head at the General Directorate of European Union Relations. From 1988 until 1992, in the last four years of his public service, he took office in Brussels as Turkey's Permanent Representative in the EU as Planning Consultant. In 1992, he transferred to the private sector and started working as Business Development Manager at the Brussels-based Unit Group known for their international energy investments. Mr. Danişman continued his career as CEO and Member of the Board of Directors at the Company's energy concerns in Turkey, Belgium, the Netherlands and Romania. Since January 2008, he has served Akenerji Elektrik Üretim A.Ş. as General Manager, and a Member of the Boards of Directors of subsidiary companies. He has also been a member of the Executive Board at Akkök Sanayi Yatırım ve Geliştirme A.Ş. since December 2011.



Vratislav Domalíp
Member of the Board of Directors

Vratislav Domalíp, born in 1956, received his BSc in Crude Oil Processing and Petro-Chemicals from Prague's University of Chemistry. From 1981 until 2001, he worked in the Czech chemical industry in various positions such as Board member, Audit Committee member, Director of Commerce, Director of Strategy and COO. After a short stint in the private sector, he joined the International Department at the ČEZ Group in 2007 as Director of Country Relations. He served in ČEZ Bulgaria as COO, before being appointed as Akenerji Turkey Country Manager and Deputy General Manager, where he served till the end of 2014.



Petr Dokládál
Member of the Board of Directors Deputy General Manager

Having graduated from Moscow State University of International Relations in 1984, Petr Dokládál received his postgraduate degree from Charles University Prague, Faculty of Social Sciences, and joined the Diplomatic Training Program at Stanford University in 1994. Mr. Dokládál began his career as civil servant in 1983 in the Czech Republic Ministry of Foreign Affairs, and served as Czech Republic diplomat in Vietnam, Consul General in Canada, and Ambassador to Bulgaria and Romania. In 2010, Mr. Dokládál joined the ČEZ Group and worked as ČEZ Bulgaria Country Manager, while he has also been a Board Member of Eurelectric in Brussels since 2013. Petr Dokládál has been working as Akenerji Deputy General Manager since October 2015 and as Member of Board of Directors of Akenerji since April 2016.



Yahya Mehmet İzzet Özberki
Independent Member of the Board of Directors

In 1979 Mr. Özberki graduated from the Faculty of Political Sciences at Ankara University. During 1979-1984, he gave lectures at Gazi University in the Economics Department. From 1989-1991 he worked at Midland Bank Istanbul Branch at various levels, including Head of the Investment Banking Department. Between 1992 and 2001, he worked as a Corporate Consultant at Arkan & Arkan. In 2001 he joined Akan&Ergin as a partner. He has a Corporate Financier (CF) degree from the Institute of Chartered Accountants of England and Wales.



Jiří Schwarz
Independent Member of the Board of Directors

Dr. Jiri Schwarz is an associate professor in Economics and chairman of the Board of directors of CETA - Center for Economic and Market Analysis in Prague. He was a member of the National Economic Council of the Czech Republic (2009-2013) and he served a dean of the Faculty of Economics, at the University of Economics in Prague (2003-2010). He is a chairman of the Board trustees of the Anglo-American University in Prague, a chairman of the Academic council of the Liberalni Institut, a member of the Strategic committee of the L'Institut de Recherches Economiques et Fiscales (IREF). From 2003 to 2010 he was a member of the Advisory board of the Energy Regulatory Agency of the Czech Republic. Since 2011 he is an independent member of the Board of directors of Akenerji a.s. and since 2015 he is a member of the Supervisory Board of Expobank, a.s.

Executive Management



Petr Sedlák
CFO

After receiving Engineering training from Prague Technical University, Petr Sedlák obtained his postgraduate degree from Prague Charles University of Economics and completed his academic works. Sedlák worked on Project Management in the ČEZ Group between 2005 and 2006, and served as Head of the Economics and Operations departments between 2006 and 2014. He finally worked as International Performance Managing Director. As of January 2015, Petr Sedlák is the head of ČEZ Turkey Operations Department, while at the same time he assumes the role of Akenerji Financing and Financial Affairs Assistant General Manager.



Serhan Gençer
Assistant General Manager -
Production

Born in 1975 in Istanbul, Mr. Serhan Gençer graduated from the Department of Mechanical Engineering at Middle East Technical University. Started his professional career in 1998 at Unit Int. SA Company, where he worked in various countries in a variety of roles, such as Project Manager and Project Development Manager, until December 2007. He worked as Project Director at Turcas Power & Gas Group from December 2007 to October 2009. Having started his Akenerji Elektrik Üretim A.Ş. career as Hatay Project Manager in 2009, Mr. Gençer served as Assistant General Manager of Power Plants Operation and Maintenance from 2013 to March 2014. He has been serving as Assistant General Manager of Production since then. Mr. Gençer also served as General Manager of Egemer Elektrik Üretim A.Ş. from 2011 until the project was completed.



Özge Özen AKSOY
Deputy CFO

Born in Muğla in 1975, Özge Özen, graduated from Boğaziçi University Department of Business Administration. Ms. Özen started her career in 1998, at Turkish Industrial Development Bank, in the Financial Analysis Department. Between 2004 and 2007, she worked as Corporate Finance Manager for the same Bank. After serving as Corporate Finance Director in Orion Investment between 2007 and 2009, Ms. Özen joined Akenerji in May 2009 and worked as Finance Group Manager. Since 2014, Özge Özen has been serving as Akenerji Treasury and Finance Manager, and in addition to this post, she has been appointed Deputy Assistant General Manager responsible for Financing and Financial Affairs.



Hakkı Çek
Business Support Director

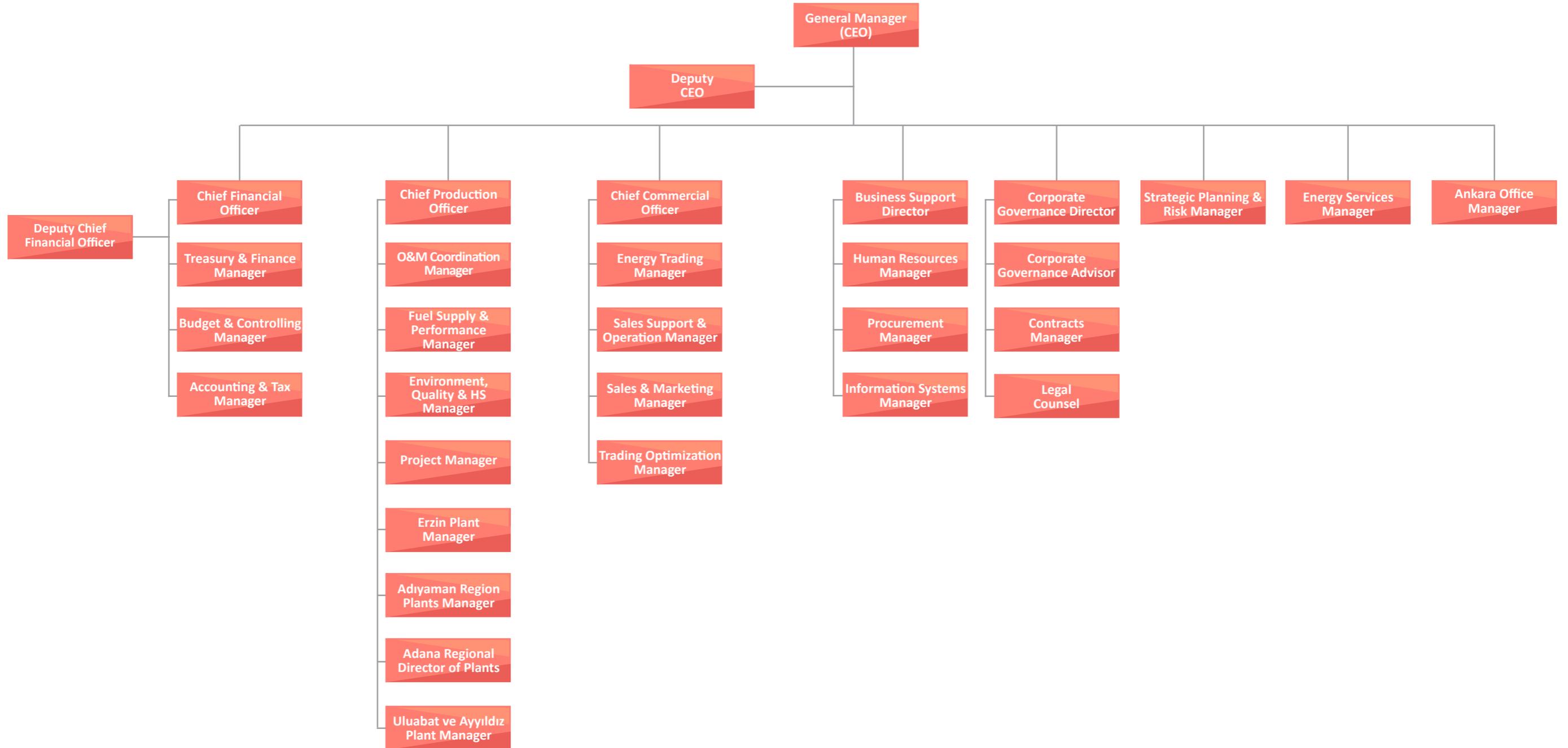
Born in 1962 in Rotterdam, Mr. İ. Hakkı Çek is a graduate of the Department of Economics at Boğaziçi University. Started his career as a consultant at Accenture in 1986. He served as Director of Information Technology at Colgate-Palmolive-Hacı Şakir between 1992 and 1995. Mr. Çek undertook the responsibilities of Director of Information Technology and Vice President - Information Technology at Lafarge Turkey from 1995 to 2002, and of Regional Director of Information Technology at Lafarge Central Europe from 2002 to 2005. He joined Assist Danışmanlık as a Consultant in 2005. Having served as Human Resources Director at Organik Kimya between 2007 and 2009, and as a Consultant at Assist between 2009 and 2011, Mr. Çek joined myTechnic Company as Director of Human Resources in 2011. He started his Akenerji Elektrik Üretim A.Ş. career as Director of Information Systems on June 20, 2013, and was appointed Common Services Director on March 1, 2014.



S. Ergin Baykara
Corporate Governance Director

Born in 1972 in Ankara, Mr. S. Ergin Baykara is a graduate of the Faculty of Law at Marmara University. Started his professional career in 1996. He began providing Legal Consultancy services at the Law Office he founded in 2000. He began serving as Project Controller at the World Bank and the European Investment Bank in 2004 and 2005, respectively. He undertook the position of Legal Director at Mare RE Yatırımlar A.Ş. and Urban Exposure London in 2008. His Akenerji Elektrik Üretim A.Ş. career started on April 2009 as Legal Counsel, and he was appointed Corporate Governance Director on March 2014.

Organizational Structure



Independency Statement For Independent Board Members

AKENERJİ ELEKTRİK ÜRETİM A.Ş. BOARD OF DIRECTORS CHAIRMANSHIP

SUBJECT: Independency Statement

DATE: 30.03.2016

I declare that I am a candidate to assume the role of independent board member of AKENERJİ ELEKTRİK ÜRETİM ANONİM ŞİRKETİ ("Company"), within the scope of the criteria stipulated in the legislations, the Articles of Association, and the Capital Market Board's Communiqué on the Determination and Implementation of Corporate Governance Principles (Serial: II-17.1), accordingly:

► Within the last five years, no executive employment relationship granting important duties and responsibilities has been established between myself, my spouse, my second degree relatives by blood or by marriage and the Company, the partnerships in which the Company holds management control as per Turkish Financial Reporting Standards nr. 10, or the partnerships in which the Company holds significant influence as per Turkish Accounting Principles nr. 28, or the subsidiaries of the Company, or shareholders who control the management of the Company or who have significant influence in the Company, or juridical persons controlled by these shareholders; and that I neither possess more than 5% of any and all capital or voting rights or privileged shares, nor have significant commercial relations,

► Within the last five years, I have not worked as an executive manager holding important duties and responsibilities, nor have I been a member of the Board of Directors or been a shareholder (more than 5%), particularly in the companies that provide auditing, rating and consulting services for the Company (including tax audit, legal audit, internal audit), or in the companies from which the Company procures products and services or sells products and services to, within the framework of the agreements signed during the timeframe of selling/purchasing of the products and services,

► I do have the professional training, knowledge, and experience that will help me to properly carry out the tasks and duties I will assume as a result of my independent membership in the Board of Directors,

► In accordance with the legislation, I will not be working fulltime in public institutions or organizations except for any work as an academic at a university, after being elected as a member,

► I am considered a resident in Turkey according to the Income Tax Law (n.193) dated 31/12/1960,

► I possess strong ethical standards, professional standing and experience that will help me positively contribute to the activities of the Company, and remain neutral in conflicts of interests between the company's shareholders, and that will help me make decisions freely by taking the rights of the stakeholders into consideration,

► I will be able to spare sufficient time for the business of the Company to an extent that will help me pursue the activities of the Company, and fulfill the requirements of my tasks and duties,

► I have not served as a board member on the Company's board for more than six years over the last decade,

► I have not been an independent member of the Board of Directors in more than three of the companies controlled by the Company, or by the shareholders who control the management of the Company, and in more than five publicly traded companies in total.

Kind regards,



Name Surname: Yahya Mehmet İzzet Özberki

AKENERJİ ELEKTRİK ÜRETİM A.Ş. BOARD OF DIRECTORS CHAIRMANSHIP

SUBJECT: Independency Statement

DATE: 30.03.2016

I declare that I am a candidate to assume the role of independent board member of AKENERJİ ELEKTRİK ÜRETİM ANONİM ŞİRKETİ ("Company"), within the scope of the criteria stipulated in the legislations, the Articles of Association, and the Capital Market Board's Communiqué on the Determination and Implementation of Corporate Governance Principles (Serial: II-17.1), accordingly:

► Within the last five years, no executive employment relationship granting important duties and responsibilities has been established between myself, my spouse, my second degree relatives by blood or by marriage and the Company, the partnerships in which the Company holds management control as per Turkish Financial Reporting Standards nr. 10, or the partnerships in which the Company holds significant influence as per Turkish Accounting Principles nr. 28, or the subsidiaries of the Company, or shareholders who control the management of the Company or who have significant influence in the Company, or juridical persons controlled by these shareholders; and that I neither possess more than 5% of any and all capital or voting rights or privileged shares, nor have significant commercial relations,

► Within the last five years, I have not worked as an executive manager holding important duties and responsibilities, nor have I been a member of the Board of Directors or been a shareholder (more than 5%), particularly in the companies that provide auditing, rating and consulting services for the Company (including tax audit, legal audit, internal audit), or in the companies from which the Company procures products and services or sells products and services to, within the framework of the agreements signed during the timeframe of selling/purchasing of the products and services,

► I do have the professional training, knowledge, and experience that will help me to properly carry out the tasks and duties I will assume as a result of my independent membership in the Board of Directors,

► In accordance with the legislation, I will not be working fulltime in public institutions or organizations except for any work as an academic at a university, after being elected as a member,

► I am considered a resident in Turkey according to the Income Tax Law (n.193) dated 31/12/1960,

► I possess strong ethical standards, professional standing and experience that will help me positively contribute to the activities of the Company, and remain neutral in conflicts of interests between the company's shareholders, and that will help me make decisions freely by taking the rights of the stakeholders into consideration,

► I will be able to spare sufficient time for the business of the Company to an extent that will help me pursue the activities of the Company, and fulfill the requirements of my tasks and duties,

► I have not served as a board member on the Company's board for more than six years over the last decade,

► I have not been an independent member of the Board of Directors in more than three of the companies controlled by the Company, or by the shareholders who control the management of the Company, and in more than five publicly traded companies in total.

Kind regards,



Name Surname: Jiri Schwarz

Evaluation of the Board of Directors on Working Principles and Effectiveness of the Committees of the Board of Directors

The Company's Board of Directors has established the Audit Committee, Early Detection of Risk Committee and Corporate Governance Committee in accordance with the Corporate Governance Principles.

Upon the election of the Chairman and members in accordance with Corporate Governance Principles, it was resolved by Board decision that:

- ▶ Independent Board Member Yahya Mehmet İzzet ÖZBERKİ shall be assigned as Chairman of the Audit Committee, while our other independent Board Member Jiri SCHWARZ shall be appointed as a member of the said Committee,
- ▶ Independent Board Member Jiri SCHWARZ shall be assigned as Chairman of the Corporate Governance Committee, whilst Board Members Yahya Mehmet İzzet ÖZBERKİ, and senior executives from our Company, Petr SEDLAK, Özge ÖZEN AKSOY shall be appointed as the members of the said Committee,
- ▶ Independent Board Member Yahya Mehmet İzzet ÖZBERKİ shall be assigned as Chairman of the Early Detection of Risk Committee, while Independent Board Member Jiri SCHWARZ shall be appointed as a member of the said Committee.

The duties and working principles of these committees were identified by the Board of Directors and submitted for the information of the public via the Company's website and the Public Disclosure Platform. In 2016, all of the Board Committees fulfilled the duties and responsibilities they must perform in accordance with the Corporate Governance Principles, and their duties and working principles.

Audit Committee

The Audit Committee is responsible for taking the necessary measures for the sufficient and transparent performance of all kinds of internal and independent audit processes, in addition to the effective implementation of the internal control system. Carrying out its activities in this context, the Committee reported its recommendations on the issues under its responsibility, including its opinions and suggestions regarding the internal audit and internal control system, to the Board of Directors.

In 2016, the Committee reported 7 (seven) times to the Board of Directors within the scope of all these responsibilities. The actions taken by the Board of Directors on the following matters were taken on the basis of these reports.

- ▶ Making regulations on the independent external audit activities,
- ▶ Selection of the independent audit firm,
- ▶ Determination of the scope of the audit and consulting services to be received,

- ▶ Examination of the financial reports before submission to the Board of Directors,
- ▶ Follow-up of the findings of Legal Audits,
- ▶ Supervision of the operation and effectiveness of the Company's internal control system

Corporate Governance Committee

Having been established to monitor the compliance of the Company with the Corporate Governance Principles, to undertake improvement work in this regard, and to provide recommendations to the Board of Directors, the Corporate Governance Committee is responsible for observing whether or not the corporate governance principles are applied in the Company. If not, the committee is responsible for identifying the reasons and the conflicts of interest arising due to not fully complying with these principles. In 2016, the committee offered recommendations on optimizing the corporate governance practices, and monitored the works of the Investor Relations unit.

The duties of the Nomination Committee and Remuneration Committee are also carried out by the Corporate Governance Committee. Within the scope of these responsibilities, the Corporate Governance Committee managed to;

- ▶ Undertake efforts to create a transparent system to identify, evaluate and train qualified candidates for the Board of Directors and executive management positions, and formulate the relevant policies and strategies,
- ▶ Make regular evaluations on the structure and efficiency of the Board of Directors, and to advise the Board on changes that can be made on these issues,
- ▶ Express their views in the determination of the recommendations regarding the principles of remuneration of the Board members and senior executives by taking into account the long-term goals of the Company,
- ▶ Make determinations regarding the criteria that can be used in the remuneration, depending on the performance of the Company and the Board members.

Early Detection of Risk Committee

Since its establishment, the Early Detection of Risk Committee has been responsible for early detection of risks that jeopardize the existence, development and continuity of the Company, applying the necessary measures and remedies in this regard, and managing the related risks during the year. Having submitted a total of 6 reports, prepared in 2016 on a bimonthly basis, to the Board of Directors, the Committee reviews the Risk management systems of the Company in accordance with Corporate Governance Principles, as well as the duties and working principles of the Early Detection of Risk Committee.

INVESTOR RELATIONS ANNUAL REPORT

To the Board of Directors of Akenerji Elektrik Üretim A.Ş. We hereby submit our annual report, which has been prepared as per Article 11 (II-17.1) of the Corporate Governance Communiqué published by the Capital Markets Board.

Respectfully,

Akenerji Elektrik Üretim A.Ş. Investor Relations Department

Investor Relations Department Annual Report

The fundamental duty of the Akenerji Elektrik Üretim A.Ş. Investor Relations Department is a management approach model that is compliant with the legal regulation, and is transparent, accountable, fair and responsible. To attain this target, Akenerji uses and manages the investor relations organ in order to give stakeholders comprehensive and precise information about the course of its stocks.

Included among the basic working principles of the Investor Relations Department are the accessibility of information and its immediate return to shareholders, as well as transparency, consistency and promptness of the said information. For this purpose, it is essential to keep the existing information on the Company's website up-to-date. Accordingly, the Investor Relations Department aims to closely follow-up and fully analyze the Company's activities, and have a good grasp of the Company's strategies and create difference by communicating these strategies through the most efficient methods.

Major Developments In 2016

In 2016, the Investor Relations Department took an active role in the General Assembly and Annual report processes. The aim was to answer, fully and accurately, the questions from the Capital Markets Board, immediately deliver the documents and information requested, and ensure accurate and efficient communication with the Board: The Investor Relations Department's activities were conducted in this scope during 2016.

Moreover, all shareholders received appropriate responses for investors' questions by providing the same information, and preserving the principle of equal treatment.

Questions from investors in 2016 can be classified as power plant and equipment sales, financial restructuring, revaluation of assets, measures against exchange rate risk, the Egemer NGCC Power Plant performance, new investments and stock performance. It was ensured that the disclosures made to the public via the Public Disclosure Platform are on time, accurate, complete, comprehensible and interpretable, and care was taken to inform all shareholders about developments in an equitable and simultaneous manner.

Other activities that the Investor Relations Department conducted within the year are summarized below:

- Sixteen (16) material disclosures on the Public Disclosure Platform,
- Face-to-face meetings with two (2) domestic and foreign investors/analysts,
- Participation as spokesperson and sponsor in various events such as invitations, symposiums, conferences and fairs etc., including the 23rd World Energy Congress, Czech Republic National Day, YASED (International Investors Association Energy Report), ESCO Model in Energy Generation Conference and Workshop,
- 11 (Eleven) press bulletins,
- 55 (Fiftyfive) special news works,
- 4 (Four) TV appearances as guest or participant in interviews.

Share Performance

Our company shares are traded in the following indices on the Borsa İstanbul (BİST) Stock Market, and our share performance is presented in the graph below:

- BIST 100-30
- BIST Electricity
- BIST Services
- BIST 100 Capped
- BIST All
- BIST Star
- BIST 100
- BIST Istanbul



Company shares have been traded on BIST since 2000. The last 5 (five) year performance of the shares is summarized in the table below:

Share Information	2012	2013	2014	2015	2016
Lowest Price (TRY)	1.23	0.95	0.94	0.85	0.77
Highest Price(TRY)	1.80	1.94	1.57	1.35	1.30
Year-end price (TRY)	1.64	1.20	1.28	0.95	0.85
Paid-in Capital (x1000 TRY)	729,164	729,164	729,164	729,164	729,164
Market Value (x1000 TRY)	1.195,829	874,997	933,330	692,706	619,789

Investor Relations Department Contact

Phone : +90 212 249 82 82
 Fax : +90 212 249 73 55
 E-mail : info@akenerji.com.tr
 Address : Miralay Şefik Bey Sok. No: 15 Akhan Beyoğlu / İstanbul, Turkey

Corporate Governance Principles Compliance Report

SECTION I- CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT

Akenerji Elektrik Üretim Anonim Şirketi ("Akenerji", or "the Company"), targeting continuous creation of value for its customers, employees and shareholders, is well aware that in the current period of high competition and rapid change, the quality of corporate governance practices and financial performance are of equal importance. Corporate governance of a high standard brings about low cost of capital, increases funding opportunities and liquidity, and as a result, enhances competitiveness. Therefore, the Company makes the utmost effort to implement the principles stipulated by the Capital Markets Board (CMB) in its "Corporate Governance Principles."

The Company abides by all obligatory corporate governance principles stipulated under the Capital Markets Board's Corporate Governance Communiqué numbered (II-17.1).

Pursuant to Article 6 of the Capital Markets Board's Corporate Governance Communiqué numbered (II-17.1), the principle that Akenerji is exempt from is defined below:

Within the scope of clause one of the said article, which reads, 'The criteria stated under principle numbered (4.3.4.) regarding the number of independent board members shall not be applied for third group corporations and joint ventures, except for banks, formed of two real persons or legal entities who do not have a capital, management or auditing relationship with respect to a minimum 51% of each other's capital, independent of each other and sharing the management control of the partnership equally with an agreement requiring positive votes by both parties for significant decisions with regard to the corporations, provided that any application made in relation thereto should be accepted by two Independent Board members, shall be sufficient in these corporations.', Akenerji's board includes two independent members, which is also approved by the Capital Markets Board's decision dated 17.04.2012 and numbered B.02.6.SP.K.0.13.199-1121, as Akenerji is a joint venture, formed of two legal entities that do not have a capital, management or auditing relationship with respect to a minimum 51% of each other's capital, independent of each other and sharing the management control of the partnership equally with an agreement requiring positive votes by both parties for significant decisions with regard to the corporation.

The reason for not applying the non-obligatory principles that are stipulated under Corporate Governance Communiqué numbered (II-17.1) of the Capital Markets Board are provided below:

- Referring to "Corporate Governance Communiqué" No. 1.3.11, although there are no provisions in this regard in the Articles of Association, General Assembly meetings are held open to the public, as stated in the Company's Internal Guidelines of the General Assembly.

- Referring to "Corporate Governance Communiqué" No. 1.5.2, utmost care is given to the utilization of minority rights, but there is no representative of minority rights on the Board. In addition,

minority rights are not recognized for persons possessing less than one-twentieth of the share capital.

- Referring to "Corporate Governance Communiqué" No. 3.1.2, a compensation policy hasn't been created for the Company's employees. The compensation rights of the employees are protected under the relevant legislation.

- Corporate Governance Communiqué Principle numbered 3.2.1: There is no model or mechanism created pertaining to the issue of participation of stakeholders in the management. However, the independent members in the Board of Directors ensure that not only the Company and shareholders, but also all stakeholders are represented in the management. The Company takes into account the opinions and recommendations of employees, suppliers, various NGOs and all other stakeholders, as well as customer satisfaction questionnaires.

- Referring to "Corporate Governance Communiqué" No. 4.2.5, although there are no provisions in this regard in the Articles of Association, the Company's Chairman of the Board of Directors and General Manager are different persons. The General Manager serves as a Member of the Board of Directors at the same time. Duties and powers of the Chairman of the Board of Directors and the General Manager are separated by being defined clearly in the company's organizational chart. No one in the Company is entrusted with unlimited authority to decide on an individual basis.

- Referring to "Corporate Governance Communiqué" No. 4.2.8, any possible damages in the Company caused by members of the Board of Directors due to their negligence during the fulfillment of their duties are not insured directly by the Company. However, the liability insurance for any possible damages in the Company caused by members of the Board of Directors due to their negligence during the fulfillment of their duties was underwritten by our main partners, Akkök Holding A.Ş. and ČEZ a.s., covering the relevant executives of the Company. No Material Disclosures have been made in this regard.

- Referring to "Corporate Governance Communiqué" No. 4.3.9, no female candidate was nominated at the Company's General Assembly by the Company shareholders for membership of the Board of Directors. As such, there is no female member on our Board of Directors. Although there isn't any written policy or target for the ratio of female members on the Board of Directors, the Company aims to include at least 25% (twenty-five percent) female members on the Board, and improvement in the achievement of this target is followed-up by the Board of Directors.

- Referring to "Corporate Governance Communiqué" No. 4.4.5, since the format of the Board of Directors' meetings has already been delineated in detail in the Company's Articles of Association, this format hasn't been put in writing with the Company's internal regulations.

- Referring to "Corporate Governance Communiqué" No. 4.4.7, Members of the Board of Directors spend sufficient time on their responsibilities in the Company. In the event that a member of

Corporate Governance Principles Compliance Report

the Board of Directors serves as a manager or a member of the Board of Directors in another company, the aforementioned situation doesn't lead to a conflict of interest and hinder the responsibility of the member in the Company. Therefore, serving of the Members of the Board of Directors in some other duty or duties outside the Company is not regulated and restricted by certain rules. Duties fulfilled by Members of the Board of Directors outside the Company are recorded in the "Company General Information Form" through the PDP, and the curriculum vitae of the Board members to be elected are shared through the "General Assembly information document" on PDP and the Company website prior to the General Assembly for election.

- Referring to "Corporate Governance Communiqué" No. 4.6.5, wages paid and all other benefits provided to the Members of the Board of Directors and the senior executives are disclosed to the public through the annual report. However, statements are not made on an individual basis, and are provided with the distinction of Members of the Board of Directors and the senior executives. This issue will be revised in the coming periods.

There is no conflict of interest arising from the foregoing non-obligatory principles governed under the Capital Markets Board's Corporate Governance Communiqué numbered (II-17.1). In the future period, the necessary works will be conducted in consideration of the developments and practices in the regulation towards alignment with Corporate Governance Principles.

SECTION II- SHAREHOLDERS

2.1. Investor Relation Department

The Investor Relations Department ("Department"), which was established as per obligation, as well as the Company's organs pursuant to the legislation, serves under the Assistant General Manager of Accounting and Finance, and plays an active role in protecting and facilitating the use of shareholder rights, especially the right to obtain and evaluate information. Questions communicated to the Department in this context, except for confidential information and trade secrets, are responded to either by phone or in writing, in consultation with the most authorized person on the relevant issues.

Information regarding the employees responsible for the Company's Investor Relations Department is provided below.

Özge Özen Aksoy

Investor Relations Department Manager and Deputy General Manager of Finance and Financial Affairs
Phone: +90 212 249 82 82/21109
e-mail: oozen@akenerji.com.tr

Nilüfer Aydoğan

Budget and Control Manager
Phone: +90 212 249 82 82/21130
e-mail: naltintasi@akenerji.com.tr

Investor Relations Department

Phone: +90 212 249 82 82
Fax: +90 212 249 73 55
e-mail: info@akenerji.com.tr

Ms. Özge Özen Aksoy, Investor Relations Department Manager and Deputy General Manager of Finance and Financial Affairs of the Company, holds the Capital Market Activities Advanced Level (License No: 202048) and the Corporate Governance Rating Expertise (License No: 700538) licenses. She serves on a full-time basis under the Assistant General Manager of Accounting and Finance, and also as a member of the Corporate Governance Committee.

Furthermore, in order to demonstrate an effective approach in relations with shareholders, the Investor Relations Department communicates the messages of the Board, and the management strategies pertaining to the Company, to shareholders, in parallel with public disclosures and material disclosures, through meetings held in the presence of intermediaries.

The Investor Relations Department operates to provide accurate, timely and consistent information to current and potential investors, analysts and 3rd parties on request, to enhance the Company's recognition and credibility, to reduce the Company's cost of capital through the implementation of Corporate Governance principles, and to ensure communications between the Board of Directors and participants of the capital market.

In line with this objective, the Company attaches great importance to communication with shareholders and investors, and maintains an active investor relations program. The Company has created an accessible and transparent communication platform that encompasses all of its stakeholders, and accordingly organizes periodic meetings and answers relevant questions via email or meetings, upon demand. The demands of financial intermediaries, corporate investors and individual investors are met by email and/or meetings organized periodically, quarterly or on an ad hoc basis, upon request. All written or verbal information requests by shareholders, potential shareholders, analysts evaluating the Company, or academics and students conducting research on the Company or sector, are met via email, telephone, or at meetings at the earliest possible time, with the exception of any information not revealed to the public, or else classified as confidential and trade secrets. The total number of applications divided by 2016 was 68. In 2016, the questions from our individual investors were answered by 35 via e-mail, while 33 of them were answered by phone.

In 2016, one to one meetings were held with 2 intermediaries, with the aim of providing them with detailed information regarding the activities of the Company.

In the framework of the public disclosure and transparency principle, 16 "Material Event Disclosures" were made in 2016 to ensure that stakeholders, mainly shareholders, and other related parties were informed in a timely manner.

The report concerning the activities carried out in 2016, which was prepared by the Investor Relations Department, pursuant to Article 11 of the Capital Markets Board's (CMB) Corporate Governance Communiqué Serial: II-17.1, was submitted to the Company's Board of Directors on February 16, 2017.

2.2. Exercise of Shareholder's Right to Obtain Information

All shareholders have the right to obtain and analyze any kind of information that is not classified as a trade secret, within the framework of the regulations in effect. The right to obtain and analyze information has neither been removed nor restricted by the Articles of Association, or else by a decision of any corporate body. All shareholders, including minority and foreign shareholders, are treated equally.

Any type of information and explanation that may affect the use of the shareholder rights are regularly presented on the website (www.akenerji.com.tr) of the Company for the use of the shareholders.

Further to the Capital Markets Board's related regulation provisions and the provisions of the Turkish Commercial Code, the Information Policy published on the Company's website determines Akenerji's public disclosure methods and means, as well as practices and principles regarding Akenerji's communication with capital markets participants.

Company information to be disclosed to the public is presented on the "Public Disclosure Platform" (www.kap.gov.tr) and on the Company's website in a timely, accurate, complete, understandable and easily accessible manner, and in a cost effective way, and so as to assist persons and establishments that may benefit from the disclosure to decide. Additionally, the "e-GOVERNANCE: Corporate Governance and Investor Relations Portal" is used for direct and effective informing of the Company's shareholders.

Principles regarding the public disclosure of information related to future issues are included in the information policy. When forward-looking information, assumptions, and data based on assumptions are disclosed, particular attention is paid such that these statements do not include baseless, exaggerated forecasts, and that they are not misleading. Attention is also shown such that these assumptions are in compliance with the financial status and operational results of the Company.

In the event that estimates and the grounds regarding the forward-looking information disclosed to the public do not come to fruition, or when it is understood that they shall not come to pass, the information is updated.

The Company refrains from making transactions which complicate the conduct of private audits. No additional provisions have been included on the right to request the appointment of a private auditor in the Articles of Association. There has been no request for the appointment of a special auditor in 2016.

2.3. General Assembly Meetings

In addition to the procedures stipulated by legislation, the announcement of the 2015 Ordinary General Assembly meeting, held on April 26, 2016, was made at least three weeks prior to the meeting on www.akenerji.com.tr, the Company's corporate website, the Public

Disclosure Platform (PDP), and electronic general assembly system, so as to ensure that the maximum number of shareholders would be reached. The announcement was also published in the Turkish Trade Registry Journal and in a widely circulated national daily newspaper. The documents to be submitted for inspection by the shareholders in accordance with Article 437 of the Turkish Commercial Code No. 6102 were made available at the Company's headquarters and branch offices. Additionally, the "General Assembly Information Documents", which have been drawn up to include issues contained in Article 1.3.1 of the Capital Markets Board's (CMB) Corporate Governance Communiqué Serial: II-17.1, are published on the Company's website and Public Disclosure Platform (PDP) prior to the General Assembly, as well as the notice for the meeting and all notifications and explanations that should be made by the Company pursuant to the legislation.

Each proposal was presented explicitly and under a separate title on the General Assembly agenda. There were no subjects regarding the agenda of the Company's 2015 Ordinary General Assembly meeting dated April 26, 2016 communicated in writing by the shareholders to the Company's Investor Relations Department to be included in the agenda.

In 2016, the Company held one Ordinary General Assembly meeting. In order to expand and facilitate the attendance of shareholders to the General Assembly, particular attention was paid to hold the meeting in a central location in Istanbul that would not create inequality among the shareholders, and that would enable the shareholders to attend the meetings at the lowest possible cost. The meeting location was selected based on the estimated number of attendees. No members of the media participated in the meeting.

Our shareholders could participate in the General Assembly meeting not only in person, but also in the electronic medium by means of electronic general assembly. 55,546,276,196 shares out of 72,916,400,000 shares (76.178%), representing the capital of the Company, were represented in the Ordinary General Assembly meeting held on April 26, 2016. The minutes of the General Assembly meeting and the list of attendees were published on the Company website (www.akenerji.com.tr) and in the Public Disclosure Platform (PDP).

During the General Assembly meeting, the Chairman of the Assembly ensured all topics on the agenda were conveyed in an impartial, detailed, and understandable manner, while questions not considered as trade secrets from general assembly attendees were answered. Pursuant to the Capital Markets Board's Corporate Governance Communiqué numbered II-17.1, principle no. 1.3.5., questions asked during the Ordinary General Assembly, which did not pertain to the agenda or were too comprehensive for direct answers, as well as the answers given thereto, are published on the Company's corporate website under the title of "26.04.2016 Ordinary General Assembly", under "General Assembly" in the "Investors Relations" section, and related material disclosures were made to KAP (Public Disclosure Platform).

Corporate Governance Principles Compliance Report

Members of the Board of Directors in charge of the agenda items, other related persons, executives who were responsible for preparing the financial statements, and auditors were present at the Company's 2015 Ordinary General Assembly meeting in order to provide the necessary information and to answer questions.

No transactions came into question for which the affirmative vote of a majority of the independent members of the Board of Directors was sought for a resolution in the Board, nor was the relevant resolution left to the General Assembly due to negative votes.

All donations and aids made by the Company were briefed to the shareholders as a separate agenda item during the 2015 Ordinary General Assembly meeting, and information regarding the donations and aids made during the year was included in the annual report.

Although there are no provisions pertaining to this matter in the Articles of Association, General Assembly meetings are held open to the public, as stated in the Company's Internal Guidelines on Working Principles and Procedures of the General Assembly.

The shareholders who held management control in 2016, the members of the Board of Directors, the executive managers, and their first and second degree relatives by blood or by marriage, haven't carried out any significant transactions that may result in conflicts of interest, either with the Company or its subsidiaries. Furthermore, they haven't carried out any transactions in the same line of business as the Company or its subsidiaries, by themselves or on behalf of others, and haven't become partners without limits of liability in a company that is engaged in the same line of business. Likewise, there are no transactions carried out by people who also have access to Company information other than the aforesaid persons, on behalf of themselves, within the scope of the Company's line of business.

No person or organization is privileged to access the Company's information.

2.4. Voting Rights and Minority Rights

The Company avoids implementations that hinder the exercise of voting rights. It offers the opportunity to each shareholder, including those of foreign nationality, to exercise voting rights in the most convenient and suitable manner.

There is one (1) voting right for each share in the Company, and there is no privilege in the Company's Articles of Association for voting rights.

None of the Company's partnerships has a cross shareholding relationship.

There is no representative of minority rights on the Board. The minority rights in the Company are subject to the Turkish Commercial Code, the Capital Markets Law, and relevant legislations, and haven't been determined to be less than one-twentieth of the share capital.

2.5. Dividend Rights

The Company's Dividend Distribution Policy was submitted for the information of the General Assembly and was approved by the shareholders at the 2013 General Assembly meeting. The Policy was announced to the public on the corporate website and was included in the annual report.

The Company's Dividend Distribution Policy contains clear and minimal information enabling investors to foresee the distribution procedures and principles of the profit to be gained by the Company in future periods. A policy maintaining the balance between the benefits of shareholders and the benefit of the Company is being followed in dividend distribution, as detailed in the Company's Dividend Distribution Policy.

The Company's Dividend Distribution Policy is included in the Annual Report.

There are no privileges for participation in the profit of the Company.

During the 2015 Ordinary General Assembly meeting, it was resolved:

‘1- Not to distribute any dividend since there is a loss in our consolidated financial statements, prepared within the framework of the provisions of the Tax Procedure Law (TPL) and the Capital Markets Board's (CMB) Communiqué Serial: II-14.1 on "Principles Regarding Financial Reporting in Capital Markets",

2- To reserve the net period loss in the legal records of the Company, prepared according to the provisions of the Tax Procedure Law (TPL), and the net period loss in the financial statements, prepared pursuant to the CMB's Communiqué Serial: II-14.1, in the consolidated financial statements of the Company.

2.6. Transfer of Shares

Article 8 of the Articles of Association pertaining to the transfer of shares is as follows:

"The direct or indirect acquisition, by a real person or legal entity, of shares representing more than five percent of the capital of the Company, and share acquisitions that result in an increase in a shareholder's shares exceeding five percent of the Company's capital, or a transfer of shares that leads to the fall of a shareholder's share below the above-mentioned rate, are subject to the Turkish Energy Market Regulatory Board approval. Such provision is also applicable for obtaining the right to vote and pledging the shares."

Even if there is no transfer of shares, the issuance of a dividend right certificate is subject to approval by the Turkish Energy Market Regulatory Board, regardless of the ratios stated in the first paragraph.

If, within the scope of non-recourse project financing provided to the Company, the establishment of control and/or affiliate relationship between the banks and/or financial institutions and the Company due to loan agreement provisions covering cases such as a default in payments, leads to a violation of the market share limitations imposed by the applicable regulation, such violation shall be amended within the time period granted by the Turkish Energy Market Regulatory Board.

The transfer of the shares shall be binding on the Company upon the registration thereof into the Shareholders' Ledger, based on the approval of the Board of Directors.

Other than those that are traded, shareholders holding registered shares who wish to transfer their shares, which are not being traded, shall apply to the Board of Directors by written petition. The Board may reject the approval request based on one of the significant reasons stated below. Moreover, shareholders holding registered shares that are not traded may freely transfer their shares to shareholders holding the same group of shares, or establish usufruct rights to their benefit.

With regards to shareholders holding registered shares that are not being traded, transfers or establishment of usufruct rights to third parties, except for shareholders with the same group of shares and affiliates, the Company may deem the following as significant reasons, and reject approval requests for transfer of shares or establishment of usufruct rights:

a) If another company or enterprise ("Competitor") competing with the Company and the Competitors' owner, shareholder (including private and venture capital funds and their shareholders), or whatever their title, persons who are managers or employees of such companies, or their spouses and those who are in lineal kinship with them, or companies where the said persons have direct or indirect control, wish to acquire shareholding;

b) With regards to the protection of the Company's scope of business or economic independency, if a person or persons acting together wish to directly or indirectly acquire 5% or more of the Company's shareholding composed of registered shares

Regulations of the Capital Markets Board shall apply to transfers of registered shares that are traded.

Save for the first two paragraph of this Article, transfer of the registered shares of the Company shall be subject to the relevant provisions of the Turkish Commercial Code, the Capital Markets Law and the Electric Market Law."

SECTION III - PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Corporate Website and Content

The www.akenerji.com.tr website is actively used to inform the public. The address of the website is included in the Company letterhead.

The Company's website is designed and updated in accordance with Article 2.1 of the Capital Markets Board's (CMB) Corporate Governance Communiqué Serial: II-17.1, the Turkish commercial Code, and relevant secondary legislation. Any stakeholders who wish to obtain more information on the Company can access Company officers through the e-mail address, info@akenerji.com.tr, or by filling out the Contact Form on <http://www.akenerji.com.tr/iletisim-formu>.

The Company's shareholding structure is disclosed and updated on the Company's corporate website in such a way as to show shareholder's names, share amounts and rates.

Basic information contained on the website is also prepared in English for the use of international investors. In addition, international investors who require further information on the Company can access company officers via the info@akenerji.com.tr e-mail address, or by filling out the Contact Form on <http://www.akenerji.com.tr/iletisim-formu>.

3.2. Annual Report

The Board of Directors of the Company has drawn up the annual report on the basis of the Turkish Commercial Code and Capital Markets Board regulations, providing sufficient detail for the public to acquire complete and accurate information on the Company's operations. The annual report contains all information regulated under Corporate Governance Principles.

SECTION IV - STAKEHOLDERS

4.1. Informing the Stakeholders

The Company stakeholders are persons, institutions and interest groups that are associated with the Company in terms of achieving its goals, or else related to its activities, such as employees, creditors, customers, suppliers, and various non-governmental organizations.

The Company's code of ethics guarantees the rights of stakeholders regulated by legislation and mutual agreements. The stakeholders are informed within the framework of the policy created by the Company in accordance with current legislation and ethical rules. In addition, it is aimed to inform all stakeholders through press releases, annual reports, the corporate website, and applications within the scope of the disclosure policy, based on transparency. Intranet, which is an in-house information sharing medium, and printed documents are used actively, as the "Akenerji E-Bulletin" is published on a quarterly basis, and the bulletin "Akkök

Corporate Governance Principles Compliance Report

Haberler” is published on a monthly basis. While performing their duties, the Company’s employees are expected to fulfill their responsibilities by valuing the interests of the Company above the interests of themselves, their families and relatives. Employees shall refrain from any interference that may be construed as benefiting themselves or their relatives. Foreseeable potential conflict of interest situations, and situations defined by the Company management, are shared with the employees, and the Company management takes the necessary measures.

The ethical values of the Company have been established and these values have been announced to the public on the Company’s corporate website. Moreover, the Company stakeholders are informed about any issues concerning them, either through meetings or by e-mails and phone calls.

In cases where the rights of stakeholders stipulated in legislation and contracts are expressly violated by the Company within the framework of legislation and contracts, recourse to indemnification is provided by the Company. The Company ensures the convenience necessary for the utilization of mechanisms such as indemnification provided for stakeholders in legislation or contract. The Company does not have a particular indemnification policy regarding its employees, and such employee rights are protected within the scope of relevant legislation.

The stakeholders may communicate any transactions of the Company that are contrary to legislation or ethically inappropriate to the Corporate Governance Committee, or to the Ethics Representative, by e-mailing to etik@akenerji.com.tr. No such notification was made by stakeholders in 2015.

When a conflict of interest arises between stakeholders, or in case a stakeholder is part of more than one interest group, a policy as balanced as possible in terms of the assertion of held rights is pursued, and efforts are made to protect each right individually from one other.

- The Company gives priority to customer satisfaction in the sales and marketing of the goods and services and takes the required measures to ensure such satisfaction.

- The Company takes the required measures, reviews and updates its processes in order to establish and maintain relationships, which are in accordance with the laws and the provisions of the established agreement with the customers and suppliers, to which it provides goods and services, and to protect the international and sector standards in provision of goods and services.

- Information pertaining to suppliers and customers is deemed within the scope of trade secrets, and attention is paid to its confidentiality.

- It is essential that demands of the customer in respect of the goods or services purchased by the customer are immediately fulfilled, if any, in accordance with the agreement provisions, otherwise in accordance with the legislation provisions, and customers are informed regarding the delays without waiting for the deadline.

- The Company chooses its suppliers in accordance with the Supplier Selection and Evaluation Procedure, and evaluates their performance on an annual basis. In the evaluation process, compliance with the Akenerji specs, delivery time, working in harmony with Akenerji and complaints are evaluated over the Oracle e-business management system. As a result of this evaluation, the Approved Suppliers List is created by the end of the year.

- Akenerji specifications, agreements and product specs are included within the information shared by Akenerji with its suppliers.

4.2. Participation of Stakeholders in Management

The mechanisms and models that encourage the participation of stakeholders, particularly Company employees, in the management are developed so as not to hinder the operations of the Company. The participation of stakeholders in the management of the Company is supported by tools such as proposals or surveys, again, in a manner that does not hinder Company operations.

Additionally, the participation of employees in the management of the Company is ensured through annual performance assessment meetings, suggestion systems and annual meetings held within the Company.

It has been decided to obtain the 9001:2015 Quality Management System, ISO 14001:2015 Environmental Management System and OHSAS 18001:2007 Occupational Health and Safety Management System certifications, covering all the power plants of Akenerji in operation. In this context, a Quality Project Team has been serving within the Company for a number of years. The Head of the Quality Project Team works under the Director of Environment, Quality and OHS.

Likewise, ISO 27001 Information Security Management System engagements are carried out by the Information Security Project team for Head Office, Uluabat HPP and Erzin NGCCPP.

This team cooperates with all departments in order to determine the necessary preparation, audit and reporting standards for obtaining relevant certifications, and submits the results for management approval by considering the suggestions received from employees. Since this operation is shaped by the contribution of all Akenerji employees, it plays a significant role in the Company’s in-house communications.

In each and every power plant, we have Environment Representatives and Health Security Representatives, who hold Quality, Environment and Occupational Health Safety Management Systems internal auditor certification, and receiving regular trainings in this area. Moreover, employee representatives working as per the Labor Law are assigned in each power plant and our head office. These employee representatives assume duties representing the employees in all sorts of recommendations, complaints and feedbacks.

Furthermore, the presence of independent members on the Board of Directors enables the representation of all stakeholders, as well as the

Company and the shareholders. The Company takes into consideration, where necessary, any views and suggestions that are communicated by other stakeholders.

4.3. Human Resources Policy

Factors of Akenerji’s Human Resources Policy are as follows:

- We provide equal opportunity to everyone.
- We match the right person with the right job.
- We pay fair wages for work as a result of work assessment.
- We evaluate success with measured performance and proven abilities.
- We enhance efficiency by means of creating motivation and loyalty.
- We recognize and reward each other’s accomplishments promptly.
- We work in collaboration, ensuring the continuity of work harmony.
- We inform promptly, accurately, openly and multi-dimensionally.

While the recruitment policies are prepared and career planning is conducted, the principle of giving equal opportunities to persons with equal conditions is adhered to. If it is foreseen that changes in executive positions may cause problems in Company management, succession planning is prepared for the determination of executives to be assigned.

The criteria regarding personnel recruitment are not defined in writing. However, the criteria presented hereunder are abided by in personnel recruitment.

Akenerji’s Human Resources Policy aims to ensure equality in terms of learning and development-related opportunities, thereby providing employees the support they need appropriately in helping them to increase their performance.

Akenerji, implements a management system that values humanity and promotes creativity, communication and employee participation. It is aware of the extreme importance of creating an environment of open, close and uninterrupted communications between management and employees in fostering employee motivation and efficiency.

Akenerji, management seeks to implement internationally accepted models and human resources practices that utilize integrated systems. As such, the modern and integrated systems that the Company opts for ensure the generation of business results in all human resources processes ranging from employment to performance management systems, and from development to the remuneration and termination of employees.

During the employment and assignment of employees, the human resources policy is geared at bringing into the Company those candidates likely to move the Company forward, who are suitable for the Company culture and values, and who have the knowledge, skills, experience and qualities required for the job/position, thereby serving the strategies and targets of the Company. The policy follows the principle of selecting the

right employee for the right job through contemporary evaluation systems that support objectivity in employment and assignment processes.

Fairness is the key factor in all benefits granted to employees. Training programs to enhance employees’ knowledge, skills and manners are organized, and training policies are created.

Provision is made for employee development programs that enhance knowledge, skills and qualities in pursuit of Company targets, and that are based on constant learning, development and the inculcation of the Company’s results-oriented philosophy. At the same time, resources are also set aside for programs that contribute to social and cultural development. In development planning, training and development solutions suitable for the situation at hand are employed by taking the needs of the Company and its employees into account.

Job descriptions of Company employees are announced to the employees. Efficiency is taken into consideration while determining salaries and other benefits. Akenerji Salary and Benefits systems are annually compared to the whole market and related groups, and regular revisions are made. Implementation of a competitive salary policy is targeted.

Akenerji uses a Performance Assessment and Remuneration model, the validity and reliability of which have been proven worldwide. This is a wage and vested benefits model which is objective, transparent, and one that reflects the reality of the domestic and international business arena, and is based on the equality and equity principles grounded in remuneration specific to the job at hand.

The Performance Management System is a structure that aims to create a sense of shared corporate targets among individuals, thus strengthening the mutually shared corporate culture. Employees working within the system transparently see their personal contributions and the effects of these contributions in the corporate dimension. The output of the Performance Management System is channeled into the development planning, talent management, career and substitute planning, remuneration and rewarding processes of the Human Resources Department; thus a structure is formed that integrates all of these processes in one system, allowing them to feed off each other. Employees are supported in pursuing a common goal through promotions that underpin the high performance culture of the Company. Meanwhile, leadership and the functional competence of the Company are measured through a 360o assessment, in order to gauge precisely how employees achieve work results.

By this means, the strengthening and implementation of competences that move the Company forward and serve its corporate reputation and sustainability, are safeguarded within a unified system.

Managing relations with employees is addressed under the responsibility of the Human Resources Department, and no Employee Representatives have been appointed in this regard. The Human Resources Dept. functions as a bridge between the employees and the management, and works together with the Company’s management in forwarding the demands and requests of the employees to the

Corporate Governance Principles Compliance Report

management, and producing solutions in line with needs. The Human Resources Dept. is jointly responsible with the management team for the execution of the Labor Law and Human Resources processes, within the scope of staff regulations in a healthy way. In addition to this, Akenerji provides an “open door” policy opportunity to its employees. The open door policy gives every employee the opportunity to reach the General Manager and the other top managers easily about any issues pertaining to their jobs and Akenerji.

Occupational health and safety is a prioritized subject at Akenerji. All kinds of measures, including prevention of occupational risks, training and briefing, are taken, events are organized, tools and equipment are provided in order to protect the health and safety of employees, and the employees are informed on this subject by establishing the required procedures and instructions. Continuous improvement and development is in progress to ensure a safe working environment and conditions for the employees. In this regard, duties and authorities of the Employee Representatives, appointed as per the Occupational Health and Safety legislation, are as stated below:

- To participate in the activities of the Akenerji and Akhan Occupational Health and Safety Boards at the Headquarters,
- To be authorized to represent the employees in subjects such as participating in activities pertaining to Occupational Health and Safety, following the activities, requesting for measures to be taken, and making proposals.
- To solicit the opinions and suggestions of employees,
- To counsel the employer for the elimination of source of hazards or for decreasing the risks arising from the hazards and to have the right to request from the employer to take necessary measures.

There are measures in place to prevent any racial, religious, language, and gender discrimination among employees, and to protect them against physical, psychological and emotional abuse. In 2016, there were no complaints from the employees, especially on discrimination.

The Company does not constitute any hindrance against the effective recognition of the freedom of association and the collective bargaining right.

4.4. Ethical Rules and Social Responsibility

The activities of the Company are carried out within the frame of the ethical principles announced to the public via the website of the Company.

Aware of its responsibility to society at large, Akenerji carries out all of its operations in such a way as to prevent environmental pollution and protect natural resources and takes all the necessary precautions to these ends. The Company prioritizes the invention, development,

adoption and implementation of innovative and environment friendly technologies by taking environmental impacts into account under the scope of its Environment Policy. In this context, new investments benefiting from state of the art technology is at the forefront and full compliance with environment legislation starts off with the Environmental Impact Assessment (EIA) stage in all innovative projects implemented. The disposal and recovery operations of waste generated at Akenerji power plants are carried out in accordance with the provisions of the regulation issued by the T.R. Ministry of Environment and Urban Planning.

Our Company pays special attention to finding, developing, adopting and implementing innovative and environment friendly technologies that are included in the scope of our Quality Policy. For this reason, our operational power plants and the Headquarters are subject to integrated management systems. Akenerji Integrated Management System includes ISO 9001 Quality Management System Certification, ISO 14001 Environmental Management System Certification and OHSAS 18001 Occupational Health and Safety Management Systems Certification. Our 10 locations (Headquarters and the Ayyıldız, Uluabat, Akocak, Burç, Bulam, Feke I, Feke II, Himmetli, Gökkaya and Erzin Power Plants) hold the Integrated Management Systems certification as of the end of 2016. Upon the revision of the ISO 9001 Quality Management System and ISO 14001 Environment Management System standards in 2015, alignment with standards was completed, and ISO 9001:2015 and ISO 14001:2015 certifications were obtained for all power plants.

Moreover, the level of consciousness has been enhanced by means of engagements on information security, which has gained in importance in recent years, and TS EN/ISO 27001 certification's continuity has been ensured for Head Office, Uluabat HPP and Erzin NGCCPP.

Our policies and documents within the scope of integrated management systems can be accessed through the Company's corporate website under the title of Sustainability.

The Company is aware of the importance of improving social standards as well as its responsibility for providing quality products and services within the scope of Corporate Social Responsibility Principles. The Company is sensitive to the needs of society, without ignoring future generations. In this manner, Akenerji has adopted the principle of making contributions to social enrichment by making donations and social aids in a variety of fields, especially in education, environment, sports, culture and arts, in the regions where it carries out its activities.

Within the scope of our Corporate Social Responsibility Principles, the Company spent a total amount of TL 1,475,330.17 for donations and aid to various associations and foundations, in 2016.

The Company takes measures against all kinds of corruption, including bribery and extortion. The necessary awareness raising and control activities are coordinated by the Human Resources Department.

SECTION V - BOARD OF DIRECTORS

5.1. Structure and Formation of Board of Directors

The Board of Directors is composed of a total of 8 members, including 2 (two) independent, 2 (two) executive and 4 (four) non-executive members. The CVs (Curriculum Vitae) of the members of the Board of Directors are presented in the Company's annual report.

Name Surname	Title	Date of Appointment	Term
Ahmet Cemal DÖRDÜNCÜ	Chairman of the Board (Non-Executive)	26.04.2016	3 Years
Tomas PLESKAC	Vice Chairman of the Board (Non-Executive)	26.04.2016	3 Years
Raif Ali DİNÇKÖK	Board Member (Non-Executive)	26.04.2016	3 Years
Petr DOKLADAL	Board Member/Deputy General Manager (Executive)	26.04.2016	3 Years
Ahmet Ümit DANIŞMAN	Board Member / General Manager (Executive)	26.04.2016	3 Years
Vratislav DOMALIP	Board Member (Non-Executive)	26.04.2016	3 Years
Yahya Mehmet İzzet ÖZBERKİ	Independent Board Member	26.04.2016	3 Years
Jiri SCHWARZ	Independent Board Member	26.04.2016	3 Years

In the Board of Directors, there are executive and non-executive members. A non-executive member of the Board of Directors is the person who – except his/her Board of Directors' membership – is not in charge of any other administrative task in the Company and who is not involved in the daily work flow and in the ordinary activities of the Company. The majority of the members of the Board of Directors is composed of the non-executive members.

The General Manager of the Company and the Chairman of the Board of Directors are different persons. The General Manager is also a Member of the Board of Directors. The Members of the Board of Directors spend sufficient time on their responsibilities in the Company. In the event that a member of the Board of Directors serves as a manager or a member of the Board of Directors in another company, the aforementioned situation doesn't lead to a conflict of interest or hinder the responsibility of the member in the Company. Therefore, serving of the Members of the Board of Directors of some other duty or duties outside the Company is not regulated or restricted by certain rules. Duties fulfilled by the Members of the Board of Directors outside the Company are submitted for the information of the shareholders on the “Company General Information Form” page through the PDP, on the Company website, and in their CVs under the Corporate Governance section of the Annual Report.

During the ordinary general assembly meeting dated 26.04.2016, the Independent Board Member, Jiri SCHWARZ, was elected for 2 years, and other Board Members were elected to their posts for 3 years.

Among the members of the Board of Directors, there are independent members who have the capability of performing their duties without being influenced under any circumstances. The term of office of the independent members of the Board of Directors is up to three years and it is possible that they can be elected by being re-nominated. Two independent members are nominated to the Corporate Governance

Committee, which also fulfills the duties of the Nomination Committee. The Corporate Governance Committee presented ahyah Mehmet İzzet ÖZBERKİ and Jiri Schwarz for approval by the Board of Directors as independent board members on 01.04.2016.

The Independency Statements of our independent members of the Board of Directors are included in the Annual Report. In 2016, there was no condition terminating the independency of the Independent Members.

No female candidates were nominated at the Company's General Assembly, at which the members of the Board of Directors were elected, by the shareholders of the Company for membership of the Board of Directors. Thus, there is no female member on our Board of Directors. The Company aims to include at least 25% (twenty-five percent) female members on the Board of Directors, and improvement on the achievement of this target is followed-up by the Board of Directors.

5.2. Working Principles of the Board of Directors

The Board of Directors is responsible for the Company's achievements, operational and financial performance objectives as determined and disclosed to the public. The Board of Directors carries out its activities in a transparent, accountable, just and responsible manner.

The Chairman and Deputy Chairman were appointed from among the Board Members, and duties were allocated accordingly.

Considering the opinions of related board committees, the Board of Directors establishes the internal control system in such a way as to include risk management and information systems and processes, which will minimize the effects of the risks impacting the Company's stakeholders, mainly the shareholders.

Corporate Governance Principles Compliance Report

The Board of Directors reviews the efficiency of risk management and internal control systems at least once a year.

The General Manager of the Company and the Chairman of the Board of Directors are different persons. The General Manager is also a Member of the Board of Directors.

Although not included in the Articles of Association, the authorities of the Chairman of the Board of Directors and the General Manager are clearly defined and separated in the Company's organizational chart. No one in the company is entrusted with unlimited authority to decide on an individual basis.

The Board of Directors plays a part in the preservation of effective communication between shareholders and the company, and in settling and resolving any disputes that may arise among them. In this respect, the Board of Directors is in constant contact with the Corporate Governance Committee and the Investor Relations Department.

Any possible damages in the Company caused by the members of the Board of Directors due to their negligence during the fulfillment of their duties are not insured directly by the Company. However, the liability insurance for any possible damages in the Company caused by the members of the Board of Directors due to their negligence during the fulfillment of their duties was underwritten by our main partners, Akkök Holding A.Ş. and ČEZ a.s., covering the relevant executives of the Company. No Material Disclosures have been made in this regard.

The chairman of the Board of Directors, getting in touch with the other members of the Board of Directors and the General Manager, determines the agenda of the Board of Directors' meetings. On the other hand, other members may suggest changing the meeting agenda. In order to ensure equal information flow, information and documents related with the agenda items of the Board of Directors' meeting are submitted to the review of the members of the Board of Directors, prior to the meeting. The members pay special attention to attend every meeting and to state their opinions, by reviewing the related information and documents of the meeting agenda items and by making necessary preparations. The Board meetings can be held through remote access opportunities such as video conferencing, teleconferencing and the internet. The views of members who couldn't attend the meeting but communicated their views in writing to the Board of Directors, are submitted for the information of other members.

In accordance with the Articles of Association of the Company's, the Board of Directors convenes when the in Company's business requires and at least four times a year in any case. Within the 2016 activity year, the Board of Directors convened five times. A total of 37 resolutions were taken by the Board of Directors in 2016. All of these meetings were attended by the majority of the board members, and the resolutions were taken unanimously by the members who attended the meeting.

In the Board of Directors, each member has one right to vote. In accordance with the Company's Articles of Association, in Board of Directors' meetings at least one member more than one-half (½) of the total number of members of the Board of Directors must be present. The decisions of the Board of Directors are made with the affirmative votes of the members who are at least one member more than one-half (½) of the total number of members of the Board of Directors.

Company's Articles of Association and related legislation provisions shall be applied about the issues regarding how to hold the meetings and make invitations for the meetings.

The subjects included in the agenda of the Board of Directors meetings are discussed clearly in all aspects. In 2016 meetings, none of the members of the Board of Directors cast dissenting votes for any resolutions. In 2016, weighted voting rights or negative veto rights were not bestowed to the members of the Board of Directors.

Weighted voting right or negative veto right was not granted to the Board Members.

5.3. Number, Structure and Independency of the Committees Established in the Board of Directors

The Company's Board of Directors revises the structure and activities of the existing committees within the framework of provisions set under the Capital Markets Board's Corporate Governance Communiqué. Hence, the Audit Committee, Early Detection of Risk Committee and Corporate Governance Committee have been established. The duties and responsibilities of the Nomination Committee and the Remuneration Committee are fulfilled by the Corporate Governance Committee.

(As of 31.12.2015)

Committee in Charge of Audit

Name Surname	Title
Yahya Mehmet İzzet ÖZBERKİ	Chairman of the committee
Jiri SCHWARZ	Member of the committee

Corporate Governance Committee

Name Surname	Title
Jiri SCHWARZ	Chairman of the committee
Yahya Mehmet İzzet ÖZBERKİ	Member of the committee
Petr SEDLAK	Member of the committee
Özge ÖZEN AKSOY	Member of the committee

Early Risk Determination Committee

Name Surname	Title
Yahya Mehmet İzzet ÖZBERKİ	Chairman of the committee
Jiri SCHWARZ	Member of the committee

The fields of activity, working principles and members of the committees were determined by the Board of Directors and disclosed to the public via the Public Disclosure Platform and the Company website.

All members of the Committee in Charge of Audit and Early Risk Determination Committee, and Chairman of the Corporate Governance Committee were elected from the independent members of the Board. Yahya Mehmet İzzet ÖZBERKİ, who is one of the members of the Corporate Governance Committee, is an Independent Board member. Petr SEDLAK and Özge Özen AKSOY are experts who are not Board Members. The Investor Relations Department executive, Ms. Özge Özen Aksoy, who holds the licenses required by legislation, also serves as a member of the Corporate Governance Committee.

The General Manager does not participate in any committee.

Special attention is paid not to assign the members of the Board of Directors for more than one committee. Notwithstanding, the Committee in Charge of Audit and the Early Risk Determination Committee are composed of two independent members: one Chairman and one member. The Chairman of the Committee in Charge of Audit is, at the same time, the Chairman of the Early Risk Determination Committee. Moreover, the Chairman of the Corporate Governance Committee is, at the same time, the member of the Committee in Charge of Audit and the Early Risk Determination Committee.

Any kind of support and resource required for the committees to perform their duties are provided by the Board of Directors. The committees can invite any executive deemed necessary to their meetings and can receive their opinions.

The committees benefit from opinions of independent specialists in subjects that they need regarding their activities. Costs of the consultancy services needed by the committees are covered by the Company. No such service was obtained in 2016.

The committees keep written records of all activities carried out by them. The committees convene in a frequency, deemed necessary for the effectiveness of their activities and set forth in the working principles. They submit reports containing information regarding their activities and meeting results to the Board of Directors.

Among the members of the Audit Committee within the Company, there are members who have experience in the fields of accounting / auditing and finance. The committee oversees the Company's accounting system, public disclosure of financial information, and independent audit, as well as the functioning and effectiveness of the Company's internal control and internal audit systems. The selection of an independent auditing firm, identification of the services to be received from this firm, preparation of independent audit contracts, initiation of the independent audit process, and the works of the independent auditing firm at every stage, are all carried out under the supervision of the audit committee.

The independent auditing firm that will provide services to the Company, and the services to be received from this firm, are determined by the Audit Committee and then submitted to the Board of Directors for approval.

The methods and criteria to be applied in the issues of investigation and resolution of complaints received by the Company about the accounting and internal control system and independent auditing of the Company, and evaluation of the notifications of employees on accounting and independent auditing of the Company within the context of the confidentiality principle, are also determined by the Audit Committee.

The Audit Committee reports its evaluations concerning the truthfulness and accuracy of the annual and interim financial statements to be disclosed to the public, according to the accounting principles followed by the Company, together with the evaluations of the Company's respective executives and independent auditors, to the Board of Directors in written form. The Audit Committee immediately notifies the Board of Directors in writing about its findings that fall under the Committee's duties and responsibilities, as well as its evaluations and recommendations in respect thereof.

The Audit Committee convened 7 times in 2016, and recorded the minutes of the meeting. The resolutions taken were presented to the Board of Directors. The Audit Committee submitted 7 (seven) reports to the Board of Directors within the 2016 accounting period.

The Company's Corporate Governance Committee observes whether or not corporate governance principles are applied in the company and, if not, identifies the reasons and the conflicts of interests arising due to not fully complying with these principles. The committee offers recommendations on optimizing corporate governance practices, and monitors the works of the Investor Relations unit.

The Company's Corporate Governance Committee convened twice in 2016, once of which was convened under the capacity of Nomination Committee.

Corporate Governance Principles Compliance Report

The Early Detection of Risk Committee's duty is to carry out works for the early detection of any risks that may threaten the Company's existence, development and continuation, and to take the necessary precautions related to the risks identified, and to manage the risk.

Pursuant to the provision under Article 378 of the Turkish Commercial Code, the Boards of Directors in companies, shares of which are traded on the stock exchange, are liable for establishing an expert committee, and running and improving the system, in order to detect early any factors endangering the company's existence, development and continuation, and to apply the necessary precautions and remedies therefor and manage the risk. The Committee evaluates the situation on reports that it will submit to the Board of Directors once every two months, indicates the hazards, if any, and shows the remedies.

Further to the related regulation provisions, the Early Detection of Risk Committee was established by the Board of Directors on 24.09.2013.

The Committee convenes on a bimonthly basis, and it gives suggestions and recommendations to the Board of Directors to detect early and assess any kinds of risks that may affect the Company, such as strategic, financial, operational etc.; calculate the impact and possibilities; manage and report these risks in accordance with the company's corporate risk-taking profile; apply the precautions required for the risks identified; consider such risks in the decision mechanism; and establish and integrate efficient internal control systems accordingly. The efficiency of the Company's risk management and internal control systems are revised at least once a year by the Early Detection of Risk Committee.

The Early Detection of Risk Committee convened 6 (six) times in 2016, and presented its reports, including the results of the meetings held during the year, to the Board of Directors.

All of the Committees conducted operations with respect to their areas of responsibility.

5.4. Risk Management and Control Mechanism

The Board of Directors establishes internal control systems, including risk management and information systems and processes that aim at minimizing the effects of risks that would affect the stakeholders of the Company, particularly the shareholders, by obtaining the suggestions of the related committees of the Board of Directors.

The Company's risk inventory is one of the most important follow-up tools used in Akenerji's risk management activities. The risk inventory includes the operational, financial, reputational and strategic risks of the Company. Risks with high or very high level risk scores are monitored at the level of the Board of Directors. Detailed action plans are created for such risks, and a risk owner is assigned for each of these risks. The risk owner is responsible for managing the related risk within the framework of the agreed action plan. Thus, the risk management philosophy has become a permanent item on the agenda of routine business of Akenerji executives. Updated in line with sectoral and institutional developments, this philosophy has become an integral part of the Company's applications.

The current internal control system, particularly enhancing the efficiency and productivity of Company operations, ensuring reliability in financial reporting, and compliance with applicable law and legislation, is being audited by the Audit Group established within our parent companies, Akkök Holding A.Ş. and ÇEZ a.s., in accordance with the annual internal audit plan. The outcome of the audit is reported to the Audit Committee. The efficiency of internal audit operations has been reviewed by the Audit Committee during the year. Opinions of the internal auditor, external auditor, or other Company executives have also been obtained when required.

The Internal Audit team comes into contact with the independent auditors when necessary within the scope of audit activities, and occasionally performs common process controls with independent auditors.

5.5. Strategic Goals of the Company

The Board of Directors administrates and represents the Company by keeping the risk, growth and return balance of the Company at the most appropriate level with its strategic decisions to be made and protecting the long term interests of the Company primarily with its rational and prudent risk management approach.

The Board of Directors defines the strategic goals of the Company, determines the human and financial resources to be needed by the Company and audits performance of the management.

The Board of Directors supervises compliance of the Company operations with the legislation, the Articles of Association, the internal regulations and the established policies.

The Company's short and long-term performances and strategic objectives are evaluated, and the necessary action plans are carried out according to the results obtained in the meetings held on a regular basis, and headed by the General Manager.

The Board of Directors reviews the degree to which the Company achieves its targets, as well as its activities and past performance. Accordingly, the Board of Directors reached the conclusion that the Company attained its operational and financial performance targets in 2016.

5.6. Financial Rights

The Board of Directors is responsible for ensuring that the Company attains its targets. The assessment regarding whether or not the company attains its operational and financial performance targets, as well as the reasons if not attained, are explained in the annual report. The Board of Directors conducts a self-criticism and performance evaluation on the board, members and executives with administrative

responsibilities. Accordingly, it rewards or discharges the Board members and executives with administrative responsibilities based on such evaluations.

Remuneration principles for the members of the Board of Directors and senior executives are recorded in writing, and the shareholders were given the opportunity to express their opinions by submitting this for their information as an individual article on the Ordinary General Assembly agenda. The Remuneration Policy for the Board of Directors and Executive Managers prepared for this purpose is published on the Company website.

In the remuneration of the independent members of the Board of Directors, stock options or payment plans based on the Company's performance are not used. The wages of the independent members of the Board of Directors were determined at a level that ensured their independence at the General Assembly.

The Company does not extend loans or credit to any member of the Board of Directors, or to senior executives, and does not give assurances such as warranty in favor of them.

Wages and all other benefits provided to the Members of the Board of Directors and senior executives are disclosed to the public entirely through the annual report, and Note 24 to the financial statements, under the subheading of "Payments to the executive managers of the Group for the January 1 - December 31, 2016 and 2015 accounting periods". These statements are not made on an individual basis, and are provided with the distinction of Members of the Board of Directors and the senior executives. In 2016, the total amount of allowances including travel, lodging and representation expenses, benefits in-kind and in cash, insurance and similar payments provided to the senior executives and the members of the Board of Directors was TL 117,933.27.

Major Developments in the Past Year

General Assembly

The Ordinary General Assembly Meeting of the Company for the year 2015 was held on April 26, 2016. Shareholders representing 76.178% of the Company's capital attended the meeting. Shareholders exercised their right to pose questions, and no motion outside the agenda was presented. One question posed by shareholders was answered via the Company's corporate website after the meeting, under the Capital Markets Board's Corporate Governance Communiqué II-17.1, principle nr. 1.3.5.

Execution of Financial Leasing Agreement for Ayyıldız Wind Power Plant

A Financial Leasing Agreement has been executed by and between our Company and Yapı Kredi Finansal Kiralama A.O., with an approximate leasing cost of EUR 13,000,000, including VAT, for a term of 12 years, with a 1-year grace period. The amount will be used for project financing, to raise the total installed power of Ayyıldız WPP, which is currently 15 MW, to 28.2 MW.

Completion of Akocak Hydroelectric Power Plant and Equipment Sales

The sale of our Akocak Hydroelectric Power Plant, with installed capacity of 80.1 MW and operating in Araklı, Trabzon with power generation license number EÜ/582-5/590, and the related equipment, was completed as of 04.02.2016.

Other Statements

Information on the Company's acquisition of its own shares

The Company hasn't acquired any of its own shares.

Information on the private and public audits conducted during the accounting period

No private and public audits were conducted in the Company during the 2016 accounting period.

Information on any material lawsuits filed against the Company, which might have material impact on the Company's financial status and activities, and the possible outcomes of such lawsuits, and explanations about administrative or judicial sanctions imposed on the Company and the members of the governing body due to practices in violation of applicable legislation

There are no material lawsuits filed in 2016 against the Company, which might have material impact on the Company's financial status and activities, or administrative or judicial sanctions imposed on the Company and the members of the governing body due to practices in violation of the applicable legislation.

Information and assessments on whether the targets set in the previous periods have been achieved, whether the resolutions of the general assembly have been fulfilled, and the justifications if said targets failed to be achieved or said resolutions failed to be fulfilled

The Company has achieved the targets set, and the resolutions of the General Assembly have been fulfilled.

Information on any legislative changes which might have material impact on the Company's activities

There were no legislative changes that might have material impact on the Company's activities in 2016.

Information on any conflicts of interest between the Company and institutions which provide services in areas such as investment consultancy and rating, and the measures taken by the Company to prevent these conflicts of interest

There were no conflicts of interest between the Company and institutions that provide services in areas such as investment consultancy and rating in 2016.

Research and development activities of the Company

Akenerji does not conduct any R & D activities. Market research and other necessary analyses are carried out by means of organizations providing professional consulting services.

Determination on whether the Company has any unredeemed capital, or the Company is in a debt-choked status, and the evaluations of the management body

The Company has no unredeemed capital, and the Company is not in a debt-choked status.

Information regarding the related party transactions and balances required to be submitted to the partners in accordance with the legislation, and the benefits provided to the Board of Directors and senior executives

Information regarding the related party transactions and balances required to be submitted to the partners in accordance with the legislation, and the benefits provided to the Board of Directors and senior executives is provided in footnote No. 24, named Related Party Disclosures, in the Financial Statements section.

Information regarding the Company's financial resources, and the nature and amount of the capital market instruments issued, if any

Information regarding the Company's financial resources is provided in footnote No. 4, named "Financial Borrowings", in the Financial Statements section. There are no capital market instruments issued during the year or still active.

After 2016

Disclosures regarding any events of particular importance that occurred in the Company after the end of the operating year, and that might affect the rights of the shareholders, creditors and other interested persons and organizations, are provided below:

- The capacity increase project for Ayyıldız Wind Power Plant was finalized as of 27.01.2017, and the total installed power of the Power Plant reached a commercial capacity of 28.2 MWm/28.2 MWe after the addition of 4 units with installed power of 3.3 MW.

Risk Management

Risk Management establishes systems and monitors actions to define and assess risks and opportunities that could impact the Company's targets; it ensures that these are managed according to the policies set by the Board of Directors. The Corporate Risk Management (CRM) project initiated in 2012, was completed in June 2013. Subsequently, a risk inventory was established across the Company, the roles and responsibilities were defined and regular reporting and monitoring activities were initiated. The Company's risk appetite notification, updated in line with sectoral and institutional developments, and approved by the Board of Directors, is used by all business units as a guideline in implementing risk reduction measures.

Due to the alignment with article 378 of the Turkish Commercial Code, which was enacted in July 2012, the Early Detection of Risk Committee was established under the supervision of the Akenerji Board of Directors. The Committee ensures early detection of risk, taking the necessary precautions related to the risks identified, and management of the risk. The Akenerji independent member of the Board of Directors Yahya Mehmet Özberki was appointed president of the Committee and Akenerji independent member of the Board of Directors Jiří Schwarz was appointed member of the Committee. To fulfill its duties and responsibilities, the Committee presents reports to the Board of Directors, every two months.

The Akenerji Strategic Planning and Risk Management Department determines and evaluates the risks in accordance with Company risk procedure and limits, and in coordination with the Unit Risk Responsible persons assigned for each unit. The Management prioritizes reports, and monitors the risks in line with the Risk Appetite.

While the risks are managed within the framework of Corporate Risk Management, the Risk Management Committee was established in March 2015 to take quicker decisions and take immediate actions due to the changing market conditions (more liquid and competitive). The

Committee members are composed of the General Manager, Assistant General Managers, Directors, and Strategic Planning and Risk Manager. The Committee convenes on a monthly basis, and it is ensured that the necessary actions are taken by discussing the risks that the company incurs/may incur in the changing market conditions.

Risks in Akenerji are assessed and followed up under 5 main headings:

- ▶ Reputational risks
- ▶ Compliance risks
- ▶ Strategic risks
- ▶ Operational risks
- ▶ Financial Risks

Considering the macro-economic environment and the political/economic conditions specific to Turkey, as well as volatility, 2016 was a year during which market and economic risks grew in terms of the Turkish electricity market. The fluctuations in electricity prices; low course of electricity demand (which is directly related to economic conditions) due to slowing economic growth and industrial production; changes in natural gas prices; and financing risk driven by the fluctuations in the global economy were analyzed in 2016. The changes were closely followed up and the necessary actions were taken. Within this scope, Akenerji strengthened its financial structure under the current market conditions, based on both the reorganization of our subsidiaries, and the refinancing agreement we executed on September 30, 2015, and our durability was enhanced in the changing market conditions.

Akenerji will continue to monitor economy-oriented risks in the context of risk management processes, with the anticipation that the global economic turmoil may continue in the coming period, and to report and monitor the risk inventory established enterprise-wide, on a regular basis.

Dividend Distribution Policy

Our Company makes dividend distribution in accordance with the Turkish Commercial Code, Capital Market Legislation, Tax Legislation and other applicable legislation and as per provision of Article 27 of our Company's Articles of Association regarding dividend distribution.

As a principle, our Company, in the event that it decides according to the following procedure to distribute dividend, shall make dividend distribution to shareholders and other people participating in the profit at least with a ratio of 30% of the yearly distributable net profit. Dividend distribution is subject to the decision to be adopted at the General Assembly pursuant to the proposal made by the Board of Directors each year in accordance with the regulations stipulated by Capital Market Legislation and Article 27 of our Company's Articles of Association and considering capital requirements, investment and financing policies, profitability and cash positions of our Company, its subsidiaries and affiliates and sector-specific and economic conditions.

The dividend to be paid subject to the resolution to be adopted at the General Assembly as per the proposal of the Board of Directors may be determined as fully in cash dividend or fully as bonus share or partially cash dividend and partially bonus shares.

The dividend shall be distributed as equal to all of the existing shares as of the related accounting period in accordance with the Dividend Distribution Policy.

The General Assembly shall decide about the timing of the dividend payment in line with the Board of Directors proposal regarding dividend payment provided that it shall be started at latest as of the end of accounting period in which the General Assembly is held.

Interim dividends may be given to shareholders in line with the Turkish Commercial Code and the legislation of the Capital Market Board and the provisions of Article 27 of our Company's Articles of Association.

This dividend payment policy of our Company may be reviewed every year by the Board of Directors taking aforementioned subjects and conditions into consideration and submitted for approval of the General Assembly in case of an amendment proposal by the Board of Directors.

Dividend Distribution Proposal of the Board of Directors Dividend

Dear Shareholders,

The dividend distribution proposal of the Board of Directors is as follows;

- 1- Not to distribute any dividend since there is a loss in our consolidated financial statements prepared within the framework of the provisions of the Tax Procedure Law (TPL) and the Capital Markets Board's (CMB) Communiqué Serial: II-14.1 on "Principles Regarding Financial Reporting in Capital Markets",
- 2- To reserve the net period loss in the legal records of the Company, prepared according to the provisions of the Tax Procedure Law (TPL), and the net period loss in the financial statements, prepared pursuant to the CMB's Communiqué Serial: II-14.1, in the consolidated financial statements of the Company,
- 3- To submit the abovementioned proposal of the Board of Directors for approval of our shareholders at the Ordinary General Assembly meeting for the year of 2016.

Sincerely,

Board of Directors

Statement of Responsibility

STATEMENT OF RESPONSIBILITY AS PER ARTICLE 9 OF THE CAPITAL MARKETS BOARD COMMUNIQUE SERIAL: II-14.1 ON PRINCIPLES REGARDING FINANCIAL REPORTING IN CAPITAL MARKETS

We hereby declare that,

The 2014 annual report, which was prepared pursuant to the provisions of the Capital Markets Board's (CMB) Communiqué Serial: II-14.1 on "Principles Regarding Financial Reporting in Capital Markets" ("Communiqué"), and in compliance with the format and content specified by the CMB and the relevant legislations;

- ▶ Was examined by our side;
- ▶ Did not include any explanation contrary to the facts with respect to important matters, or any gaps that could be misleading as of the date when the explanation was made, to the extent of the information we have as per our duty and responsibility within the Company;
- ▶ To the extent of the information we have as per our duty and responsibility within the Company, the annual report, which was prepared in accordance with the relevant Communiqué, solely reflects the truth regarding the development and performance of the business; and along with those under the scope of consolidation, reflects the truth regarding the Company's financial status, together with the significant risks and uncertainties it faces, and that we are liable for the statement made.

Yours Faithfully,

AKENERJİ ELEKTRİK ÜRETİM A.Ş.



**CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITOR'S REPORT
ON THE BOARD OF DIRECTORS' ANNUAL REPORT
ORIGINALLY ISSUED IN TURKISH**

To the Board of Directors of Akenerji Elektrik Üretim A.Ş.

Auditor's Report on the Board of Directors' Annual Report

1. We have audited the annual report of Akenerji Elektrik Üretim A.Ş. (the "Company") and its Subsidiaries (collectively referred to as the "Group") for the period ended 31 December 2016.

Board of Directors' responsibility for the Annual Report

2. The Group's management is responsible for the fair preparation of the annual report and its consistency with the consolidated financial statements in accordance with Article 514 of Turkish Commercial Code ("TCC") No. 6102 and Capital Markets Board's ("CMB") Communiqué Serial II, No:14.1, "Principles of Financial Reporting in Capital Markets" (the "Communiqué") and for such internal control as management determines is necessary to enable the preparation of the annual report.

Independent Auditor's Responsibility

3. Our responsibility is to express an opinion on the Group's annual report based on the independent audit conducted pursuant to Article 397 of TCC and the Communiqué, whether or not the financial information included in this annual report is consistent with the Group's consolidated financial statements that are subject to independent auditor's report dated 20 February 2017 and presented fairly.

Our independent audit was conducted in accordance with Independent Auditing Standards that are 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 independent audit is planned and performed to obtain reasonable assurance whether the financial information in the annual report is fairly presented and consistent with the consolidated financial statements.

An independent audit requires applying audit procedures to obtain audit evidence on the historical financial information. The procedures selected depend on the professional judgement of the independent auditor.

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

Opinion

4. Based on our opinion, the financial information in the annual report of Board of Directors of Akenerji Elektrik Üretim A.Ş. is consistent with the audited consolidated financial statements and presented fairly, in all material respects.

Other Responsibilities Arising From Regulatory Requirements

5. Pursuant to subparagraph 3 of Article 402 of the TCC No. 6102, within the context of ISA 570 "Going Concern", we have not encountered any significant issue which we are required to be reported with regard to the inability of Group to continue its operations for the foreseeable future.

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

ORIGINAL TURKISH VERSION WAS SIGNED OFF

Çağlar Sürücü, SMMM
Partner

Istanbul, 10 March 2017

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS
AS 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 Akenerji Elektrik Üretim A.Ş.

Report on Consolidated Financial Statements

1. We have audited the accompanying consolidated balance sheet of Akenerji Elektrik Üretim A.Ş. (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 31 December 2016 and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

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

We believe that the 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of Akenerji Elektrik Üretim A.Ş. and its subsidiaries as at 31 December 2016 and their performance and cash flows for the year then ended in accordance with Turkish Accounting Standards.

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

5. Auditor's report on the early risk identification system and committee has been submitted to the Company's Board of Directors on 20 February 2017.
6. In accordance with Article 402 of the Turkish Commercial Code ("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.
7. In accordance with Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**CONSOLIDATED BALANCE SHEETS AT****31 DECEMBER 2016 AND 2015**

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

	Notes	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	3	433,746,318	476,767,228
Trade receivables			
- Other trade receivables	5	118,793,143	101,204,724
- Due from related parties	24	22,919,594	4,622,593
Inventories	8	5,669,202	17,531,489
Other receivables			
- Other receivables	6	1,988,953	280,956,683
- Due from related parties	24	5,900	28,702
Prepaid expenses	7	11,743,652	14,569,525
Current period income tax assets		3,193,413	2,253,044
Derivative financial instruments	15	-	859,845
Other current assets	9	15,271,729	14,253,927
		613,331,904	913,047,760
Assets held for sale	11	16,963,848	19,361,758
Current Assets		630,295,752	932,409,518
Trade receivables	5	12,234,324	18,780,940
Other receivables		295,247	302,948
Inventories	8	13,016,604	25,954,366
Financial assets	10	100,000	100,000
Property, plant and equipment	12	3,974,599,720	4,049,357,799
Intangible assets			
- Other intangible assets	13	113,364,043	115,808,714
Deferred tax asset	18	212,888,977	119,312,614
Prepaid expenses	7	19,584,076	8,356,882
Other non-current assets	9	68,172,799	60,473,521
Non-Current Assets		4,414,255,790	4,398,447,784
TOTAL ASSETS		5,044,551,542	5,330,857,302

The consolidated financial statements as of and for the year ended 31 December 2016 have been approved for issue by the Board of Directors ("BOD") on 20 February 2017 and signed on behalf of the BOD by General Manager Serhat Gencer and Deputy General Manager Petr Dokladal. These consolidated financial statements will be definitive following their approval in the General Assembly.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**CONSOLIDATED BALANCE SHEETS AT****31 DECEMBER 2016 AND 2015**

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

	Notes	31 December 2016	31 December 2015
LIABILITIES			
Short-term portion of long term financial liabilities			
- Bank borrowings	4	365,514,566	190,425,177
Trade payables			
- Other trade payables	5	130,275,864	120,935,298
- Due to related parties	24	36,363,959	15,233,274
Current income tax liabilities	18	505,297	249,580
Other payables			
- Other payables	6	4,014,232	2,917,414
Derivative financial instruments			
- Derivative financial instruments held for cash flow hedges	15	9,071,204	12,409,975
Liabilities related to employee benefits	16	941,079	521,067
Short term provisions			
- Short-term provisions related to employee benefits	16	3,955,147	1,982,465
- Other short term provisions	14	13,051,036	23,889,864
Deferred income			
- Deferred income from third parties		2,196,463	1,211,114
Current Liabilities		565,888,847	369,775,228
Financial liabilities			
- Bank borrowings	4	2,911,202,076	2,915,437,903
Derivative financial instruments			
- Derivative financial instruments held for cash flow hedges	15	30,927,705	35,831,256
Other trade payables	5	184,556,881	117,662,450
Other payables		15,627	92,460
Deferred tax liabilities	18	250,010,926	255,450,975
Long-term provisions			
- Long-term provisions for employee benefits	16	1,770,806	1,492,719
Non-Current Liabilities		3,378,484,021	3,325,967,763
Total Liabilities		3,944,372,868	3,695,742,991
EQUITY			
Share capital	17	729,164,000	729,164,000
Adjustment to share capital	17	101,988,910	101,988,910
Share premium	17	50,220,043	50,220,043
Other comprehensive income to be reclassified under profit and loss			
- Cash flow hedge funds		(30,964,517)	(45,977,850)
Restricted reserves			
- Legal reserves	17	12,053,172	12,053,172
Other comprehensive income not to be reclassified under profit and loss			
- Revaluation fund	12	1,409,709,068	1,476,834,316
Other reserves		(4,322,722)	(4,322,722)
Retained earnings		(618,995,310)	(333,839,998)
Net loss for the year		(548,673,970)	(351,005,560)
Total Equity		1,100,178,674	1,635,114,311
TOTAL LIABILITIES AND EQUITY		5,044,551,542	5,330,857,302

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**CONSOLIDATED STATEMENTS OF INCOME****FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015**

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

	Notes	31 December 2016	31 December 2015
CONTINUING OPERATIONS			
Revenue	19	1,420,842,034	1,802,888,608
Cost of sales (-)	19	(1,376,630,683)	(1,643,532,534)
GROSS PROFIT		44,211,351	159,356,074
General administrative expenses (-)		(56,959,298)	(59,180,510)
Other operating income	21	84,449,112	61,457,550
Other operating expense (-)	21	(8,167,317)	(21,188,538)
OPERATING PROFIT		63,533,848	140,444,576
Other income from investing activities	22	-	71,791,877
Other expenses from investment activities (-)	22	(8,977,338)	-
OPERATING PROFIT BEFORE FINANCIAL INCOME / EXPENSE		54,556,510	212,236,453
Financial income	23	85,378,739	105,238,351
Financial expenses (-)	23	(785,930,267)	(785,977,531)
LOSS BEFORE INCOME TAX FROM CONTINUING OPERATIONS		(645,995,018)	(468,502,727)
Tax income from continuing operations			
Current income tax expense	18	(1,695,364)	(1,453,091)
Deferred tax income	18	99,016,412	118,950,258
NET LOSS FOR THE YEAR		(548,673,970)	(351,005,560)
Loss from continuing operations per share	25	(752)	(481)

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

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME****FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015**

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

	Notes	31 December 2016	31 December 2015
Net Loss of the Year		(548,673,970)	(351,005,560)
Other Comprehensive Income to be reclassified to profit or loss			
Changes in hedge funds	15	-	(19,095,202)
Deferred tax income/ (expense)		-	3,819,041
Other Comprehensive Income not to be reclassified to profit or loss			
Revaluation fund		(1,275,000)	1,866,630,806
Deferred tax expense		-	(373,326,161)
Other comprehensive loss / (income) (after tax)		(1,275,000)	1,478,028,484
Total comprehensive loss / (income)		(549,948,970)	1,127,022,924

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

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

	Share Capital	Adjustment to Share Capital	Share Premium	Hedge Funds	Other Reserve	Restricted Reserve	Revaluation Fund	Accumulated Deficit	Net Loss	Total Equity
1 January 2015	729,164,000	101,988,910	50,220,043	(30,701,689)	(4,322,722)	11,803,700	-	(28,809,269)	(321,251,586)	508,091,387
Transfers	-	-	-	-	-	249,472	-	(321,501,058)	321,251,586	-
Other adjustments (*)	-	-	-	-	-	-	(16,470,329)	16,470,329	-	-
Total comprehensive income	-	-	-	(15,276,161)	-	-	1,493,304,645	-	(351,005,560)	1,127,022,924
31 December 2015	729,164,000	101,988,910	50,220,043	(45,977,850)	(4,322,722)	12,053,172	1,476,834,316	(333,839,998)	(351,005,560)	1,635,114,311
1 January 2016	729,164,000	101,988,910	50,220,043	(45,977,850)	(4,322,722)	12,053,172	1,476,834,316	(333,839,998)	(351,005,560)	1,635,114,311
Transfer	-	-	-	-	-	-	-	(351,005,560)	351,005,560	-
Other adjustments (*)	-	-	-	15,013,333	-	-	(65,850,248)	65,850,248	-	15,013,333
Total comprehensive income	-	-	-	-	-	-	(1,275,000)	-	(548,673,970)	(549,948,970)
31 December 2016	729,164,000	101,988,910	50,220,043	(30,964,517)	(4,322,722)	12,053,172	1,409,709,068	(618,995,310)	(548,673,970)	1,100,178,674

(*) As of 31 December 2016 the depreciation difference between acquisition cost and carrying values of assets subjected to revaluation method is TL82,312,810 (31 December 2015: TL20,587,911) and were reclassified under the retained earnings net of the deferred tax impact amounting to TL65,850,248 (31 December 2015: TL16,470,329).

(**) Since Group has ceased to apply hedge accounting on 30 September 2015, the "Hedge Funds", which is included in equity, has been recorded in the profit or loss statement for the duration of related contracts.

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

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016 AND 2015

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

	Notes	31 December 2016	31 December 2015
A, Cash flows from operating activities		244,789,666	456,739,290
Net loss		(548,673,970)	(351,005,560)
Adjustments to reconcile net loss		823,309,840	678,920,122
Depreciation and amortization of property, plant and equipment and intangible assets	12,13	170,065,690	155,223,307
Adjustment for impairment of receivables	5	523,614	3,508,452
Adjustments for provisions			
- Adjustments for lawsuit provisions	14	(14,077,302)	9,612,857
- Adjustments for other provisions	14	4,639,442	1,373,575
- Adjustment for provision for employment termination benefits	16	2,250,769	1,283,804
Adjustment for foreign currency translation		493,701,835	481,789,822
Adjustment for tax (income)/expense	18	(97,321,048)	(117,497,167)
Adjustment for gain on sale of property, plant and equipment	22	8,977,338	(71,791,877)
Adjustment for interest income and expenses, net		254,549,502	215,417,349
Changes in working capital		(27,005,589)	130,597,900
Change in due from related parties		(18,297,001)	(1,066,772)
Change in receivables from third parties		(11,282,283)	21,452,324
Change in other receivables from related parties		22,802	(28,702)
Change in other receivables from third parties		(262,599)	(51,448,228)
Change in inventories	8	24,800,049	4,307,991
Change in prepaid expenses	7	(9,341,690)	29,566,366
Change in other assets	9	(8,717,080)	90,624,784
Change in due to related parties	24	21,130,685	(4,622,438)
Change in trade payables from third parties	5	(31,071,621)	55,022,207
Change in derivative assets		859,845	1,560,295
Change in derivative liabilities		2,753,047	(9,489,835)
Change in deferred income		960,260	(4,057,128)
Change in employee benefits		420,012	39,300
Change in other payables to third parties		1,019,985	(1,262,264)
Cash generated from operations		247,630,281	458,512,462
Payments related to other provisions	14	(1,400,968)	(339,852)
Tax payments	18	(1,439,647)	(1,433,320)
B, Net cash generated from investing activities		290,478,125	9,334,705
Cash outflows due to purchase of property, plant and equipment		(15,629,084)	(17,266,974)
Cash outflows due to purchase of intangible assets	13	(102,837)	(162,810)
Cash inflows due to sale of property, plant and equipment (*)		286,310,427	13,817,836
Interest received		19,899,619	12,946,653
C. Net cash used in financing activities		(578,378,679)	(25,490,597)
Proceeds from bank borrowings		-	3,176,531,609
Cash outflows due to repayment of bank borrowings		(331,067,140)	(3,044,374,859)
Interest paid		(248,631,164)	(203,705,968)
Other cash inflows/ (outflows)		1,319,625	46,058,621
Net decrease / (increase) in cash and cash equivalents		(43,110,888)	440,583,398
Cash and cash equivalents at the beginning of the year	3	463,748,375	23,164,977
Cash and cash equivalents at the end of the year	3	420,637,487	463,748,375

(*) Cash inflows due to sale of property, plant and equipment is mainly related to the collection of sales amount of Akocak Hydroelectric Power Plant that was sold on 31 December 2015.

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

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Akenerji Elektrik Üretim A.Ş. (“the Company” or “Akenerji”) is engaged in the establishing, renting and operating facilities of electrical energy production plant, producing electricity and trading electricity to the customers. The Company was established by Akkök Holding A.Ş. in 1989. Since 14 May 2009, the Company is a joint venture between Akkök Holding A.Ş and CEZ a.s..

The Company is registered in Turkey and its registered address is as follows;

Miralay Şefik Bey Sokak No:15 Akhan Kat: 3-4 Gümüşsuyu / Istanbul - Turkey

The Company is registered to the Capital Markets Board (“CMB”), and its shares are publicly traded in Borsa Istanbul (“BIST”). As of 31 December 2016, 52.83% of its shares are open for trading (31 December 2015: 52.83%).

The consolidated financial statements as of and for the year ended 31 December 2016 have been approved for issue by the Board of Directors (“BOD”) on 20 February 2017.

The subsidiaries of the Company, their nature of business and registered addresses are presented below (Akenerji and its subsidiaries are called as “Group”).

Subsidiaries	Nature of Business	Registered Address
Akenerji Elektrik Enerjisi İthalat-İhracat ve Toptan Ticaret A.Ş. (“Akenerji Toptan”)	Electricity trading	Gümüşsuyu / Istanbul
Ak-el Yalova Elektrik Üretim A.Ş. (“Ak-el”)	Electricity production and trading	Gümüşsuyu / Istanbul
Egemer Elektrik Üretim A.Ş. (“Egemer”)	Electricity production and trading	Gümüşsuyu / Istanbul
Akel Kemah Elektrik Üretim ve Ticaret A.Ş. (“Akel Kemah”)	Electricity production and trading	Gümüşsuyu / Istanbul
Akenerji Doğalgaz İthalat İhracat ve Toptan Ticaret A.Ş. (“Akenerji Doğalgaz”)	Natural gas trading	Gümüşsuyu / Istanbul

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

Financial reporting standards

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 issued by Public Oversight Accounting and Auditing Standards Authority (“POAASA”). TAS contains Turkish Accounting Standards, Turkish Financial Reporting Standards (“TFRS”) and its addendum and interpretations (“IFRIC”).

The consolidated financial statements of the Group are prepared as per the CMB announcement of 7 June 2013 relating to financial statements presentations. Comparative figures are reclassified, where necessary, to conform to changes in the presentation of the current year’s consolidated financial statements.

In accordance with the CMB resolution issued on 17 March 2005, listed companies operating in Turkey are not subject to inflation accounting effective from 1 January 2005. Therefore, the consolidated financial statements of the Group have been prepared accordingly.

The Group and its Turkish subsidiaries, associates and joint ventures maintain their 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 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 financial liabilities which are carried at fair value. The consolidated financial statements are based on the statutory records, which are maintained under historical cost conventions, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with TAS.

2.2 Basis of consolidation

a) The consolidated financial statements include the accounts of the parent company, Akenerji, and its subsidiaries on the basis set out in sections (b) to (c) below. 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 TFRS 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 companies in which Akenerji has the power to control the financial and operating policies for the benefit of itself, either (1) through the power to exercise more than 50% of voting rights related to shares in the companies as a result of shares owned directly and/or indirectly by itself or (2) although not having the power to exercise more than 50% of the voting rights, through the exercise of actual dominant influence over the financial and operating policies.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

The table below sets out all subsidiaries and demonstrates the proportion of ownership interest as of 31 December 2016 and 2015:

Subsidiaries	Direct and indirect ownership interest by the Company and its Subsidiaries (%)	
	31 December 2016	31 December 2015
Akenerji Toptan	100.00	100.00
Ak-el	100.00	100.00
Egemer	100.00	100.00
Akel Kemah	100.00	100.00
Akenerji Doğalgaz	100.00	100.00

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 Akenerji and its subsidiaries are eliminated on consolidation. Dividends arising from shares held by the Company in its subsidiaries are eliminated from income for the period and equity, respectively.

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

2.3 Amendments in Turkish Financial Reporting Standards

a. Standards, amendments and interpretations applicable as at 31 December 2016:

- IFRS 14 'Regulatory deferral accounts', effective from annual periods beginning on or after 1 January 2016. IFRS 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 IFRS. However, to enhance comparability with entities that already apply IFRS 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:
 - IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
 - IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.
 - IAS 19, 'Employee benefits' regarding discount rates.
- IAS 34, 'Interim financial reporting' regarding disclosure of information.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

- Amendment to IFRS 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 IAS 16 'Property, plant and equipment', and IAS 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 IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.
 - Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment it has 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 IAS 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.
 - Amendment to IFRS 10 'Consolidated financial statements' and IAS 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 IAS 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.
- #### b) Standards, amendments and interpretations effective after 1 January 2017:
- Amendments to IAS 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 IAS 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 clarifies certain other aspects of accounting for deferred tax assets.
 - Amendments to IFRS 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

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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 IFRS 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.

- IFRS 9 'Financial instruments', effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 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.
- IFRS 15 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. IFRS 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.
- Amendment to IFRS 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.
- IFRS 16 'Leases', effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 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 IFRS 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 IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 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 IFRS 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 IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard- IAS 39.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

- Amendment to IAS 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.
- Annual improvements 2014–2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 3 standards:
 - IFRS 1, 'First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018.
 - IFRS 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.
 - IAS 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 effect of the aforementioned changes within its operations and apply changes starting from effective date. It is expected that the application of the standards (Note 2.3 a and b) and interpretations will not have a significant effect on the consolidated financial statements of the Group.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

2.4 Summary of Significant Accounting Policies

a) Revenue Recognition

Revenues are recognized on an accrual basis when the electricity is delivered (risk and rewards are transferred), the amount of the revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group, at the fair value of consideration received or receivable. Net sales represent the invoiced value of electricity delivered less sales returns and commission. Transmission revenue is netted off with its related costs in consolidated financial statements.

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

b) Trade Receivables and Impairment

Trade receivables that are created by the Group by way of providing services (i.e. supplying electricity) directly to a debtor are recognised initially at fair value and subsequently measured using the effective interest method less provision for impairment. Short term receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant.

A credit risk provision for impairment of trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other income.

c) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (Note 3).

ç) Related parties

If one of the below listed criteria exists the party is regarded as related with the Group:

- a) Directly, or indirectly through one or more intermediaries, the party:
 - i) controls, is controlled by, or is under common control with, the Group (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

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

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 normal course of business (Note 24).

d) Inventories

Inventories are valued at the lower of cost or net realisable value less costs to sell. Cost of inventories is comprised of the purchase cost and the cost of bringing inventories into their present location and condition. Inventories comprise of spare parts, lubricants and chemical materials required for the maintenance of the machines and equipments, and expensed as they are used. The cost of inventories is determined using the moving weighted average method (Note 8).

e) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in TL, which are the functional currency of Akenerji and the presentation currency of the Group.

f) Property, plant and equipment

Property, plant and equipment acquired before 1 January 2005 are carried at restated cost in purchasing power of TL as at 31 December 2004 less accumulated depreciation and impairment losses until the accounting policy change at 30 September 2015 which are explained as below. Property, plant and equipment acquired after 1 January 2005 are carried at cost less accumulated depreciation and impairment losses (Note 12). Land is not depreciated as it is deemed to have an indefinite life. Depreciation is provided on restated costs of property, plant and equipment using the straight-line method based on the estimated useful lives of the assets. The mentioned asset's useful lives are presented below:

	Years
Buildings	10-50
Land improvements	5-40
Machinery and equipment	4-40
Motor vehicles	4-10
Furniture and fixtures	3-50
Leasehold improvements	5-46

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Expenses for the repair of property, plant and equipment are normally charged as expense. They are, however, capitalised if they result in an enlargement or substantial improvement of the respective assets.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

Gains or losses on disposals of property, plant and equipment which are calculated as the difference between net carrying value and the collections made are included in the related income and expense accounts, as appropriate.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Group, has chosen the revaluation method among application methods mentioned under IAS 16 for lands, land improvements, buildings, machinery and equipments belonging its powerplants commencing from 30 September 2015. The fair value of Kemalpaşa Natural Combined Power Plant's land is determined by using "market approach and cost method" in the valuation reports prepared by independent valuation company named Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş. with a CMB licence, on 5 October 2015. Motor vehicles are presented on consolidated financial statements at their carrying amounts. Fair value of land, land improvements, buildings, machinery and equipments sre subjected to valuation is determined by using "income approach - discounted cash flow analysis".

Increase in property, plant and equipments due to the revaluation in question are credited after netting of the deferred tax effect on revaluation fund account under shareholders' equity in the balance sheet. The difference between amortization (reflected in income statement) calculated by the carried amounts of revalued assets and amortization calculated by the acquisition costs of these assets is transferred to accumulated deficit from revaluation fund after netting of the deferred tax effect on a yearly basis. The same method is also applicable for tangible asset disposal.

g) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

ğ) Intangible Assets

Intangible assets acquired before 1 January 2005 are carried at restated cost in purchasing power of TL as at 31 December 2004 less accumulated depreciation and impairment losses. Intangible assets acquired after 1 January 2005 are carried at cost less accumulated depreciation and impairment losses. Intangible assets comprise licenses and computer softwares (Note 13).

Licenses

Licenses are recorded at acquisition cost and amortised on a straight-line basis over their estimated useful lives of 15- 49 years. Where an indication of impairment exists, the carrying amount of any intangible assets is assessed and written down immediately to its recoverable amount.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

Computer softwares

Computer softwares are recorded at acquisition cost and amortised on a straight-line basis over their estimated useful lives of 3 - 15 years. Where an indication of impairment exists, the carrying amount of any intangible assets is assessed and written down immediately to its recoverable amount.

h) Impairment of non-financial assets

All assets are reviewed for impairment losses including property, plant and equipment and intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. Impairment losses are recognised in the statement of comprehensive income.

Impairment losses on assets can be reversed, to the extent of previously recorded impairment losses, in cases where increases in the recoverable value of the asset can be associated with events that occur subsequent to the period when the impairment loss was recorded.

i) Borrowing costs and financial liabilities

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

In the case of a financial liability modification, any costs or fees occurred regarding these liabilities is deducted from the carrying amount of the liability and amortised during the terms of the modified loan agreement by being

If financing costs arising from the loans are associated with acquisition or construction of qualifying assets, they are included in cost value of qualifying assets. Qualifying assets refer to assets which require a long time to be available for use or sales as intended. Other borrowing costs are accounted in statement of profit or loss in the period they occur.

i) Trade payables

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

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

j) Provisions, contingent liabilities, contingent assets

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.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in financial tables and are treated as contingent assets or liabilities (Note 14).

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognized in the financial statements since this may result in the recognition of income that may never be realized. A contingent asset is disclosed where an inflow of economic benefit is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs.

k) Employment termination benefits

Under the Turkish Labour Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men).

Under the Turkish Labour Law, the provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees (Note 16).

l) Earnings / (loses) per share

Earnings per share are determined by dividing net gain by the weighted average number of shares that have been outstanding during the related year concerned. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings and allowable reserves. 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 issues without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued and each earlier year (Note 25).

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

m) Current and deferred income tax

Taxes include current period income taxes and deferred income taxes. Current year tax liability consists tax liability on period income calculated based on currently enacted tax rates as of balance sheet date and according to tax legislation in force and includes adjustments related to previous years' tax liabilities.

Deferred income tax is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax bases of assets and liabilities comprise of the amounts that will impact taxable income in future periods based on the tax legislation. Currently enacted tax rates, which are expected to be effective during the periods when the deferred income tax assets will be utilised or deferred income tax liabilities will be settled, are used to determine deferred income tax.

Deferred income tax assets and liabilities are recognised to the extent that they will impact taxes to be paid in the periods that temporary differences will disappear. Deferred income tax liabilities are recognised for all taxable temporary differences, where deferred income tax assets resulting from deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised. Carrying value of deferred income tax assets are decreased to the extent necessary, if future taxable profits are not expected to be available to utilize deferred income tax assets partially or fully.

Deferred income tax assets and deferred income tax liabilities related to income taxes levied by the same taxation authority are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities (Note 18).

n) Reporting of cash flows

In the consolidated statement of cash flows, cash flows during the period are classified under operating, investing or financing activities.

The cash flows raised from operating activities indicate cash flows due to the Group's operations.

The cash flows due to investing activities indicate the Group cash flows that are used for and obtained from investments (investments in property, plant and equipment and financial investments).

The cash flows due to financing activities indicate the cash obtained from financial arrangements and used in their repayment.

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 3 months and which are subject to an insignificant risk of changes in value (Note 3).

o) Subsequent events

Subsequent events consist of all events between balance sheet date and date of authorization for validity, even if they have been existed after public explanation of an announcement about profit or other financial information. In the case that events requiring an adjustment to the financial statements occur subsequent to the balance sheet date, the Group makes the necessary corrections on the financial statements (Note 27).

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

ö) Capital and dividends

Ordinary shares are classified as equity. Dividends on ordinary shares are calculated by reducing retained earnings in the period in which they are declared (Note 17).

p) Share premium

Share premium represents differences resulting from the sale of the Group's Subsidiaries' and Associates' shares at a price exceeding the face value of those shares or differences between the face value and the fair value of shares issued for acquired companies (Note 17).

r) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The derivative instruments of the Group consists of interest rate swap and foreign currency forward contracts.

The fair value of forward contracts calculated by calculating forward exchange rate, for remainder of agreement related foreign currency's prevailed market interest rate, and comparing it to reporting date forward exchange rate.

The fair value of over-the-counter forward foreign exchange contracts is determined based on the comparison of the original forward rate with the forward rate calculated in reference to the market interest rates of the related currency for the remaining period of the contract, discounted to 31 December 2016. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The effective portion of changes in fair value of derivative financial instruments are accounted in "hedge funds" under equity. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the statement of income. When a stipulated transaction or a transaction that will possibly be executed in the future is realized, it is accounted in the profit or loss statement, or if it is foreseen that it will not be realized, accumulated income and expense regarding the transaction are accounted in the financial statements by amortising over the terms of the interest rate swap agreement (Note 15).

ş) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

t) Financial assets

Financial assets within the scope of IAS 39 "Financial instruments: Recognition and measurements" 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 recognised 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 recognised 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 market place.

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 amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.5 Comparatives and restatement of prior year financial statements

The Group prepares comparative consolidated financial statements, to enable readers to determine financial position and performance trends. For the purposes of effective comparison, comparative financial statements can be reclassified when deemed necessary by the Group, where descriptions on significant differences are disclosed.

The consolidated balance sheet of the Group at 31 December 2016 has been provided with the comparative financial information of 31 December 2015 and the consolidated statements of income and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2016 have been provided with the comparative financial information, for the year ended 31 December 2015.

2.6 Critical accounting estimates and judgements

The preparation of consolidated financial statements necessitates the use of estimates and judgements that affect asset and liability amounts reported as of the balance sheet date, explanations of contingent liabilities and assets; and income judgements 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 judgements that are material to the carrying values of assets and liabilities are outlined below:

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

Deferred tax assets for the carry forward tax losses

Deferred tax assets are accounted for only where it is likely that related temporary differences and accumulated losses will be recovered through expected future profits. When accounting for deferred tax assets it is necessary to make critical estimations and evaluations with regard to taxable profits in the future periods. As of 31 December 2016, the Group has carry forward tax losses amounting to TL420,455,061 (31 December 2015: TL396,457,347) which are expected to be deducted from future profits and did not recognize deferred tax assets for the carry forward tax losses amounting to TL161,807,962 (31 December 2015: TL144,536,144) for which the Group believes it will not utilize in the future (Note 18). If the net income projections which are explained in Note 18 are not realized, related deferred tax assets for the carryforward tax losses will be accounted as an expense in the consolidated statements of income.

Fair value of interest rate swap contracts

Interest rate swap contracts are determined using valuation techniques of fair value. Each balance sheet date, Group predicts the future changes of swap majorly based on market data.

Explanations for revaluation method and fair value measurement

Group has chosen revaluation method as an accounting policy among application methods mentioned under IAS 16 for lands, land improvements, buildings, machinery and equipments belonging its powerplants commencing from 30 September 2015. Studies of revaluation was determined based on significant estimates and assumptions those were explained in detail in the consolidated financial statements dated 31 December 2015. The realization of estimates and assumptions different than expected, can have a significant effect on the fair value of these assets.

2.7 Going concern

The Group has prepared its consolidated financial statements on a going concern basis in a foreseeable future. The Group which made an operating profit in the year of 2016 has enough amount of cash to meet its debts arising from the loans which is due within next year. Because of the effect of sales in USD the Group made as part of the Renewable Energy Resources Support Mechanism (YEKDEM), the relevant cash amount is 90% in foreign currency, this amount is enough to pay out the short term portion of long term debt.

Since the Group signed the loan refinancing agreement with a portion of the amount in Turkish Lira with Yapı Kredi Bank as of the date of 30 September 2015, The Group reduced the exchange rate exposure. Akenerji which is conscious of all of its short term and long term liabilities, take necessary actions with a proactive approach in order to maintain its operations in a healthy financial structure.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

NOTE 3 - CASH AND CASH EQUIVALENTS

	2016	2015
Cash	85,392	76,528
Banks		
- time deposits	413,220,456	449,694,526
- demand deposits	20,440,470	26,996,174
	433,746,318	476,767,228

As of 31 December 2016, the average effective interest rate for TL time deposits of 10.25% (2015: 11.01%), for USD time deposits 3.03% (2015: 2.18%) and for EURO time deposits 1.20% (2015: 1.40%).

The remaining day to maturity of time deposits as of 31 December 2016 is shorter than one year.

The details of cash and cash equivalents include the following for the purpose of the statements of cash flows as of 31 December 2016 and 2015:

	2016	2015
Cash and banks	433,746,318	476,767,228
Restricted cash (-)	(11,419,717)	(12,739,343)
Interest accruals (-)	(1,689,114)	(279,510)
Cash and cash equivalents	420,637,487	463,748,375

As of 31 December 2016 the Group's restricted cash is amounting to TL11,419,717 (2015: TL12,739,343) and is related purchase and sale of electricity by Group.

NOTE 4 - FINANCIAL LIABILITIES

The details of financial liabilities as of 31 December 2016 and 2015 are as follows:

	2016	2015
Short-term portion of long term bank borrowings	365,514,566	190,425,177
Total short term financial liabilities	365,514,566	190,425,177
Long term bank borrowings	2,911,202,076	2,915,437,903
Total financial liabilities	3,276,716,642	3,105,863,080

The interest accruals amount for short and long term bank borrowings as of 31 December 2016 is TL66,302,740 (2015: TL54,040,820).

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

The details of the short term portion of the long term bank borrowings as of 31 December 2016 and 2015 are as follows:

	Original Currency		Weighted average effective interest rate (%)		TL equivalent	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
USD	86,482,129	53,166,126	6,23	6,01	304,347,908	154,585,830
TL	61,166,658	35,839,347	11,95	11,95	61,166,658	35,839,347
					365,514,566	190,425,177

The details of long term bank borrowings as of 31 December 2016 and 2015 are as follows:

	Original Currency		Weighted average effective interest rate (%)		TL equivalent	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
USD (*)	721,739,130	860,869,565	6,23	6,01	2,467,858,656	2,427,188,117
TL (*)	452,173,913	497,391,304	11,95	11,95	443,343,420	488,249,786
					2,911,202,076	2,915,437,903

(*) The loan obtained pursuant to the loan agreement ("Loan Agreement") signed with Yapı Kredi Bankası A.Ş. on 30 September 2015 amounts to TL3,291,330,087 (TL497,391,303 and USD793,913,044). Commissions amounting to TL32,304,368, including loan arrangement commission of TL18,426,149 arrangement commission of TL30,185,668 for paid-off loans and early payment commission at the amount of TL80,916,185, regarding the aforementioned loan were deducted from the total loan amount. Such commission amount will be amortized during the term of loans. As the loan agreement signed on 30 September 2015 is the modification of the loan agreement signed with the bank consortium consisting of T. Garanti Bankası A.Ş., Yapı Kredi Bankası A.Ş. and T. Vakıflar Bankası T.A.O. on 11 October 2011, commission paid for the loans used pursuant to this agreement is also deducted from the loan amount as of 31 December 2016.

Letters of guarantee given, pledges and mortgages related to financial liabilities are explained in Note 14.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

The details of redemption schedule of the long term bank borrowings as of 31 December 2016 and 2015 are as follows:

	2016	2015
Up to 1-2 years	291,120,207	265,039,809
Up to 2-3 years	291,120,207	265,039,809
Up to 3-4 years	291,120,207	265,039,809
Up to 4-5 years	291,120,207	265,039,809
Up to 5-6 years	291,120,207	265,039,809
Up to 6-7 years	291,120,207	265,039,809
Up to 7-8 years	291,120,207	265,039,809
Up to 8-9 years	291,120,207	265,039,809
Up to 9-10 years	291,120,207	265,039,809
More than 10 years	291,120,213	530,079,622
	2,911,202,076	2,915,437,903

The fair value of long-term financial liabilities is based on the cash flows discounted with the current debt ratio. Financial liabilities have been classified as the Level 3 in the fair value hierarchy since it has unobservable inputs including its own credit risk. The details of the carrying values and fair value of the long term bank borrowings as of 31 December 2016 and 2015 are as follows:

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
USD borrowings	2,467,858,656	3,266,322,635	2,427,188,117	3,423,233,545
TL	443,343,420	360,925,742	488,249,786	1,020,315,113
	2,911,202,076	3,627,248,377	2,915,437,903	4,443,548,658

The fair value of short-term borrowings equals their carrying amount, as the impact of discounting is not significant.

Compliance with the financial covenants

According to the Loan Agreement signed at 30 September 2015, under the terms of the borrowing facilities, the Group is required to comply with the financial covenant included in the Loan Agreement. In accordance with the Loan Agreement, debt service cover ratio, which will be started to be calculated based on the consolidated financial statements after 31 December 2016, should be greater than 1.05. Group has committed to this contract throughout the reporting period.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

NOTE 5 - TRADE RECEIVABLES AND PAYABLES

a) Short term trade receivables:

	2016	2015
Trade receivables	130,039,945	112,284,884
Provision for doubtful receivables (-)	(11,246,802)	(11,080,160)
	118,793,143	101,204,724

As of 31 December 2016, trade receivable maturities which less than 1 months and unearned finance income from credit sales does not exist (2015: Not exist).

The movement for provision for doubtful receivables is as follows:

	2016	2015
Balance at 1 January	11,080,160	7,571,993
Current year charges	523,614	3,508,452
Canceled provisions	(226,073)	-
Released provisions	(130,899)	(285)
Balance at 31 December	11,246,802	11,080,160

As of 31 December 2016 the amount of receivables which are overdue and impaired is TL11,246,802 (31 December 2015: TL11,080,160), The aging list of these receivables as of 31 December 2016 and 2015 is as follows:

	2016	2015
1 to 3 months	478	879,023
3 to 12 months	523,186	2,629,144
More than 12 months	10,723,138	7,571,993
	11,246,802	11,080,160

Past experience of the Group at collecting its receivables are considered in providing doubtful receivable provisions, The Group believes that no other trade receivable collection risk is present.

The amount of trade receivables that are past due but not impaired is TL64,201 as of 31 December 2016 (2015: TL12,994,790), The aging list of these receivables as of 31 December 2016 and 2015 is as follows:

	2016	2015
Up to 1 month	1,221	6,236,195
1 to 3 months	7,355	6,344,944
3 to 12 months	55,625	413,651
	64,201	12,994,790

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

b) Long term trade receivables:

	2016	2015
Long term other trade receivables (*)	12,234,324	18,780,940

(*) TL5,764,255 of long-term trade receivables consists of 154KW electricity transmission values that it will net with TEİAŞ with electricity sales for the future periods and TL6,470,069 of it consists of the sales value of Kemalpaşa Power Plant's gas turbine.

The balance of the gas turbine, one of the long-term trade receivables, has 723 days of maturity on average and its unaccrued financial expense for 2016 is TL277,997 (31 December 2015: None).

c) Short term trade payables:

	2016	2015
Suppliers	130,275,864	120,935,298
	130,275,864	120,935,298

d) Long term trade payables:

	2016	2015
Payables to DSI (*)	113,331,249	117,662,450
Other long-term trade payables (**)	71,225,632	-
	184,556,881	117,662,450

(*) The Group signed an agreement with the General Directorate of State Hydraulic Works (DSİ) Department of Investigation and Planning for the Water Usage of Ulubat Power Tunnel and Hydroelectric Energy Power Plant within the scope of the Emet-Orhaneli Çınarcık Dam Project on 6 June 2006. Even though the responsibility relating to the Energy Share Contribution Fee to be paid for the project, whose construction is ongoing and which has been taken over by the Group from DSİ according to this agreement, arises as the project starts operation, payments relating to this responsibility will start five years after the start of operations, According to the agreement, the obligations are recalculated in accordance with the Wholesale Price Index and payments will be made in 10 equal installments. As of the balance sheet date, this project has been completed and the first installment fee was paid in 2015. The second installment amount of TL15,269,111 was paid in 2016, the third installment amount of TL16,190,178 was debited under short-term trade payables to third parties, and the remaining balance of TL113,331,249 (31 December 2015: TL 117,662,450) was debited under the Group's long-term trade payables to third parties (Note 23).

(**) Other long-term trade payable balance is related to the maintenance work of Egemer Erzin Combined Cycle Natural Gas Plant, with 723 days of maturity on average. Its unaccrued financial income for 2016 is TL2,750,426 (31 December 2015: None).

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2016**

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

NOTE 6 - OTHER RECEIVABLES AND PAYABLES**a) Other receivables:**

	2016	2015
Receivables from tax office	1,754,485	1,484,184
Receivables related to the sale of property, plant and equipment (*)	-	279,238,030
Short term other receivables	234,468	234,469
	1,988,953	280,956,683

(*) This is the receivable arising from the sales agreement signed on 17 September 2015 regarding the sale of Akocak Hydroelectric Plant. In this regard, the receivables were collected in 2016.

b) Other payables:

	2016	2015
Taxes, fees and other charges	3,852,340	2,762,708
Received deposit and guarantees	88,912	129,712
Other payables	72,980	24,994
	4,014,232	2,917,414

NOTE 7 - PREPAID EXPENSES**a) Short-term prepaid expenses**

	2016	2015
Prepaid expenses	10,011,184	13,218,374
Advances given for purchases	1,732,468	1,351,151
	11,743,652	14,569,525

b) Long-term prepaid expenses

	2016	2015
Advances given for property, plant, equipment and intangible assets (*)	17,037,119	8,351,312
Prepaid expenses	2,546,957	5,570
	19,584,076	8,356,882

(*) The Group consists of advance amounts given within the scope of Bandırma Ayyıldız wind power plant capacity increase project.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2016**

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

NOTE 8 - INVENTORIES**a) Short-Term Inventories:**

	2016	2015
Spare parts	5,662,718	17,505,195
Operating supplies	5,204	21,600
Other raw materials	1,280	4,694
	5,669,202	17,531,489

b) Long-Term Inventories:

	2016	2015
Spare parts (*)	13,016,604	25,954,366
	13,016,604	25,954,366

(*) Spare parts amounting to TL13,016,604 in Hatay Erzin Natural Gaz Cycle Power Plant, have been classified as long term inventories due to the long-term maintenance contracts signed with GE Energy and Gama Ltd, and the evaluation of the useful life of these spare parts (2-10 years).

NOTE 9 - OTHER ASSETS**Other current assets:**

	2016	2015
Deferred VAT	15,145,189	14,191,675
Personnel advances	106,760	46,772
Work advances	19,780	15,480
	15,271,729	14,253,927

b) Other non-current assets:

	2016	2015
Deferred VAT	68,172,799	60,473,521
	68,172,799	60,473,521

NOTE 10 - FINANCIAL ASSETS

	2016	2015
Enerji Piyasaları İşletme A.Ş. (*)	100,000	100,000
	100,000	100,000

(*) 100% subsidiary of the Group, Akenerji Elektrik Enerjisi İthalat-İhracat ve Toptan Ticaret A.Ş., has participated to Enerji Piyasaları İşletme Anonim Şirketi'ne (EPIAŞ) by 0,16% with 100,000 C Type shares which established with TL61,572,770 capital.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

NOTE 11 - NON-CURRENT ASSETS HELD FOR SALE

The Group has decided to stop the operations of Kemalpaşa Natural Gas Combined Power Plant at 30 September 2014, net book value of the property, plant and equipment amounting to TL19,361,758 have been classified to under non-current assets held for sale. For the machinery and equipment assets classified as asset held for sale amounting to TL17,722,910, a sales transaction of TL8,745,572 was executed in 2016 and as a result of this transaction a sales loss of TL8,977,338 occurred. The sales process of the buildings of Kemalpaşa Natural Gas Combined Cycle Plant was ongoing.

Also, it was decided to sell the land of Kemalpaşa Natural Gas Combined Cycle Plant on 31 December 2016 and due to the fact that it may be sold within a year, with reference to the IFRS 5 "Asset Held for Sale and Discontinued Operations", the asset in question was classified to the "Assets Held for Sale" from "Property, plant and equipment" as of 31 December 2016.

Details of non-current asset held for sale are as below:

31 December 2016

Fixed Asset	Cost	Accumulated Depreciation	Net Book Value
Land improvements	15,325,000	-	15,325,000
Buildings	2,083,975	(445,127)	1,638,848
Total non-current assets held for sale			16,963,848

31 December 2015

Inventories	Net Book Value		
SparePart	2,091,131		
Fixed Asset	Accumulated Cost	Depreciation	Net Book Value
Land improvements	9,620,247	(3,614,001)	6,006,246
Machinery and equipment	2,083,975	(445,127)	1,638,848
Furniture and fixtures	120,454,785	(110,948,589)	9,506,196
Special costs	397,244	(277,907)	119,337
			17,270,627
Total non-current assets held for sale			19,361,758

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2016	Additions	Transfers (**)	Disposals	Revaluation fund 31 December 2016
Cost:					
Lands	16,747,481	-	(15,325,000)	-	147,481
Land improvements	2,060,772,203	232,398	-	-	2,061,004,601
Buildings	412,799,096	45,513	-	-	412,844,609
Machinery and equipment	1,557,880,299	16,032	94,580,679	-	1,652,477,010
Motor vehicles	927,308	-	-	-	927,308
Furnitures and fixtures	9,350,745	487,254	-	-	9,837,999
Leasehold improvements	873,912	125,520	-	-	999,432
Construction in progress (*)	27,755,130	108,908,827	(94,580,679)	-	42,083,278
	4,087,106,174	109,815,544	(15,325,000)	-	4,180,321,718
Accumulated amortisation					
Land improvements	17,997,530	68,982,077	-	-	86,979,607
Buildings	2,546,581	11,050,211	-	-	13,596,792
Machinery and equipment	10,628,004	86,918,613	-	-	97,546,617
Motor vehicles	658,829	120,307	-	-	779,136
Furnitures and fixtures	5,338,745	821,324	-	-	6,160,069
Leasehold improvements	578,686	81,091	-	-	659,777
	37,748,375	167,973,623	-	-	205,721,998
Net book value	4,049,357,799				3,974,599,720

(*) Construction in progress consist of the Egemer Natural Gas Combined Power Plant's additional cost.

(**) The main portion in transfer amount is related to the sales decision over the Kemalpaşa Natural Gas Combined Cycle Power Plant and the assets reclassified under "assets held for sale" in accordance with IFRS5 and the additional capitalized costs of Erzin Natural Gas Cycle Plant (Note 11).

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

	1 January 2015	Additions	Transfers (***)	Disposals (****)	Revaluation fund (*****)	31 December 2015
Cost:						
Lands	2,501,926	-	-	(247,192)	14,492,747	16,747,481
Land improvements (**)	1,134,617,046	5,853,725	(143,595,079)	(1,503,547)	1,065,400,058	2,060,772,203
Buildings	316,347,987	271,152	(22,252,965)	(54,136)	118,487,058	412,799,096
Machinery and equipment	1,355,866,603	443,472	(128,179,648)	(31,822,635)	361,572,507	1,557,880,299
Motor vehicles	1,046,409	5,833	(95,139)	(29,795)	-	927,308
Furniture and fixtures	9,553,064	729,175	(458,368)	(473,126)	-	9,350,745
Leasehold improvements	1,025,416	8,360	(159,864)	-	-	873,913
Construction in progress (*)	28,111,668	9,955,257	(10,311,795)	-	-	27,755,130
	2,849,070,119	17,266,974	(305,052,858)	(34,130,431)	1,559,952,370	4,087,106,174
Accumulated amortisation						
Land improvements	107,651,025	44,778,406	(26,624,224)	(1,440,351)	(106,367,326)	17,997,530
Buildings	10,422,095	8,619,761	(2,640,300)	(17,510)	(13,837,465)	2,546,581
Machinery and equipment	225,636,138	98,562,254	(125,351,026)	(1,745,717)	(186,473,645)	10,628,004
Motor vehicles	589,220	170,339	(70,935)	(29,795)	-	658,829
Furniture and fixtures	5,148,694	883,267	(329,271)	(363,945)	-	5,338,745
Leasehold improvements	758,775	77,234	(257,323)	-	-	578,686
	350,205,947	153,091,261	(155,273,079)	(3,597,318)	(306,678,436)	37,748,375
Net book value	2,498,864,172				1,866,630,806	4,049,357,799

(*) Construction in progress consist of the Egemer Natural Gas Combined Power Plant's additional cost.

(**) Additions in the land improvements mainly consist of the DSI contribution margin expropriation amount.

(***) The main portion in transfer amount is related to the sales decision over the Akocak Hydroelectricity Power Plant and the assets reclassified under "assets held for sale" in accordance with IFRS5 and the additional capitalized costs of Erzin Natural Gas Cycle Plant (Note 11).

(****) Disposals are consist of the sales of the machinery and equipment that are used in the plants.

(*****) Please refer to note 2.7

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

As detailedly explained in Note 2.6, the Group has chosen revaluation method as an accounting policy under IAS 16 for lands, land improvements, buildings, machinery and equipments belonging its powerplants and updated the valuation of its powerplants which is prepared by Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş in financial statements as of 30 September 2015.

As of 31 December 2016 the movement for revaluation fund of land, land improvements, buildings, machinery and equipment is as follows:

	2016	2015
1 January	1,476,834,316	-
Revaluation of lands	-	14,492,747
Revaluation of land improvements	-	1,194,359,574
Revaluation of buildings	-	140,129,557
Revaluation of machinery and equipments	-	517,648,928
Total	1,476,834,316	1,866,630,806
Deferred tax liability from revaluation fund (Note 18)	-	(373,326,161)
Disposal from the revaluation fund (Note 12)	(1,275,000)	-
Amortization transfer	(65,850,248)	(16,470,329)
31 December	1,409,709,068	1,476,834,316

Depreciation expense of TL167,465,164 has been charged to cost of sales (31 December 2015: TL152,526,233) and TL508,459 to general administrative expenses (31 December 2015 TL565,028).

There are no capitalized borrowing costs at the balance sheet date (31 December 2015: no capitalized borrowing costs).

Details of the guarantees, pledges and mortgages on property, plant and equipments as of 31 December 2016 and 2015 are explained in Note 14.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2016**

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

NOTE 13 - INTANGIBLE ASSETS

	1 January 2016	Additions	Transfers	31 December 2016
Cost				
Rights	5,977,498	85,538	(736,807)	5,326,229
Licenses	125,985,122	17,299	(123,894)	125,878,527
	131,962,620	102,837	(860,701)	131,204,756
Accumulated amortisation				
Rights	3,130,078	292,110	(285,373)	3,136,815
Licenses	13,023,828	1,799,957	(119,887)	14,703,898
	16,153,906	2,092,067	(405,260)	17,840,713
Net book value	115,808,714			113,364,043

	1 January 2015	Additions	Transfers	31 December 2015
Cost				
Rights	6,119,464	162,810	(304,776)	5,977,498
Licenses	127,171,431	-	(1,186,309)	125,985,122
	133,290,895	162,810	(1,491,085)	131,962,620
Accumulated amortisation				
Rights	2,953,606	403,574	(227,102)	3,130,078
Licenses	11,769,646	1,728,472	(474,290)	13,023,828
	14,723,252	2,132,046	(701,392)	16,153,906
Net book value	118,567,643			115,808,714

Depreciation expense of TL153,104 (31 December 2015: TL180,364) has been charged to cost of sales, remaining TL1,938,963 (31 December 2015: TL1,951,682) is charged to general administrative expenses.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2016**

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

NOTE 14 - PROVISIONS, COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES**14.1 Provisions**

There are various lawsuits against or in favour of the Group. Group management estimates the outcomes of these lawsuits and the financial effects thereof, and the required provisions are accounted for based on these estimates.

The amount of provisions for the lawsuits as of 31 December 2016 is TL8,411,594 (31 December 2015: TL22,488,896).

	2016	2015
Provisions for lawsuits	8,411,594	22,488,896
Other provisions	3,679,425	-
Expense accruals	960,017	1,400,968
	13,051,036	23,889,864

The movement of expense accruals is as follows:

	2016	2015
1 January	1,400,968	367,245
Current year charges	960,017	1,616,325
Released provisions	-	(232,750)
Payments	(1,400,968)	(349,852)
31 December	960,017	1,400,968

The movement of provision for lawsuits is as follows:

	2016	2015
1 January	22,488,896	12,876,039
Current year charges	154,510	10,202,226
Released provisions (*) (Note 21)	(14,231,812)	(589,369)
31 December	8,411,594	22,488,896

(*) "Law Amending the Electricity Market Law and Certain Other Laws" published in Official Gazette dated 17 June 2016. Technical and non-technical loss concepts were defined and it was stated that the costs concerning these losses (provided that the losses do not exceed target rates determined by the Energy Market Regulatory Board) will be included in distribution tariffs. Thus, the technical and non-technical loss amount is included in distribution tariffs and allocated to consumers on a legal basis. In addition, since, with the said amendment, the authority of the arbitration committees for consumers and the courts on amounts are limited to review the compliance of the regulatory proceedings of the Energy Market Regulatory Board, no future cash outflow is expected in the consolidated financial statements dated 31 December 2015 concerning the lawsuits brought for the return of technical and non-technical loss amounts. As a result, relevant provisions are released in the consolidated financial statements.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

The movement of other provisions is as follows:

	2016	2015
1 January	-	-
Current year charges (**)	3,679,425	-
31 December	3,679,425	-

(**) It is the provision for the BSMV liability related to the interest rate swap agreement with a maturity of 2017 signed with Vakıfbank, Garanti Bank and Yapı Kredi Bank.

14.2 Contingent Liabilities

a. Letters of guarantee given

The commitments and contingent liabilities of the Group that are not expected to result in material loss or liability is summarized as follows:

	Currency	2016		2015	
		Original currency	Local currency (TL)	Original currency	Local currency (TL)
Letters of guarantee given	TL	135,339,091	135,339,091	142,649,573	142,649,573
Letters of guarantee given	Euro	300,000	1,112,970	300,000	953,280
Letters of guarantee given	USD	53,991,518	190,006,949	91,868,921	267,118,075
			326,459,010		410,720,928

Letters of guarantee given generally consists of letters given to government agencies for the electricity transmission and distribution (mainly to EMRA and government agencies providing electricity transmission and distribution) and natural gas suppliers for the procurement of natural gas.

As a result of the law suits brought for the Kemah Dam & Hydroelectric Plant Project, a positive Environmental Impact Assessment ("EIA") report was received for the revised EIA prepared on 10 February 2016. Subsequently, the lawsuit requesting the cancellation of the positive EIA report from the Ministry of Environment and Urban Planning in 2014 was finalised and the previous positive EIA report was cancelled. The positive EIA of the revised EIA received in February is in force as of 31 December 2016.

Another annulment lawsuit was brought against the revised positive EIA report in February 2016. It is expected that the lawsuit will be resolved in favour of the Group considering that all matters contested in the lawsuit concern the revised EIA and are supported with additional reports. There is no existing stay of execution decision.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

b. Purchase and sale commitments

Electricity purchase and sales commitments:

As of 31 December 2016, the Group has signed for electricity purchase in the total amount of 1,924,944 MWh within the year 2016 and 1,569,240 MWh within the year 2017. In this context, as of 31 December 2016, all committed electricity has already been supplied.

Within the framework of the electricity energy sales agreement made with energy companies on 31 December 2016, the Group committed to sell 3,750,591 MWh of electricity in 2016 and 2,919,696 MWh of electricity in 2017. The whole 3,750,591 MWh electricity committed be sold before 31 December 2016 was sold.

As of 31 December 2016, the Group has signed for risk sharing agreements in the total amount of 5.190.273 MWh within the year 2016. In this context, as of 31 December 2016, all pledged risk sharing has already been supplied. The Group has a commitment for the risk sharing transaction in the total amount of 3.749.160 MWh for 2017.

Natural gas purchase commitments:

The purchase amount of the Group's contract with natural gas suppliers in 2016 for 2017 is 550.000.000 Sm³. The minimum purchase commitment amount for the year 2017 is 467.500.000 Sm³.

In 2016, the Group has signed for natural gas purchase in the total amount of 480.000.000 Sm³. In addition to that, the Group's minimum purchase commitment is 408,000,000 Sm³ and maximum purchase amount is 600,000,000 Sm³. In this context, as of 31 December 2016, 531,187,615 Sm³ natural gas has already been supplied. As of 31 December 2016, Group has no obligation related to underdrawal.

c. Financial lease transactions

A lease agreement has been signed on 26 May 2016 in order to lease determined goods for the project aimed to increase the capacity of Ayyıldız Wind Electricity Power Plant. There has been no leasing transactions realized or liability occurred on the behalf of the Group under the terms of abovementioned agreement as of 31 December 2016.

14.3 Contingent Assets

	Currency	2016		2015	
		Original currency	Local currency (TL)	Original currency	Local currency (TL)
Guarantee letters obtained	TL	119,058,168	119,058,168	187,322,629	187,322,629
Guarantee letters obtained	USD	7,714,376	27,148,432	7,276,312	21,156,605
Guarantee letters obtained	Euro	16,026,399	59,456,338	31,722,323	100,800,854
Guarantee letters obtained	GBP	5,675	24,510	5,675	24,406
			205,687,448		309,304,494

Guarantee letters received consist of the letters received from customers in relation to Group operations.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

14.4 Guarantees, pledges and mortgages given by the Group

The Group's guarantees, pledges and mortgage ("GPM") positions in TL as of 31 December 2016 and 2015 are as follows:

	Currency	2016		2015	
		Original currency	Local currency	Original currency	Local currency
A, GPM's given for companies' own legal entity (*)	USD	53,991,518	190,006,949	91,868,921	267,118,075
	TL	5,745,339,091	5,745,339,091	5,752,649,573	5,752,649,573
	EURO	300,000	1,112,970	300,000	953,280
B, Total amount of GPM given for the subsidiaries and associates in the scope of consolidation (**)		-	-	-	-
C, Total amount of GPM given for the purpose of maintaining operating activities		-	-	-	-
D, Total other GPM's given		-	-	-	-
			5,936,459,010		6,020,720,928

(*) Details of the guarantees which are given by Akenerji as of 31 December 2016 are as follows:

On 30 September 2015, a Refinancing Loan Agreement of USD 1,1 billion was concluded by and between Yapı Kredi Bankası A.Ş. ("Bank") and Akenerji and Egemer (collectively "Borrowers") for a total period of 12 years, 1 year of which is nonrefundable, in order to ensure refinancing and extension of term for all current debts of our the Group. As a guarantee for refinancing loans of USD267,000,000 and TL520,000,000 borrowed within the scope of the aforementioned loan agreement. the following agreements are also signed in addition to the Loan Agreement: Transfer of Claim, Transfer of EPIAŞ Claims, Mortgage for Property and Right of Construction, Commercial Enterprise Pledge, Account Pledge, Transfer of Insurance Claims, Share Pledge and Transfer of Shareholder Claims. A Commercial enterprise pledge of TL 5,610,000,000 was established pursuant to the Commercial Enterprise Pledge Agreements signed by and between Akenerji, Egemer and the Bank. Relevant pledge amount for enterprise equipment and assets, motor vehicles, trade name, company name, patents, models, images, licenses and all kinds of accessories, premises, essential components and fixtures registered at trade registries where Akenerji Elektrik Üretim A.Ş. power plants are registered by the pledge date with the relevant trade register numbers was established to ensure that the pledge fee constitutes a maximum limit for Akenerji and Egemer.

Remaning amount TL326,459,010 is given related with GPM to suppliers and customs by officies.

(**) Details of the guarantees which are given on behalf of the associations of Akenerji that are included within the scope of consolidation as of 31 December 2016 are as follows (TL):

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

Egemer, a wholly-owned subsidiary of Akenerji, signed the following agreements with Yapı Kredi Bankası A.Ş. as a guarantee for the repayment of the loan of USD 633,000,000 borrowed within the scope of the aforementioned loan agreement: Share Pledge, Transfer of Claim, Transfer of EPIAŞ Claims, Mortgage for Property and Right of Construction, Commercial Enterprise Pledge, Account Pledge, Transfer of Insurance Claims, and Transfer of Shareholder Claims. The pledge amounting to TL5,610,000,000, whose details have been explained above, also covers Egemer Elektrik Üretim A.Ş..

Furthermore, pursuant to the Letter of Credit signed by and between the Borrowers and Yapı Kredi Bankası, Akenerji stood a guarantor for Egemer regarding the repayment of the loan borrowed by Egemer, and offered required commitments to the Bank regarding the debt service and payment. In addition, Yapı Kredi Bankası A.Ş. was assigned as the loss payee on the insurance policies for the power plants.

Ratio of GPMs given by the Group to equity is 540% as of 31 December 2016 (31 December 2015: 368%).

NOTE 15 - DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments held for hedging:

	2016		2015	
	Contract amount	Fair value	Contract amount	Fair value
Interest rate swaps	2,209,652,987	39,998,909	2,332,144,250	48,241,231
Forward Contracts	-	-	72,217,000	(859,845)
	2,209,652,987	39,998,909	2,404,361,250	47,381,386

Derivative financial instruments are initially recognised in the consolidated balance sheet at cost and subsequently are re-measured at their fair value. The derivative instruments of the Group consist of interest rate swap contracts.

On the date a derivative contract is entered into, the Group designates certain derivatives as either a fair value hedge of a recognised asset or liability ("fair value hedge"), or a hedge of a forecasted transaction or a firm commitment ("cash flow hedge").

These derivative transactions provide effective economic hedges under the Group risk management position and qualify for hedge accounting under the specific rules and are therefore treated as derivatives held for hedging. Changes in the fair value of derivatives that qualify as cash flow hedges and are highly effective are recognised in equity as "hedging reserve". Due to the change in principle amount and repayment dates of Group's financial liabilities in accordance with the Loan Agreement signed on 30 September 2015, Group ceased the hedge accounting for interest rate swap contracts.

The fair value of forward contracts calculated by calculating forward exchange rate, for remainder of agreement related foreign currency's prevailed market interest rate, and comparing it to reporting date forward exchange rate. The fair value of over-the-counter forward foreign exchange contracts is determined based on the comparison of the original forward rate with the forward rate calculated in reference to the market interest rates of the related currency for the remaining period of the contract, discounted to 31 December 2016. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. As of 31 December 2016, the Group does not have any commitments regarding forward foreign currency purchase and sale transactions, however, due to the remaining liability amounting to 2015, financing income amounting to TL 2,203,654 has been accounted (31 December 2015: TL46,661,700 in financial income and TL7,200,674 in financial expense).

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2016**

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

When a hedging instrument expires or is sold, 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 statement of income. The realization of promised or probable future transactions are recorded in the income statement, if not realised, accumulated gains or losses are recognised as income or loss in the consolidated financial statements. Since Group has ceased to apply hedge accounting on 30 September 2015, the "Hedge Funds", which is included in equity, has been recorded in the profit or loss statement for the duration of related contracts.

The movement of interest rate swaps during the period is as follows:

	2016	2015
1 January	48,241,231	38,377,110
Charged to income statement		
- financial income	(8,242,322)	(9,231,081)
Charged to comprehensive income statement		
- hedge funds	-	19,095,202
31 December	39,998,909	48,241,231

NOTE 16 - PROVISION FOR EMPLOYMENT BENEFITS**Liabilities due to employment benefits**

	2016	2015
Social Security Payment	897,115	466,678
Due to Personel	43,964	54,389
	941,079	521,067

Short-Term Provisions due to employment benefits

Bonus Provisions	3,236,250	1,309,481
Vacation Provisions	718,897	672,984
	3,955,147	1,982,465

The movement of employment benefits in short term is as follows:

	2016	2015
Opening	1,982,465	625,434
Current year charges	3,371,769	1,513,507
Paid provisions	(1,309,482)	-
Released provisions (Note 21)	(89,605)	(156,476)
	3,955,147	1,982,465

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2016**

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

Employment benefits long term provisions

	2016	2015
Employment termination benefits	1,770,806	1,492,719
	1,770,806	1,492,719

The movement of employment termination benefits is as follows:

	2016	2015
At 1 January	1,492,719	1,565,946
Service Cost	1,383,092	530,998
Reversal of provision	(242,816)	(553,218)
Interest Cost	63,072	2,406
Paid compensation	(1,375,423)	(614,973)
Actuarial losses	450,162	561,560
At 31 December	1,770,806	1,492,719

Provisions for employment termination benefits are allocated in accordance with the disclosures given below:

Under the Turkish Labour Law, companies are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men), Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to the length of service prior to retirement, The amount payable consists of one month's salary limited to a maximum of TL4,297.21 for each year of service as of 31 December 2016 (31 December 2015: TL3,828.37).

Termination benefits liability is not dependent on any funding legally and any funding requirement does not exist.

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

IAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

	2016	2015
Discount rate (%)	4,23	3.99
Probability of retirement (%)	98,45	92.95

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation, Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation, The amount payable consists of one month's salary limited to a maximum of TL4,426.16 for each period of service as of 31 December 2016 (31 December 2015: of TL4,092.53), The maximum liability is revised semi annually.

NOTE 17 - EQUITY

Share capital

Akenerji adopted the registered capital system applicable to the companies registered on the Capital Markets Board (CMB) which defines limitations to registered capital for shares whose nominal value is TL1 ("One Turkish Lira"), As of 31 December 2016 and 2015 the share capital held is as follows:

	2016	2015
Limit on registered share capital (historical)	1,500,000,000	1,500,000,000
Issued capital	729,164,000	729,164,000

The Company's shareholders and share holding structure as of 31 December 2016 and 2015 are as follows:

	Share (%)	2016	Share (%)	2015
CEZ a.s.	37.36	272,425,943	37.36	272,425,943
Akkök Holding A.Ş.	20.43	148,989,090	20.43	148,989,090
Akarsu Enerji Yatırımları San. ve Ticaret A.Ş. ("Akarsu")	16.93	123,436,853	16.93	123,436,853
Publicly held	25.28	184,312,114	25.28	184,312,114
	100	729,164,000	100	729,164,000
Adjustment to share capital		101,988,910		101,988,910
Total paid-in capital		831,152,910		831,152,910

Share Premium

Share premiums presented in the consolidated financial statements represent the proceeds from the excess of the amount of shares compared to their nominal values.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

Retained Earnings and Legal Reserves

	31 December 2016	31 December 2015
Legal reserves	12,053,172	12,053,172
	12,053,172	12,053,172

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 a company's paid-in share 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 share capital, Under the TCC, the legal reserves can be used only to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital, Under the CMB, those amounts are required to be classified in "Reserves on retained earnings".

Dividend distribution

Dividends are distributed according to Communiqué Serial: IV, No: 27 on "Principles Regarding Distribution of Interim Dividends for quoted entities subject to Capital Market Board Law", principles on corporate articles and dividend distribution policy which is declared by Companies. In addition to the CMB, it is stipulated that companies which have the obligation to prepare consolidated financial statements, calculate the net distributable profit amount by taking into account the net profits for the period in the consolidated financial statements that will be prepared and announced to the public in accordance with the Communiqué II-14,1 that sufficient reserves exists in the unconsolidated statutory books.

The remaining current year income and the reserves of the Group that can be subject to the dividend distribution is zero (31 December 2015: Zero).

NOTE 18 - TAX ASSETS AND LIABILITIES

	2016	2015
Corporate and income taxes payable	1,695,364	1,453,091
Prepaid taxes (-)	(1,190,067)	(1,203,511)
Taxes on Income	505,297	249,580

Turkish tax legislation does not allow for the submission of tax returns over consolidated financial statements prepared by the parent company, which includes its subsidiaries and affiliates. Accordingly tax considerations reflected in these consolidated financial statements are calculated separately for each of the companies in the scope of the consolidation.

In Turkey, the effective rate of tax in 2016 and 2015 is 20%.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income. Advance tax is payable by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to offset against other liabilities to the government.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

The details of taxation on income for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Current income tax expense	(1,695,364)	(1,453,091)
Deferred tax income	99,016,412	118,950,258
Total Tax	97,321,048	117,497,167

The reconciliation of tax income stated in consolidated income statements is as follows:

	2016	2015
Loss before tax	(645,995,018)	(468,502,727)
Tax calculated by using effective tax rate	129,199,004	93,700,545
Tax effect of exemptions	(3,496,234)	(1,784,915)
Losses not subject to deferred tax calculation	(36,021,341)	(7,144,250)
Utilized carry forward tax losses	1,577,854	7,176,445
Losses subject to deferred tax calculation	7,124,531	26,521,873
Other	(1,062,766)	(972,531)
Current year tax income	97,321,048	117,497,167

Deferred Taxes

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising from its financial statements prepared in compliance with Turkish Financial Reporting Standards and its statutory tax financial statements. The rate applied in the calculation of deferred tax assets and liabilities is 20% (2015: %20).

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

	2016	2015
Deferred tax assets	212,888,977	119,312,614
Deferred tax liabilities	(250,010,926)	(255,450,975)
Deferred tax assets, net	(37,121,949)	(136,138,361)

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 Differences 2016	2015	Deferred tax assets / (liabilities)	
			2016	2015
Carryforward tax losses	(420,455,061)	(396,457,347)	84,091,012	79,291,469
Derivative financial instruments	(39,998,909)	(47,381,386)	7,999,782	9,476,277
Investment incentive	(68,335,218)	(62,156,828)	13,667,044	12,431,366
Provisions for lawsuits	(8,411,594)	(22,488,896)	1,682,319	4,497,779
Provision for employment termination benefits	(1,770,806)	(1,492,719)	354,161	298,544
Provision for doubtful receivables	-	(805,056)	-	161,011
Provision for unused vacations	(718,897)	(672,984)	143,779	134,597
Other Provisions	(3,679,425)	-	735,885	-
Loan commissions	38,074,856	44,976,018	(7,614,971)	(8,995,204)
Property, plant and equipment	692,944,170	1,168,477,932	(138,588,834)	(233,695,586)
Unrecognised credit finance expense	(277,997)	2,557	55,599	(511)
Unearned finance income	2,750,619	-	(550,124)	-
Bonus provisions	(3,236,250)	(1,309,481)	647,250	261,897
Non-monetary item valuation difference	(1,275,747)	-	255,149	-
Deferred tax (liabilities)/ assets, net			(37,121,949)	(136,138,361)

The movement of deferred tax assets and liabilities as of 31 December 2016 and 2015 are as follows:

	2016	2015
1 January	(136,138,361)	114,418,502
Charged to consolidated statement of income	99,016,412	118,950,258
Charged to consolidated statement of equity	-	(369,507,121)
31 December	(37,121,949)	(136,138,361)

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

Analysis deferred tax assets and liabilities are as follows:

	2016	2015
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	210,061,467	113,958,786
- Deferred tax asset to be recovered within 12 months	2,827,510	5,353,828
	212,888,977	119,312,614
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after 12 months	(250,010,926)	(229,975,312)
- Deferred tax liabilities to be recovered within 12 months	-	(25,475,663)
	(250,010,926)	(255,450,975)

Group has recognized deferred tax asset for carryforward tax losses amounting to TL420,455,061 as of 31 December 2016 (31 December 2015: TL396,457,347), Group did not recognize deferred tax assets for the remaining carryforward losses amounting to TL161,807,962 (31 December 2015: TL144.536.144).

The expiration dates of recognized carryforward tax losses are as follows:

Due Date	Losses
2017	39,058,162
2018	66,172,903
2019	89,965,355
2020	120,240,102
2021	105,018,539
	420,455,061

The expiration dates of unrecognized carryforward tax losses are as follows:

Due Date	Losses
2018	66,966,822
2019	94,841,140
	161,807,962

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

NOTE 19 - REVENUE AND COST OF SALES

	2016	2015
Sales	1,420,987,781	1,803,092,378
Sales returns (-)	(145,747)	(203,770)
Net Sales	1,420,842,034	1,802,888,608
Cost of sales (-)	(1,376,630,683)	(1,643,532,534)
Gross Profit	44,211,351	159,356,074

NOTE 20 - EXPENSES BY NATURE

	2016	2015
Direct raw material expenses	1,157,327,384	1,443,374,840
Depreciation and amortization expenses (*) (Note12,13)	170,065,690	155,223,307
Personnel expenses (**)	37,174,915	33,757,907
General production expenses	22,310,203	20,905,845
Insurance expenses (***)	13,331,294	14,480,556
Consultancy expenses	10,474,913	11,467,230
Tax expenses	3,156,465	4,164,111
Other raw materials, spare parts and operating supplies expenses	2,570,142	2,098,284
Office expenses	1,933,718	2,079,440
IT expenses	1,911,485	1,770,663
Rent expenses (****)	1,590,223	1,567,457
Vehicle expenses	1,270,343	1,624,780
Travel expenses	1,075,490	1,124,345
Advertising expenses	386,257	983,363
Other expenses	9,011,459	8,090,916
Total	1,433,589,981	1,702,713,044

(*) Depreciation and amortization expense amounting to TL167,618,266 (31 December 2015: TL152,706,597) has been charged to cost of sales and TL 2,447,424 (31 December 2015 TL 2,516,710) has been charged to general and administrative expenses,

(**) Personnel expense amounting to TL13,310,541 (31 December 2015: TL9,943,832) has been charged to cost of sales, TL23,864,374 (31 December 2015: TL23,814,075) has been charged to general and administrative expenses,

(***) Insurance expense amounting to TL13,198,828 (31 December 2015: TL14,275,755) has been charged to cost of sales, TL132,466 (31 December 2015: TL204,801) has been charged to general and administrative expenses,

(****) Rent expense amounting to TL132,074 (31 December 2015: TL227,412) has been charged to cost of sales, TL1,458,149 (31 December 2015: TL1,340,045) has been charged to general and administrative expenses,

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2016**

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

NOTE 21 - OTHER OPERATING INCOME AND EXPENSE**a) Other operating income**

	2016	2015
Compensation revenue (*)	40,475,795	2,825,851
Released provisions (**)	14,719,990	1,299,063
Risk sharing income (***)	13,649,777	48,683,780
Foreign exchange gain from trading activities	6,736,098	1,543,867
Rediscount incomes from trading activities	2,828,492	-
Project income	1,989,959	3,840,593
Option premiums	1,939,463	229,215
Previous year income	730,733	330,453
Due date differences	269,286	363,639
Other income and profits	1,109,519	2,341,089
Total	84,449,112	61,457,550

(*) Based on the Group's insurance policies, which protect the enterprise, and all risks such as breakdown of machinery, loss of profit, fire, etc., compensation for damages amounting to TL38,939,181 was received for the loss of profit during the period when production was suspended as a result of technical problems at Erzin Natural Gas Cycle Plant, which is owned by the Group's affiliate Egemer Elektrik Üretim A.Ş.

(**) As of 31 December 2016, released provisions of TL14,719,990 (31 December 2015: TL1,299,063) consists of lawsuit provisions amounting to TL14,231,812 (31 December 2015: TL589,369), provision for severance payment amounting to TL242,816 (31 December 2015: TL553,218), provision for unused vacation amounting to TL89,605 (31 December 2015: TL156,476), provision for collection of doubtful trade receivables TL130,899 (31 December 2015: None) and TL24,858 (31 December 2015: None) other released provisions.

(***) Risk sharing income consists of the incomes incurred under the "Risk Sharing Agreements", Risk sharing agreements are the agreements signed between parties based on electricity Market Clearance Price, In these agreements, the difference between the contract price and the simple average of Market Clearance Price is invoiced as settlement price in cash between the parties depending on the direction of current position, The purpose of these agreements is to compensate financial losses to occur due to daily Market Clearance Price fluctuations.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2016**

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

b) Other operating expenses

	2016	2015
Energy transmission line claim (*)	1,722,606	-
Foreign exchange loss from trading activities	1,667,613	2,938,875
Previous years losses	1,558,241	2,126,828
Discontinued plant expenses (**)	1,323,185	1,257,408
Provision for doubtful receivables (Note 5)	523,614	3,508,452
Rediscount expenses	283,134	78,066
Compensation expenses	279,750	370,838
Provision for lawsuits for condemnation (Note 14)	154,510	10,202,226
Other expenses	654,664	705,845
Total	8,167,317	21,188,538

(*) Group has receivables from TEİAŞ due to electricity transmission line costs those will be netted off with electricity sales. Related receivable amounting to TL1,722,606 is associated with Akocak Hydroelectric Power Plant that was sold on 31 December 2015 and receivable is expensed accordingly.

(**) Discontinued plant expenses are related to the expenses occurred in Kemalpaşa Natural Gas Combined Cycle Power Plant in 2016.

NOTE 22 - OTHER INCOME AND EXPENSE FROM INVESTING ACTIVITIES**Income from investment activities**

	2016	2015
Fixed asset sales income (*)	-	71,791,877
Total	-	71,791,877

(*) TL58,596,923 of the sales income generated from the assets that were previously classified as assets held for sales purposes was raised from the sales of machinery, equipment and installation at Akocak Hydroelectric Power Plant on 29 December 2015. Fixed asset sales income amounting to TL12,976,830 pertains to the sales of the land and remaining machinery, equipment and installation of Bozüyük Natural Gas Combined Cycle Plant, first part of which was sold on 31 October 2014. Remaining amount is the income generated from the sales of assets that belong to other power plants.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

Expenses from investment activities

	2016	2015
Fixed asset sales loss (*)	(8,977,338)	-
Total	(8,977,338)	-

(*) Sales of equipment belonging to Kemalpaşa Natural Gas Combined Cycle Power Plant previously classified as held for sale.

NOTE 23 - FINANCIAL INCOME AND EXPENSES

a) Financial income:

	2016	2015
Foreign exchange gains from financing activities	64,069,516	43,586,098
Interest income from financing activities	21,309,223	12,959,519
Income from derivative instruments	-	48,692,734
Total	85,378,739	105,238,351

b) Financial expense:

	2016	2015
Foreign exchange losses from financing activities	507,607,822	557,600,663
Interest expense from financing activities	260,893,084	220,722,801
Expense from derivative instruments	5,009,078	-
Other financial expense (*)	12,420,283	7,654,067
Total	785,930,267	785,977,531

(*) The amount is related to the indexation difference of the liability due to Uluabat DSİ Water Use Agreement calculated by WPT as of the balance sheet date (Note 5).

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

NOTE 24 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

i) Related party balances:

a) Receivables from related parties

	2016	2015
Sakarya Elektrik Perakende Satış A.Ş. ("Sepaş") (*)	22,909,976	2,141,456
Saf Gayrimenkul Yatırım Ortaklığı A.Ş. ("Saf Gayrimenkul")	-	1,249,925
Akiş Gayrimenkul Yatırım A.Ş. ("Akiş")	-	807,003
Üçgen Bakım ve Yönetim Hizmetleri A.Ş. ("Üçgen")	-	376,684
Ak-Pa Tekstil İhracat Pazarlama A.Ş. ("Akpa")	-	11,906
Akkök Sanayi Yatırım ve Geliştirme A.Ş. ("Akkök")	-	5,586
Aksa Akrilik Kimya San. A.Ş. ("Aksa")	-	1,287
Other	9,618	28,746
Total	22,919,594	4,622,593

(*) Energy sales consist of electricity and risk sharing income.

Maturity of trade receivables from related parties is approximately 20 days and there isn't any unearned financial income (2015: there isn't any unearned financial income).

b) Other receivables from related parties

	2016	2015
Akcez Enerji Yatırımları Sanayi ve Ticaret A.Ş. ("Akcez")	-	25,611
CEZ a.s. Turkey Daimi Temsilciliği	5,900	3,091
Total	5,900	28,702

c) İlişkili taraflara ticari borçlar

	2016	2015
Sepaş (*)	24,425,086	2,540,046
Dinkal Sigorta Acenteliği A.Ş. ("Dinkal") (**)	10,204,493	6,766,103
CEZ a.s. Turkey Daimi Temsilciliği (***)	550,662	564,199
Akkök (***)	380,076	363,905
Aktek Bilgi İletişim Teknolojisi San. ve Tic. A.Ş. ("Aktek") (****)	321,503	407,351
Ak-Han Bakım Yönt. Serv. Hizm. Güven. Malz. A.Ş. ("Ak-Han")	267,569	169,794
Cez a.s	105,004	159,426
Aksa	93,832	-
CEZ Trade Bulgaria EAD	-	3,883,426
Sedaş	-	351,143
Other	15,734	27,881
Total	36,363,959	15,233,274

(*) Due to risk sharentment of electricity trade.

(**) Related to the payments that will be made to insurance companies thourgh Dinkal Sigorta Acenteliği A.Ş..

(***) Due to consulting service obtained.

(****) Due to Group's obtained IT services.

Maturity of trade payables to related parties is 30 days and there is not any accrued financial expense (31 December 2015: there is not any accrued financial expense).

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2016**

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

ii) Transactions with related parties:**a) Sales to related parties**

	2016	2015
Sepaş (*)	145.721.470	79.470.484
Akiş (**)	4.284.076	8.631.420
Saf Gayrimenkul (**)	3.031.962	13.286.753
Üçgen (**)	2.018.385	4.511.986
Akcez	60.403	374.750
Aksa	22.220	23.280
Other	135.579	199.575
	155.274.095	106.498.248

(*) Due to risk sharentment of electricity trade and electricity sales.

(**) The sales to related parties mainly consist of electricity sales.

b) Purchases from related parties

	2016	2015
Sepaş (*)	32.279.085	8.745.385
Dinkal (**)	14.563.709	17.839.448
Akkök (***)	6.026.229	5.036.034
Cez a.s. Turkey Daimi Tem. (****)	4.008.797	3.950.521
Aktek (*****)	2.334.013	2.943.130
Akhan Bakım (*****)	1.674.763	1.619.410
Cez Trade Bulgaria EAD (*****)	1.329.751	10.167.524
Ak Havacılık ve Ulaştırma Hiz. A.Ş.	319.199	165.656
Ak-pa	115.543	119.734
Cez a.s.	113.360	-
Aksa	-	597.483
Other	4.498	-
	62.768.947	51.184.325

(*) Due to risk sharentment of electricity trade.

(**) Insurance services provided from insurance companies thorough Dinkal Sigorta Acenteliği A.Ş..

(***) Group's received consulting costs and rent reimbursements

(****) Consists Group's obtained consulting services.

(*****) Group's IT service purchases.

(*****) Reimbursement invoices to Group for maintenance and other sevicees.

(*****) Consists of Group's energy purchases.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2016**

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

iii) Key management compensation as of 31December 2016 and 2015:

The compensation to the key management, the shareholders of the Group (including Board of Directors, General Manager, Assistant General Managers and directors) has been included for the presentation of financial statements.

	2016	2015
Salaries and wages	2,695,432	2,397,824
Bonus premium	1,472,392	333,648
Attendance fee	1,011,554	1,207,739
	5,179,378	3,939,211

NOTE 25 - LOSS PER SHARE

Loss per share disclosed in the accompanying statement of income are determined by dividing net loss by the weighted average number of shares in existence during the year concerned.

	2016	2015
Net loss	(548,673,970)	(351,005,560)
Weighted average number of issued shares	729,164,000	729,164,000
Losses per 1,000 shares	(752)	(481)

Nominal value of each of the issued share as of 31 December 2016 and 2015 is 1 Kr.

NOTE 26 - FINANCIAL RISK MANAGEMENT**Financial risk management****Financial Risk Factors**

The Group's activities expose it to a variety of financial risks, These risks are liquidity risk, market risk (exchange rates, interest rates), credit risk and funding risks.

Management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance, The Group uses financial instruments to hedge certain risk exposures.

Risk management is carried out by a Finance Department where policies are approved by the Board of Directors, Finance Department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2016**

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

a) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions, Due to the dynamic nature of business, the group aims to maintain flexibility in funding by keeping committed credit lines available.

The following tables detail the Group's contractual maturities for its non-derivative financial liabilities, The tables have been prepared based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group could be required to pay, The table includes both interest and principal amounts.

The analysis of the financial liabilities according to their maturities as of 31 December 2016 and 2015 is as follows:

Non-derivative financial liabilities ⁽¹⁾⁽²⁾:

2016	Carrying value	contractual cash outflow	Total	3 months or less	3 - 12 months	1 - 5 years	5 year and more
Financial liabilities	3,276,716,642	5,375,152,847	123,198,085	439,690,552	1,908,959,865	2,903,304,345	
Trade payables	351,196,704	353,947,130	150,449,645	16,190,178	154,926,950	32,380,357	Other non current liabilities
	4,029,859	4,029,859	4,014,232	-	15,627	-	
	3,631,943,205	5,733,129,836	277,661,962	455,880,730	2,063,902,442	2,935,684,702	

2015	Carrying value	contractual cash outflow	Total	3 months or less	3 - 12 months	1 - 5 years	5 year and more
Financial liabilities	3,105,863,080	5,987,495,652	-	258,705,518	2,367,809,266	3,360,980,868	
Trade payables	253,831,022	253,831,022	121,460,766	14,707,806	73,539,031	44,123,419	
Other non current liabilities	3,009,874	3,009,874	2,917,414	-	92,460	-	
	3,362,703,976	6,244,336,548	124,378,180	273,413,324	2,441,440,757	3,405,104,287	

⁽¹⁾ Maturity analysis was applied only to financial instruments, Legal obligations are not included in the maturity analysis.

⁽²⁾ These amounts are contractual undiscounted cash flows, Balances with maturities less than 3 months are equal to their carrying values due to the negligible discounting effect.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2016**

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

Derivative financial liabilities:

2016	Carrying value	3 months or less	3 - 12 months	1 - 5 years	5 year and more
Financial liabilities	39,998,909	-	9,071,204	26,660,739	4,266,966
Net	39,998,909	-	9,071,204	26,660,739	4,266,966

2015	Carrying value	3 months or less	3 - 12 months	1 - 5 years	5 year and more
Financial liabilities	48,241,231	83,910	12,326,065	28,997,920	6,833,336
Forward contracts	(859,845)	(859,845)	-	-	-
Net	47,381,386	(775,935)	12,326,065	28,997,920	6,833,336

b) Market Risk**Interest Rate Risk**

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets, These exposures are managed using interest rate swaps and natural hedges that arise from offsetting interest rate sensitive assets and liabilities, To decrease the interest rate risk, the cash equivalents which are not used, are invested to the time deposits by the Group.

The table of the interest position of the Group as of 31 December 2016 and 2015 is as follows:

Financial instruments with fixed interest rates	2016	2015
Cash and cash equivalents	413,220,456	449,694,526
Trade receivables	153,947,061	124,608,257
Other receivables	2,290,100	281,288,333
Financial liabilities	2,278,248,590	2,242,197,019
Trade payables	129,521,428	121,460,766

Financial instruments with floating interest rates

Financial liabilities	998,468,052	863,666,061
Trade payables	221,675,276	132,370,256

The Group has analyzed various scenarios including refinancing the existing situation alternative financing options and to avoid the hedging risk, According to these scenarios, if annual interests of floating interest rated loans were 100 basis point high/low with all the other parameters are constant, current year income before tax have been TL127,656,727 lower/higher as a result of interest expense of floating interest rated loans and swap transactions (2015: TL128,394,403).

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2016**

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

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and Euro, The following table details the Group's sensitivity to a 10% increase and decrease in the TL against relevant foreign currencies, all other variables held constant.

	31 December 2016 Profit / Loss Appreciation of Foreign currency	Depreciation of Foreign currency
10% increase / decrease in USD exchange rate (Expense) / income	(257,159,960)	257,159,960
USD Net Effect	(257,159,960)	257,159,960
10% increase / decrease in Euro exchange rate Income / (expense)	1,088,195	(1,088,195)
Euro Net Effect	1,088,195	(1,088,195)
10% increase / decrease in other exchange rates Income / (expense)	84,274	(84,274)
Other currencies net effect	84,274	(84,274)
Total Net Effect	(255,987,492)	255,987,492

	31 December 2015 Profit / Loss Appreciation of Foreign currency	Depreciation of Foreign currency
10% increase / decrease in USD exchange rate (Expense) / income	(213,085,089)	213,085,089
USD Net Effect	(213,085,089)	213,085,089
10% increase / decrease in Euro exchange rate Income / (expense)	1,919,067	(1,919,067)
Euro Net Effect	1,919,067	(1,919,067)
10% increase / decrease in other exchange rates Income / (expense)	(209)	209
Other currencies net effect	(209)	209
Total Net Effect	(211,166,231)	211,166,231

AKENERJİ ELEKTRİK ÜRETİM A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2016**

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

c) Funding risk

The funding risk of the current and future debt requirements is managed through rendering the availability of the qualified lenders, The Group's bank loans are provided by various financially strong financial institutions (Note 2.7).

d) Capital risk management

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

The Group monitors capital on the basis of the ratio of net debt to total equity, Net debt is calculated as total borrowings (including borrowings and trade and other payables, as shown in the consolidated balance sheet) less cash and cash equivalents, Total equity is calculated as the difference between assets and liabilities, Additionally, the Group calculates the total equity/total assets ratio, Group's construction in progress is financed by miscellaneous potential financial institutions as mentioned in the funding risk, Completion periods and cash outflows of investments are assessed and valorized within capital risk management by the Group, The periods after the completion of investments expect a significant reduction in the ratio of net debt/total capital.

Net debt/total equity ratio as of 31 December 2016 and 2015 are as follows:

	2016	2015
Trade payables and due to related parties	351,196,704	253,831,022
Total financial liabilities	3,276,716,642	3,105,863,080
Other liabilities	4,029,859	3,009,874
Total debt	3,631,943,205	3,362,703,976
Less: Cash and Cash Equivalents (Note 3)	(433,746,318)	(476,767,228)
Net debt	3,198,196,887	2,885,936,748
Total equity	1,100,178,674	1,635,114,311
Net debt/total equity ratio	%291	%176

e) Credit Risk

The Group is exposed to credit risks due to its open receivable position with future collection dates and time deposits, If counterparties fail on the fulfillment of the agreement, the Group is exposed to the risk upon holding the financial instruments, Management covers the risk by limiting the average risk of counterparties (except for related parties) on agreements and by obtaining guarantees if necessary.

The Group has internal credit procedures, the credit rating system and internal policies for credit risk management related with the trade receivables from its customers, According to these procedures, the Group separately approves, increase or decrease the credit limits for customers with significant balances, The credit limits are determined in accordance with the historical payment performances, financial strengths, commercial relations, commercial growth potential, and management styles, Credit limits are reviewed every year and the group use bank guarantees, marketable securities and other guarantees for the customers which considered as high risk.

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

The exposure of the Group to credit risk as of 31 December 2016 based on types of financial instruments is as follows:

2016	Trade Receivables		Other Receivables		Bank deposits	
	Related Party	Other	Related Party	Other	Related Party	Other
Maximum credit risk exposure as of the reporting date	22,919,594	131,027,467	5,900	2,284,200	-	433,660,926
- Secured portion of the maximum risk by guarantees	-	64,410,721	5,900	2,284,200	-	433,660,926
Not due /not impaired						
Financial asset's carrying value	22,919,594	130,963,266	5,900	2,284,200	-	433,660,926
Overdue but not impaired						
Financial asset's carrying value	-	64,201	-	-	-	-
- Secured portion by guarantees	-	1,002	-	-	-	-
Net carrying value of						
Impaired assets						
- Overdue (gross)	-	11,246,802	-	-	-	-
- Impairment (-)	-	(11,246,802)	-	-	-	-
- Secured portion by guarantees	-	-	-	-	-	-

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

The exposure of the Group to credit risk as of 31 December 2015 based on types financial instruments is as follows:

2015	Trade Receivables		Other Receivables		Bank deposits	
	Related Party	Other	Related Party	Other	Related Party	Other
Maximum credit risk exposure as of the reporting date	4,622,593	119,985,664	28,702	281,259,631	-	476,690,700
- Secured portion of the maximum risk by guarantees	21,692	119,600,942	28,702	281,259,631	-	476,690,700
Not due /not impaired						
Financial asset's carrying value	4,622,593	106,990,874	28,702	281,259,631	-	476,690,700
Overdue but not impaired						
Financial asset's carrying value	-	12,994,790	-	-	-	-
- Secured portion by guarantees	-	12,714,367	-	-	-	-
Net carrying value of						
Impaired assets						
- Overdue (gross)	-	11,080,160	-	-	-	-
- Impairment (-)	-	(11,080,160)	-	-	-	-
- Secured portion by guarantees	-	-	-	-	-	-

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

Fair value of financial instruments

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 fair values of financial instruments that are not traded in an active market 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 fair value. Accordingly, the estimates presented herein may differ from the amounts the Group could realise in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practicable to estimate fair value:

Monetary assets

Foreign currency denominated balances are translated into Turkish Lira with the rates at the balance sheet date, The fair values of balances denominated in foreign currencies, which are translated at period-end exchange rates, are considered to approximate their carrying values.

The fair values of certain financial assets carried at cost, including cash and cash equivalents are considered to approximate to their respective carrying values due to their short-term nature.

The carrying values of trade receivables along with the related allowances for uncollectibility are estimated to approximate to their fair values.

Monetary liabilities

The fair values of short term bank borrowings and other monetary liabilities are considered to approximate to their respective carrying values due to their short-term nature.

Since long term foreign currency loans generally have floating interest rate fair value is close to their book value, Fair value of long term bank loans are discounted amounts of contractual cash flows with the market interest rate (Note 4).

Fair value estimation:

Effective from 1 January 2009, the Group adopted the amendment to TFRS 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 in active markets for identical assets or liabilities

Level 2: Inputs other than quoted market prices included within level 1 that are observable for the asset or liability, either directly or indirectly,

Level 3: Inputs for the asset or liability that are not based on observable market data,

AKENERJİ ELEKTRİK ÜRETİM A.Ş.

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

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

Trade receivables and payables are valued at amortized cost using the effective interest method, Trade receivables and payables are considered to approximate to their fair values (level 2).

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 estimate the fair value an instrument are observable, the instrument is included in level 2.

Derivative financial liabilities	2016	2015
Level 1	-	-
Level 2	39,998,909	47,381,386
Level 3	-	-
	39,998,909	47,381,386

The fair value of long-term financial liabilities is based on the cash flows discounted with the current debt ratio. Financial liabilities have been classified as the Level 3 in the fair value hierarchy since it has unobservable inputs including its own credit risk (Note 4).

Fair value of the lands, land improvements, buildings, machinery and equipment of the Group's power plants were measured by a professional independent valuation company on 31 December 2016 through other valuation techniques involving direct and indirect observable inputs (Level 3) (Note 12).

NOTE 27 - SUBSEQUENT EVENTS

It was announced to the public that the Group's application for the adjustment of the total installed energy of Ayyıldız Wind Plant from 15 MW to 28 MW had been approved by the Energy Market Regulatory Authority with the material event disclosure dated 9 October 2015. Within the scope of the capacity increase project in question, the temporary admission operations of 4 units with 3.3 MW of installed power were executed by the Ministry of Energy and Natural Resources Bank on 27 January 2017 and their commercial operation was started. Thus, Ayyıldız Wind Plant reached a total commercial capacity of 28.2 MWm/ 28.2 MWe.

