

*(CONVENIENCE TRANSLATION
OF THE REPORT AND
THE FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH)*

TEKNOSA İÇ VE DIŞ TİCARET A.Ş.

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

**(CONVENIENCE TRANSLATION OF
INDEPENDENT AUDITOR'S REPORT ORIGINALLY
ISSUED IN TURKISH)**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Teknosa İç ve Dış Ticaret A.Ş.

Report on the Financial Statements

We have audited the accompanying financial statements of Teknosa İç ve Dış Ticaret A.Ş. ("the Company") which comprise the balance sheet as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Turkish Accounting Standards ("TAS"), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued by Capital Markets Board and Independent Auditing Standards which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Teknosa İç ve Dış Ticaret A.Ş. and its subsidiary as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards.

Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 ("TCC"), the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 13 February 2017.

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Company's set of accounts and financial statements prepared for the period 1 January-31 December 2016 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

In accordance with paragraph four of the Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**



H. Erdem Selçuk
Partner

Istanbul, 13 February 2017

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TEKNOSA İÇ VE DIŞ TİCARET A.Ş.**AUDITED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016**

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

		Current Period 31 December 2016	Prior Period 31 December 2015
	Notes		
ASSETS			
Current Assets			
		579,697	855,808
Cash and cash equivalents	5	156,094	305,285
Trade receivables	6	56,449	51,203
<i>Trade receivables from related parties</i>	4	1,701	2,008
<i>Trade receivables from third parties</i>		54,748	49,195
Inventories	8	352,687	480,611
Prepaid expenses	9	11,077	15,677
Assets related to current tax	23	-	460
Derivative financial instruments	26	-	360
Other current assets	16	3,390	2,212
Non-Current Assets			
		188,721	175,467
Other receivables	7	556	671
Investment properties	10	10,196	10,557
Property, plant and equipment	11	98,744	98,760
Intangible assets	12	22,287	21,857
Prepaid expenses	9	577	149
Deferred tax assets	23	56,361	24,570
Other non-current assets	16	-	18,903
TOTAL ASSETS		768,418	1,031,275

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

TEKNOSA İÇ VE DIŞ TİCARET A.Ş.

AUDITED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

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

	Notes	Current Period 31 December 2016	Prior Period 31 December 2015
LIABILITIES			
Current Liabilities		825,742	950,447
Trade payables	6	712,323	870,728
<i>Trade payables to related parties</i>	4	4,201	4,332
<i>Trade payables to third parties</i>		708,122	866,396
Payables related to employee benefits	13	13,462	8,896
Other payables	7	1,198	1,014
<i>Other payables to third parties</i>	9	1,198	1,014
Deferred income		23,135	25,286
Short term provisions		48,411	20,018
<i>Short-term provisions for</i>			
<i>employee benefits</i>	13	7,545	17,630
<i>Other short term provisions</i>	14	40,866	2,388
Other current liabilities	16	27,213	24,505
Non-Current Liabilities		4,591	4,306
Long-term provisions for employee benefits	13	4,591	4,306
EQUITY		(61,915)	76,522
Share capital	17	110,000	110,000
Adjustments to share capital	17	6,628	6,628
Restricted reserves appropriated from profit	17	8,704	8,704
Other reserves		3	3
Other items of comprehensive income that will not be reclassified subsequently to profit or loss		-	288
<i>Cash flow hedge reserve</i>		-	288
Other items of comprehensive income that may be reclassified subsequently to profit or loss		20,130	(1,984)
<i>Losses on remeasurement of defined benefit plans</i>		(1,778)	(1,984)
<i>Gain on revaluation of property</i>		21,908	-
Prior years' (losses)/profit		(46,767)	47,456
Net loss for the period		(160,613)	(94,573)
TOTAL LIABILITIES		768,418	1,031,275

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

TEKNOSA İÇ VE DIŞ TİCARET A.Ş.

AUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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

	Notes	Current Period 1 January - 31 December 2016	Prior Period 1 January - 31 December 2015
Revenue	18	3,074,087	3,205,187
Cost of sales (-)	18	(2,573,138)	(2,615,853)
GROSS PROFIT		500,949	589,334
Marketing expenses (-)	19	(457,092)	(499,746)
General administrative expenses (-)	19	(48,212)	(57,266)
Other income from operating activities	20	20,068	19,452
Other expenses from operating activities (-)	20	(143,056)	(97,178)
OPERATING PROFIT / (LOSS)		(127,343)	(45,404)
Income from investing activities	21	1,072	3,879
OPERATING INCOME / (LOSS) BEFORE FINANCIAL EXPENSE		(126,271)	(41,525)
Finance expenses (-)	22	(66,649)	(61,239)
PROFIT / (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		(192,920)	(102,764)
Tax income / (expense) from continuing operations		32,307	8,191
- Deferred tax income / (expense)	23	32,307	8,191
PROFIT/LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(160,613)	(94,573)
PROFIT / (LOSS) FOR THE YEAR		(160,613)	(94,573)
Profit / (loss) for the year attributable to:			
Non-controlling interests		-	-
Owners of the Company		(160,613)	(94,573)
OTHER COMPREHENSIVE INCOME / (LOSS)			
Items that will not be reclassified subsequently to profit or loss		22,114	(1,513)
<i>Gains on remeasurement of defined benefit plans</i>		258	(1,892)
<i>Gains on revaluation of fixed assets</i>		23,061	-
Income tax relating to items that will not be reclassified subsequently		(1,205)	379
<i>Deferred tax (expense) / income</i>		(1,205)	379
Items that will be reclassified subsequently to profit or loss		(288)	288
<i>Gains / (losses) on cash flow hedges</i>		(360)	360
Income tax relating to items that may be reclassified subsequently		72	(72)
<i>Deferred tax (expense) / income</i>		72	(72)
TOTAL COMPREHENSIVE LOSS		(138,787)	(95,798)
(Loss) / earnings per share	24	(0,015)	(0,009)

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

TEKNOSA İÇ VE DIŞ TİCARET A.Ş.

**AUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016**

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

	Share capital	Adjustments to share capitals	Restricted reserves appropriated from profit	Other reserves	Losses on reinsurance of defined benefit plans	Gains on revaluation and reinsurance	Cash flow hedge reserve	Prior years' profit/ (losses)	Net profit/ (loss) for the year	Total equity
Prior period										
Balance at 1 January 2015	110,000	6,628	7,161	3	(471)	-	-	85,034	(19,975)	188,380
Transfer to retained earnings	-	-	1,543	-	-	-	-	(21,518)	19,975	-
Dividends (*)	-	-	-	-	-	-	-	(16,060)	-	(16,060)
Total comprehensive loss	-	-	-	-	(1,513)	-	288	-	(94,573)	(95,798)
Balance at 31 December 2015	110,000	6,628	8,704	3	(1,984)	-	288	47,456	(94,573)	76,522
Current Period										
Balance at 1 January 2016	110,000	6,628	8,704	3	(1,984)	-	288	47,456	(94,573)	76,522
Transfer to retained earnings	-	-	-	-	-	-	-	(94,573)	94,573	-
Effect of changes in accounting policies (Note 2.2)	-	-	-	-	-	-	-	-	-	350
Total comprehensive loss	-	-	-	-	206	21,908	(288)	-	(160,613)	(138,787)
Balance at 31 December 2016	110,000	6,628	8,704	3	(1,778)	21,908	-	(46,767)	(160,613)	(61,915)

(*) Dividends paid by the Company per share with a TRY 1 nominal value is TRY 0.15.

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

TEKNOSA İÇ VE DIŞ TİCARET A.Ş.

**AUDITED STATEMENT OF CASH FLOWS
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016**

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

	Notes	Current Period 1 January- 31 December 2016	Prior Period 1 January- 31 December 2015
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year		(160,613)	(94,573)
Adjustments:			
Adjustments related to interest expenses	22	66,649	61,239
Adjustments related to depreciation and amortization expenses	19	36,931	41,662
Adjustments related to provisions for employee benefits		5,593	4,606
Adjustments related to impairment of receivables	19	1,059	3,652
Adjustments related to provisions for reorganization	14	12,071	-
Adjustments related to losses on disposal of non-current assets	20	16,288	3,268
Adjustments related to provision for impairment of fixed assets	11	2,890	26,540
Adjustments related to provision for impairment on inventories	8	762	13,037
Adjustments related to other provisions (supplier confirmation differences)	14	6,100	-
Adjustments related to interest incomes	21	(1,072)	(3,879)
Adjustments related to tax income	23	(32,307)	(8,191)
		<u>(45,649)</u>	<u>47,361</u>
Changes in working capital:			
Increase in trade receivables from third parties		(6,612)	(30,014)
Decrease in trade receivables from related parties	4	307	1,991
Decrease in inventories	8	127,162	36,769
(Increase) / decrease in other current assets related to operations		22,372	(11,413)
(Decrease) / increase in trade payables to third parties	7	(158,274)	182,034
Decrease in trade payables to related parties	4	(131)	(2,989)
Increase in other current liabilities related to operations		25,484	14,642
Total Adjustments		<u>(35,341)</u>	<u>238,381</u>
Payments related to provisions for employee benefits		(5,012)	(4,307)
Payment related to other provisions	14	(9,894)	-
Tax paid		-	(1,895)
Cash provided from operations		<u>(50,247)</u>	<u>232,179</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of tangible assets	11	(24,203)	(37,392)
Purchase of intangible assets	12	(9,869)	(10,463)
Proceeds from sale of other non-current assets		705	1,383
Interest received	21	1,072	3,879
Cash provided from investment activities		<u>(32,295)</u>	<u>(42,593)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	22	(66,649)	(61,239)
Dividend paid		-	(16,060)
Cash provided from financing activities		<u>(66,649)</u>	<u>(77,299)</u>
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		<u>(149,191)</u>	<u>112,287</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		<u>305,285</u>	<u>192,998</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<u><u>156,094</u></u>	<u><u>305,285</u></u>

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

TEKNOSA İÇ VE DIŞ TİCARET A.Ş.

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

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

NOTE 1 – ORGANIZATION AND OPERATIONS OF THE COMPANY

Teknosa İç ve Dış Ticaret A.Ş., (“Teknosa” or “The Company”) was established at 9 March 2000, and is engaged in retail sales of consumer electronics through its stores and website “www.teknosa.com” and air conditioners and white goods through its dealers. The Company’s parent is Hacı Ömer Sabancı Holding A.Ş. and it is ultimately controlled by Sabancı Family members. The number of personnel of the Company is 2,688 as of 31 December 2016 (31 December 2015: 3,619). The Company has been registered in Turkey and operates under the laws and regulations of Turkish Commercial Codes (“TCC”).

The Company become merged with Kliksa İç ve Dış Ticaret A.Ş. which was the 100% subsidiary of the Company in the previous periods based on board decision dated 6 April 2016 through dissolving without liquidation by transferring all of its assets and liabilities fully as of 1 June 2016.

The Company operates in Turkey in 210 stores with 122,580 square meters retail space as of 31 December 2016 (31 December 2015: 171,622 square meters, 278 stores). The registered office address of the company is as follows.

Barbaros Mahallesi, Mor Sümül Sok. No:7/3F 1-18 Nida Kule Ataşehir Güney B-2, B-3 floor,
Post Code 34746 Ataşehir - İstanbul

The Company’s shares have been traded in Borsa İstanbul (“BIST”) since 2012.

Approval of financial statements

Board of Directors has approved the financial statements and delegated authority for publishing it on 13 February 2017. General Assembly has the authority to modify the financial statements.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Statement of Compliance with TAS

The attached financial statements are prepared in accordance with the decree Series II No: 14.1 “Principals Relating to the Financial Reporting Standards in Capital Markets” (“Decree”) issued by Capital Markets Board (“CMB”) on 13 June 2013 and published in the Official Gazette numbered 28676 and are based on the Turkish Accounting Standards (“TAS”) and relating interpretations which became effective with the 5th Article of the Decree in consideration by Public Oversight Accounting and Auditing Standards Authority.

Additionally, financial statements and disclosures are presented in accordance with the formats published by CMB on 7 June 2013.

The financial statements have been prepared on the historical cost basis except for revaluation of land, building and derivatives. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

TEKNOSA İÇ VE DIŞ TİCARET A.Ş.

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

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

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

2.1 Basis of Presentation (Continued)

Presentation and Functional Currency

The financial statements of the Company are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Company are expressed in Turkish Lira, which is the functional and presentation currency of the Company.

Preparation of Financial Statements in Hyperinflationary Periods

The CMB decision No: 11/367 issued at 17 March 2005 requires all companies operating in Turkey and preparing their financial statements in accordance with the Turkish Accounting Standards to cease the inflation accounting application as of 1 January 2005. Based on this requirement, the application of TAS 29 “Financial Reporting in Hyperinflationary Economies” is ceased as of 1 January 2005.

Comparative information and restatement of the prior periods’ financial statements

Financial statements of the Company have been prepared comparatively with the prior period in order to give information about financial position and performance. If the presentation or classification of the financial statements is changed, in order to maintain consistency, financial statements of the prior periods are also reclassified and disclosed in line with the related changes. In the current period, the Company made some reclassifications on the prior year financial statements. The details of the reclassifications are as follows:

- In 2015 the Company presented credit card discount expenses amounting TRY 38,022 by netting-off revenue. In the current year, the Company Management reclassified this amount to finance expenses.

The related reclassifications have no effect on the statement of profit or loss.

2.2 Changes in Accounting Policies

Changes in accounting policies are applied retrospectively and prior year financial statements are restated. The Company did not have any changes in its accounting policies in the current year except for those explained below.

The Company has started to carry its land and building which are held for investment property as fair value instead of carrying as cost method. According to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, this accounting policy change requires restatement of prior periods’ financial statements. Since this change has not a significant effect on prior periods, the Company did not restate prior periods’ financial statements by considering materiality level for financial statements. In addition, the Company has started to carry its land and building which are stated as property, plant and equipment as fair value instead of carrying as cost method. Due to the first implementation of revaluation of related fixed assets, the change has not been applied retrospectively based on IAS 8, paragraph 17.

TEKNOSA İÇ VE DIŞ TİCARET A.Ş.

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

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

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

2.3 Changes in Accounting Estimates and Errors

If changes in the accounting estimates are related to only one period, they are applied in the current year; if they are related to the future period, they are applied both in current and future periods. The Company has no significant changes to the accounting estimates in the current year.

2.4 New and Revised Turkish Accounting Standards

a) Amendments to TAS affecting amounts reported and/or disclosures in the financial statements

None.

b) New and revised TAS applied with no material effect on the financial statements

Amendments to TAS 16 and TAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to TAS 16 and TAS 41 and amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40	<i>Agriculture: Bearer Plants</i> ¹
Amendments to TFRS 11 and TFRS 1 Annual Improvements to 2011-2013 Cycle	<i>Accounting for Acquisition of Interests in Joint operations</i> ¹ <i>TFRS 1</i> ²
Amendments to TAS 1 Annual Improvements to 2012-2014 Cycle	<i>Disclosure Initiative</i> ²
Amendments to TAS 27	<i>TFRS 5, TFRS 7, TAS 34, TAS 19</i> ²
Amendments to TFRS 10 and TAS 28	<i>Equity Method in Separate Financial Statements</i> ² <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to TFRS 10, TFRS 12 and TAS 28 TFRS 14	<i>Investment Entities: Applying the Consolidation Exception</i> ² <i>Regulatory Deferral Accounts</i> ²

¹ Effective for annual periods beginning on or after 31 December 2015.

² Effective for annual periods beginning on or after 1 January 2016.

TEKNOSA İÇ VE DIŞ TİCARET A.Ş.

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

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

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

2.4 New and Revised Turkish Accounting Standards (Continued)

b) New and revised TAS applied with no material effect on the financial statements (cont'd)

Amendments to TAS 16 and TAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

This amendment clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Amendments to TAS 16 and TAS 41 and Amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40 *Agriculture: Bearer Plants*

This amendment include 'bearer plants' within the scope of TAS 16 rather than TAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with TAS 16. The amendment also introduces a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of TAS 41.

Amendments to TAS 16 and TAS 41 also led to amendments in related provisions of TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40, respectively.

Amendments to TFRS 11 and TFRS 1 *Accounting for Acquisition of Interests in Joint operations*

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in TFRS 3 and other TAS, except for those principles that conflict with the guidance in TFRS 11,
- disclose the information required by TFRS 3 and other TAS for business combinations.

Amendments to TFRS 11 also led to amendments in related provisions of TFRS 1.

TEKNOSA İÇ VE DIŞ TİCARET A.Ş.

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

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

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

2.4 New and Revised Turkish Accounting Standards (Continued)

b) New and revised TAS applied with no material effect on the financial statements (cont'd)

Annual Improvements 2011-2013 Cycle

TFRS 1: Clarify which versions of TAS can be used on initial adoption (amends basis for conclusions only).

Amendments to TAS 1 *Disclosure Initiative*

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

Annual Improvements 2012-2014 Cycle

TFRS 5: Adds specific guidance in TFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

TFRS 7: Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

TAS 34: Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

Annual Improvements to 2012-2014 Cycle also led to amendments in related provisions of TAS 19.

Amendments to TAS 27 *Equity Method in Separate Financial Statements*

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

Amendments to TFRS 10 and TAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

Amendments to TFRS 10, TFRS 12 and TAS 28 *Investment Entities: Applying the Exception*

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

TEKNOSA İÇ VE DIŞ TİCARET A.Ş.

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

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

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

2.4 New and Revised Turkish Accounting Standards (Continued)

b) New and revised TAS applied with no material effect on the financial statements (cont'd)

Amendments to TFRS 10, TFRS 12 and TAS 28 Investment Entities: Applying the Exception (cont'd)

This amendment addresses issues that have arisen in the context of applying the exception for investment entities by clarifying the following points:

- The exemption from preparing financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by TFRS 12.

TFRS 14 Regulatory Deferral Accounts

TFRS 14 *Regulatory Deferral Accounts* permits an entity which is a first-time adopter of Turkish Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of TFRS and in subsequent financial statements.

TFRS 14 also led to amendments in related provisions of TFRS 1.

c) New and revised TAS in issue but not yet effective

The Company has not applied the following new and revised TAS that have been issued but are not yet effective:

TFRS 9	<i>Financial Instruments</i>
TFRS 15	<i>Revenue from Contracts with Customers 1</i>

¹ Effective for annual periods beginning on or after 1 January 2018.

TFRS 9 Financial Instruments

TFRS 9, issued by Public Oversight Authority ("POA") in 2010, introduces new requirements for the classification and measurement of financial assets. TFRS 9 is amended in 2011 to include requirements for the classification and measurement of financial liabilities and for derecognition.

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

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

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

2.4 New and Revised Turkish Accounting Standards (Continued)

TFRS 9 Financial Instruments (cont'd)

Revised version of IFRS 9 is issued by POA in January 2017 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income (“FVTOCI”) measurement category for certain simple debt instruments.

The mandatory effective date of TFRS 9 will be no earlier than annual periods beginning on or after 1 January 2018.

TFRS 15 Revenue from Contracts with Customers

TFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts,
- Recognise revenue when the entity satisfies a performance obligation.

The Company evaluates the effects of these standards, amendments and improvements on the financial statements.

2.5 Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of these financial statements are summarized below:

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank deposits and credit card slip receivables (Note 5).

Collection risk due from the credit card sales of the Company belongs to the bank. The risk of doubtful trade receivables due and the credit card slip receivables limited within financial condition and the risk of bank. The Company collects the instalments of the its credit card sales according to mutually agreed discount rates with the banks and financial institutions on the following day when the sale made within the scope of the credit card sales contracts made under the various banks and financial institutions.

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

NOTE 2.– BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Related parties

For the purpose of financial statements, major shareholders, Hacı Ömer Sabancı Holding A.Ş. and affiliates (together referred to as “Sabancı Holding Group”), directors and key management personnel together with their close family members and companies and subsidiaries controlled or affiliated by them are considered and referred to as related parties (Note 4).

Trade receivables

Trade receivables that are created by the Company by way of providing goods or services directly to a debtor are carried at amortized cost. Trade receivables that deferred financial income is netted-off and calculated by discounting amounts that will be collected of trade receivables recorded in the original invoice value in the subsequent periods using the effective yield method. Short duration receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant (Note 6).

A credit risk provision for trade receivables is established if there is objective evidence that the Company 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.

Inventories and cost of goods sold

Inventories are valued at the lower of cost or net realizable value. Cost elements included in inventory are purchase costs and other transportation costs necessary to prepare the asset for its intended use. Cost is determined by the moving weighted average method. Costs related to the shipment of the inventories from main warehouse and the region warehouses to the stores are booked as expense. Net realizable value is the estimated selling price in the ordinary course of business, less the selling expenses (Note 8).

Benefits obtained from suppliers in the normal course of business, such as rebates, stock protection and similar benefits are deducted from the cost of the related inventory item and are associated with cost of goods sold.

Volume rebates, stock protection, sales support premiums, insert and stand income and other benefits from suppliers are reflected to the cost of the related stock item.

Stock Protection: Stock protection is charged to suppliers in order to increase the sales performance of the older versions of certain products when newer versions are introduced.

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

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

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

2.5 Summary of Significant Accounting Policies (Continued)

Inventories and cost of goods sold (cont'd)

Volume Rebates: Represent the premiums received from suppliers based on the purchases made by the Company.

Sales Support Premiums: The Company receives sales support premiums depending on the sales performance on certain days for certain products.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

Property, plant and equipment and depreciation

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Property, plant and equipment except for land and building are carried at cost less accumulated depreciation in each case. Property, plant and equipment are depreciated on a straight-line basis (Note 11). The depreciation periods for property, plant and equipment, which approximate the economic useful lives of such assets, are as follows:

	<u>Useful lives (years)</u>
Buildings	50
Motor vehicles	5
Property, plant and equipment	4 - 15
Fixtures	5 - 10
Leasehold improvements	5 - 10

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

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

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

2.5 Summary of Significant Accounting Policies (Continued)

Intangible assets and amortization

Intangible assets comprise licenses and rights and computer software. Intangible assets are disclosed with their net value which is acquisition cost less accumulated amortization (Note 12). The amortization periods for intangible assets, which approximate the economic useful lives of such assets, are as follows:

	<u>Useful lives (years)</u>
Licenses and rights	5 - 15
Computer software	3

Impairment of financial assets

The Company reviews all assets with indefinite useful lives at each balance sheet date in order to see if there is a sign of impairment on the stated asset. The Company management considers the loss before interest, tax, amortization and depreciation for the stores which operates more than a year as an indicator of impairment. If there is such a sign, carrying amount of the stated asset is compared with the net realizable value which is the higher of value in use and fair value less cost to sell. Impairment exists if the carrying value of an asset or a cash generating unit including the asset is greater than its net realizable value. Impairment losses are recognized in the income statement.

The Company management accounts for provision for the impairment of the tangible assets of the stores, where an approval has been received to close down the store as of the balance sheet date.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers (Note 6). Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Leases - the Company as the lessee

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Provisions, contingent assets and contingent liabilities

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

TEKNOSA İÇ VE DIŞ TİCARET A.Ş.

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

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

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

2.5 Summary of Significant Accounting Policies (Continued)

Provisions, contingent assets and contingent liabilities (cont'd)

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

Statement of cash flows

Cash flows for the period are mainly reported depending on the operating, investing and financing activities of the Company.

Cash flows from operating activities represent the cash flows generated from the Company's sales of consumer electronics, air-conditioners and white goods.

Cash flows related to investing activities represent the cash flows that are used in or provided from the investing activities of the Company.

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

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

Borrowings

Borrowings are recognized initially at the proceeds received; net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective yield method. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in the income statement as financial expense over the period of the borrowings. Borrowing costs, including interest costs and related commissions, are capitalized for qualifying assets since 1 January 2007. Interest cost is included in the cost of assets only when expenditures have been made and activities necessary to bring the asset to its intended use are in progress. Capitalization ceases when the asset is substantially complete and ready for its intended use.

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

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

2.5 Summary of Significant Accounting Policies (Continued)

Taxation on income

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and it excludes items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

Current and deferred tax for the period

Current and deferred tax are recognized as in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

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FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

2.5 Summary of Significant Accounting Policies (Continued)

Provision for employment termination benefits

Retirement pay provision

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Company. Such payments are considered as being part of defined retirement benefit plan as per Turkish Accounting Standard No. 19 “Employee Benefits” (“TAS 19”).

Provision for employment termination benefits represents the present value of the estimated total provision of the future probable obligation of the Company arising from the retirement of the employees calculated in accordance with the Turkish Labour Law. All calculated actuarial gains and losses are accounted for under other comprehensive income (Note 13).

Earnings per share

Earnings per share disclosed in the statement of comprehensive income are determined by dividing net income by the weighted average number of shares that have been outstanding during the related period concerned (Note 24). In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“bonus shares”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them retroactive effect for the year in which they were issued and for each earlier period.

Foreign currency transactions and balances

Foreign currency transactions during the period have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into Turkish Lira at the exchange rates prevailing at the balance sheet dates. Exchange gains or losses arising from the settlement and translation of foreign currency items have been included in the statement of profit or loss.

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

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

2.5 Summary of Significant Accounting Policies (Continued)

Revenue

Revenue is recognized on the invoiced amount on an accrual basis at the time of deliveries or acceptances are made. Net sales represent the invoiced value of goods shipped less sales returns and commission. The fair value of the consideration is determined by discounting all future receipts using the effective yield method. The difference between the fair value and the nominal amount of the consideration is recognized as “financial income” on a time proportion basis that takes into account the effective yield on the asset.

The Company sells warranty policies to extend the warranty period of the products provided by the suppliers. In such transactions the Company acts as the agent of an insurance company where the Company has only minor administrative obligations after-sales. For this reason income earned and expenses incurred from the sale of such warranties are reflected to the financial statements when the sale of the policy occurs and net value of the transaction is presented in the income statement.

Gift vouchers sold by the Company to its customers are classified under other current liabilities section as an advances received. Moreover, gift vouchers are recorded as income as they are used by the customers. The Company also accounts for income for the estimated amount of gift vouchers that are not expected to be used by the customers. Unused gift vouchers are classified under advances received.

Under the customer loyalty program, the Company enables its customers to accumulate bonus from shopping made via Turuncukart which is issued by Teknosa. For the cards reached to base bonus limit to be available for shopping, the Company posts the related amounts to the financial statements as liability. Used bonus is then presented in sales discounts.

Interest income is recorded by using the effective interest rate.

Warranty expenses and provisions

Provision for warranty expenses for the air-conditioners for which the warranty liability belongs to the Company is calculated based on statistical information for possible future warranty services.

The warranty liability for the consumer electronics retail sales of the Company belongs to the manufacturer or to the importer companies. On the other hand, there is no significant liability of the Company for the extended warranty policies sold by the Company.

Business combinations

Business combinations are accounted for by using the acquisition method. The consideration transferred in a business combination includes the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Acquisition related costs are expensed as they are incurred. The identifiable assets acquired and the liabilities assumed are measured at their acquisition-date fair values.

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

2.5 Summary of Significant Accounting Policies (Continued)

Business combinations (cont'd)

Excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the business combination cost is accounted for as goodwill. If this amount is lower than the market value of the net assets of the subsidiary acquired, the excess amount is recognized directly in the income statement.

Segment reporting

The management has determined the operating segments based on the reports used in taking strategic decisions by the Board of Directors and the executive committee (includes general manager and the assistant general managers).

The executive committee evaluates the business in terms of business unit on the basis of retail and dealer group.

The Board of Directors and the executive committee monitor the performance of the operating segments based on a measure of adjusted Earnings Before Interest, Tax, Employment Termination Benefits, Depreciation and Amortization ("EBITDA"). This measurement of the operating segments does not consider the effects of nonrecurring income and expenses. Interest income and expenses are not allocated to operating segments since they are monitored by the central treasury department of the Company. EBITDA is not a measure of operating income, operating performance or liquidity under CMB Financial Reporting Standards. The Company presented EBITDA in the notes to the financial statements besides the requirements of segment reporting since it is used by certain readers in their analyses (Note 3).

Share capital and dividends

Ordinary shares are classified as equity. Dividends on ordinary shares are recognized in equity in the period in which they are declared.

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 recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Events after the reporting period

Events after the reporting period are those events that occur between the balance sheet date and the date when the financial statements are authorized for issue, even if they occur after an announcement related with the profit for the year or public disclosure of other selected financial information (Note 29).

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

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

2.5 Summary of Significant Accounting Policies (Continued)

Derivative Financial Instruments and Hedge Accounting

The Company's activities expose it primarily to the financial risks of changes in foreign exchange rates. The Company uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Company's risk management strategy.

Derivative financial instruments are not used as speculative purposes. Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The Company's policy to hedge foreign currency risk associated with a binding commitment classifies the related risk as cash flow hedge. When the hedge transaction does not result in the recognition of an asset or a liability, the amounts in equity are recognized in the statement of profit or loss when the hedged item affects the statement of profit or loss. The changes in the fair value of derivatives that do not qualify as cash flow hedge are recognized in the statement of profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, or when it no longer qualifies for hedge accounting. The cumulative gain or loss related with hedge instrument accounted under equity as of such date is continued to be recognized under equity until the expected realization date of the transaction. When the hedge transaction is no longer expected to occur, the net accumulated gain or loss in equity is recognized in profit or loss of the period.

2.6 Critical Accounting Judgments and Key Sources of Estimation Uncertainty

Critical judgments in applying the Company's accounting policies

In the process of applying the entity's accounting policies, the Company Management has made the following judgments that have the most significant effect on the amounts recognised in the financial statements.

Useful life of tangible and intangible assets

Intangible assets are stated at cost less accumulated depreciation and accumulated impairment loss. Intangible assets are amortized by straight-line depreciation method over the estimate of their useful lives which are presented below. Useful lives rely on the best estimates of the management, review every balance sheet date and if needed adjustments are proposed.

Tangible assets with finite useful lives that are acquired separately are carried at cost less accumulated depreciation and accumulated impairment losses. Operational performances are evaluated separately as on the basis of each stores. The decision of going bust a store depends on generated discounted cash flow.

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

2.6 Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

Impairment of tangible and intangible assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment loss. The Company evaluates its operational performance on the basis of each store and decides to end stores operations upon stores' discounted cash flow projections. Stores' cash flow projections prepared according Company's five year long term plans considering remaining economic useful life of the stores. In this context, Company presumes impairments of leasehold improvements on the stores in which Company is the lessee, considering of the stores continuity. The Company did not book a provision for impairment as of 31 December 2016. (Besides, the Company have revised its strategy regarding Kliksa.com which will continue its operations as an outlet channel of Teknosa.com. Therefore; for investments for website of subsidiary, the Company booked a provision for loss on sale of tangible assets for investments made for website of subsidiary amounting TRY 26,099 as of 31 December 2015). In case of estimations and actual results are different, financials may be affected.

Decrease in value of stocks (NRV)

In accordance with the accounting policy, inventories are stated at the net realizable value. The Company accounts for the products whose sales price is below its cost by the lower of cost or net realizable value. NRV report is prepared by comparing the recorded cost value at the end of the month and sales prices obtained from price lists.

Products with low sales performance is provided for on the cost values based on the previous years' sales performances. Aging of stocks in process are made at certain date ranges. Impairment is calculated for every type of category with different periods and different rates from aging by balance sheet date. The Company has booked provision for inventories amounting TRY 16,763 as of 31 December 2016 (31 December 2015: TRY 17,525).

Inactivity for white goods is calculated over 180 days and above, whereas 90 days and above for other goods.

Income Accruals

As of 31 December 2016, the Company has various ongoing lawsuits opened against accrued taxes and penalties by the controllers of the Undersecretariat of Customs as a result of the examination of a certain portion of the air conditioner imports from previous years under two separate investigations.

The Company Management has reversed the receivable paid in previous periods amounting TRY 5,157 which arises as a result of the opinions of the legal counsels and customs experts and based on the fact that there are previous lawsuits finalized in favor of the Company and accounted under other operating expense TRY 5,157 (Note 16).

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

2.6 Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

Deferred Tax Assets

The Company recognizes deferred tax assets and liabilities for temporary timing differences arising from differences between statutory financial statements and financial statements prepared in accordance with the Turkish Accounting Standards (“TAS”) published by Public Oversight Accounting and Auditing Standards Authority (“POA”). The Company has deferred tax assets arising from carried forward tax losses and other temporary differences deductible from its potential future profits. That amount of deferred tax assets which is recoverable has been estimated under the current circumstances and information available. During the assessment, due consideration has been given to the future taxable profit projection, potential deadlines for utilization of current period losses, unutilized losses and other tax assets, as well as tax planning strategies which might be adopted where applicable. These planning strategies depend on management estimations and actual outcomes might differ from the estimations.

Restructuring provisions

The Company has recorded some provisions in the financial statements with regard to decisions within the scope of reorganization strategy realized in 2016. These provisions are generally composed of penalty provisions going to be paid to lessors due to early termination of rent contracts, provisions and expenditures regarding employee lawsuits. Rent agreements, legal counselor opinions and management expectations are considered while recording these estimates (Note 14).

Providing financial capability

The Company has net loss amounting TRY 160,613 for the year ended 31 December 2016 and has accumulated losses amounting TRY 207,380 including net losses for the current period. Based on prospective profitability factors considered by the Company Management, some of the stores have been closed and required expenditures and also provisions have been recorded in the financial statements during this phase. Expense and provisions have effect amounting to TRY 93,575. Also based on prospective projections, the Company is going to continue its operations through its existing stores and related strategies will be evaluated by the Company Management to provide financial capability.

In addition to this, the Company made an announcement on Public Disclosure Platform on 31 December 2016 as shown below:

"The Company issued 30.09.2016 financial statements which are appropriate CMB regulations. In accordance with the CMB's principal decision, number 2014/11, the Company's Equity in the financial statements amounting to TRY (-) 73,050,000 and considered Company's off the balance sheet asset, brand value amounting to TRY 315,159,000 there has been no change in minus (-) situation of the Equity in the properly prepared CMB consolidated financial statements. The statement of financial position is prepared upon this detection and anew CMB's principal decision, number 2014/11, article of TCC 376. This statement of financial position is prepared including the Company's brand value. The Company's equity defined TRY (+) 349,558,980 in the statement of financial position. This amount shows the Company's paid capital amounting to TRY 110,000,000 is preserved."

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

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NOTE 3 – SEGMENT REPORTING

The Company began applying TFRS 8 starting from 2009 and determined the reportable segments based on the management reports which are regularly reviewed by the Chief Operating Decision Maker (“CODM”).

CODM in order to take the decisions relating to the allocation of resources to the operating segments and to evaluate the performance of these segments reviews the results by product category and geographical allocation. The Company’s product categories are as follows: electronics retail sales and air conditions, cash registers and white goods through dealers. These sales are also reviewed as stores and dealers (İklimsa). In addition, assets and liabilities are not included since they are not regularly presented to and reviewed by the Company’s CODM.

The details of the segment reporting according to the Company’s internal reporting are as follows:

	1 January - 31 December 2016		
	Stores	Dealer Group	Total
Total segment income	2,903,864	170,223	3,074,087
Income from third party customers	2,903,864	170,223	3,074,087
Profit before interest, severance pay, depreciation and amortization (EBITDA)	20,177	18,175	38,292
Depreciation and amortization expenses	(36,275)	(656)	(36,931)
Tax income / (expense)	37,111	(4,804)	32,307
	1 January - 31 December 2015		
	Stores	Dealer Group	Total
Total segment income	3,082,730	122,457	3,205,187
Income from third party customers	3,082,730	122,457	3,205,187
Profit before interest, severance pay, depreciation and amortization (EBITDA)	61,105	17,319	78,424
Depreciation and amortization expenses	(41,061)	(601)	(41,662)
Tax income / (expense)	11,698	(3,507)	8,191

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

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NOTE 3 – SEGMENT REPORTING (Continued)

Reconciliation of EBITDA with profit before taxes:

	1 January 31 December 2016	1 January- 31 December 2015
EBITDA for reportable segments	38,292	78,424
Depreciation	(36,931)	(41,662)
Financial expenses	(66,649)	(61,239)
Income from investing activities	1,072	3,879
Other expenses - net (*)	(122,988)	(77,726)
Provision for employee termination benefits	(5,716)	(4,440)
(Loss) / Profit before tax	(192,920)	(102,764)

(*) Other expenses – net balance, consists of Company’s credit purchase expense, loss on non-current asset, litigation and execution expenses, competition board penalty (Note 20).

NOTE 4 – RELATED PARTY DISCLOSURES

The related parties are companies directly or indirectly controlled by Hacı Ömer Sabancı Holding A.Ş., parent company of Teknosa or companies over which Hacı Ömer Sabancı Holding A.Ş. has significant influence.

	31 December 2016	
	Receivables	Payables
	Current	Current
Balances with related parties	Trading	Trading
Akbank T.A.Ş.	556	-
Carrefoursa Carrefour Sabancı Tic. Merkezi A.Ş.	430	(65)
Bimsa Uluslararası İş Bilgi ve Yönetim Sis. A.Ş.	398	(3,730)
Hacı Ömer Sabancı Holding A.Ş.	152	(4)
Temsa Global Sanayi ve Ticaret A.Ş.	73	-
Akçansa Çimento San. ve Tic. A.Ş.	27	-
Brisa Bridgestone Sabancı Las. San. ve Tic. A.Ş.	24	-
Avivasa Emeklilik ve Hayat A.Ş.	16	-
Kordsa Global Endüstriyel İplik ve Kord Bezi San. ve Tic. A.Ş.	16	-
Philip Morris Sabancı Pazarlama Satış A.Ş.	9	-
Enerjisa Enerji A.Ş. ve bağlı ortaklıkları	-	(288)
Aksigorta A.Ş.	-	(114)
	1,701	(4,201)

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NOTE 4 – RELATED PARTY DISCLOSURES (Continued)

	31 December 2015	
	Receivables	Payables
	Current	Current
	Trading	Trading
<u>Balances with related parties</u>		
Carrefoursa Carrefour Sabancı Tic. Merkezi A.Ş.	1,468	(177)
Akbank T.A.Ş.	435	(11)
Avivasa Emeklilik ve Hayat A.Ş.	47	(2)
Philip Morris Sabancı Pazarlama Satış A.Ş.	30	-
Akçansa Çimento San. ve Tic. A.Ş.	18	-
Aksigorta A.Ş.	10	(47)
Brisa Bridgestone Sabancı Las. San. ve Tic. A.Ş.	-	(15)
Bimsa Uluslararası İş Bilgi ve Yönetim Sis. A.Ş.	-	(3,099)
Enerjisa Enerji A.Ş. ve bağlı ortaklıkları	-	(954)
Hacı Ömer Sabancı Holding A.Ş.	-	(27)
	<u>2,008</u>	<u>(4,332)</u>
	31 December	31 December
<u>Deposit accounts in Akbank T.A.Ş.</u>	<u>2016</u>	<u>2015</u>
Demand deposit	10,377	842
Time deposit	4,000	101,660
	<u>14,377</u>	<u>102,502</u>
	31 December	31 December
<u>Credit card slip receivables in Akbank T.A.Ş.</u>	<u>2016</u>	<u>2015</u>
Credit card slip receivables	3,301	1,991
	<u>3,301</u>	<u>1,991</u>

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NOTE 4 – RELATED PARTY DISCLOSURES (Continued)

Transactions with related parties	1 January - 31 December 2016		
	Sales	Rent expense	Other income / (expenses)
Carrefoursa Carrefour Sabancı Tic. Merkezi A.Ş.	2,732	(4,601)	(953)
Akbank T.A.Ş.	2,096	-	-
Avivasa Emeklilik ve Hayat A.Ş.	480	-	(1,047)
Çimsa Çimento Sanayi ve Ticaret A.Ş.	256	-	-
Akçansa Çimento San. ve Tic. A.Ş.	179	-	-
Temsa Global Sanayi ve Ticaret A.Ş.	176	-	-
Bimsa Uluslararası İş Bilgi ve Yönetim Sis. A.Ş.	158	-	(9,401)
H.Ö. Sabancı Holding A.Ş.	133	(10)	(29)
Philip Morris Sabancı Pazarlama Satış A.Ş.	116	-	-
Aksigorta A.Ş.	86	-	(2,891)
Brisa Bridgestone Sabancı Las. San. ve Tic. A.Ş.	54	-	-
Kordsa Global Endüstriyel İplik ve Kord Bezi San. ve Tic. A.Ş.	18	-	-
Enerjisa Enerji A.Ş. ve İştirakleri	6	-	(4,634)
	<u>6,490</u>	<u>(4,611)</u>	<u>(18,955)</u>

Transactions with related parties	1 January - 31 December 2015		
	Sales	Rent expense	Other income / (expenses)
Carrefoursa Carrefour Sabancı Tic. Merkezi A.Ş.	10,775	(5,249)	(499)
Ak Finansal Kiralama A.Ş.	1,579	-	-
Akbank T.A.Ş.	1,000	-	-
Avivasa Emeklilik ve Hayat A.Ş.	488	-	(1,200)
Bimsa Uluslararası İş Bilgi ve Yönetim Sis. A.Ş.	314	-	(3,311)
Aksigorta A.Ş.	263	-	(2,283)
Philip Morris Sabancı Pazarlama Satış A.Ş.	217	-	-
Akçansa Çimento San. ve Tic. A.Ş.	182	-	-
Brisa Bridgestone Sabancı Las. San. ve Tic. A.Ş.	144	-	-
H.Ö. Sabancı Holding A.Ş.	85	(19)	(176)
Çimsa Çimento Sanayi ve Ticaret A.Ş.	45	-	-
Enerjisa Enerji A.Ş. and its subsidiaries	17	-	(5,647)
Other	14	-	-
	<u>15,123</u>	<u>(5,268)</u>	<u>(13,116)</u>

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NOTE 4 – RELATED PARTY DISCLOSURES (Continued)

The Company's key management has been identified as the general managers and directors. Remuneration to key management personnel consists of wages, premiums, pensions, health insurance and life insurance payments. Remunerations of key management personnel for the years ended 31 December 2016 and 2015 are as follows:

	1 January – 31 December 2016	1 January – 31 December 2015
<u>Salaries and other benefits</u>	5,579	7,412
	<u>5,579</u>	<u>7,412</u>

NOTE 5 – CASH AND CASH EQUIVALENTS

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

	31 December 2016	31 December 2015
Cash	3,074	1,908
Demand deposit	18,783	2,218
Time deposit	117,235	288,046
Credit card slip receivables	17,002	13,113
	<u>156,094</u>	<u>305,285</u>

As of 31 December 2016, the Company's all time deposits are Turkish Liras with the average interest rate of 11% (31 December 2015: TRY, 13.44%).

NOTE 6 – TRADE RECEIVABLES AND PAYABLES

The details of trade receivables as of 31 December 2016 and 2015 are as follows:

<u>Current trade receivables</u>	31 December 2016	31 December 2015
Trade receivables	45,442	44,577
Due from related parties (Note 4)	1,701	2,008
Notes receivables	14,180	10,485
Allowance for doubtful receivables (-)	(4,874)	(5,867)
	<u>56,449</u>	<u>51,203</u>

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NOTE 6 – TRADE RECEIVABLES AND PAYABLES (Continued)

The details of provision for doubtful trade receivables as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Balance at beginning of the year	5,867	2,215
Provision for the year	1,059	3,652
Reversal of provision	(2,052)	-
Closing balance	<u>4,874</u>	<u>5,867</u>

As of 31 December 2016 and 2015, the Company holds the below collaterals for its checks, notes and trade receivables.

	31 December 2016	31 December 2015
Letters of guarantees received	14,200	9,110
Mortgages	2,785	3,588
	<u>16,985</u>	<u>12,698</u>

Fair value of the collaterals which the Company is permitted to sell or repledge in the absence of default by the owner of the collateral is TRY 16,985 (31 December 2015: TRY 12,698). As of the balance sheet date, there are not any collaterals or mortgages which are sold or re-pledged.

	31 December 2016	31 December 2015
<i>Current trade payables</i>		
Trade payables	707,183	859,297
Trade payables to related parties (Note 4)	4,201	4,332
Expense accruals	939	7,099
	<u>712,323</u>	<u>870,728</u>

As of 31 December 2016, the Company netted of income accruals related to suppliers amounting to TRY 10,814 with trade payables (31 December 2015: TRY 43,769).

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NOTE 7 - OTHER RECEIVABLES AND PAYABLES

	31 December 2016	31 December 2015
<i>Other Receivables</i>		
Deposits and guarantees given	556	671
	<u>556</u>	<u>671</u>
<i>Other Payables</i>		
Deposits and guarantess received	1,198	1014
	<u>1,198</u>	<u>1,014</u>

NOTE 8 – INVENTORIES

The details of the inventories as of 31 December 2016 and 2015 are presented below:

	31 December 2016	31 December 2015
Trade goods	368,380	496,076
Goods in transit	1,070	2,060
Provision of impairment on inventories (-)	(16,763)	(17,525)
	<u>352,687</u>	<u>480,611</u>
	1 January- 31 December 2016	1 January- 31 December 2015
<i>Provision of impairment on inventories:</i>		
Opening balance at 1 January	(17,525)	(4,488)
Charge for the year	-	(13,037)
Reversal of the provision, net	762	-
Closing balance at 31 December	<u>(16,763)</u>	<u>(17,525)</u>

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NOTE 9 – PREPAID EXPENSES AND DEFERRED REVENUE

The details of other current assets as of 31 December 2016 and 2015 are presented below:

	31 December 2016	31 December 2015
<i>Short-term prepaid expenses</i>		
Order advances given for inventory purchase	6,676	6,368
Short term prepaid expenses	4,401	9,309
	<u>11,077</u>	<u>15,677</u>
	31 December 2016	31 December 2015
<i>Long-term prepaid expenses</i>		
Long term prepaid expenses	577	149
	<u>577</u>	<u>149</u>

The details of the deferred revenue as of 31 December 2016 and 2015 are presented below:

	31 December 2016	31 December 2015
<i>Short-term deferred revenue</i>		
Order advances received	22,297	24,666
Other	838	620
	<u>23,135</u>	<u>25,286</u>

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NOTE 10 – INVESTMENT PROPERTY

The movement of investment properties and related accumulated depreciation as of 31 December 2016 and 31 December 2015 are as below:

	<u>Lands</u>	<u>Buildings</u>	<u>Total</u>
Cost Value			
Opening balance at 1 January 2016	2,775	8,811	11,586
Revaluation fund (Note 11)	3,754	-	3,754
Impairment during the year (Note 11)	-	(4,020)	(4,020)
Closing balance at 31 December 2016	6,529	4,791	11,320
Accumulated Depreciation			
Opening balance at 1 January 2016	-	(1,029)	(1,029)
Charge for the year	-	(95)	(95)
Closing balance at 31 December 2016	-	(1,124)	(1,124)
Net book value as of 31 December 2016	6,529	3,667	10,196

Depreciation expenses amounting to TRY 95 (2015: TRY 95) are included in marketing expenses.

	<u>Lands</u>	<u>Buildings</u>	<u>Total</u>
Cost Value			
Opening balance at 1 January 2015	2,775	8,811	11,586
Additions	-	-	-
Closing balance at 31 December 2015	2,775	8,811	11,586
Accumulated Depreciation			
Opening balance at 1 January 2015	-	(840)	(840)
Charge for the year	-	(189)	(189)
Closing balance at 31 December 2015	-	(1,029)	(1,029)
Net book value as of 31 December 2015	2,775	7,782	10,557

The property rental income earned by the Company from its investment property, all of which is leased out under operating leases, amounted to TRY 450 (2015: TRY 480). Direct operating expenses arising on the investment property in the period include maintenance and repair costs which amounted to TRY 717 (2015: TRY 353). Operating expenses which do not belong to Teknosa store are distributed to lessees.

Explanations for revaluation of land and building in investment property and property, plant and equipment are made in Note 11. There has been no change to the valuation technique during the year. Depreciation expenses are included in general administrative expenses (2015: General administrative expenses).

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NOTE 11 – PROPERTY, PLANT AND EQUIPMENTS

The movement of tangible assets and related accumulated depreciation as of 31 December 2016 is as below:

Cost value	Land	Building	Machinery and equipments	Vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
Opening balance at 1 January 2016	3,444	6,323	359	66	85,363	123,722	3,011	222,288
Additions	-	-	-	-	4,299	8,370	11,534	24,203
Disposals	-	-	(20)	(9)	(12,122)	(38,939)	-	(51,090)
Revaluation fund (*)	23,061	-	-	-	-	-	-	23,061
Transfers from construction in progress (**)	-	-	-	-	5,997	4,691	(14,204)	(3,516)
Closing balance at 31 December 2016	26,505	6,323	339	57	83,537	97,844	341	214,946
Accumulated depreciation and impairment losses	-	(810)	(265)	(38)	(55,926)	(66,489)	-	(123,528)
Opening balance at 1 January 2016	-	(79)	(40)	(8)	(10,392)	(13,364)	-	(23,883)
Current charge	-	-	20	7	9,967	23,352	-	33,346
Disposals	-	-	-	-	-	-	-	(2,890)
Provision for impairment (*) (Provision for) / reversal of impairment, net (***)	-	-	-	-	(342)	1,095	-	753
Closing balance at 31 December 2016	-	(3,779)	(285)	(39)	(56,693)	(55,406)	-	(116,202)
Net book value at 31 December 2016	26,505	2,544	54	18	26,844	42,438	341	98,744

(*) The Company's freehold land and building are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Company's freehold land and building as at 18 May 2016 were performed by Taşınmaz Değerleme Müşavirlik A.Ş. ("Tadem"), independent valuers not related to the Company. Tadem has been authorized by and a member of CMB, and they have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations. The fair value of the freehold land was determined based on the market comparable approach that reflects recent transaction prices for similar properties. Gains on revaluation of land used by the Company amounting TRY 23,061 has been accounted under gains on revaluation and remeasurement account under equity whereas loss from revaluation of building used by the Company amounting TRY 2,890 has been accounted under statement of profit or loss. Revaluation gain and loss for investment property part of the relevant land and building amounting TRY 3,754 and TRY 4,020 respectively has been accounted under retained earnings (Note 2.2). Fair value of the related land and building is level 2.

(**) The additions amounting to TRY 3,516 related to intangible assets as of 31 December 2016.

(***) Impairment calculated for tangible assets is TRY 1,722 as of 31 December 2016. Reversal of impairment amount in the period is TRY 2,475.

Depreciation expenses amounting to TRY 22,594 (2015: TRY 25,511) are included in marketing expenses and TRY 1,289 (2015: TRY 1,953) are included in general administrative expenses.

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENTS (Continued)

The movement of tangible assets and related accumulated depreciation as of 31 December 2015 is as below:

Cost value	Land	Building	Machinery and equipments	Vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
Opening balance at 1 January 2015	3,444	6,321	443	98	82,521	120,897	10,022	223,746
Additions	-	2	-	-	4,412	7,065	25,913	37,392
Disposals	-	-	(84)	(32)	(5,013)	(8,943)	-	(14,072)
Provision for impairment (*)	-	-	-	-	-	-	(19,067)	(19,067)
Transfers from construction in progress (**)	-	-	-	-	3,443	4,703	(13,857)	(5,711)
Closing balance at 31 December 2015	3,444	6,323	359	66	85,363	123,722	3,011	222,288
Accumulated depreciation and impairment losses								
Opening balance at 1 January 2015	-	(697)	(308)	(61)	(48,734)	(55,685)	-	(105,485)
Current charge	-	(113)	(41)	(9)	(11,023)	(16,278)	-	(27,464)
Disposals	-	-	84	32	3,870	4,994	-	8,980
(Provision for) / reversal of impairment, net (*)	-	-	-	-	(39)	480	-	441
Closing balance at 31 December 2015	-	(810)	(265)	(38)	(55,926)	(66,489)	-	(123,528)
Net book value at 31 December 2015	3,444	5,513	94	28	29,437	57,233	3,011	98,760

(*) Impairment calculated for tangible assets is TRY 22,430 as of 31 December 2015. Reversal of impairment amount in the period is TRY 3,804.

(**) The additions amounting to TRY 5,711 relate to intangible assets as of 31 December 2015.

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NOTE 12 – INTANGIBLE ASSETS

<u>Cost Value</u>	<u>Licenses and Rights</u>	<u>Computer Softwares</u>	<u>Total</u>
Opening balance at 1 January 2016	6,789	60,298	67,087
Additions	330	9,539	9,869
Disposals	(2,752)	(137)	(2,889)
Transfers from construction in progress	319	3,197	3,516
Closing balance at 31 December 2016	<u>4,686</u>	<u>72,897</u>	<u>77,583</u>
<u>Accumulated Amortization</u>			
Opening balance at 1 January 2016	(2,735)	(42,495)	(45,230)
Charge for the year	(140)	(12,813)	(12,953)
Disposals	2,702	152	2,854
(Provision for)/ reversal of impairment	47	(14)	33
Closing balance at 31 December 2016	<u>(126)</u>	<u>(55,170)</u>	<u>(55,296)</u>
Net book value as of 31 December 2016	<u>4,560</u>	<u>17,727</u>	<u>22,287</u>

<u>Cost Value</u>	<u>Licenses and Rights</u>	<u>Computer Softwares</u>	<u>Total</u>
Opening balance at 1 January 2015	6,516	44,397	50,913
Additions	216	10,247	10,463
Transfers from construction in progress	57	5,654	5,711
Closing balance at 31 December 2015	<u>6,789</u>	<u>60,298</u>	<u>67,087</u>
<u>Accumulated Amortization</u>			
Opening balance at 1 January 2015	(1,438)	(22,310)	(23,748)
Charge for the year	(880)	(13,129)	(14,009)
Provision for impairment	(417)	(7,056)	(7,473)
Closing balance at 31 December 2015	<u>(2,735)</u>	<u>(42,495)</u>	<u>(45,230)</u>
Net book value as of 31 December 2015	<u>4,054</u>	<u>17,803</u>	<u>21,857</u>

Amortization expenses amounting to TRY 739 (2015: TRY 1,526) are included in marketing expenses and TRY 12,214 (2015: TRY 12,483) are included in general administrative expenses.

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NOTE 13 – PAYABLES RELATED TO EMPLOYEE BENEFITS

The details of the due to employees as of 31 December 2016 and 2015 are presented below:

	31 December 2016	31 December 2015
Social security premiums payable	7,167	8,818
Accrued salaries	6,295	78
	<u>13,462</u>	<u>8,896</u>

The details of the provisions related to employee benefits as of 31 December 2016 and 2015 are presented below:

	31 December 2016	31 December 2015
<i>Short-term provisions</i>		
Sales personnel premium provision	3,310	3,733
Unused vacation provision	2,268	2,391
Other premium provision	1,818	402
Restructuring provisions (*)	149	11,104
	<u>7,545</u>	<u>17,630</u>

(*) The Board of Directors of the Company has performed a general evaluation of the operations in December 2015 and resolved to authorize the Company management to assess the organizational structure of the headquarter, warehouses and stores in light of the expected macroeconomic indicators and the Company's strategic and commercial targets. In this direction, the Company resolved to switch its usual organizational structure to a more efficient central supporting office and saving expenditures related to central office, center of logistics and stores, and assessing the strategy of Kliksa A.Ş. which was the 100% subsidiary of the Company in the previous periods for the aim of improving its financial performance. The Company provided provision for anticipated expenses in financial statements as of 31 December 2015 and reversed realized portions in 2016.

	31 December 2016	31 December 2015
<i>Long-term provisions</i>		
Retirement pay provision	4,533	4,087
Other premium provision	58	219
	<u>4,591</u>	<u>4,306</u>

Retirement pay provision:

Under Turkish Labor Law, the Company is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated without due cause, is called up for military service, dies or achieves the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of TRY 4,297.21 (2015: TRY 3,828.37) for each period of service at 31 December 2016.

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NOTE 13 – PAYABLES RELATED TO EMPLOYEE BENEFITS (Continued)

Retirement pay provision (cont'd):

Retirement pay liability is not subject to any kind of funding legally. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. TAS 19 "Employee Benefits" 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.

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2016, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated with the assumption of 3.76% real discount rate (31 December 2015: 3,68%) calculated by using 6.50% annual inflation rate and 10.50% interest rate. Estimated rates of voluntary leaves for sales personnel and administrative personnel are taken into consideration as 21.33% and 11.82%, respectively (31 December 2015: 27.92% and 17.59%), and 0% for employees working for 16 years and over. Ceiling for retirement pay is revised semi-annually. Ceiling amount of TRY 4,426.16 which is effective since 1 January 2017 is used in the calculation of Company's provision for retirement pay liability.

Probability has been determined as 100% for employees whose insurance register began before September 1999 (221 personnel) and the provision has been calculated accordingly. Total actuarial gain has been determined as TRY 258 and recognized directly in equity.

The movement termination pay provision as of 31 December 2016 and 2015 is as below:

	31 December 2016	31 December 2015
Provision at 1 January	4,087	2,062
Service cost	5,562	4,365
Interest cost	154	75
Actuarial (gain) / loss	(258)	1,892
Termination benefits paid	(5,012)	(4,307)
	<u>4,533</u>	<u>4,087</u>

The main factors during the calculation of termination pay provision are discount rates and employee turnover rates.

If the discount rate had been 1% higher (lower), provision for employee termination benefits would decrease by TRY 514 or (increase) by TRY 614.

If the anticipated turnover rate had been 5% lower (higher) while all other variables were held constant, provision for employee termination benefits would increase by TRY 623 or (decrease) by TRY 314.

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NOTE 14 – PROVISIONS

The details of the other current provisions as of 31 December 2016 and 2015 are presented below:

	31 December 2016	31 December 2015
Rent rescission provisions (*)	12,071	-
Competition Board penalty provision (Note 15)	13,517	-
Litigation provisions (**)	9,152	1,520
Supplier confirmation provisions (***)	6,100	-
Other	26	868
	<u>40,866</u>	<u>2,388</u>

(*) Rent rescission provisions are composed of penalty provisions which are related to closed stores before rental contracts' due dates required to pay to lessors.

(**) Litigation provisions are composed of consumer and employment lawsuits filed against the Company.

(***) Supplier confirmation provisions are mainly composed of provisions for unconfirmed invoices between suppliers and the Company.

The movement of provisions except for competition board penalty and other provisions for the period ended 31 December 2016 are as follows:

	31 December 2015	1 January - 31 December 2016 additional provisions	1 January - 31 December 2016 paid/reversed provisions	31 December 2016
Rent rescission provisions	-	28,988	(16,917)	12,071
Litigation provisions	1,520	17,578	(9,427)	9,152
<i>Reemployment lawsuits</i>	519	12,294	(8,426)	3,868
<i>Consumer lawsuits</i>	1,001	1,984	(1,001)	1,984
<i>Rent lawsuits provisions</i>	-	3,300	-	3,300
Supplier confirmation provisions	-	14,000	(7,900)	6,100
	<u>1,520</u>	<u>60,566</u>	<u>(34,244)</u>	<u>27,323</u>

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NOTE 15 – COMMITMENTS

Operating lease agreements

The Company leases various retail spaces as sales area, offices and warehouses by entering into operating lease agreements. These periods of the rent agreements vary between 1-10 years. The lease agreements require the payment of a certain monthly rent or a portion of the revenue of the leasehold store. The lease agreements are basically drawn up in TRY, Euro and USD and the rentals are increased by using the rentals are increased by using the inflation rate or a rate close to the inflation rate during the period of the agreement. According to the present code of obligations, as long as the lessee does not terminate the agreement lease agreements can only be cancelled by the lessor due to irregularities.

The minimum lease payments related tons on cancellable operating leases are as follows:

	31 December 2016	31 December 2015
Less than 1 year	145,871	67,272
Between 1-5 years	428,893	678,737
More than 5 years	124,535	131,730
	<u>699,299</u>	<u>877,739</u>

Custom duty and penalty

Some of the previous years' air conditioner imports of the company are being investigated by Customs Consultancy Inspector within two different investigations as of 31 December 2016. As a result of these investigations, the Custom Consultancy Inspectors identifications caused 135 lawsuits amounting to TRY 9,045 as a result of tax operations penalties. Regarding this, 24 lawsuits with the total amount of TRY 2,527 are still under judgment. Based on a subject related to Restructuring of Some of Receivables which is declared on official gazette numbered 29806 on 19 August 2016, the Company applied to Custom Office to benefit from this subject. As of 8 October 2016, new order of payment issued, regarding to order of payment, TRY 3,297 is paid on 28 November 2016 and cases resulted in waiver due to settlement. The Company Management has reversed receivables paid in previous periods amounting TRY 5,157 which arises as a result of the opinions of the legal counsels and customs experts and based on the fact that there are previous lawsuits finalized in favor of the Company and accounted under other expenses from operating activities.

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NOTE 15 – COMMITMENTS (Continued)

Operating lease agreements (cont'd)

Competition Board Investigation

The Competition Board resolved to commence a prosecution by the resolution no. 15-08/108 dated 19 February 2015 against the Company and other companies mentioned in the resolution requesting their statement in order to predict if the Law no. 4054 is violated or not. By the resolution no. 15-28/319-M dated 7 July 2015 of the inquiry has been extended as consumer electronics and has been with former investigation. All of defense statements for this investigation has been mentioned. Verbal self-defense was also completed on 25 October 2016. Announcement of conclusion for investigation is anticipated to be made in the month of November 2016. Likewise, by the resolution no. 15-28/319-M dated 7 July 2015 Kliksa İç ve Dış Ticaret A.Ş. which was the 100% subsidiary of the Company in the previous periods has been included to the investigation and mentioned their statement identically. Verbal self-defense was also completed on 25 October 2016. As of 11 November 2016, the final decision of the Competition Board was published on the official web site of the Board for two investigation files. In accordance with the decision, Teknosa and Kliksa are judged to total TRY 18,026 penalty fine. In accordance with the resolution, Teknosa and Kliksa have been fined with a total TRY 18,026 penalty. The resolution has not been communicated, whereas upon the notification, the Company will appeal to administrative court and also make payment within 30 days from the date of notification in order to pay 3/4 of the penalty in accordance with the Law of Misdemeanor Article 17/6. Regarding the 3/4 of the penalty, provision has been booked amounting to TRY 13,517 in Other Expenses from Operating Activities.

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NOTE 15 – COMMITMENTS (Continued)

Collateral, pledge, mortgage position

Collaterals, pledges and mortgages (“CPM”) given by the Company as of 31 December 2016 and 2015 is as follows:

CPMs given by the Group	31 December 2016			
	TRY equivalent	USD	Euro	TRY
A. GPM given on behalf of its own legal entity				
-Guarantee	63,205	8,022	5,117	15,990
-Pledge	-	-	-	-
-Mortgage	-	-	-	-
	<u>63,205</u>	<u>8,022</u>	<u>5,117</u>	<u>15,990</u>
B. GPM given on behalf of subsidiaries that are included in full consolidation				
-Guarantee	-	-	-	-
-Pledge	-	-	-	-
-Mortgage	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
C. GPM given in order to guarantee third parties' debt for routine trade operations	-	-	-	-
D. Total amount of other GPM given	-	-	-	-
Total	<u>63,205</u>	<u>8,022</u>	<u>5,117</u>	<u>15,990</u>
	31 December 2015			
	TRY equivalent	USD	Euro	TRY
A. GPM given on behalf of its own legal entity				
-Guarantee	54,601	7,717	5,059	16,088
-Pledge	-	-	-	-
-Mortgage	-	-	-	-
	<u>54,601</u>	<u>7,717</u>	<u>5,059</u>	<u>16,088</u>
B. GPM given on behalf of subsidiaries that are included in full consolidation				
-Guarantee	-	-	-	-
-Pledge	-	-	-	-
-Mortgage	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
C. GPM given in order to guarantee third parties' debt for routine trade operations	-	-	-	-
D. Total amount of other GPM given	-	-	-	-
Total	<u>54,601</u>	<u>7,717</u>	<u>5,059</u>	<u>16,088</u>

The proportion of the CPM given on behalf of third parties except for the CPM given in the name of the Company's own legal personality to total equity as of 31 December 2016 is 0% (31 December 2015: 0%).

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NOTE 16 – OTHER CURRENT ASSETS AND LIABILITIES

The details of the other current and non-current assets as of 31 December 2016 and 2015 are presented below:

	31 December 2016	31 December 2015
<i><u>Other current assets</u></i>		
Advances given	3,251	2,121
Other current assets	139	91
	<u>3,390</u>	<u>2,212</u>
	31 December 2016	31 December 2015
<i><u>Other non-current assets</u></i>		
Deferred VAT	-	13,746
Income accrual (Note 15)	-	5,157
	<u>-</u>	<u>18,903</u>

The details of the other current liabilities as of 31 December 2015 and 2014 are presented below:

	31 December 2016	31 December 2015
<i><u>Other current liabilities</u></i>		
VAT payable	18,222	20,519
Other expense accruals (*)	8,539	3,113
Other liabilities and obligations	452	873
	<u>27,213</u>	<u>24,505</u>

(*) Other expense accruals consist of irrecoverable voucher cheques which were given and used under Teknosamobil subscription, Kliksa expense accruals and provisions for other miscellaneous expenses.

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NOTE 17 – EQUITY

The Company's approved and issued share capital consists of registered nominal value of TRY 0.10 with 11,000,000,000 outstanding.

The details of the share capital of 31 December 2016 and 2015 are presented below:

Shareholders:	%	31 December		31 December	
		2016	%	2015	
Hacı Ömer Sabancı Holding A.Ş.	60.28	66,311	60.28	66,311	
Sabancı Family	28.06	30,864	28.06	30,864	
Publicly traded on Borsa İstanbul	11.66	12,825	11.66	12,825	
Nominal capital	100.0	110,000	100.0	110,000	
Adjustments to nominal capital		6,628		6,628	
Adjusted capital		116,628		116,628	

Restricted Reserves Appropriated from Profit

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company (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 only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

Legal reserves as mentioned above shall be classified as "Restricted Reserves Appropriated from Profit" according to Capital Markets Board financial reporting standards. The details of legal reserves are stated below as of 31 December 2016 and 2015:

	31 December	31 December
	2016	2015
Legal reserves	8,704	8,704
	8,704	8,704

Profit Distribution

Public companies distribute profit in accordance with Profit Share Communiqué no II-19.1 issued by CMB effective from 1 February 2014.

Companies distribute their profit due to profit distribution policies set by the general assembly in accordance with the related legislation verdicts with a general assembly minute. Within the extent of the communiqué mentioned above a minimal distribution rate is not designated. Companies distribute their profits in accordance with their main agreements of profit distribution policies.

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NOTE 18 – REVENUE

The details sales and cost of sales as of 31 December 2016 and 2015 are stated below:

	1 January – 31 December 2016	1 January – 31 December 2015
<u>Sales income (net)</u>		
Consumer electronics retail sales	2,903,864	3,082,730
Sales of air conditioner, cash registers and white goods	170,223	122,457
	<u>3,074,087</u>	<u>3,205,187</u>
<u>Cost of sales</u>		
Cost of goods sold	(2,562,289)	(2,608,028)
Installation and warranty expenses	(10,849)	(7,825)
	<u>(2,573,138)</u>	<u>(2,615,853)</u>

NOTE 19 – MARKETING AND ADMINISTRATIVE EXPENSES

The details of marketing and administrative expenses as of 31 December 2016 and 2015 are stated below:

	1 January – 31 December 2016	1 January – 31 December 2015
<u>Marketing expenses</u>		
Rent expenses	(164,012)	(164,842)
Personnel expenses	(148,280)	(148,155)
Advertising and promotion expenses	(55,086)	(83,959)
Transportation expenses	(23,147)	(28,788)
Depreciation and amortization expenses	(23,139)	(26,065)
Energy, fuel and water expenses	(13,456)	(15,107)
Consulting expenses	(7,364)	(8,349)
Maintenance expenses	(8,377)	(8,099)
Communication expenses	(1,104)	(1,288)
Travel expenses	(1,270)	(1,529)
Other expenses	(11,857)	(13,565)
	<u>(457,092)</u>	<u>(499,746)</u>

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NOTE 19 – MARKETING AND ADMINISTRATIVE EXPENSES (Continued)

The details of administrative expenses as of 31 December 2016 and 2015 are stated below:

	1 January – 31 December 2016	1 January – 31 December 2015
<i>Administrative expenses</i>		
Personnel expenses	(13,455)	(16,657)
Depreciation and amortization expenses	(13,792)	(15,597)
IT expenses	(9,804)	(7,288)
Rent expenses	(3,414)	(6,104)
Consulting expenses	(3,414)	(4,448)
Allowance for doubtful receivable expense	(1,059)	(3,652)
Travel expenses	(443)	(458)
Energy, fuel and water expenses	(493)	(494)
Maintenance expenses	(454)	(439)
Other expenses	(1,884)	(2,129)
	<u>(48,212)</u>	<u>(57,266)</u>

NOTE 20 – OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

The details of other income from operating activities as of 31 December 2016 and 2015 are stated below:

	1 January – 31 December 2016	1 January – 31 December 2015
<i>Other income from operating activities</i>		
Foreign exchange gains	9,081	5,963
Discount income	6,096	6,087
Gains from unused gift vouchers	1,588	679
Deductions from personnel	821	759
Gains from releasing from stores and subleasings	447	480
Commissions income	75	3,986
Other income	1,960	1,498
	<u>20,068</u>	<u>19,452</u>

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**NOTE 20 – OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES
(Continued)**

The details of other expenses from operating activities as of 31 December 2016 and 2015 are stated below:

	1 January – 31 December 2016	1 January – 31 December 2015
<i>Other expenses from operating activities (-)</i>		
Discount expenses	(38,449)	(43,348)
Early termination rent penalties	(21,965)	-
Loss from dispose of fixed assets	(16,288)	(3,268)
Competition Board penalty (Note 14,15)	(13,517)	-
Reorganization expenses	(11,454)	(10,876)
Foreign exchange losses	(9,355)	(5,444)
Custom litigation expenses and provisions (*)	(8,453)	-
Litigation expenses	(7,786)	(3,239)
Supplier confirmation provision expenses (Note 14)	(6,100)	-
Rent litigation expenses (Note 14)	(3,300)	-
Impairment expense in fair value of fixed assets (Note 11)	(2,890)	(26,540)
Indemnity and penalty expenses	(875)	-
Other expenses	(2,624)	(4,463)
	<u>(143,056)</u>	<u>(97,178)</u>

(*) TRY 5,157 of custom litigation provision and expenses is composed of receivable reversal and TRY 3,297 of is composed of provision which is going to be paid on the purpose of utilization from tax amnesty.

NOTE 21 – INCOME FROM INVESTING ACTIVITIES

The details of income from investing activities as of 31 December 2016 and 2015 are stated below:

	1 January – 31 December 2016	1 January – 31 December 2015
Interest income	1,072	3,879
	<u>1,072</u>	<u>3,879</u>

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NOTE 22 – FINANCIAL EXPENSES

The details of financial expenses as of 31 December 2016 and 2015 are stated below:

	1 January – 31 December 2016	1 January – 31 December 2015
Credit card discount expenses	(36,285)	(38,022)
Credit card commission expenses	(12,049)	(11,694)
Interest and commission expenses	(17,748)	(7,410)
Credit card promotion expenses	(63)	(3,650)
Guarantee letters commission expenses	(451)	(244)
Other finance expenses	(53)	(219)
	<u>(66,649)</u>	<u>(61,239)</u>

NOTE 23 – INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

<i>Tax provision</i>	31 December 2016	31 December 2015
Current corporate tax expense	-	-
Deferred tax income	32,307	8,191
	<u>32,307</u>	<u>8,191</u>

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**NOTE 23 – INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)
(Continued)**

Corporate Tax

The Company is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Company's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a tax return. Therefore, provisions for taxes, as reflected in the accompanying financial statements, have been calculated on a separate-entity basis.

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

The effective tax rate in 2016 is 20% (2015: 20%) for the Company.

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

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Deferred Tax:

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for TAS purposes and its statutory tax financial statements.

These differences usually result in the recognition of revenue and expenses in different reporting periods for TAS and tax purposes and they are given below.

For calculation of deferred tax asset and liabilities, the rate of 20% (2015: 20%) is used.

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NOTE 23 – INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)
(Continued)

Deferred Tax (Continued)

<i>Deferred tax assets / (liabilities)</i>	31 December 2016	31 December 2015
Reversal of income accruals arising from additional guarantees	4,424	8,788
Tax losses carried forward	40,643	9,285
Kliksa's prior year expense accruals	4,182	-
Expense accruals	2,019	1,944
Inventories	4,632	4,822
Provision for restructuring expense	-	6,730
Provision for confirmation differences	1,220	-
Provision for employment termination benefits	906	812
Provision for unused vacations	454	478
Provision for litigations	1,830	304
Discount expenses	97	33
Provision for rent rescission expenses	3,074	-
Restatement and depreciation / amortization differences of property, plant and equipment and other intangible assets	(6,625)	(6,795)
Income accruals	(783)	(1,073)
Discount income	(632)	(1,082)
Derivative financial instruments	-	(72)
Rescission expenses	618	-
Other	302	396
	<u>56,361</u>	<u>24,570</u>

The details of deferred tax asset movement table as of 31 December 2016 and 2015 are stated below:

<i>Deferred tax asset movement</i>	1 January – 31 December 2016	1 January – 31 December 2015
Opening balance at 1 January	24,570	16,072
Charged to equity	(1,133)	307
Equity effect of changes in accounting policies (Note 2.2)	617	-
Deferred tax income	32,307	8,191
Closing balance at 31 December	<u>56,361</u>	<u>24,570</u>

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**NOTE 23 – INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)
(Continued)***Deferred Tax (Continued):*

At the balance sheet date, the Company has unused tax losses of TRY 203,213 (2015: TRY 46,425) available for offset against future profits. A deferred tax asset has been recognized in respect of TRY 40,643 (2015: TRY 9,285) of such losses.

Expiration schedule of carried forward tax losses is as follows:

	31 December 2016	31 December 2015
Expiring in 2019	6,310	6,310
Expiring in 2020	40,115	40,115
Expiring in 2021	156,788	-
	<u>203,213</u>	<u>46,425</u>

Total charge for the year can be reconciled to the accounting profit as follows:

	1 January – 31 December 2016	1 January – 31 December 2015
(Loss) / profit from continuing operations before tax	(192,920)	(102,764)
Effective tax rate	%20	%20
Calculated tax	38,584	20,553
Tax effects of:		
- non-deductible expenses	(5,329)	(1,335)
- unused tax losses and provisions not subject to deferred tax	-	(9,760)
- reversal of deferred tax for impairment of S.C Primex S.A. affiliate	-	(1,115)
- other	(948)	(152)
Tax income / (expense) recognised in the statement of profit or loss	<u>32,307</u>	<u>8,191</u>

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NOTE 24 – EARNINGS / LOSS PER SHARE

There were no dilutive equity instruments outstanding, that would require the calculation of separate diluted earnings per share. The calculation of basic earnings per share attributable to ordinary equity holders of the parent is as follows:

Earning / (loss) per share	1 January –	1 January –
	31 December	31 December
	2016	2015
Weighted average number of ordinary shares outstanding during the period (in full)	11,000,000,000	11,000,000,000
Net (loss) / profit for the year attributable to owners of the company/Group	(160,613)	(94,573)
Basic (loss) / earnings per share from continuing operations -thousands of ordinary shares (TRY)	(0.0146)	(0.0086)

NOTE 25 – 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 estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company 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

The fair values of balances denominated in foreign currencies, which are translated at year-end exchange rates, are considered to approximate carrying value.

The fair values of certain financial assets carried at cost, including cash and amounts due from banks are considered to approximate their respective carrying values due to their short-term nature.

The carrying value of trade receivables along with the related allowances for uncollectibility is estimated to be their fair values.

Monetary liabilities

The fair values of short-term monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

Long-term borrowings, which are principally at variable rates and denominated in foreign currencies, are translated at period-end exchange rates and accordingly their carrying amounts approximate their fair values.

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NOTE 25 – FINANCIAL INSTRUMENTS (Continued)

Fair value estimation

The classification of the Company's financial assets and liabilities at fair value is as follows:

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

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

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

As of 31 December 2016, the Company does not have any private sector bonds which are quoted in "interbank bond market" (2015: None). Such financial assets which are carried at their fair value are deemed as Level 1 financial instruments as result of the quotation to "interbank bond market".

NOTE 26 – DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Foreign currency forward contracts	-	-	360	-
Short-term	-	-	360	-
Long-term	-	-	-	-
	-	-	360	-

The Company did not utilize foreign currency forward contracts. (31 December 2015: The Company utilized foreign currency forward contracts with the maturities as of 2015 in order to manage its risk on exchange rates differences for the twelve months following balance sheet date). At the end of the reporting period, the total notional amount of outstanding forward foreign exchange contracts to which the Company is committed are as follows:

	31 December	31 Aralık
	2016	2015
Foreign currency forward contracts	-	149,643
	-	149,643

As of 31 December 2016, the Company has no foreign currency forward contracts. (31 December 2015: Company the fair value of the Company's foreign currency forward contracts is estimated to be approximately TRY 360 These amounts are based on quoted market prices for equivalent instruments at the balance sheet date. The fair value of the foreign currency forward contracts that are designated and effective as cash flow hedges amounting to TRY 360 has been accounted for under equity).

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NOTE 27 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

a) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total payables (including borrowings, trade payables, due to related parties and advances received, as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

b) Financial risk management

Credit risk

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. Significant part of trade receivables comprise credit card receivables and the Company has is not exposed to credit risk concerning credit card receivables. The Company collects the instalments of its credit card sales according to the mutually agreed discount rates with the banks and financial institutions on the next day when the sale made within the scope of the credit card sales contracts made under the various banks and financial institutions. Other trade receivables, cheques and notes are due from dealer sales of air-conditioning, cash register and white goods. The Company has set up an effective control system on the dealers that are followed by credit risk management and each debtors have their own credit limit. The Company consider the past experience and collateral from dealers (Note 6).

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NOTE 27 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

b.1) Credit risk management

The table which reflects the Company's credit risk regarding the financial instruments as of 31 December 2016 is as follows:

31 December 2016	Receivables			Deposits at banks
	Related Party	Other	Trade Receivables	
The maximum credit risk exposure as of reporting date (*)	1,701	54,748	136,018	136,018
- Collateralised part of maximum credit risk (**)	-	16,985	-	-
A. Net carrying value of neither overdue nor impaired financial assets	1,701	45,457	136,018	136,018
B. Net carrying value of overdue but not impaired assets	-	4,417	-	-
C. Net carrying value of impaired assets	-	4,874	-	-
- Overdue (gross carrying value)	-	(4,874)	-	-
- Provision for impairment (-)	-	-	-	-
- Amount of risk covered by guarantees	-	-	-	-
- Undue (gross carrying value)	-	-	-	-
- Provision for impairment (-)	-	-	-	-
- Amount of risk covered by guarantees	-	-	-	-
D. Off balance sheet risk items	-	-	-	-

(*) The factors that increase the credit reliability, such as guarantees received are not considered in the determination of the balance.

(**) Guarantees consist of guarantee letters, guarantee notes and mortgages obtained from the customers.

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NOTE 27 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

b.1) Credit risk management (continued)

The table which reflects the Company's credit risk regarding the financial instruments as of 31 December 2015 is as follows:

31 December 2015	Receivables			Deposits at banks
	Related Party	Other	Trade Receivables	
The maximum credit risk exposure as of reporting date (*)	2,008	49,195		290,264
- Collateralised part of maximum credit risk (**)	-	12,698		-
A. Net carrying value of neither overdue nor impaired financial assets	2,008	38,831		290,264
B. Net carrying value of overdue but not impaired assets	-	4,497		-
C. Net carrying value of impaired assets				
- Overdue (gross carrying value)	-	5,867		-
- Provision for impairment (-)	-	(5,867)		-
- Amount of risk covered by guarantees	-	-		-
- Undue (gross carrying value)	-	-		-
- Provision for impairment (-)	-	-		-
- Amount of risk covered by guarantees	-	-		-
D. Off balance sheet risk items	-	-		-

(*) The factors that increase the credit reliability, such as guarantees received are not considered in the determination of the balance.

(**) Guarantees consist of guarantee letters, guarantee notes and mortgages obtained from the customers.

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**NOTE 27 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS
(Continued)**

b.1) Credit risk management (continued)

Explanations on the credit quality of financial assets

As of 31 December 2016 and 2015, banks which contain cash and cash equivalents that are included in the neither overdue nor impaired financial assets have mostly high credit ratings, whereas the counterparties included in trade receivables in the same category are customers / related parties with whom the Company has been in relation for a long time and did not have any significant collection problems.

Aging of receivables that are past due but not impaired are as follows:

	Trade Receivables	
	31 December 2016	31 December 2015
1-30 days overdue	2,362	-
1-3 months overdue	1,256	3,500
3-12 months overdue	799	997
1-5 years overdue	-	-
More than 5 years overdue	-	-
Total overdue receivables	<u>4,417</u>	<u>4,497</u>
Amount of risk covered by guarantees	<u>1,540</u>	<u>1,441</u>

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NOTE 27 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

b.2) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business the Company aims at maintaining flexibility in funding by keeping committed credit lines available. The Company management monitors the Company's liquidity reserve movements according to their projected cash flows.

The Company management holds adequate cash, credit commitment and credit card receivables that will meet the need for cash for recent future in order to manage its liquidity risk. In this context, the Company has credit commitment agreements (monetary and non-monetary) from banks amounting to TRY 1,977,665 that the Company can utilize whenever needed as of 31 December 2016 (2015: TRY 1,613,789).

The table below shows the Company's liquidity risk arising from financial liabilities:

31 December 2016

<u>Contractual maturities</u>	Carrying value	Contractual cash flows (I+II+III)	Less than		
			3 months (I)	3 months to 1 year (II)	1 - 5 years (III)
Non-derivative financial liabilities					
Trade payables	712,323	715,465	715,465	-	-
<i>Related party</i>	4,201	4,201	4,201	-	-
<i>Third party</i>	708,122	711,264	711,264	-	-
Other payables	1,198	1,198	1,198	-	-
<i>Other</i>	1,198	1,198	1,198	-	-
Total liabilities	713,521	716,663	716,663	-	-

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NOTE 27 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

b.2) Liquidity risk (continued)

31 December 2015

<u>Contractual maturities</u>	Carrying value	Contractual cash flows (I+II+III)	Less than 3 months (I)	3 months to 1 year (II)	1 - 5 years (III)
Non-derivative financial liabilities					
Trade payables	870,728	876,595	876,595	-	-
<i>Related party</i>	4,332	4,332	4,332	-	-
<i>Third party</i>	866,396	872,263	872,263	-	-
Other payables	1,014	1,014	1,014	-	-
<i>Other</i>	1,014	1,014	1,014	-	-
Total liabilities	871,742	877,609	877,609	-	-

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**NOTE 27 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS
(Continued)**

Foreign Currency Risk

The Company predominantly purchases from domestic vendors with TRY as well as it is exposed to the limited foreign exchange risk.

The risk is monitored in regular meetings held by the Board of Directors. The idle cash is evaluated in foreign exchange risk in order to minimize the foreign exchange risk resulted from balance sheet items. The Company also preserves itself from the foreign currency risk by the limited use of forwards, one of derivative instruments, if necessary.

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**NOTE 27 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS
(Continued)**

Foreign Currency Position	31 December 2016				
	Equivalents of TRY	USD	Euro	GBP	Other
1. Trade receivable	798	173	50	-	109
2a. Monetary financial assets	11	2	1	-	-
2b. Non monetary financial assets	-	-	-	-	-
3. Other	18	5	-	-	-
4. CURRENT ASSETS	827	180	51	-	109
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	-	-	-	-	1
8. NON CURRENT ASSETS	-	-	-	-	1
9. TOTAL ASSETS	827	180	51	-	110
10. Trade payables	5,700	1,040	550	-	-
11. Financial liabilities	-	-	-	-	-
12a. Other monetary liabilities	1,151	327	-	-	-
12b. Non monetary other liabilities	-	-	-	-	-
13. CURRENT LIABILITIES	6,851	1,367	550	-	-
14. Trade payables	-	-	-	-	-
15. Financial liabilities	-	-	-	-	-
16a. Monetary other liabilities	-	-	-	-	-
16b. Non monetary other liabilities	-	-	-	-	-
17. NON CURRENT LIABILITIES	-	-	-	-	-
18. TOTAL LIABILITIES	6,851	1,367	550	-	-
19. Net assets / liability position of off-balance derivative instruments (19a-19b)	-	-	-	-	-
19.a Derivative instrument amounts of off-balance items with asset qualifications per foreign currency	-	-	-	-	-
19b. Derivative instrument amounts of off-balance items with liability qualifications per foreign currency	-	-	-	-	-
20. Net foreign currency assets (liabilities) position (9-18)	(6,024)	(1,187)	(499)	-	110
21. Monetary items net foreign currency assets/(liabilities) position (1+2a+5+6a-10-11-12a-14-15-16a)	(6,042)	(1,187)	(499)	-	109
22. Total fair value of foreign currency hedge	-	-	-	-	-
23. The amount for the hedged portion foreign currency assets	-	-	-	-	-
24. The amount for the hedged portion of foreign currency liabilities	-	-	-	-	-

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**NOTE 27- NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS
(Continued)**

Foreign Currency Position	<u>31 December 2015</u>				
	Equivalents of TRY	USD	Euro	GBP	Other
1. Trade receivable	1,916	658	-	-	109
2a. Monetary financial assets	61	8	12	-	-
2b. Non monetary financial assets	-	-	-	-	-
3. Other	9	3	-	-	-
4. CURRENT ASSETS	1,986	669	12	-	109
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non monetary financial assets	-	-	-	-	-
7. Other	11	-	-	-	442
8. NON CURRENT ASSETS	11	-	-	-	442
9. TOTAL ASSETS	1,997	669	12	-	551
10. Trade payables	4,588	824	690	-	-
11. Financial liabilities	-	-	-	-	-
12a. Other monetary liabilities	986	339	-	-	-
12b. Non monetary other liabilities	-	-	-	-	-
13. CURRENT LIABILITIES	5,574	1,163	690	-	-
14. Trade payables	-	-	-	-	-
15. Financial liabilities	-	-	-	-	-
16a. Monetary other liabilities	-	-	-	-	-
16b. Non monetary other liabilities	-	-	-	-	-
17. NON CURRENT LIABILITIES	-	-	-	-	-
18. TOTAL LIABILITIES	5,574	1,163	690	-	-
19. Net assets / liability position of off-balance derivative instruments (19a-19b)	-	-	-	-	-
19.a Derivative instrument amounts of off-balance items with asset qualifications per foreign currency	-	-	-	-	-
19b. Derivative instrument amounts of off-balance items with liability qualifications per foreign currency	-	-	-	-	-
20. Net foreign currency assets (liabilities) position (9-18+19)	(3,577)	(494)	(678)	-	551
21. Monetary items net foreign currency assets/(liabilities) position (1+2a+5+6a-10-11-12a-14-15-16a)	(3,597)	(497)	(678)	-	109
22. Total fair value of foreign currency hedge	360	34	82	-	-
23. The amount for the hedged portion foreign currency assets	-	-	-	-	-
24. The amount for the hedged portion of foreign currency liabilities	-	-	-	-	-

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**NOTE 27 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS
(Continued)**

The table below presents the Company's sensitivity to a 10% deviation in foreign exchange rates of USD, EUR and other foreign currencies. These amounts have indicated the effect of the USD, EUR and other foreign currencies against TRY strengthened / weakened by 10%. During this analysis all other variables held constant.

Foreign Currency Sensitivity Table

31 December 2016

	Profit / Loss	
	Appreciation of foreign currencies	Depreciation of foreign currencies
In case 10% appreciation of USD against TRY		
1 - USD Dollars net assets/liabilities	(418)	418
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1 +2)	(418)	418
In case 10% appreciation of EUR against TRY		
4- EUR net assets/liabilities	(185)	185
5- Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	(185)	185
In case 10% appreciation of other currency against TRY		
7- Other currency net assets/liabilities	1	(1)
8- Amount hedged for other currency risk (-)	-	-
9 - Other currency assets net effect (7+8)	1	(1)
TOTAL (3 + 6 + 9)	(602)	602

Foreign Currency Sensitivity Table

31 December 2015

	Profit / Loss	
	Appreciation of foreign currencies	Depreciation of foreign currencies
In case 10% appreciation of USD against TRY		
1 - USD Dollars net assets/liabilities	(145)	145
2- Amount hedged for USD risk (-)	-	-
3- USD net effect (1 +2)	(145)	145
In case 10% appreciation of EUR against TRY		
4 - EUR net assets/liabilities	(215)	215
5 - Amount hedged for EUR risk (-)	-	-
6- EUR net effect (4+5)	(215)	215
In case 10% appreciation of other currency against TRY		
7- Other currency net assets/liabilities	(1)	1
8- Amount hedged for other currency risk (-)	-	-
9 - Other currency assets net effect (7+8)	(1)	1
TOTAL (3 + 6 + 9)	(361)	361

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NOTE 28 - FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING)

Categories of financial instruments and fair values

	Loans and receivables	Derivative financial instruments	Financial liabilities at amortized cost	Carrying value	Note
31 December 2016					
<u>Financial assets</u>					
Cash and cash equivalents	156,094	-	-	156,094	5
Trade receivables (including trade receivables from related parties)	56,449	-	-	56,449	6
Other receivables (including trade receivables from related parties)	556	-	-	556	7
<u>Financial liabilities</u>					
Trade payables (including trade payables to related parties)	-	-	712,323	712,323	6
Other payables (including trade payables to related parties)	-	-	1,198	1,198	7
31 December 2015					
<u>Financial assets</u>					
Cash and cash equivalents	305,285	-	-	305,285	5
Trade receivables (including trade receivables from related parties)	51,203	-	-	51,203	6
Other receivables (including trade receivables from related parties)	671	-	-	671	7
Derivative financial instruments	-	360	-	-	26
<u>Financial liabilities</u>					
Trade payables (including trade payables to related parties)	-	-	870,728	870,728	6
Other payables (including trade payables to related parties)	-	-	1,014	1,014	7

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NOTE 28 - FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING) (Continued)

Fair value estimation:

Financial instruments measured at fair value in the balance sheet reclassified as flows:

Level 1: Quoted prices in markets for assets and liabilities

Level 2: Direct or indirect observable inputs for the assets or liabilities other than quoted prices in market.

Level 3: Inputs for the assets and liabilities where observable market data cannot be determined.

Fair value hierarchy of financial assets and liabilities that are measured at fair value:

Some of the Company's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined.

Financial Assets / Financial Liabilities	Fair value as at		Fair value hierarchy	Valuation technique	Significant unobservable inputs	Relationship of unobservable inputs and fair value
	31 December 2016	31 December 2015				
Foreign currency forward contracts	-	360	Level 2	Discounted cash flow method: The future cash flows, predicted by forward foreign currency rate (observable forward foreign currency rates at reporting date) and the contracted rates, are discounted by a discount rate which indicates other parties credit risk.	-	-

NOTE 29 – EVENTS AFTER THE REPORTING PERIOD

The Company made store revision in İzmit between the balance sheet date and 13 February 2017. The related changes decreased the retail sales area of the Company by 262 meter squares.