TECHNOLOGY FOR EVERYONE ANYTIME ANYWHERE

TEKNOSA

ANNUAL REPORT 2017

Agenda of the 2017 Ordinary General Assembly

AGENDA OF THE 2017 ORDINARY GENERAL ASSEMBLY OF TEKNOSA İÇ VE DIŞ TIÇARET A.Ş. TO BE HELD ON 27 MARCH 2018

1. Opening and formation of Assembly Council
2. Reading and discussion of the Board of Directors' 2017 Annual Report
3. Reading of the 2017 Auditor Reports summaries
4. Reading, discussion and approval of the 2017 Financial Statements
5. Approval of new appointments to the Board of Directors (due to resignations during the reporting period)
6. Releasing the Board of Directors from liability for activities in 2017
7. Determination of the use of 2017 profits/losses
8. Election of Members of the Board of Directors and determination of duty terms.
9. Determination of salaries and daily allowances, as well as payments such as bonuses and premiums, for Members of the Board of Directors
10. Election of the Auditor of Financial Statements and Reports of the 2018 fiscal year, based on the Turkish Commercial Code Number 6102 and the Capital Markets Law Number.
11. Informing the General Assembly on the Company's donations and grants in 2017
12. Determination of an upper limit for donations in 2018
13. Granting permission to the Chairman and Members of the Board of Directors for activities to be performed under Articles 395 and 396 of the Turkish Commercial Code

Contents

We continue to add value to our sector as Turkey's leader in technology retailing.

We devise needs-based solutions by listening to our customers.

Through our digital initiatives we provide uninterrupted services in every sphere of life, anytime and anywhere.

THE PIONEER IN NEXT-GENERATION RETAIL TEKNOSA

As the leading next generation retail company in Turkey, Teknosa offers its customers technology products for the "most reasonable prices" and with the "best service quality" possible.

Since its establishment, Teknosa remains the leading technology retail company in Turkey with its large-scale presence, quality of service and innovative approach.

With 204 stores in 69 provinces across Turkey, along with teknosa.com and mobile platforms, Teknosa facilitates access to technology. The Company's shares have been traded on the Istanbul Stock Exchange (BİST) since 2012.

TL 3.4 Billion

Teknosa closed the year with TL 3.4 billion turnover.

69 Cities

Teknosa offers service in 69 cities.

110 thousand m²
Stores Area

204
Stores

2,570
Workers

THANKS TO ITS COMPETITIVE PRODUCTS AND APPLICATIONS, TEKNOSA PROVIDES WIDE-RANGING SERVICES RELATED TO TECHNOLOGY.

Teknosa in Brief

THE RIGHT ADDRESS FOR SEAMLESS SERVICE TEKNOSA

Established in 2000 under Hacı Ömer Sabancı Holding, Teknosa İç ve Dış Ticaret A.Ş. offers technology products to its customers at the most reasonable prices with best service quality.

Teknosa advances in its sector via utilizing the strength of its widespread penetration, superior service quality, reliability and product diversity, as well as its dynamic, innovative and entrepreneurial company structure. Teknosa undertakes its activities with a "Technology for Everyone" philosophy. The Company, as the pioneering retail organization, has adopted as its principle the shaping of the future hand in hand with its employees, stakeholders and customers, pursuing policies of quality and adding value.

The operations of Teknosa are evaluated under two groups: Retail / e-commerce and its dealer network. Our stores and online channels provide the retailing of consumer electronics, imaging, information technology, telecom products and household appliances. Through the subsidiary group İklimsa, Teknosa also has operations in the air conditioning sector.

As part of its omnichannel strategy, Teknosa delivers a range of innovative services and applications to provide customers with seamless services across all its channels and to strengthen its identity as a service provider beyond its products. Always aiming to add value to its customers' lives, Teknosa continues to further deepen its innovative initiatives.

A first in the sector, in 2015, Teknosa added mobile line and telecom services to its portfolio. The Company offered its customers the option to purchase the mobile devices of their choice via 24-month installment plans, which can be added to their **Teknosacell** invoices. In this manner, Teknosa – under suitable conditions – meets its customers' communication and technological product needs at one service point, in a single invoice.

Beyond product offerings, Teknosa also conducted a number of distinctive projects, strengthening its identity as a service provider.

Thanks to its diversified products, service quality and innovative enterprises, Teknosa has been Turkey's pioneering and leading technology retailing company from its establishment.

Teknosa continues as a pioneer in the sector, with its own special product brands. Through its **Preo** product family, Teknosa makes the newest technologies accessible to customers.

Teknosa provides customers with guidance on technology shopping and constantly improves its after-sales value-added services in line with new technologies and customer needs. Additional product warranties are granted to customers through **TeknoGaranti**. Under the umbrella of **Dr. Teknolog**, technological services from installation and technical support to protection are provided at stores, houses, offices and via hotlines.

With its new generation stores, the Company offers customers the opportunity to comfortably explore and experience the products they are interested in purchasing.

SECTOR DEVELOPMENTS, 2017 RESULTS

The Consumer Electronics Market comprises five sales channels: Chain Stores; Traditional Channel; Computer Shops; Telecom Specialists; and Technical Superstores (TSS). As per 2017 results, Technical Superstores (TSS) – a category in which Teknosa also operates – had an 18% share of the consumer electronics market.

According to the Technology Retail Panel Study conducted by independent research institute GFK, the total market size of the consumer electronics market – including Mass Domestic Appliances and Small Domestic Appliances – was TL 54 billion in 2017, a 16% increase compared to 2016.

A closer look at the details of different product categories reveals that the MDA segment, with 21%, is the fastest growing. This segment was followed by telecom with 19%, small domestic appliances and consumer electronics with 11%, and the IT category with 2.4%.

Teknosa's share in the TSS sales channel stood at 35% in 2017, a one-point increase compared to the previous year.

Throughout the year, Teknosa operated in line with a sustainable profitability strategy and, due to the growth achieved as part of its transformation, the Company completed the year with a total turnover of TL 3.4 billion and a net profit of TL 20 million. EBITDA reached TL 171 million in 2017.

Expectations for low double-digit growth in retail store sales figures (like-for-like), announced at the beginning of 2017, realized as 17%, and investment expectations of TL 25-30 million realized as TL 28 million. Teknosa.com exceeded expectation with the growth rate of 30% as opposed to the expected 20%. The total share of online sales was 6% of retail turnover.

Vision, Mission and Values, Quality and Complaint Management Policy

TEKNOSA FOR FUTURE

Vision: To act as the leading electronics retailer in the region through "innovative" and "distinctive" products and services.

Mission: To always generate the exceptional customer experience with its wide spread sales channels, a diverse portfolio of high quality products and superior services.

Values: Teknosa is a young and dynamic company that prioritizes customer satisfaction, strictly dedicated to ethical principles and social responsibilities and one that initiates improvements.

Quality Policy: Offering products and services, Teknosa is a company that prioritizes customer satisfaction, continuously improving its relationships with its suppliers and places importance on the development of its employees, ensuring the sustainability and efficiency of its lean and fast-moving organization by practicing modern management techniques and always conducts assessments for further improvement with an innovative approach.

Complaint Management Policy: Teknosa handles all complaints and requests received through customer interaction channels in accordance with laws and Company policies, and in a confidential, fair and objective manner. The Company continuously improves its complaint management system, thereby increasing customer satisfaction.

Milestones

TEKNOSA FROM PAST TO PRESENT

2000

Teknosa began operations with five retail stores.

2003

The www.teknosa.com website launched.

2005

Teknosa Academy was established.

2006

The “Scientific Retailing Program” was initiated for operational efficiency and infrastructure projects.

Dealership operations in air conditioning sector were organized under İklimsa brand.

E-learning program has been started.

2007

The Gebze Logistics Center commenced operations.

Five stores in Turkey belonging to the German consumer electronics retailer Electronic Partner were acquired.

Two music stores of Uzelli in Turkey were acquired.

Under the TeknoAsist program, after sales and product exchange/return services were made available to customers for the first time in Turkey.

2009

“Extra” stores were opened.

2010

The organization was restructured.

“Rapid growth” strategy was replaced by “sustainable and profitable growth”.

2011

The Turkish operations of the American electronics retailer Best Buy were acquired.

2012

Company's shares began trading on the Istanbul Stock Exchange (BIST) on May 17, 2012.

2013

Teknosa's mobile applications for Android and iOS devices were launched.

2014

Click & Collect was initiated.

Teknosa started to offer alternative financing options to customers with TeknoFinans.

2015

With Teknosacell, Teknosa became the first and only technology retail company in Turkey to provide mobile communication and line services.

Teknosa Preo branded special products were introduced to the market.

2016

Following an agreement with the Walt Disney Company, Disney Collection products began to be sold.

Installment sales options for mobile devices were made available with Teknosacell.

Teknosa's Preo-branded product range was expanded. Sales of new accessories, virtual reality glasses and gaming products were started.

2017

Increased investments in the omnichannel field.

New generation stores were opened to further enhance customer experience.

The corporate social responsibility project, Technology for Women, celebrated its 10th anniversary.

Main Competitive Advantages

CUSTOMER CENTRIC TEKNOSA

As Turkey's leading technology retail company, Teknosa initially began operating in 2000 with five stores. Seeking the optimal model for the local market, the Company pioneered the formation of the organized technology retail sector in Turkey. Thanks to significant infrastructure investments, the Company became a reference point in the retail sector and in digital channels, developing a sector model that has drawn global attention. Today, Teknosa shapes the sector, with its efforts in designing distinctive business models and special services alongside a focus on sector transformation and the omnichannel model.

UNCHANGING LEADER OF THE MARKET

Teknosa differentiates itself with its large-scale presence, its understanding of seamless experience across all channels, its innovative services in technology retailing, and its major operating field, thereby continuing its leader position in the industry since its establishment.

PIONEER OF THE OMNICHANNEL IN TECHNOLOGY RETAILING

Teknosa provides customers with an integrated online and offline shopping experience, focusing on seamless service provision across all channels. The Company is amplifying its investments in the omnichannel model it continues to pioneer in Turkey.

UNLIMITED CUSTOMER SATISFACTION

Additionally, with the Company's product and service diversity, Teknosa adopts a customer oriented management style and considers customers its most valuable asset. To that end, the Company ensures customer satisfaction via several initiatives such as fast and qualified service across all channels customer expectations management program and service-oriented training programs for employees.

CUSTOMER CENTRIC SCIENTIFIC RETAILING

Teknosa is also distinguished from other companies by its sales and after sales service quality. Placing considerable importance on Customer Experience Management, the Company strives to offer its customers integrated and seamless experience at all customer contact points, including stores, websites and the call center.

Teknosa call center and www.teknosa.com provide comprehensive after sales support in order to meet customers' needs and expectations. Additionally, customer demands can instantly be met at in-store customer service points. This Company practice is also a first in the sector.

VALUE-ADDED SERVICES

Wide-ranging technological services that span from installation and technical support and safety, from which customers benefit at stores, over the phone, at home or at work, are delivered under the roof of Dr. Teknolog. Dr. Teknolog assures customers that Teknosa will support them not only during sales, but also thereafter.

As part of Dr. Teknolog, services are provided in different categories such as Additional Warranty, Safety, In-Store, Local Setup Services. While customers can get term and hassle-free product use with Additional Warranty, the Technology Support Package enables them to remotely access Dr. Teknolog though the Call Center and obtain answers to all their technology-related questions. Meanwhile, instant in-store support services such as guidance for usage and installation are available for those customers who are new to the latest technology in selected stores.

Offering solutions that bring technology to life, Teknosa guides customers before, during and after sales in technology-related shopping and continues to develop new and value added services.

TEKNOSA ACADEMY

Teknosa places great importance on training its employees to make them highly qualified experts in order to maximize customer and employee satisfaction. Founded in 2005, Teknosa Academy was the first academy in technology retailing. Providing employees training and development opportunities through various programs, Teknosa Academy, which 15,500 people graduated from, guides them on their career paths. Teknosa carries out the programs to provide all employees with equal training opportunities at the Academy, and to ensure continuous education in line with the rapid advances in technology.

Main Competitive Advantages

Teknosa shapes the sector with efforts towards designing distinctive business models and special services, alongside a focus on sector transformation and the omnichannel model.

Candidate Training Program: The Candidate Training Program is a mixed training program provided to new store employees and supported by e-learning courses, videos, reading materials, which are accessible on Teknosa Academy platforms, as well as on-the-job training, which is delivered by store managers.

Teknosa Academy operates on a blended learning model. The Academy continues to enrich its physical and face-to-face learning modules and personal development activities, offering reasonable prices and improved efficiency independent of time and space. In an environment of constantly evolving user habits and diversified channels to access information, "teknosaakademi.com", with its technology infrastructure and enhanced user experience features, provides employees with learning and personal development opportunities.

Teknosa Academy bases its learning and personal development process on four main methods. "teknosaakademi.com" is the main platform through which employees can access these applied modules: Teknosa Learning Management System (LMS), through which e-learning, e-testing and survey services are provided; TeknoTube, the video-based learning platform; TeknoBlog, aiming at providing employees with interactive communication opportunities and fostering synergies; and E-orientation, a reference guide for newly-hired employees.

Mentor-Mentee Program: The purpose of this program is to support employee development by enabling them to benefit from the knowledge and experience of managers; to improve their leadership skills; to facilitate the implementation of the corporate strategy, to instill positive corporate values, to support existing and/or new practices across the organization; and to strengthen communication through different departments.

Store Manager Development Program: Store manager candidates, who succeed at the assessment center at Teknosa stores, are accepted into the Store Manager Development Program.

Corporate Coaching Program: Corporate Coaching Program aims to create a working atmosphere conducive to achieving overall success by closely monitoring employees' target-performance plans.

Personal Development Supports: To supports their personal development, employees are provided with the opportunity to take foreign language courses and enroll in graduate programs.

NEXT GENERATION RETAIL STORES SUPPORTED BY TECHNOLOGY

Additionally, Teknosa continues its investments in order to establish a powerful logistics infrastructure and maximize the efficient use of information technologies. As of 2017, the Company has a sales area of over 110 thousand m^2 and a depot consisting of 30 thousand m^2 of closed space. Teknosa has the largest logistics center in its sector, located in Gebze/İstanbul, where all logistics operations are carried out. The Company's logistics center has online connection to all stores and all operations are carried out by utilizing information systems. Similarly at the stores, retail operations are supported by technology while all processes including stock level controlling, product placement and label changing are carried out via state of the art retailing tools.

Teknosa introduced its new generation stores in 2017. In these new generation stores, customers can easily explore and experience products they are interested in purchasing.

Developments In 2017

TEKNOSA SHAPING THE SECTOR

In 2017, closely monitoring customer behavior and expectations, Teknosa focused on strengthening its omnichannel structure, optimizing its retail network, increasing the efficiency of its business processes and providing an appropriate product mix. Within the ongoing digital transformation process, the Company structures its store investments with a focus on an improved customer experience. At the same time, the Company is increasing investments into its online channels.

As part of its omnichannel strategy, the Company steadily continues to make a difference in the sector through activities providing customers with seamless services ‘anytime and everywhere’, and further enhancement of its prominent Teknosacell and Dr. Teknolog brands.

TEKNOSACELL

Teknosa continues to operate as the sole address in technology, and provides mobile line and telecommunications services with Teknosacell, a first in the sector. In 2016, the Company offered its customers the option to purchase the mobile devices of their choice via 24-month installments on a single Teknosacell invoice, thus meeting customers’ communication and technology needs. The number of Teknosacell subscribers reached 170 thousand in 2017. The brand continues to operate in this space, providing customers with different services and advantages.

TEKNOFINANS

Under the TeknoFinans brand, Teknosa provides its customers with consumer financing alternatives, ING Teknokredi and Akbank AKON. Through these, the Company ensured that 378 thousand customers made use of this solution opportunity between the launch of the brand and the end of 2017. Thanks to this service, consumers can pay securely in just four minutes at the stores by accessing credits with up to 48 monthly installments, with attractive interest rates - and no additional charges or commissions.

TEKNOSA PREO

In 2017, Teknosa continued to improve its Preo brand, which is the Company’s entry in the smart products market. Preo comprises a total of 200 products is the sector’s most comprehensive private label brand. Preo provides customers with a wide range of products; among them accessories such as smartphones, smartwatches, earphones, computer mouses, portable

loudspeakers, keyboards, external batteries and selfie sticks, as well as forward-moving technology products such as VR. In 2017, Teknosa also launched its third-generation smartphone under the Preo brand. The Company will continue to diversify its Preo products in line with customer demand.

DISNEY COLLECTION

Teknosa signed an agreement with The Walt Disney Company, the world's most valuable entertainment brand, to sell Disney Collection products at selected Teknosa stores through shop in shop format. With this, Teknosa continued to be the meeting point for families in 2017, too.

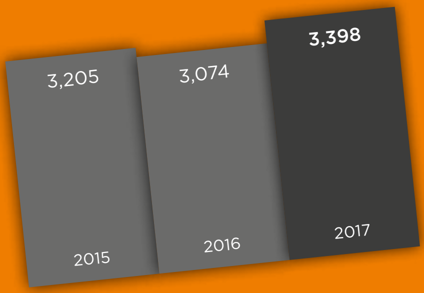
AWARDS AND ACHIEVEMENTS IN 2017

- According to the results of the Turkey's Favorite Retail Brands in Shopping Centers Research by Council of Shopping Centers Turkey, Teknosa placed first in the Technology Retail category and was recognized with the Anchor Store Prize.
- According to the results of The Voice of Turkey's Customers (TMS) study, Teknosa was selected 'The Technology Market with the Highest Customer Loyalty'. This study was conducted by the Turkish Quality Association (Kalder) and Ipsos, with the aim of measuring and enhancing customer loyalty in different sectors in Turkey.
- Teknosa won the Gold Prize in the Electronic Products category with its commercial, "It Is Time Your Child Owns A Computer" in the Effie Turkey Commercial Competition organized by the Association of Advertising Agencies and the Association of Advertiser.
- Teknosa was rewarded in the 'Technology Markets' category at the Social Media Awards organized by Marketing Turkey and Boomsonar.
- In the Cool Brands study conducted by Marketing Turkey and Roamler Turkey, Teknosa was recognized as the 'Coolest Brand' in the Technology Markets category.
- Teknosa won the Bronze Prize in the Campaigns/Durable Consumption and Social Media/Joint Investments and User-generated Content categories in the Crystal Apple with the project '"Feyyaz ile Dört Dörtlük Karne Dörtlükleri'.
- Teknosa received recognition among 'The Biggest Retailers Due To The Number of Stores" award in the Technology field by Capital and the Ekonomist magazines.

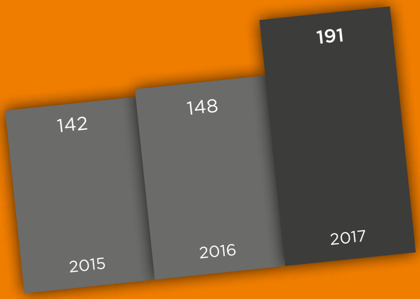
Key Financial and Operational Indicators

GROWING TEKNOSA

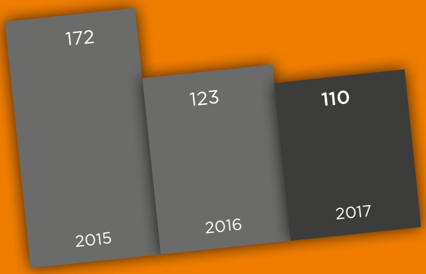
NET SALES (TL MILLION)



E-COMMERCE SALES (TL MILLION)



SALES SPACE (THOUSAND m^2)



As of end-2017, Teknosa's net sales stood at TL 3.398 million, total assets at TL 733 million, and EBITDA at TL 171 million.

Financial Indicators (TL million)	2015	2016	2017
Net Sales	3,205	3,074	3,398
Total Assets	1,031	762	727
Total Shareholders' Equity	77	-62	-43
EBITDA	78	38	171
Net Profit/(Losses)	-95	-161	20

Operational Indicators	2015	2016	2017
Retail Space (thousand m^2)	172	123	110
Number of Stores	278	210	204
teknosa.com Sales (TL million)	142	148	191

Financial Ratios (%)	2016	2017
Current Ratio (Liquid Assets/Short Term Liabilities)	0.70	0.73
Liquidity Ratio (Liquid Assets-Stocks/Short Term Liabilities)	0.27	0.18
Total Liabilities/Shareholders' Equity	-13.31	-17.76
Total Liabilities/Total Assets	1.08	1.06

TEKNOSA THE FOUNDER OF THE SECTOR

Esteemed Shareholders,

While Turkey has witnessed various economic and political processes in the past year, we saw positive developments worldwide and in our country. As a result of financial support included in macro financial implementations in 2017, the Turkish economy delivered a speedy recovery.

2017 was also a year of transformation for the Sabancı Group. We performed well as a retail group by focusing on technology investments and customer-oriented digitalization.

The young and dynamic face of our group - the consumer technology market in which Teknosa operates - experienced a boom due to sectoral tax deductions. The special consumer tax campaign implemented between February and October 2017 positively impacted the MDA (major domestic appliances) market and contributed to growth. The consumer electronics market grew at a double-digit rate with total turnover amounting to TL 54 billion in 2017.

Thanks to healthy and consistent value-creating growth, our Company, with its diversified services, innovative enterprises and positive financial results, performed better this year, achieving its profitability targets in each quarter. Teknosa's total year-end net profits stood at TL 20 million. It increased its sales volume by 17% in the same stores, while teknosa.com grew by 30%.

As the Sabancı of the New Generation, we aim to reach out to our customers with new products and services in line with our vision of demonstrating greater innovation and strength, being more dynamic and developing sustainably. In this spirit, Teknosa brought together customers and diversified services and took successful steps in its path of transformation.

With the ever-rising importance of technology, particularly in recent years, the retail sector is being carried towards a new dimension. The rise of online trading resulted in the emergence of the omnichannel model. In line with digitalization and evolving customer behavior, we believe that e-commerce and mobile commerce will make the most significant contribution to sectoral growth in the next period. Therefore, we focused on developing a model with an omnichannel approach, one that

With the Teknosa brand's proven track record in generating qualified employment across Turkey, we are determined to continue to be the sector's 'host' in the years to come.

provides customers with seamless and integrated digital and physical services - on which we are leading in Turkey. While ensuring the best shopping experience for customers, we also strive to raise the efficiency of our operations for improved turnover and profitability and more positive added value.

We make use of all technological opportunities to establish closer ties with our customers, to provide perfect customer service through all our channels, to gain new customers and to enlarge our shopping basket. In this framework, to the best of our abilities, we aim to utilize opportunities in the following areas, including data management and big data, with a primary focus on e-commerce, mobile technologies, customer relations management, mobile payment systems, the Internet of Things (IoT) and artificial intelligence. We carefully assess our customers' journey and create systems that go beyond their expectations.

We believe that 2018 will be similar to 2017. Macroeconomic dynamics and geopolitical risks have led to uncertainty but even as there are difficulties that we need to manage, our expectations for 2018 are positive.

Teknosa, a brand that has always been renowned for breaking ground in its sector, will continue to pioneer customer-based new generation retail applications in 2018. Within this framework, Teknosa plans to invest TL 60 million and double the investments.

We have an exciting opportunity to open the way for our country's young and dynamic population and transform their power into economic initiatives. Our country's potential can be turned into a significant driving force, if technologies become more widespread and internalized. We will continue to strengthen our efforts to facilitate access to technology in the framework of Turkey's digitalization.

Within the Sabancı Group, Teknosa represents an important value, combined with the power of information technologies. With the Teknosa brand's proven track record in generating qualified employment across Turkey, we are determined to continue to be the sector's 'host' in the years to come. By growing hand-in-hand with Turkey, we intend to develop new generation applications across every facet of technology retailing.

Teknosa will continue to bring together its customers with technologies anytime and everywhere in the easiest ways, thereby contributing to sector and economic growth.

I would like to thank all our shareholders, who contribute to Teknosa's success and help it set higher targets for the future. I hope that 2018 will be an auspicious year for both our country and our Company.

Respectfully yours,

Ata Köseoğlu
President of Retail Group of Sabancı Holding, Chairman of Board of Directors of Teknosa

Teknosa will continue to bring together its customers with technologies anytime and everywhere in the easiest ways, thereby contributing to sector and economic growth.

Board of Directors

Ata Köseoğlu
Chairman of the Board of Directors

Ata Köseoğlu graduated from Boğaziçi University with a Bachelor's degree in mechanical engineering. He obtained a Master's in electrical engineering at Lehigh University, and an MBA from Boston University. Köseoğlu began his career at İktisat Bankası and from its foundation until 1994; he worked at Finansbank in Investment Banking, Treasury and Capital Markets and Asset Management and as Deputy Director General in charge of International Affairs. Between 1994 and 1999, Köseoğlu worked for Bear Stearns in New York, where he was Managing Director responsible for Investment Banking activities in Turkey, Greece and Egypt. Later, he moved to Paris to work as Managing Director in charge of Turkey and the Middle East for Société Générale's Investment Banking department. In this capacity, he was responsible for managing and developing relations with principal Société Générale customers in the region and contributing to the development of the Bank's regional financial strategy. Between 2000 and 2005 Köseoğlu worked as Managing Director/CEO for Credit Suisse First Boston Bank in London and İstanbul, responsible for transactions including corporate financing, project financing, capital markets, fixed income and derivative products. Köseoğlu joined the BNP Paribas/TEB group in 2006 and, in his last role, served as Chairman of the Board of Directors and CEO of TEB Investment. In this position, he performed merger and purchasing projects that catapulted TEB Investment into the top 5 intermediaries in Turkey in terms of transaction volume and profitability. He joined the Sabancı Group in 2011 and was appointed as Retail Group President on March 30, 2017. Since March 31, 2017 Ata Köseoğlu has served as Chairman of the Board of Directors of Teknosa.

Temel Cüneyt Evirgen
Vice Chairman

Temel Cüneyt Evirgen received a double degree in Mathematics and Electrical Engineering from Boğaziçi University in 1986. He then received his Master's degree in Marketing from the same university in 1990 and his PhD degree in International Management Studies from Michigan State University in 1995.

He began his professional career as a Teaching Assistant at Boğaziçi University in 1986. Later, he worked as an Intercultural Program Assistant at the University Apartments Campus and as a Systems Development Researcher and Consultant at International Business Center, both at Michigan State University. He then served as General Manager and Board Member at Bileşim International Research & Consultancy, as Part-time Faculty Member at Koç University and as Director of Retail Program at Sabancı University, respectively. Mr. Evirgen is currently an Executive Member of the Professional Education and Consultancy division at Sabancı University. Between 2005 and 2012, he was a Board Member at Teknosa.

As of April 2012, he was appointed as Vice Chairman of Teknosa.

Barış Oran
Board Member

Barış Oran graduated from Boğaziçi University, Department of Business Administration and received his Master's degree from the University of Georgia.

Mr. Oran began his professional career as an Auditor at PriceWaterhouseCoopers in 1995 and between 1998 and 2003, worked at Sara Lee Corp. in Chicago/USA, assuming several duties in auditing, finance, and treasury/capital markets. Between 2003 and 2006, he worked at Ernst and Young in Minneapolis/USA and then became Executive Manager at the same company in charge of Europe, Africa, and Indian regions. Mr. Oran joined Kordsa Global in 2006 and served as Director of Internal Audit, Director of Global Finance and CFO, respectively.

Oran was promoted to Finance Director of Sabancı Holding in 2011 and to Director of Planning, Reporting and Financing of Sabancı Holding in 2012. He has been working as Chief Financial Officer at Sabancı Holding since 2016.

He has been serving as Member of the Board of Directors at Teknosa since April 2012.

Onur Özkan
Board Member

Onur Özkan graduated simultaneously from Boğaziçi University's Business Administration and Political Science and International Relations departments in 2005. He completed his Master's in financial engineering at Boğaziçi University in 2008.

Between 2004 and 2012, he worked as Marketing Manager in the Treasury Department of Finansbank, as Unit Manager for Deposit Investment Products and the High-income Segment, as Group Manager for Private Segment Management, and as Group Manager and then Director between 2012 and 2013 for the High-Income Segment Management and Sector Banking. Between 2013-2014 he served as Director for Management of High-income Products and Segments and Private Banking. In May 2015, Özkan was appointed as Deputy Director General for Private Banking and Asset Management and continued to work in this capacity until June 2016. Between June 2016 and October 2017, he worked as Deputy Director General for SME and Agricultural Banking. In May 2017, he also took on the position of Member of the Board of Directors of QNB FinansFaktoring.

In January 2018, Özkan was appointed as Projects Coordinator for the Sabancı Holding Retail Group Presidency and currently functions as a Member of the Board of Directors of Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş.

Onur Özkan was appointed as a Member of the Board of Directors of Teknosa in January 2018.

Oğuz Nuri Babüroğlu
Independent Member of the Board of Directors

Oğuz Nuri Babüroğlu graduated from the University of Sussex in 1977. He completed his Master's degree at the University of Lancaster and received his PhD in Social Systems Science at the Wharton School at the University of Pennsylvania.

Babüroğlu continued his professional career as a lecturer at West Chester University of Pennsylvania, Clarkson University, INSEAD Business School, Work Research Institute, Bilkent University and as part of the Enterprise Development and Work Life Research Program (EDWOR) at the Norwegian University of Science and Technology. He has been teaching at Sabancı University since 1998. In 1995, he founded Arama Participatory Management Consultancy and is also the Founding Director of Akıl Limanı Mindport Education Services. Mr. Babüroğlu has been a Board Member at ETİ Gıda Sanayi ve Ticaret A.Ş. since 2006.

Mr. Babüroğlu has been an Independent Board Member at Teknosa since April 2012.

Atıl Saryal
Independent Member of the Board of Directors

Following his primary and secondary education in Ankara, he studied engineering at the University of Texas.

Upon his return to Turkey, he worked in the banking sector and then transferred to Sabancı Group. He was General Manager at Adana Sasa and Marsa. He was the President of the Adana Chamber of Industry for eight years. He served as a Member of the Board at Philsa, Exsa and Plassa. He was later promoted as President of Food and Retail and served as Chairman of the Board at Kraftsa, Danonesa, Diasa, Carrefoursa, Marsa and Sapeksa. In 2002, he retired from Group President position and in 2004, from his membership and chairmanship of the boards as well as his membership at TÜSİAD.

In addition to his position as Independent Member of the Board of Directors at Teknosa, he is currently Member of the Board and Consultant at Kordsa Global, Akçansa and Olmuksa.

Mr. Saryal has been serving as Independent Board Member at Teknosa since April 2015.

Message from the General Manager

TEKNOSA MAKING A DIFFERENCE

Esteemed Shareholders,

There were positive developments both globally and in Turkey in 2017. Despite difficulties, the Turkish economy grew steadily. The retail sector, one of the world's fastest growing markets and a locomotive of the Turkish economy, performed well in 2017, realizing its high potential and generating added value. Thanks to a digitalizing world, as well as Turkey's young, technology-oriented population, the technology retail market continued to expand.

The consumer technology products market grew by 16% in 2017 compared to the same period in the previous year, reaching a total volume of TL 54 billion. Achieving the highest growth was the MDA (major domestic appliances) segment, due to deductions in the special consumption tax. This segment saw growth of 21%, while telecom grew by 19% and consumer electronics and small domestic appliances by 11%. For the first time, information technologies also saw a positive year-end growth rate of 2.4%, thanks to increased demand for gaming products.

As Teknosa, we focus on turning the potential of both Turkey and our sector into added value through our omnichannel strategy. To enrich the shopping experience of our customers, we realize applications that are also new for the retail sector in Turkey. We constantly listen to our customers and provide them with timely, targeted services and products in line with global retail dynamics. In addition to our investments into digital platforms, we also develop concepts that allow customers to explore and experience products when visiting our stores.

Teknosa is not a retail company that merely sells products. We operate on the premise that Teknosa is also a service provider that combines products, services and solutions. In 2017, we took important steps to solidify this position; bringing to life our new generation stores that allow customers to interact with products they are interested in purchasing. We conducted a 360-degree assessment of the customer experience and continued to enrich our services with our mobile line and communication service Teknosacell, and our after-sales service, Dr. Teknolog, both of which have exceptional

brand value in the sector. Customers with Teknosacell were also able to purchase products such as phones, notebooks and televisions with 24-month installment advantages. Teknosa offers its customers the most comprehensive service packages through Dr. Teknolog to extend the lifetime of technology products, whereby they can be used to their fullest extent.

Our special brand Preo launched in 2015, as a first in the sector, in smart products. This year, Preo's range reached 200 products, becoming the sector's most wide-ranging Private Label application. Expanding in line with customer demands and technology trends, the Preo product family continues to introduce consumers to the newest technologies.

As Teknosa, according to our ‘Technology for Everyone’ philosophy, we bring technologies and consumers together anytime, anywhere, and also develop leading applications for the sector.

As Teknosa, according to our ‘Technology for Everyone’ philosophy, we bring technologies and consumers together anytime, anywhere, and also develop leading applications for the sector.
Our thorough analyses of consumer expectations and our close contact with customers are the core of our initiatives and innovations. We are constantly renewing our stores, our online shopping platform teknosa.com, and our mobile applications to maximize the excellence of our customers’ shopping experience.

In 2017, we continued to expand our e-commerce business. Last year, the share of Click & Collect sales in total e-commerce revenue reached 30%. The Click & Collect program, which we launched as part of our omnichannel strategy, enables customers to conveniently order online and collect from a store. The share of traffic from mobile platforms in total e-commerce traffic reached 65%. With 1.5 million users of our mobile applications and more than 3.5 million followers on social media, we have created a broad ecosystem. Such outreach and interaction provide us with strong customer insight, which we utilize in all our work and processes.

Since its foundation, Teknosa has always placed great importance on social responsibility projects that contribute to cultural and social life and that also raise awareness and increase knowledge of technology. We celebrated the 10^{th} year anniversary of the “Technology for Women” project. We have supported the digital literacy, providing technological trainings with this project.

Thanks to the trust and investment support of Sabancı Holding, of which Teknosa is a subsidiary, we are in a leading position. Beyond our investments, we solidify this leadership with our close contact with consumers, our innovative products and the values we uphold. In 2018, we will continue to be the sole address for innovative services in the sector and embrace ‘everyone’ as a brand. 2018 will be an important “investment year” for us.

I would like to extend my thanks to our employees, customers, business partners and shareholders for their valuable contributions for closing the year with success. I sincerely believe that together we will deliver a much stronger performance in 2018.

Respectfully yours,

Bülent Gürcan
Teknosa General Manager

Executive Committee

Bülent Gürcan
General Manager

Bülent Gürcan graduated from İstanbul Technical University, Department of Civil Engineering in 1988.

He worked as Sales Manager at Sony Gulf between 1992-1993, as Managing Partner at Max Mara between 1993-2000, as Operations Manager at TopShop, Topman/ Giysa between 2000-2002 and as Retail Director at Başer Holding between 2002-2004. Having served as Director of Sales and Deputy General Manager of Operations at Teknosa between 2004-2013, Gürcan was CEO of Media-Saturn Turkey for the subsequent two years.

Gürcan has been the General Manager at Teknosa since April 1, 2015.

Ümit Kocagil
Assistant General Manager - Finance

Ümit Kocagil graduated from Marmara University, Department of Economics (English).

Ümit Kocagil began his professional career at the Tax Department of Ernst & Young (Arthur Andersen) in 1995. From 1999 to 2007, he worked at Danone Tikveşli as Budget Planning & Control Specialist, Budget Planning & Control Manager and Reporting & Accounting Manager, respectively. Between 2007 and 2014, Mr. Kocagil served as Accounting, Reporting and Tax Group Manager at Carrefoursa and as Accounting, Closing and Tax Group Manager after 2014.

Mr. Kocagil has been serving as the Assistant General Manager - Finance since October 25, 2016.

Ayşegül Bahçıvanoğlu
Assistant General Manager - Marketing & Strategy

Ayşegül Bahçıvanoğlu graduated from New York University's Stern School of Business.

She began her professional career in the Corporate Banking Department at Citibank and later worked as Senior Management Consultant at A.T. Kearney; Advisor to the CEO at Yurtiçi Kargo Geopost; Restructuring Manager at Mey İçki A.Ş., Texas Pacific Group respectively. After joining Peppers and Rogers Group in 2007, Ms. Bahçıvanoğlu served as Director of the Brussels Office from 2008 to 2011 and as Managing Partner in the Johannesburg Office, South Africa for the last two years.

Bahçıvanoğlu, who began working for Teknosa as Director of Strategy and Business Development in 2013, continuing her position as Assistant General Manager - Marketing & Strategy now.

Adem Tansel Tuzcu
Assistant General Manager – Sales

Adem Tansel Tuzcu graduated from the Business Administration department of Marmara University.

He began his career in 1991 as Deputy Store Manager at Printemps Büyük Mağazacılık. He served as a Purchasing Specialist for Carrefour between 1996 and 1997, Sales Representative for Goodyear between 1997 and 2000, and Sales Manager for Endi between 2000 and 2001. Between 2001 and 2002, he served as a Purchasing Manager for Gimron Holding, as Franchise, Purchasing and Logistics Director for Speedy Otomotiv between 2002 and 2005 and as a Sales Director for the Marmara Region at Diasa between 2005 and 2011. From 2012, Tuzcu served as Sales & Operations Director for Şok Marketler.

Adem Tansel Tuzcu has been working as Assistant General Manager – Sales for Teknosa since April 10, 2017.

Kayhan Ozar
Assistant General Manager - Supply Chain

Kayhan Ozar graduated from Istanbul University, Department of Business Administration and received his Executive MBA from Istanbul Bilgi University (Manchester Business School).

He began his career in 1992 as Sales Executive at Sezginler Gıda. He then worked as Major Clients Manager and National Clients Manager. In 1997, he became Acting General Manager of Booker Cash & Carry and worked as Director of Operations and General Manager. Between 2002-2006, he was the Export Regional Sales Director at Cadbury Schweppes. Between 2006-2015, he worked at Bimeks as Director of Sales, Director of Purchasing and as a Member of the Executive Committee respectively. Later, Ozar worked as Director of Supply Chain at Genpa.

Kayhan Ozar has been working as the Assistant General Manager - Supply Chain at Teknosa since October 13, 2015.

Executive Committee

Tansu Öztorun
Assistant General Manager - İklimsa Business Unit

Tansu Öztorun graduated from İstanbul Technical University, Department of Mechanical Engineering and received his Master's degree from the Department of Mechanical Engineering at İstanbul University. Also, he completed International Business program in Istanbul University.

Öztorun began his professional career as Product Manager at Motosan in 1990. He later worked as Post Sales Engineer at Kurteks A.Ş. and as Trade Specialist at Otokar. At Toyotasa, where he spent 11 years, he worked as Marketing and Sales Training Specialist, Sales Training Chief, Direct Sales Chief, Fleet Sales Chief, Corporate and Special Sales Manager and Toyota Retail System (TRS) Manager respectively. Between 2008 and 2011, he worked as Sales and Marketing Director at Hedef Filo Servis A.Ş. and between 2012 and 2014, as a consultant at Bir Psikodrama Eğitim ve Danışmanlık and later as General Manager at a Renault Authorized Dealer.

Öztorun, who began working for Teknosa as the İklimsa Director of Sales in 2014, continues to work as Assistant General Manager - İklimsa Business Unit.

Ebru Anıldı
Human Resources Manager

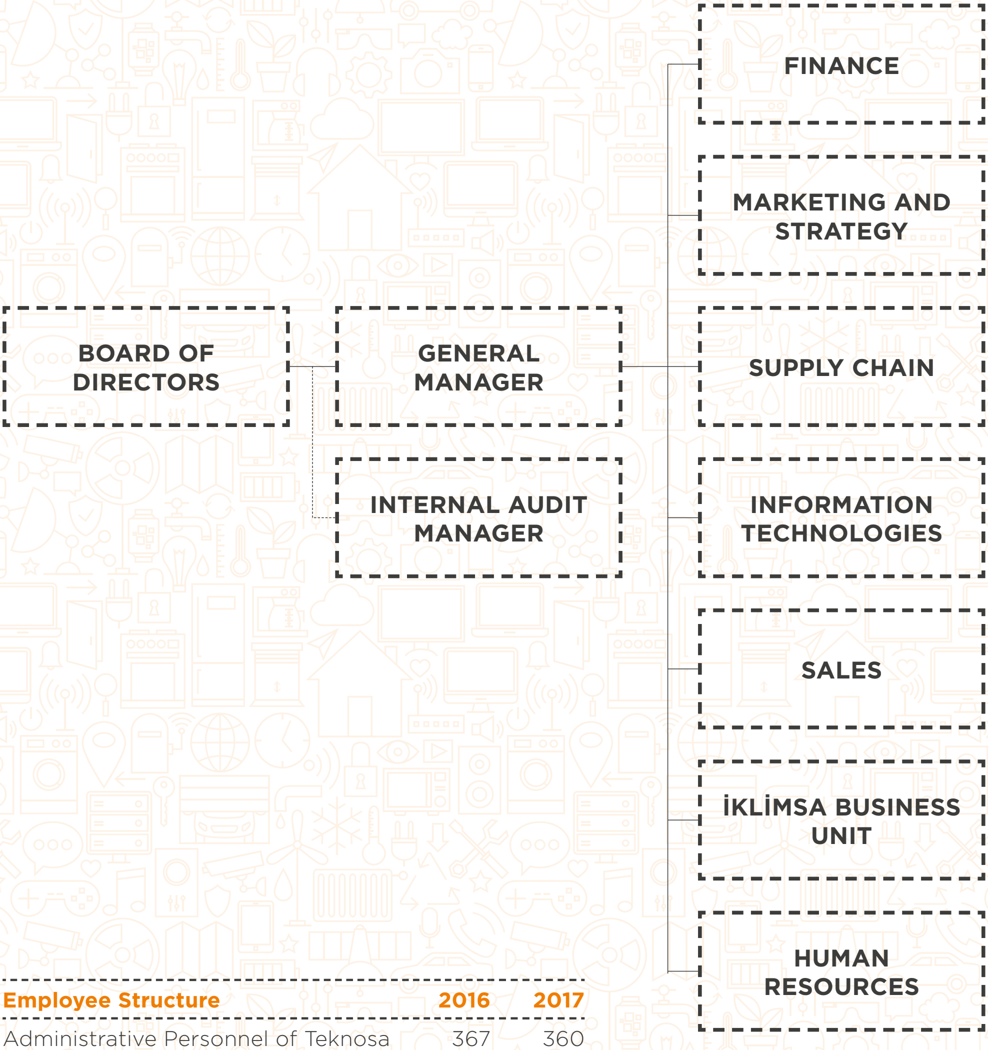
Ebru Anıldı graduated from Hacettepe University's Statistics Department in 1995.

She began her career as a Software Support Specialist at Likom Yazılım in 1995. Later, she worked in human resources at Bayındır Holding between 1997 and 1999, and for the Uyar Group between 1999 and 2000. After working as Project Consultant at Hay Group, she joined Sabancı Holding in 2002 as Human Resources Specialist and subsequently joined Teknosa as Compensation and Labor Relations Manager in 2008.

Since 2016, Anıldı has served as Human Resources Manager at Teknosa.

Executive Committee Members who resigned from their Duties in the Period:
Evren Dereci – Telecommunication Services and Business Development Director / May, 12, 2017

Organizational Structure



Employee Structure	2016	2017
Administrative Personnel of Teknosa	367	360
Store Personnel of Teknosa	2,321	2,210
Total	**2,688**	**2,570**

2017 Operations

ANYTIME ANYWHERE TEKNOSA

LONG TERM LEADERSHIP

Teknosa is the pioneering and leading retail chain that makes a difference in the industry with its omnichannel value added products and services.

Since the foundation, Teknosa pioneers innovation in the retailing industry with the focus on customer experience through its unique concepts, its large variety of products from distinguished brands, Teknosacell and Dr. Teknolog products in omnichannel area.

AFTER SALES SERVICES

In order to meet customers' technological needs in anywhere and anytime, Teknosa provides seamless services through its call center, instore customer services desks and online store teknosa.com.

The Teknosa Call Center provides customer satisfaction by analyzing the entire retail process meticulously in order to meet every customer need. Accordingly, customers are able to access the contact details of stores, products in the process service actions or whether or not a product is in stock through the automated voice response system without waiting for a customer representative at the Call Center. Teknosa consistently improves its call center services wherever possible so that customers can complete their transactions without needing to speak with a customer service representative.

Through its on-site product services, technical support hotlines and extended warranty services, Teknosa provides customers with services that will help determine the best solutions to the problems, risks and needs that could arise in the future. Teknosa was the first company in the sector to introduce most of these services.

With the customer tracking system, customers who get in touch with the Call Center are able to follow up on the status of their enquiry through the link e-mailed to them. In addition, customers are also able to use this link to create a new request/complaint record without having to call the Call Center again.

İKLİMSA

İklimsa provides globally-leading brands reinforced with the over 30 year expertise of Sabancı Holding. İklimsa, which leverages the accumulated experience of Sabancı Holding, positions itself as 'Turkey's Air Conditioning Center'. İklimsa stores include Mitsubishi Heavy Industries, General, Sharp, Sigma (private label) air conditioners and Sharp refrigerators and air-conditioners.

With four different brands and nearly 200 models, İklimsa provides services in 218 authorized dealerships in 48 cities and in 225 air-conditioner services centers in 61 cities in Turkey. İklimsa grew by 41% in 2017 and actively focuses on enhancing its after-sales services to elevate customer satisfaction. In addition to taking an active role in corporate projects, the brand also began providing its corporate customers with opportunities presented by all Teknosa's technological products, offering a wide product range.

İklimsa which has been operating in the field of air conditioning for more than 30 years, is positioned as 'Turkey's Air Conditioning Center'.

With new concepts prioritizing customer experience, a rich product range and value-added services, Teknosa has led the sector since its establishment.

E-COMMERCE

In line with the growth trend of e-commerce, the omni-channel strategy, which turns stores into an experience space integrated with digital platforms, is the key to growth. Focusing on omnichannel operations, the Company is poised to take future action in e-commerce and mobile commerce. In this respect, the share of Click & Collect applications in e-commerce sales reached 30%. Teknosa is the pioneer in the industry in Click & Collect, which enables customers to order online and collect from a store. As a result of stock synchronization, stock availability and parallel campaigns within the framework of the omnichannel strategy, customers are able to enjoy a seamless and integrated shopping experience in every channel.

The traffic of teknosa.com grew by nearly 30% in 2017 compared to 2016. The share of turnover coming through mobile platforms in total e-commerce sales increased from 9% to 15%. The increase in smart phone and product penetration, meanwhile, is positively affecting the use of mobile applications.

INVESTMENTS

The most widespread and accessible technology retailer in Turkey, Teknosa continued to invest in its stores and online channels in accordance with its omnichannel strategy in 2017.

Teknosa is aware that differentiation in the electronics retailing market can only be achieved through superior customer experience, after-sales services and innovation. The Company will increase its investments across all channels in the coming period, to sustain the best shopping experience and provide customers with a wide range of services.

As the most widespread and accessible technology retailer in Turkey, Teknosa continued to invest in its stores and online channels in accordance with its omnichannel strategy in 2017.

Sustainability

TEKNOSA ACCOUNTABLE TO THE SOCIETY

HUMAN RESOURCES

Teknosa's Human Resources policy is based on the principle of 'the right person, for the right job in the right time' in line with the Company's targets and strategies.
The policy includes the following aims:

- meeting human resources needs with qualified personnel,
- preparing and implementing training programs to contribute to the employees' professional development,
- developing and sustaining systems that offer employees opportunities for promotions and success, as well as performance assessments and enhanced job satisfaction.

Employee feedback obtained through satisfaction surveys, employee commitment studies and one-on-one discussions form the most important basis for constantly improving related processes.

Teknosa has human resources processes that embrace the Company's values and culture, place the utmost emphasis on employee health and security, are in line with legal regulations, and are based on data-driven decision-making. The primary focus of the human resources strategy is employees. Teknosa prioritizes standing by its employees and supporting their professional development through talent management, succession planning, training, personal development and recognition. The Company also aims at enhancing employee commitment.

Performance management

The performance assessment system includes a fair, concrete and measurable Performance Management System that allows the Company to track the employee's contribution to business success and helps foster an open dialogue between managers and employees. Data obtained through this system is utilized in salary determination, rewards and recognition, and career and training processes.

Employee commitment

Employee feedback and suggestions are regularly followed through the 'Employee Commitment Survey'. This survey provides the Company with an opportunity to assess employees' perceptions and satisfaction levels, and receive feedback on processes and procedures. It also allows the Company to identify areas of improvement. The Employee Commitment Survey is conducted by an independent research company, and all responses are confidential. The results are analyzed by the Human Resources department, and the output is then used to conduct focus meetings and development plans. To accurately determine employee expectationsand determine a middle ground between these expectations and what the Company can offer,feedback is diligently evaluated, and actions in the area of corporate development are carefully planned.

Career management

Regular succession plans are developed by assessing employees' experience, skills and potential. Staff deemed suitable for certain positions are provided with the relevant preparatory training and development opportunities. Those who successfully complete previously-determined processes and training programs are promoted to higher positions.

Ethical values

The Company pays the utmost attention to helping employees internalize and act upon ethical values relegated to them via in-house communication channels and during training programs. There is also an Ethics Board Advisor. Employees can share, in confidence, any issues and problems that they are unable to resolve on their own, or that may be uncomfortable to discuss in a public forum.

Remuneration Policy

At Teknosa, employee compensation is determined in accordance with the Company's vision, mission, and values and under the "Family Business Model and Compensation Management System" in order to ensure competitive, fair, motivating compensation for the employees as well as to enable cost controlling.

Remuneration to be provided to the Board of Directors is determined at the General Assembly. All benefits and compensation are detailed under the notes to the financial statements.

ENVIRONMENT

In line with environmental sustainability efforts, Teknosa continues to work towards the efficient use of natural resources, energy efficiency, waste management and waste recycling. The Company saved around 3 million Kw of energy in the past year due to its green and efficient device transformation activities in stores across Turkey.

With a sense of responsibility as the sector leader, Teknosa, in 2017, continued activities related to electronic waste and waste battery collection, and recyclable packaging. In the area of electronic and packaging waste, the Company works together with local authorities and authorized institutions.

Teknosa also aims at raising employees' awareness on environmental sustainability. Teknosa Volunteers, consisting of Company employees, carry out nature and wildlife protection activities with other volunteer groups.

CORPORATE SOCIAL RESPONSIBILITY

Teknosa puts emphasis on social responsibility activities to enable wider communities to benefit from technology. Teknosa also provides technological support to civil society organizations and educational institutions.

Technology for Women

Within the scope of the "Technology for Women" project, free technology trainings have been organized for women in different cities of Turkey since 2007. As part of the project, which aims to promote a more active role for women in social and cultural life as well as in the use of technology, 16 thousand women in 65 cities were offered free-of-charge technology courses. The courses include topics such as writing on a computer, navigating the internet, sending e-mails and using social media; thereby enabling women to communicate with their children, grandchildren, friends and family; interact with the world; access information about their areas of interest; and perform transactions that make life easier for them, such as online banking and shopping and use social media platforms efficiently for their jobs.

In 2017, Teknosa celebrated the 10th anniversary of the Technology for Women project. By reaching 16 thousand women in 10 years and training them in digital literacy, the Company contributed to social development in Turkey. Teknosa is planning to further develop the project in line with women's needs.

Capital and Shareholding Structure

Teknosa's approved and issued capital consists of 11,000,000,000 shares, each registered at 1 kurus nominal value. (December 31, 2016: 11,000,000,000)

As of December 31, 2017, Teknosa's capital structure consisted of the following.

Corporate Name/Name-Surname	Capital Share (TL)	Capital Share (%)
Hacı Ömer Sabancı Holding A.Ş.	66,310,509.61	60.28
Dilek Sabancı	5,734,598.69	5.21
Sevil Sabancı	5,734,598.68	5.21
Other	32,220,293.02	29.29
Total	**110,000,000.00**	**100.00**

Subsequent Events Following the Balance Sheet Date

Important developments happened in our Company after the accounting period that ended as of the 31st of December 2017, are as follows:

Kamil Ömer Bozer who resigned from his position as Member of the Board of Directors on January 5, 2018 was replaced by Onur Özkan on January 8, 2018. Onur Özkan will continue working in this capacity until the end of his predecessor's term and his appointment will be subject to subsequent approval by the General Assembly as per Article 363 of the Turkish Commercial Code.

As of January 31, 2018, Information Technologies Director Nuran Varol Erzincan, and Investment and Construction Director Cenk Öcal have left the Company.

Other Information

Information on Report Explaining Relations with Controlling and Associated Partnerships in the Framework of Article 199 of the Turkish Commercial Code

Information was shared on the purchasing and sales transactions of goods/services between Teknosa A.Ş. and its controlling partner Hacı Ömer Sabancı Holding A.Ş. and associated partners of the controlling partner as per Article 199 of the Turkish Commercial Code numbered 6102.

In the report issued by the Teknosa Board of Directors on February 20, 2018, our Company evaluated the following transactions conducted with the controlling company and associated companies during the reporting year (January 1, 2017 – December 31, 2017) in accordance with accountability principles and conditions known to us: All legal transactions as well as all legal transactions conducted under the direction of the controlling company, and all other measures taken, or refrained from being taken, to the advantage of the controlling company, or one of its subsidiaries in 2017, under the circumstances and conditions known to the Board at the time. As a result, the Board of Directors concluded that the Company did not incur any loss due to any transaction conducted in 2017, based on the circumstances and conditions known to the Board at the time.

Information on The Company's Accruement of its Own Shares

Teknosa does not hold any accrued shares of its own.

Corporate Governance Principles Compliance Report

SECTION I-CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT

Teknosa, adopted the norm of complying with the four Corporate Governance Principles of Transparency, Equality, Responsibility and Accountability.

Our Company complies with all the principles; that are held obligatory and stipulated in the "Communiqué (II-17.1) on "Determination and Implementation of the Corporate Governance Principles".

On the other hand, full compliance hasn't been achieved yet due to some difficulties experienced during the implementation of certain non-obligatory principles, due to ongoing debates about compliance with certain principles on the international platform as well as in Turkey, and also because of the inapplicability of some principles due to the structure of Teknosa and the market. The developments in this area are closely followed and compliance efforts continue.

In 2017, in accordance with the legislation, the Company made necessary public disclosures in order to inform the investors and analysts promptly, transparently, consistently, regularly and simultaneously regarding all the important information that may have an impact on their investment decisions and regularly updated the Investor Relations website. Moreover, the Company attended investor meetings and conferences in order to continuously ensure the best communication with investors and analysts. Developments in the Legislation were monitored closely and necessary actions were taken.

There are six members in the Teknosa Board of Directors in conformity with the Article n.4.3.1 of the Communiqué, and there are two independent members in conformity with the exception stipulated in the first paragraph of the 6th Article of the Communiqué. Apart from this, the "Nomination Committee" and the "Remuneration Committee" liabilities stipulated in the 4.5.1 Article of the Communiqué, are undertaken by the "Corporate Governance Committee". Moreover, although the Company pays special attention to comply with the provision of the 4.5.5 Article of the Communique on "Members of the Board of Directors cannot assume duties in more than one Committee"; since the Committee membership requires professional expertise, members of our Board of Directors can be a member in more than one Committee.

Teknosa is aware of its social responsibilities; it complies with the regulations regarding environment, consumers, public health and with the code of ethics. Our Company supports and respects The Universal Declaration of Human Rights. The developments in the legislation and relevant implementations will be taken into consideration and necessary steps will be taken in the coming period as well.

SECTION II-SHAREHOLDERS

2.1 Investor Relations Department

In Teknosa, Investor Relations Department reports to Assistant General Manager -Finance Ümit Kocagil, who is also the Member of the Corporate Governance Committee. On the other hand, liabilities of Investor Relations are fulfilled by the Manager of Finance and Investor Relations H. Şenay Akıncı Özertan. H. Şenay Akıncı Özertan, who is also a reporter in the Corporate Governance Committee, has the Capital Market Activities Advanced Level License.

The Investor Relations Department can be accessed at yatirimciiliskileri@teknosa.com or at +90 (216) 468 36 36 or via fax number +90 (216) 478 54 41.

The Investor Relations Department is in charge of carrying out shareholder relations within the frame of Corporate Governance Principles. Its duties include:

- Ensuring that written correspondence between investors and the partnership, and other information/documentation records are maintained, secured and updated;
- Responding to written information requests by partnership shareholders;
- Preparing and sending in advance to shareholders informational documents related to the General Assembly, and taking measures to ensure that the General Assembly proceeds in accordance with the relevant legislation, provisions of the Articles of Association and other existing partnership regulations;
- Ensuring and monitoring the fulfillment of liabilities stemming from Capital Markets Legislation including all issues concerning corporate management and public disclosure.

Within this framework, all legal liabilities were fulfilled in 2017.

Finance and Investor Relations Department is in charge of regularly informing the shareholders and prospective investors about the Company's activities, financial condition and strategies, excluding confidential information and trade secrets, without causing any information inequality and it is also responsible for ensuring a two-way communication between the Company's management and the shareholders. In 2017, meetings were organized with a total of 25 investors and analysts, and approximately 30 queries (via e-mail) from shareholders and analysts were answered. Additionally, one teleconference regarding the Company's financial results was held. As per existing regulations, the Investor Relations report on these activities was finalized on December 31, 2017 and submitted to the Board of Directors on February 20, 2018.

2.2 The Use of Shareholders' Right to Obtain Information

As per applicable legislation, information (excluding confidential or proprietary information) is duly shared with shareholders, ensuring they receive first-hand information on Company strategies and activities.

In 2017, information requests of the shareholders that were made via phone calls or e-mails or the requests directed at the face to face meetings, were answered by the Investor Relations Department and the information that interests the shareholders was announced on the Investor Relations website within the compulsory notification periods.

Private Auditor assignment issue was not regulated in the Company's Articles of Association as a right. In 2017, no request was received from the shareholders about this issue.

2.3 General Assembly Meetings

Regulations regarding Teknosa's General Assembly Meetings were specified in the "Teknosa A.Ş Internal Directive on Ordinary and Extraordinary General Assembly's Working Principles and Procedures" that is available on the Teknosa Investor Relations website's Information Society Services pages. Apart from this, as per the legislation, the announcements and documents that must be publicly disclosed via Public Disclosure Platform (KAP) before and after the General Assembly meetings, are available under the topic "General Assembly" that is under the Section "Corporate Governance" on Teknosa Investor Relations website.

Corporate Governance Principles Compliance Report

Teknosa's 2016 Ordinary General Assembly meeting was held on the 27th of March 2017 at 15:00 o'clock, at the address of Sabancı Center Sadıka Ana 2 Meeting Room, Sabancı Center, 4. Levent, Beşiktaş, İstanbul.

Call for the General Assembly was made; as stipulated in the Law and Articles of Association, in a manner containing the agenda, via announcements/ads in the Trade Registry Gazette copy (dated 02.03.2017 n.9275), via the Teknosa's website (www.teknosa.com) and the Electronic General Assembly System of the Central Registry Agency, by using all types of communication methods (besides the ones stipulated in the legislation) including electronic communication in order to reach maximum number of shareholders, at least three weeks prior to the General Assembly meeting date. All kind of information regarding the General Assembly, including the annual report and the financial statements, were made available and kept ready physically in the Company headquarters and on the website for the review of the shareholders.

In order for the shareholders to be represented in the General Assembly; both Electronic General Assembly System was used and the power of attorney form that will be notarized within the framework of the provisions of the Capital Markets Board Communiqué (II-30.1) was made available in the Teknosa Headquarters and on the website.

Thus, it was ensured that the shareholders who own dematerialized shares that are monitored by the Central Registry Agency and who also have right to attend General Assembly meetings, or their representatives who represent the shareholders with notarized power of attorneys, attended the General Assembly meetings personally or over the Electronic General Assembly system by using their secure electronic signatures. In consequence, the Company pursued practices that would not create inequalities among the shareholders and that would facilitate attendance the meetings by using the easiest method at the lowest price.

Agenda items are voted on by a show of hands during the General Assembly meeting.

Teknosa's Ordinary General Assembly Meeting was held with the 61.79% participation ratio and TL 110,000,000.00 total nominal value of the Company was represented with 6,797,177,011 shares that have a total nominal value of TL 67,971,770.11

Members of the Board of Directors, Teknosa auditor, General Manager (CEO), Assistant General Manager -Finance (CFO) and the personnel who made the preparations of the General Assembly meeting attended the General Assembly meeting. However, except the shareholders, the stakeholders and media did not attend the meeting.

The meeting agenda included providing information about the 2016 Annual Report, Auditor's Report and Financial Statements; informing the General Assembly about charitable donations; acquittal of the Members of the Board of Directors; determining the method of using the 2016 profit/loss; determining the limit of charitable donations to be made by the Company in 2017 obtaining approval for

Board Member appointments made during the reporting period to fill Board vacancies; Auditor selection; authorizing the Chairman and Members of the Board of Directors to perform the transactions stipulated in the Articles 395 and 396 of the Turkish Commercial Code; obtaining approval for the amendment made to Articles 6 and 10 of the Company's Articles of Association, with respect to the permits to be obtained from the Capital Markets Board and the Ministry of Customs and Trade.

At the General Assembly meeting; the information about the total TL 33,562.12 donation made by Teknosa in 2016 to the non-profit organizations, was presented to the shareholders. It was determined that the upper limit of donations for 2017 is TL 250,000 and/or 5% of the net profit.

During the General Assembly, shareholders used their rights to give proposals. Meeting minutes of the General Assembly were publicly disclosed via Public Disclosure Platform, and all ads, announcements and documents regarding the General Assembly meeting were submitted for the information of the shareholders and stakeholders on Teknosa's website.

The shareholders who have control over the management, the members of the Board of Directors, managers with administrative responsibilities, and their spouses, and their relatives by blood and by marriage up to the second degree; did not make any important transactions which could cause a conflict of interest with the partnership or its subsidiaries and/or, on their behalf or someone else's behalf, did not make any commercial transactions intruding the business field of the partnership or its subsidiaries, or, did not join another partnership, dealing with the same type of commercial businesses, as a partner with unlimited liability ("unlimited partner"). The persons, except the ones mentioned above, who have possibility in reaching the Company information, on their behalf, did not make any transactions that were within the scope of the business fields of the company.

2.4 Voting Rights and Minority Rights

According to Teknosa's Articles of Association, the Company does not have any privileged shares, and has a single right to vote for each share.

Minority shareholders and stakeholders are not represented in the Board of Directors. However, two independent members of the Board of Directors assume duties in the Board of Directors in order to equally represent the minority shareholders, in particular, and all the shareholders and the stakeholders. As of December 31, 2017, Teknosa did not have an associate company that is consolidated with the full consolidation method. Teknosa respects the exercise of minority rights, pursuant to the Turkish Commercial Code and CMB regulations, and the Company did not receive any complaints or negative criticisms regarding this matter in 2017.

2.5. Dividend Right

According to the Profit Distribution Policy approved at Teknosa's Ordinary General Assembly Meeting that was held on the 28th of March 2014; dividend was determined within the framework of the Turkish Code of Commerce provisions, Capital Markets Legislation, other relevant legislation and the relevant article of the Company's Articles of Association regarding profit distribution; and in line with Teknosa's mid and long term strategies, investment and financial plans; and by considering the economic situation of the country and the sector; and by maintaining the balance between the shareholders' expectations and Teknosa's requirements.

In addition to the principle of determination of the profit to be distributed in accordance with the decision to be taken at the General Assembly; distribution of all of the distributable profit to the share holders as cash issue has been adopted as principle. Teknosa does not distribute advance dividends.

Dividends shall be distributed equally to all of the current shares regardless of their dates of issue and/or acquisition at the shortest time, after being approved by the General Assembly, and at the date determined by the General Assembly.

The General Assembly may decide to transfer a portion or the whole amount of the net profits to excess reserves. If the Board of Directors advices the General Assembly not to distribute the profit, the reasoning behind this situation and the planned use of the undistributed profits is explained to the shareholders during the General Assembly. Likewise, the same information is also shared with the public in the Annual Report and at Teknosa's web-site.

The Dividend Distribution Policy is submitted to the approval of the shareholders during the General Assembly. The Dividend Policy is reviewed by the Board of Directors each year, taking into consideration if there are negative factors in the local and global state of the economy, the projects undertaken by Teknosa and the current state of the funds. Any changes made in this policy is submitted to the approval of the shareholders at the first General Assembly to be held following the decisions are made and shared with the public at the Company's website.

Upon approval of the proposed motion at the Teknosa Ordinary General Assembly Meeting held on March 27, 2017, it was decided by majority vote to offset TL 160,613,000.00 of "Period Loss" in the Company's financial statements for the 2016 fiscal year, prepared in accordance with the CMB's Communiqué Series: II No: 14.1, and TL 12,846,342.10 of "Period Loss" recorded in the Company's statutory book as per the Tax Procedure Law with profits of previous years. According to Teknosa's Articles of Association, there are no privileges in dividend distribution.

The profit distribution policy and annual profit distribution proposal are available in the Annual Report, are submitted for the information of the shareholders at the General Assembly and are publicly disclosed via Investor Relations website.

2.6. Transfer of Shares

The Company's Articles of Association does not contain any provisions that restrict the transfer of shares.

SECTION III-PUBLIC DISCLOSURE AND TRANSPARENCY

3.1 Corporate Website and Its Content

Teknosa's corporate website address is www.teknosa.com. Investor Relations pages in Turkish and English are available at the URL of http://yatirimci.teknosa.com. The Company's Investor Relations website is reviewed and revised within the framework of the topic "2.1 Corporate Website Contents" that is specified in the annex "Corporate Governance Principles to be taken as basis" of the CMB Corporate Governance Communiqué /II.17.1). Within this scope, it is ensured that the information and documents stipulated in the legislation are accessible. The efforts continue to provide the English versions of the information specified in Turkish on the website.

The corporate website includes the following content:

- Detailed Information on Corporate Identity
- Vision and Mission
- Information on the Members of the Board of Directors and Executive Committee
- The Company's Shareholder Structure
- CMB Material Event Disclosure
- Articles of Association
- Financial Statements
- Independent Auditor Information
- Date and Agenda of the General Assembly, Explanations of the Agenda Items
- Minutes of the General Assembly and the Attendance List
- Corporate Governance Practices and Compliance Report
- Dividend Distribution Policy
- Disclosure Policy
- Anti Bribery and Corruption Policy
- Frequently Asked Questions

3.2 Annual Report

Teknosa's Annual Report is prepared and publicly disclosed within the framework of; the provisions of the Regulation on the "Determination of the Minimum Content of the Companies' Annual Reports" published in the Official Gazette n. 28395, dated 28.08.2012, the periods stipulated in the Communiqué (II- 14.1) on the "Principles Regarding Financial Reporting in the Capital Markets" and the Corporate Governance Principles.

Annual Reports are presented to the approval of the Board of Directors and are publicly disclosed together with the financial statements unless the Board of Directors takes a decision with a separate statement of responsibility to announce them after the financial statements' announcement. Annual Reports are available on the Teknosa's website.

SECTION IV – STAKEHOLDERS

4.1 Informing the Stakeholders

Regarding the issue of informing the stakeholders, Teknosa takes as a basis the Information Policy published in the Public Disclosure Platform (KAP) on the 26th of December 2014.

Stakeholders are informed on Company-related developments through public disclosures as per relevant regulations. Public disclosure is made through press conferences and statements. Furthermore, information shared during the General Assembly meetings and on the Company's website, the comprehensive activity report, press statements and transparent information policies ensure that both shareholders and stakeholders are kept well-informed. Additionally, company employees are informed via e-mails, training programs, seminars and meetings on issues that cover their fields of expertise or general areas of interest. There is also a portal available for the employees and they can access any information or document of interest to them via this portal.

In order to protect the rights of stakeholders, the Company embraces ethical principles, and has established an ethics committee. Stakeholders can reach the ethics committee at etik@sabanci.com, and etik@teknosa.com e-mail addresses, or at +90 (212) 385 85 85.

The Audit Committee and/or the Corporate Governance Principles Committee are informed if and when required.

4.2. Stakeholder Participation in Management

Employees' participation in management is ensured by organizing regular company meetings (at least twice a year), as well as at the annual goal-setting and performance evaluation meetings. Additionally, employees can give their feedback to the management and to their colleagues through the 360° feedback mechanism. The results are reviewed at various management meetings, and action plans are made in order to realize the necessary changes. With these practices, employees can participate in and contribute to achieving a more effective management at the Company. Communication channels are always kept open for other stakeholders (suppliers, business partners, etc.) as well.

4.3. Human Resources Policy

The goal of the human resources management at Teknosa is to develop and implement human resources strategies that create value and help achieve the Company's vision and business goals. The human resources strategy at Teknosa is to implement a world class human resources management and make Teknosa an exemplary company where everyone wants to or are proud to work at.

In order to realize this strategy, the Human Resources Department of the Company strives to create a management team that

- acts in a very selective manner in recruitment and promotion decisions,
- motivates employees towards exciting goals,
- manages employees according to high performance standards,
- holds the management and the employees responsible for business results,
- gives the employees the opportunity to realize their potentials and use their talents,
- rewards superior performance.

As a subsidiary of Sabancı Holding, Teknosa aims to become a company that is

- Reliable,
- Responsive to others,
- Committed to ethical values,
- Open to change,
- Market oriented,
- Capable of long-term thinking,
- Innovative,
- A preferred workplace for individuals who are open to collaboration.

As part of its Human Resources policy, the Company embraces the principle of equal opportunity for persons with equal qualifications. Thus, the Company treats all employees fairly, and doesn't discriminate them due to their religion, language, race or gender and takes all necessary measures to protect employees against bad treatment. Within this scope, no complaint was raised by the employees on the issue of discrimination in 2017.

Through its Human Resources policies, the Company strives to add qualified employees to its workforce, to invest in its employees by helping them further develop themselves and realize their potentials, to offer continuous training, to further improve and strengthen the overall organization, to implement compensation and rewards programs that increase employee motivation and loyalty, and thus to become a distinguished company.

Employees are made aware of job descriptions and distributions, as well as performance and rewarding criteria. The Company considers efficiency as an important factor in determining employee compensation and benefits. In Teknosa, human resources processes are conducted by the Human Resources Manager, Ebru Anıldı and recruitment and internship processes as well as performance and career management principles and the training and development requirements within the scope of the career development and back-up systems were determined through Teknosa Academy. These issues were shared both with the employees and public under the Human Resources section of the Company's corporate website.

Teknosa respects to and acts in compliance with the legal rules. The Company pays necessary attention to protect all the rights and to pay all the receivables of the employees within the period starting with their labor agreement and ending with the expiration of the agreement.

4.4. Ethical Rules and Social Responsibility

The Company has already established rules of business ethics, and started to implement them. The employees are informed about these rules through the company portal, booklets which are distributed to all employees, and training programs.

Additionally, all employees update their knowledge about the rules of business ethics through an e-learning program at the end of each year, and fill out a "Business Ethics Compliance" form to declare their commitment to business ethics.

Focusing on the concepts of "sustainability" and "creating social value", the Company carries out social responsibility projects mainly in the areas of education, culture & art and environment. The Company provides women across Turkey with free-of-charge technology training as part of the Technology for Women Social Responsibility Project that has been ongoing since 2017. To ensure employees are incorporated into social responsibility activities within the framework of human resources processes, the Teknosa Volunteers Club continues to carry out and support joint activities with social responsibility organizations such as LSV Dükkan or Mor Çatı on special days. Adhering to its responsibilities as the leader of its sector, Teknosa acts as a pioneer by committing itself to educational activities in order to raise young people's consciousness about technology and the environment. Accordingly, Teknosa sets an example in the sector with its environmental practices such electronic waste collection, introduction of eco-friendly bags, and energy efficiency efforts.

SECTION V-BOARD OF DIRECTORS

5.1 Board of Directors' Structure and Formation

The provisions stipulated in the Company's Articles of Association are considered for the procedures and principles such as Teknosa Board of Directors' structure, duties, management rights and power of represent. Teknosa is governed and represented by a Board of Directors that is composed of at least six members who are elected by the General Assembly within the framework of the provisions of the Turkish Code of Commerce and the Capital Markets Legislation. There are six members in the Teknosa Board of Directors in conformity with the Article n.4.3.1 of the Communiqué and there are two independent members in conformity with the exception stipulated in the first paragraph of the 6th Article of the Communiqué.

Minimum qualifications of the Members of the Board of Directors are not specified in the Articles of Association. However, the required qualifications of the Members of the Company's Board of Directors are in line with the relevant articles of CMB Corporate Governance Principles. Two members of the Board of Directors are independent members who are determined according to the Capital Markets Board's regulations on Corporate Governance Principles and Corporate Governance. Independence Statements of the Independent Members of the Board of Directors are available. Within the related activity period, there are no issues that terminate the independency.

Term of office of Board Members may not exceed three years, after which they can be re-elected. In the event that a Board Member position becomes available, the Board elects a new member to fill the position and presents the elected member for approval at the next General Meeting. The newly elected member completes the term of his predecessor.

On the basis of General Meeting's resolution, Board members are authorized to perform transactions within the scope of the Articles 395 and 396 of the Turkish Commercial Code.

The information about Teknosa Board of Directors' Members – whose terms of offices started in March 2015 – is summarized in the below chart while their résumés are available on the Company website and in the related section of the Annual Report:

BOARD OF DIRECTORS

Name/Surname	Position	Term of Employment in the Company	Duties outside the Company
Ata Köseoğlu	Chairman of the Board of Directors (Executive)	31.03.2017-March 2018	H.Ö. Sabancı Holding President of Retail Unit, Carrefoursa Chairman of Board of Directors
Temel Cüneyt Evirgen	Vice Chairman of the Board of Directors (Executive)	20.03.2015-March 2018	Sabancı University Faculty Member
Barış Oran	Member of the Board of Directors	20.03.2015-March 2018	Chief Financial Officer of H.Ö. Sabancı Holding
Onur Özkan(*)	Member of the Board of Directors	08.01.2018-March 2018	H. Ö. Sabancı Holding President of Retail Unit, Projects Coordinator, Carrefoursa and QNB Group Finans Factoring Board Member
Oğuz Nuri Babüroğlu	Independent Member of the Board of Directors	20.03.2015-March 2018	Board Member of Eti Gıda A.Ş.
Atıl Saryal	Independent Member of Board of Directors	17.04.2015-March 2018	Board Member of Kordsa, Akçansa and Olmuksa companies

(*)Kamil Ömer Bozer who resigned from his position as Member of the Board of Directors on January 5, 2018 was replaced by Onur Özkan on January 8, 2018. Onur Özkan will continue to work until the end of his predecessor's term and his appointment will be subject to subsequent approval by the General Assembly as per Article 363 of the Turkish Commercial Code.

5.2. Operating Principles of the Board of Directors

The Board of Directors convenes as frequently as required to efficiently fulfill its duties. The Board operates in a transparent, accountable, fair and responsible manner, and while doing so it always looks out for Teknosa's long-term interests.

Every year, the members of the Board of Directors select a chairman and a vice chairman who will be the acting chairman in the absence of the chairman for the management of the meetings. The chairman of the Board of Directors determines the agenda of the Board of Directors' meetings by getting the opinions of the other members and the general manager. The agenda items of the Board of Directors' meetings are discussed explicitly and with all aspects. The chairman of the Board of Directors is obligated to make the best effort for ensuring effective participation of the non-executive members in the meetings.

Meeting dates and agenda are determined by the chairman or vice chairman.

The Board of Directors convenes as necessitated by the company affairs upon the chairman's or vice chairman's call for the meeting. The meeting date may be determined with the decision of the Board of Directors as well. In case, the chairman or the vice chairman does not call the Board of Directors for the meeting upon the request of one of the members, then the members will have the right to make a call for the meeting ex-officio.

Board of Directors must convene at least four (4) times a year.

The meetings of the Board of Directors can be held at the Company headquarters or at another location within or outside the borders of the country that is deemed appropriate by the Committee.

Unless one of the members make a request for a meeting that will be held physically, the decision of the Board of Directors can be taken by means of getting the written approvals of the other members for another member's proposal regarding a certain issue.

Meeting and decision quorums of the Board of Directors are subject to the provisions of the Turkish Code of Commerce.

The Board of Directors of the Company held four (4) meetings between 01.01.2017 and 31.12.2017.

At the Board meetings each member has 1 vote, and unanimous consent is sought while resolving matters, and the Board always complies with Corporate Governance Principles. All Board Members, excluding those who were excused, attended all the Board meetings. Since Board Members didn't have any questions regarding these matters, they are not recorded in the minutes. No opposite opinions were put forward against the resolutions reached by the Board Members at the Board meetings held in 2017.

In 2017, Board Members neither engaged in any business with the Company nor attempted to go into any business that would fall within the Company's scope of operations.

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

According to Teknosa Articles of Association, the Board of Directors establishes sufficient number of Committees ("Committee") in order to fulfill the tasks and responsibilities in a healthy manner. The "Nomination Committee" and the "Remuneration Committee" liabilities stipulated in the 4.5.1 Article of the Communiqué are undertaken by the "Corporate Governance Committee". Moreover, although the Company pays special attention to comply with the provision of the 4.5.5 Article of the Communique on "Members of the Board of Directors cannot assume duties in more than one Committee", since the Committee membership requires professional expertise, members of the Board of Directors can be a member in more than one Committee.

Corporate Governance Committee

Corporate Governance aims to maintain the continuity of the management process based on ethical values of Teknosa İç and Dış Tic. A.Ş., having internal and external responsibilities, risk awareness and that is transparent and responsible in its decisions, that oversees the benefits of the shareholders and that has sustainable success target.

The duty of this Committee is to make suggestions and recommendations to the Board with regard to establishing the Corporate Governance Principles in line with CMB's or other internationally recognized Corporate Governance Principles.

Corporate Governance Committee, including the President, is composed of maximum three Members, and two Reporters appointed by the Teknosa Board of Directors in line with the CMB's "Corporate Governance Principles". The President of the Corporate Governance Committee is appointed from among the independent members by the Teknosa Board of Directors.

Should the position of President become vacant, the Chairman of the Board assigns one of the committee members as temporary President until the new President is appointed at the next Board meeting.

The Corporate Governance Committee ensures the implementation of the Corporate Governance Principles in the Company, and in case these principles are not implemented then the Committee makes suggestions to the Board of Directors for the improvement. The Committee pursues the activities of the Investor Relations Department. Besides the Board of Directors' and Executive Managers' performance and remuneration principles and assessments, the Committee submits the independent candidate member proposals – by evaluating the independency criteria of the candidates –, including the candidates nominated by the management and the shareholders, to the Board of Directors. In accordance with the legislation, the Independent Members of the Board of Directors present their independence statements in writing to the Corporate Governance Committee at the time they are nominated.

The Corporate Governance Committee convenes 4 times a year. The Corporate Governance Committee convened 4 times in 2017.

With Teknosa Board of Directors' decision, the Corporate Governance Committee members were determined as follow;

Name/Surname	Position	Nature of the Board of Directors Membership/Position
Oğuz Nuri Babüroğlu	President of the Corporate Governance Committee	Independent Member of the Board of Directors
Atıl Saryal	Member of the Corporate Governance Committee	Independent Member of the Board of Directors
Ümit Kocagil	Member of Corporate Governance Committee	Assistant General Manager - Finance in Teknosa

Early Risk Detection Committee

The Early Risk Detection Committee was established to be responsible and authorized referring to the Teknosa İç and Dış Ticaret A.Ş. Board of Directors' resolution and in accordance with the Article 378 of The Turkish Code of Commerce n.6102 and the provisions of the Capital Markets Board's Communiqué on the Corporate Governance Principles.

The Committee performs activities with the aim of early detecting any risks such as strategic, operational, financial, compliance etc. that may jeopardize the existence, development and continuity of Teknosa, of taking necessary measures together with finding solutions and of managing the risk.

The Committee members are elected by the Company's Board of Directors and is disclosed to the public. The President of the Committee is appointed from among the independent members by the Board of Directors. In the Committee; except the President, there are maximum two Members elected by the Company's Board of Directors. The Committee members are preferably elected from among the non-executive Members of the Board of Directors.

Corporate Governance Committee meetings are held at least six times a year, at a location deemed appropriate by the Committee. The Early Risk Detection Committee convened 6 times in 2017.

The annual meeting calendar is determined by the President of the Committee and announced to all committee members at the beginning of each year.

The term of office of the Committee members are in parallel to the term of office of the Members of the Company's Board of Directors. The Committee is re-established upon the election of the Members of the Board of Directors.

With Teknosa Board of Directors' decision, the Early Risk Detection Committee members were determined as follow;

Name/Surname	Position	Nature of the Board of Directors Membership
Oğuz Nuri Babüroğlu	President of the Early Risk Detection Committee	Independent Member of the Board of Directors
Atıl Saryal	Member of the Early Risk Detection Committee	Independent Member of the Board of Directors

Audit Committee

The duty of the Audit Committee is to oversee the Company's accounting system, financial reporting, announcement of financial statements, progress and effectiveness of independent auditing and internal control, on behalf of the Company's Board of Directors. The Audit Committee reports its activities, evaluations and suggestions to the Board of Directors in writing.

The President and the members of the Audit Committee are appointed by the Board of Directors from among Independent Members.

With Teknosa Board of Directors' decision, the Audit Committee members were determined as follow;

Name/Surname	Position	Nature of the Board of Directors Membership
Atıl Saryal	President of the Audit Committee	Independent Member of the Board of Directors
Oğuz Nuri Babüroğlu	Member of the Audit Committee	Independent Member of the Board of Directors

The Audit Committee held 4 meetings in 2017 and the main agenda items were the reviewing of the independent audit report and the presentations of the Audit Committee Presidency.

5.4. Risk Management and Internal Control

Teknosa embraces the notion that every risk brings an opportunity, and recognizes that "sustainable growth" can be achieved by effectively identifying, measuring, and managing risks. The Company places a lot of importance on risk management in order to "create value for its stakeholders", which is a crucial part of its mission.

The Risk Management Policy at Teknosa serves to define, assess, prioritize, monitor, and report the potential risks involved in Teknosa's operations, and also to lay out the procedures and principles which will be adhered to during the process of defining and implementing the necessary measures and strategies against such risks.

Risk management is conducted by the Early Risk Detection Committee ("Committee") on behalf of the Board of Directors. The responsibilities of the Committee are given below:

- To establish a systematic "Risk Management Culture", and to integrate it into the corporate culture,
- To ensure that risks are effectively identified and managed,

- To provide that appropriate threshold values are identified for effective risk management, and the required infrastructure is set up,
- To ensure that investment decisions are made in accordance with Teknosa's and Sabancı Holding's strategic business goals, and predefined "Risk-Taking Limits",
- To ensure that Corporate Risk Management (CRM) becomes a proactive process as an integral and crucial part of Teknosa's corporate culture.

The Company has an Internal Control Mechanism, which effectively carries out the duties assigned by the Board of Directors, in compliance with the bylaws of the Audit Committee.

5.5. The Company's Strategic Goals

The Company's Board of Directors has determined the vision and the mission of the Company, and these are included in the Annual Report, and announced to the public on the Company's website, www.teknosa.com. Company's long term strategies are structured on these principles.

The Board of Directors sets the five-year strategic targets after discussing the issue with the General Assembly and updates every year. Whether the Company achieves its targets or not is monitored via monthly prepared manager reports. Yearend performance assessments are based on whether the Company achieves its targets or not.

5.6. Remuneration of the Board of Directors

Any remuneration, rights and benefits granted to the Company's Board Members are detailed in the Articles of Association. Remuneration Policy of the Company is available on the web-site. The attendance fees paid to the Chairman and the Board Members are determined at the General Assembly Meeting. The salaries paid to executive managers are announced to the public under the notes to the financial statements.

Remuneration of Independent Board Members is not made by stock options or performance-based payment methods.

In 2017, the Company did not lend any money or give out any loans to Board Members; did not extend the due date or improve the terms and conditions of existing debts or loans; did not grant any individual loans via third persons, or did not offer surety guarantees.

Independent Auditor’s Report Regarding the Annual Report

KPMG Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
İş Kuleleri Kule 3 Kat:2-9
Levent 34330 İstanbul
Tel +90 212 316 6000
Fax +90 212 316 6060
www.kpmg.com.tr

To the Board of Directors of TeknoSA İç ve Dış Ticaret Anonim Şirketi

Opinion

We have audited the accompanying annual report of TeknoSA İç ve Dış Ticaret Anonim Şirketi (“The Company”), for the period 1 January 2017 to 31 December 2017.

In our opinion, the financial information included in the annual report and the analysis of the Board of Directors about the financial position of the Company are consistent, in all material respects, with the audited complete set of financial statements and information obtained during the audit and provides a fair presentation.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing which is a component of the Turkish Auditing Standards (“TAS”) issued by the Public Oversight, Accounting and Auditing Standards Authority (“POA”) (“Standards on Auditing issued by POA”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Annual Report section of our report. We declare that we are independent of the Company in accordance with the Code of Ethics for Auditors issued by POA (POA’s Code of Ethics) and the ethical requirements in the regulations issued by POA that are relevant to audit of financial statements, and we have fulfilled our other ethical responsibilities in accordance with the POA’s Code of Ethics and regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The annual report for the period 1 January – 31 December 2016 of the Company were audited by another auditor who expressed an unmodified opinion on the consistency of annual report on 13 February 2017.

Auditor’s Opinion on Complete Set of Financial Statements

We have expressed an unqualified opinion on the complete set of financial statements of the Company for the period 1 January 2017 to 31 December 2017 on 20 February 2018.

KPMG

Board of Directors' Responsibility for the Annual Report

In accordance with the Articles 514 and 516 of the Turkish Commercial Code Numbered. 6102 ("TCC") and Regulation on the Principles and Procedures Concerning the Preparation of and Publishing Annual Reports by the Company ("Regulation") published in the Official Journal dated 1 November 2006 and No. 26333, the Company's management is responsible for the following regarding the annual report:

a) The Company's management prepares its annual report within the first three months following the date of statement of financial position and submits it to the general meeting.
b) The Company's management prepares its annual report in such a way that it presents accurately, completely, directly, true and fairly the flow of annual operations and financial position of the Company. In this report, the financial position of the Company is assessed in accordance with the Company's financial statements. The annual report shall also clearly state the details about the Company's development and risks that might be encountered. The assessment of the board of directors on these matters is included in the report.
c) The annual report also includes:
- Significant events after the reporting period,
- The Company's research and development activities.
- Employee benefits such as wages, premiums and bonuses paid to board members and key management personnel, appropriations, travel, accommodation and representation expenses, cash and cash facilities, insurance and similar guarantees.

When preparing the annual report, the board of directors also consider the related regulations issued by the Ministry of Customs and Trade and related institutions.

Auditor's Responsibility for the Audit of the Annual Report

Our objective is to express an opinion on whether the financial information included in the annual report and analysis of the Board of Directors in relation to the financial position of the Company are consistent with the audited financial statements of the Company and the information obtained during the audit and give a true and fair view and form a report that include this opinion in accordance with the TCC and the Regulation.

We conducted our audit in accordance with Standards on Auditing issued by POA. Those standards are required that compliance with ethical requirements and planning of audit to obtain reasonable assurance on whether the financial information included in the annual report and analysis of the Board of Directors for the financial position of the Company are consistent with the financial statements and the information obtained during the audit and provides a fair presentation.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member of KPMG International Cooperative

Ruşen Fikret Selamet, SMMM
Partner
20 February 2018
İstanbul, Turkey

TEKNOSA İÇ VE DIŞ TİCARET ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 WITH INDEPENDENT AUDITOR'S REPORT

(Originally issued in Turkish)

KPMG Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
İş Kuleleri Kule 3 Kat:2-9
Levent 34330 İstanbul
Tel +90 212 316 6000
Fax +90 212 316 6060
www.kpmg.com.tr

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of TeknoSA İç ve Dış Ticaret Anonim Şirketi

A) Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of TeknoSA İç ve Dış Ticaret Anonim Şirketi ("the Company"), which comprise the statement of financial position as at 31 December 2017, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards ("TASs").

Basis for Opinion

We conducted our audit in accordance with standards on auditing issued by the Capital Markets Board of Turkey ("CMB") and Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA") ("Standards on Auditing issued by POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We declare that we are independent of the Company in accordance with the Code of Ethics for Auditors issued by POA ("POA's Code of Ethics") and the ethical requirements in the regulations issued by POA that are relevant to audit of financial statements, and we have fulfilled our other ethical responsibilities in accordance with the POA's Code of Ethics and regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition and turnover premiums income

Refer to Note 2.5 to the financial statements for summary of significant accounting policies and significant accounting assessments, estimates and assumptions for revenue recognition and turnover premiums income.

The key audit matter

The Company's revenue is primarily generated from retail sales of consumer electronics through its stores and website and air conditioners and white goods through its dealers. Besides, the Company also recognize turnover premiums income from suppliers as such income are accounted for on accrual basis in the period of the services of the vendors and deducted from cost of sales.

The accuracy of retail sales revenue recognized in the financial statements is an inherent industry risk because there is processing of large volumes of data.

Accounting for revenue from retail sales revenue has been identified as one of the key audit matters, as the accuracy of revenue recorded by information technology ("IT") billing systems involves a natural control risk due to the complexity of these systems and the size of the volume of data processed by these systems.

The Company's turnover premiums income are based on the transactions with suppliers and related premiums income consist of commitments to purchase amounts, promotions and marketing activities, and various types of discounts.

These premiums income can vary depending on the turnover and for the sum of purchases made during that period or for certain products within those purchases as of periods.

The amount to be accounted for in the income statement as of the reporting date within the scope of at the rate of realization of the transactions agreed with the Company's suppliers.

How the matter was addressed in our audit

We have performed the following audit procedures to be responsive to retail sales revenue:

- Assessing the appropriateness of the revenue recognition policy of the Company;

- Assessing, with the assistance of our internal IT specialists, the design, implementation and operating effectiveness of the below controls;

- key internal controls over the general IT environment in which the business systems operate, including access to program controls, program change controls, program development controls and computer operation controls; and
- internal IT controls over the completeness and accuracy of pricing and billing process and the end-to-end reconciliation controls from pricing and billing process to the accounting system.

- Testing the integration of IT infrastructure of cashier system and accounting system

- Testing the end-to-end reconciliations from data records to the billing systems and to the general ledger

- Substantive testing on a sample of non-systematic adjustments which are outside of the normal billing process and therefore carry higher levels of management judgment.

We have performed the following audit procedures to be responsive to turnover premiums income:

- Review of correspondence with suppliers and end-to-end reconciliation checks between the internal IT controls and pricing and billing systems and accounting systems in relation to the completeness and accuracy of pricing and billing for purchases to ensure that turnover premiums income received from suppliers are accounted for in accordance with the terms of the relevant contracts in the correct period and in the correct amount

- Controlling the realization of turnover premiums income recognized as accruals in the following period

- Testing of current accounts of suppliers in which significant portion of turnover premiums income is obtained, by means of external confirmation

-Assessment of all journal entries that the Company has accounted for during the year.

Financial position – Identification of whether the company's capital is unrequited or not, or whether the capital is running into debt

Refer to Note 2.5 and Note 29 to the financial statements for significant accounting assessments.

The key audit matter

The Company has certain obligations which has key determinants in relation to going concern regulated by the Turkish Commercial Code ("TCC") numbered 6102.

We have identified that the most important assumption used in assessing the going concern of the Company - as the main determinant of the equity position evaluating the Company's brand by taking the brand appraisal report and expected future profitability.

The calculations in order to determine the fair value of the Trademark and the calculations supporting the future profitability assessment made by the Company management are based on the estimations of the management's future performance and significant judgements.
We identified this issue as a key audit matter because of the significant judgment required in determining the assumptions and estimates used in the calculations.

How the matter was addressed in our audit

Our audit procedures to assess financial position included the following:

- Evaluation of the significant estimates and assumptions an review of valuation methodology used in the brand appraisal report as included in the special purpose financial statements prepared in accordance with TCC 376 in compliance with CMB decision dated 10 April 2014 and numbered 11/352.

- Assessment of the assumptions used by the Company management in estimating future performance and whether the accounting principles used in the preparation of the related special purpose financial statement are appropriate

Other Matter

The financial statements of the Company for the year ended 31 December 2016, were audited by another auditor who expressed an unmodified opinion on those financial statements on 13 February 2017.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Turkish Accounting Standards, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Responsibilities of auditors in an audit are as follows:

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with standards on auditing issued by the CMB and Standards on Auditing issued by POA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the standards on auditing issued by the CMB and Standards on Auditing issued by POA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

B) Report on Other Legal and Regulatory Requirements

1) Pursuant to the fourth paragraph of Article 398 of Turkish Commercial Code ("TCC") no. 6102; Auditors' Report on System and Committee of Early Identification of Risks is presented to the Board of Directors of the Company on 20 February 2018.

2) Pursuant to the fourth paragraph of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that for the period 1 January - 31 December 2017, the Company's bookkeeping activities and financial statements are not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting.

3) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member of KPMG International Cooperative

Ruşen Fikret Selamet, SMMM
Partner
20 February 2018
İstanbul, Turkey

INDEX

(Convenience Translation into English of Financial Statements Originally Issued in Turkish)

Teknosa İç ve Dış Ticaret Anonim Şirketi

Statement of Financial Position as at 31 December 2017

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

	Notes	Current period *Audited* 31 December 2017	Prior period *Audited* 31 December 2016
ASSETS			
Current assets		**554.759**	**573.597**
Cash and cash equivalents	5	72.703	156.094
Trade receivables	6	56.128	50.349
Trade receivables from related parties	*4,6*	*2.610*	*1.701*
Trade receivables from third parties	*6*	*53.518*	*48.648*
Inventories	8	418.496	352.687
Prepaid expenses	9	5.618	11.077
Other current assets	16	1.814	3.390
Non-current assets		**172.049**	**188.721**
Other receivables	7	501	556
Investment property	10	10.196	10.196
Property, plant and equipment	11	84.921	98.744
Intangible assets	12	24.184	22.287
Prepaid expenses	9	432	577
Deferred tax assets	23	51.815	56.361
TOTAL ASSETS		**726.808**	**762.318**

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

Teknosa İç ve Dış Ticaret Anonim Şirketi

Statement of Financial Position as at 31 December 2017

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

		Current period	Prior period
		Audited	*Audited*
	Notes	31 December 2017	31 December 2016
LIABILITIES			
Current liabilities		**763.615**	**819.642**
Trade payables	6	674.944	712.323
Trade payables to related parties	*4,6*	*3.296*	*4.201*
Trade payables to third parties	*6*	*671.648*	*708.122*
Payables related to employee benefits	13	16.877	13.462
Other payables	7	1.456	1.198
Other payables to third parties		*1.456*	*1.198*
Deferred revenue	9	17.660	23.135
Short-term provisions		22.887	42.311
Short-term provisions for employee benefits	13	10.229	7.545
Other short-term provisions	14	12.658	34.766
Derivative financial instruments	26	304	--
Other current liabilities	16	29.487	27.213
Non-current liabilities		**6.566**	**4.591**
Long-term provisions for employee benefits	13	6.566	4.591
EQUITY		**(43.373)**	**(61.915)**
Share capital	17	110.000	110.000
Adjustments to share capital	17	6.628	6.628
Restricted reserves	17	8.704	8.704
Other reserves		3	3
Other compherensive income or expense items that are or may be reclassified to profit or loss		(237)	--
Cash flow hedge reserves		*(237)*	--
Other comprehensive income or expense items that will not be reclassified to profit or loss		19.341	20.130
Gains on revaluation of property, plant and equipment		*21.908*	*21.908*
Losses on remeasurement of defined benefit plans		*(2.567)*	*(1.778)*
Accumulated losses		(207.380)	(46.767)
Net profit / (loss) for the period		19.568	(160.613)
TOTAL LIABILITES		**726.808**	**762.318**

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

(Convenience Translation into English of Financial Statements Originally Issued in Turkish)

Teknosa İç ve Dış Ticaret Anonim Şirketi

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2017

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

	Notes	Current period 1 January- 31 December 2017	Prior period 1 January- 31 December 2016
Revenue	18	3.397.855	3.074.087
Cost of revenue (-)	18	(2.778.833)	(2.573.138)
GROSS PROFIT		**619.022**	**500.949**
Marketing expenses (-)	19	(440.775)	(457.092)
General administrative expenses (-)	19	(44.483)	(48.212)
Other income from operating activities	20	29.354	20.068
Other expenses from operating activities (-)	20	(78.005)	(125.981)
RESULTS FROM OPERATING ACTIVITIES		**85.113**	**(110.268)**
Income from investing activities	21	336	1.072
Expenses from investing activities (-)	21	(794)	(17.075)
OPERATING PROFIT/(LOSS) BEFORE FINANCE EXPENSE		**84.655**	**(126.271)**
Finance expenses (-)	22	(60.278)	(66.649)
OPERATING PROFIT/ (LOSS) BEFORE INCOME TAX		**24.377**	**(192.920)**
Tax (expense)/income		**(4.809)**	**32.307**
- Current tax expense		--	--
- Deferred tax (expense)/income	23	(4.809)	32.307
PROFIT/(LOSS) FOR THE PERIOD		**19.568**	**(160.613)**
Attributable to:			
Non-controlling interests		--	--
Owners of the Company		19.568	(160.613)
OTHER COMPREHENSIVE INCOME / (EXPENSE)			
Items that will not be reclassified to profit or loss		**(789)**	**22.114**
Gains/(losses) on remeasurement of defined benefit plans		*(986)*	*258*
Gains on revaluation of property, plant and equipment		*--*	*23.061*
Income tax related to items that will not be reclassified to profit or loss		*197*	*(1.205)*
Items that are or may be reclassified to profit or loss		**(237)**	**(288)**
(Losses)/gains on cash flow hedges		*(304)*	*(360)*
Income tax related to items that are or may bereclassified to profit or loss		*67*	*72*
TOTAL COMPREHENSIVE INCOME / (EXPENSE)		**18.542**	**(138.787)**
Earnings/(loss) per share [(For 1 lot share)]	**24**	**0,0018**	**(0,0146)**
Diluted earnings /(loss) per share [(For 1 lot share)]	**24**	**0,0018**	**(0,0146)**

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

(Convenience Translation into English of Financial Statements Originally Issued in Turkish)

Teknosa İç ve Dış Ticaret Anonim Şirketi

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

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

					Other comprehensive income that will not be reclassified to profit or loss		Other comprehensive income that are or may be reclassified to profit or loss	Retained earnings/ Accumulated losses		
	Paid in share capital	Adjusments to share capital	Restricted reserves	Other reserves	Gain / (losses) on remeasurement of defined benefit plans	Gains on revaluation of property, plant and equipment	Cash flow hedge reserve	Prior years' profit/ (losses)	Net profit/ (loss) for the period	Total equity
Prior period										
Balance at 1 January 2016	110.000	6.628	8.704	3	(1.984)	--	288	47.456	(94.573)	76.522
Transfers	--	--	--	--	--	--	--	(94.573)	94.573	--
Effect of changes in accounting policies (Note 2.2)	--	--	--	--	--	--	--	350	--	350
Total comprehensive income	--	--	--	--	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)
Current period										
Balance at 1 January 2017	110.000	6.628	8.704	3	(1.778)	21.908	--	(46.767)	(160.613)	(61.915)
Transfers	--	--	--	--	--	--	--	(160.613)	160.613	--
Total comprehensive income	--	--	--	--	(789)	--	(237)	--	19.568	18.542
Balance at 31 December 2017	110.000	6.628	8.704	3	(2.567)	21.908	(237)	(207.380)	19.568	(43.373)

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

(Convenience Translation into English of Financial Statements Originally Issued in Turkish)

Teknosa İç ve Dış Ticaret Anonim Şirketi

Statement of Cash Flows for the Year Ended 31 December 2017

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

	Notes	Current period *Audited* 1 January – 31 December 2017	Prior period *Audited* 1 January – 31 December 2016
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) for the period		19.568	(160.613)
Adjustments:			
Adjustments for financial expenses	22	60.278	66.649
Adjustments for depreciation and amortisation expenses	19	33.624	36.931
Adjustments for fair value (gains) or losses on derivative financial instruments		(67)	--
Adjustments for impairment of receivables	6	1.448	5.107
Adjustments for (reversal of)/provision for other provisions		(4.628)	19.553
Adjustments for (reversal of)/impairment of property, plant and equipment and intangible assets	11,12	5.189	2.104
Adjustments for (reversal of)/impairment of inventory	8	549	(762)
Adjustments for provision for employee benefits		8.416	5.593
Adjustments for interest expenses	21	(336)	(1.072)
Adjustments for tax expense/(income)	23	4.809	(32.307)
Adjustments for the (gains)/losses on sale of property, plant and equipment	21	794	17.075
		129.644	**(41.742)**
Changes in working capital:			
Decrease/(increase) in trade receivables from third parties		(6.515)	(547)
Decrease in trade receivables from related parties	4	(909)	307
Decrease/(increase) in inventories	8	(66.358)	128.686
Decrease in other assets related to operations		7.235	23.987
Decrease in trade payables to third parties	6	(36.474)	(158.274)
Decrease in trade payables to related parties	4,6	(905)	(131)
Change in other liabilities related to operations		(248)	15.305
Payments related to provisions for employee benefits	13	(3.757)	(5.012)
Payments related to other provisions	14	(17.480)	(12.825)
Cash provided by/(used in) operating activities		**4.233**	**(50.246)**
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	11	(16.580)	(24.203)
Acquisition of intangible assets	12	(11.658)	(9.869)
Proceeds from sale of property, plant and equipment and intangible assets	10	556	704
Interest received	21	336	1.072
Cash used in investing activities		**(27.346)**	**(32.296)**
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	19	(60.278)	(66.649)
Cash (used in)/provided from financing activities		**(60.278)**	**(66.649)**
NET DECREASE/INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C)	**5**	**(83.391)**	**(149.191)**
D. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**5**	**156.094**	**305.285**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D)	**5**	**72.703**	**156.094**

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

NOTE 1 – ORGANISATION AND NATURE OF OPERATIONS

Teknosa İç ve Dış Ticaret Anonim Şirketi, ("Teknosa" or "the Company") was established on 3 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 main shareholders are Hacı Ömer Sabancı Holding A.Ş. and Sabancı Family members. As at 31 December 2017, number of personnel of the Company is 2.570 (31 December 2016: 2.688). The Company is registered in Turkey and operates under the laws and regulations of Turkish Commercial Code.

In accordance with the resolution of the Board of Directors dated 6 April 2016, the Company merged with Kliksa İç ve Dış Ticaret Anonim Şirketi ("Kliksa") which was 100% subsidiary of the Company in the previous periods through dissolving without liquidation by transferring all of its assets and liabilities fully as at 1 June 2016.

The Company operates in Turkey in 204 stores with 110.346 square meters retail space as at 31 December 2017 (31 December 2016: 122.580 square meters, 210 stores). The registered office address of the Company is as follows:

Barbaros Mahallesi, Mor Sümbül Sok. No:7/3F 1-18 Nida Kule Ataşehir Güney, 34746
Ataşehir – İstanbul

The Company's shares have been traded on Borsa Istanbul since 2012.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

(i) Statement of compliance

The accompanying financial statements of the Company are prepared in accordance with the Communiqué Serial II, No:14.1 "Communiqué on Financial Reporting Standards in Capital Markets" ("Communiqué") 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 related interpretations which are endorsed by the Public Oversight Accounting and Auditing Standards Authority ("POA") in accordance with the 5th Article of the Communiqué.

The financial statements and its accompanying notes of the Company are presented in compliance with "Announcement on Financial Statements and Disclosure Formats" announced by CMB on 7 June 2013, including its mandatory information.

The Company maintain their accounting records and prepares its statutory financial statements in accordance with regulations and principles issued by CMB, the Turkish Commercial Code (the "TCC"), tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. These financial statements are based on the statutory records, which are maintained under historical cost conversion, except for financial assets and financial liabilities which are carried at fair value, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with the TAS.

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

2.1 Basis of presentation (Contiuned)

(ii) Basis of measurement

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

(iii) Preparation of financial statements

The accompanying financial statements are prepared in accordance with "Announcement on Financial Statements and Disclosure Formats" of CMB. The financial statements of the Company as at and for the year ended 31 December 2017 have been approved by the Board of Directors on 20 February 2018. The general assembly and the other regulatory bodies have the power to amend the financial statements after their issue.

(iv) 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). The financial position and the results of the Company's operations have been expressed in Turkish Lira ("TL") which is the functional currency of the Company and which is the presentation currency of the financial statements.

(v) Preparation of financial statements in hyperinflationary periods

The CMB, with its resolution dated 17 March 2005 and numbered 11/367, declared that companies operating in Turkey which prepares their financial statements in accordance with the TAS, would not be subject to the application of inflation accounting effective from 1 January 2005. Accordingly, TAS 29 "Financial Reporting in Hyperinflationary Economies" was not applied since 1 January 2005.

(vi) Comparative information and reclassifications of the prior periods' financial statements

The financial statements of the Company have been prepared comparatively with the prior year 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 in line with the related changes with respective disclosures for the major differences. The Company made reclassifications on prior period financial statements. The nature and extent of those reclassification are presented as below:

- The Company reclassified loss from disposal of fixed assets amounting to TL 17.075 previously presented under "other expenses from operating activities" to "expenses from investing activities" in its comparative statement of profit or loss and other comprehensive income for year ended 31 December 2016.

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

2.1 Basis of presentation (Contiuned)

- The Company reclassified expenses accruals related to supplier confirmation difference amounting TL 6.100 previously presented under "other short term provisions" to "provision for doubtful receivables" in its comparative statement of financial position as at 31 December 2016.

The related reclassifications have no effect on the net loss for year ended 31 December 2016.

The reclassifications are considered in the preparation of the statement of cash flows for year ended 31 December 2017.

2.2 Changes in accounting policies

The accounting policies applied in the financial statements as at and for the year ended 31 December 2017 are the same as those applied in the last annual financial statements as at and for the year ended 31 December 2016.

The Company has started to carry its land and building which are reclassified as investment property at fair value instead of carrying at cost starting from 30 June 2016. According to TAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", this accounting change requires restatement of prior periods' financial statements. Since this accounting policy change has not a significant effect on the prior years' financial statements, the Company decided not to restate prior periods' financial statements by considering materiality level for the financial statements.

Additionally, the Company has started to carry its land and building which are reclassified as property and equipment at fair value instead of carrying at cost. Initial implementation of revaluation of property, plant and equipment has not been applied retrospectively in accordance with TAS 8 paragraph 17.

2.3 Changes in estimates and error

The preparation of the financial statements in compliance with TAS requires to make judgments, estimates and assumptions that affects the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Critical judgments and assumptions and estimation uncertainties in applying accounting policies have the significant effect on the amounts recognised in the financial statements.

If the changes in accounting estimates are related with a period, they are applied in the period they are related with and if the changes are related with the future periods, they are applied both in the period the change is made and prospectively in the future periods. The Company has no significant changes in the accounting estimates as at and for year ended 31 December 2017 compared to those used in previous year.

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

2.4 Changes in Turkish Financial Reporting Standards

New standards, interpretations and amendments to existing standards are not effective at reporting date but earlier application is permitted; however the Company has not early adopted those standards. The Company will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, after the new standards and interpretations become in effect.

TFRS 15 Revenue from Contracts with Customers,

As issued in September 2016 by POA, the new standard replaces existing TFRS guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which companies to be entitled, rather than fair value and new guidance have been introduced on separating performance obligations for goods and services in a contract and recognition of revenue over time. TFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

According to the Company's assessment of TFRS 15 effects, the Company has performed an initial assessment on these transactions and does not expect that there will be a significant impact on its financial statements resulting from the application of TFRS 15.

TFRS 9 Financial Instruments (2017 version)

TFRS 9 Financial Instruments, has been published by POA in January 2017, replaces the existing guidance in TAS 39 Financial Instruments: Recognition and Measurement. It also carries forward the guidance on recognition, classification, measurement and derecogniton of financial instruments from TAS 39 to TFRS 9. The last version of TFRS 9 includes a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements and also includes guidance issued in previous versions of TFRS 9. The Standard is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company has performed an assessment about the possibility of impairment on its post dated receivables due to the application of expected credit loss model for those receivables and does not expect that there will be a significant impact on its financial statements resulting from the application of TFRS 9.

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

2.4 Changes in Turkish Financial Reporting Standards (Continued)

TFRS Interpretation 22 "Foreign Currency Transactions and Advance Consideration"

TFRS Interpretation 22 has been published by POA in December 2017 to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. This Interpretation is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Company does not expect that application of TFRS Interpretation 22 will have significant impact on its financial statements.

TFRS 2 Share-Based Payment

POA has issued amendments to TFRS 2 Share-Based Payment in December 2017 to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Company does not expect that application of these amendments to TFRS 2 will have impact on its financial statements.

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

2.4 Changes in Turkish Financial Reporting Standards (Continued)

TAS 40 – Transfers of Investment Property

Amendments to TAS 40 - Transfers of Investment Property issued by POA in December 2017 have been made to clarify uncertainty about that provide evidence of transfer of /from investment property to other asset groups. A change in management's intentions for the use of property does not provide evidence of a change in intended use. Therefore, when an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Company does not expect that application of these amendments to TAS 40 will have significant impact on its financial statements.

Improvements to TFRSs

POA has issued Annual Improvements to TFRSs - 2014–2016 Cycle for applicable standards. The amendments are effective as of 1 January 2018. Earlier application is permitted. The Company does not expect that application of these improvements to TFRSs will have significant impact on its financial statements.

Annual Improvements to TFRSs 2014-2016 Cycle

TFRS 1 "First Time Adoption of International Financial Reporting Standards"

TFRS 1 is amended to removing of the outdated short-term exemptions for first-time adopters within the context of 'Annual Improvements to TFRSs 2012-2014 Cycle' related to disclosures for financial instruments, employee benefits and investment entities.

TAS 28 "Investments in Associates and Joint Ventures"

The amendment enable when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with TFRS 9.

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

2.4 Changes in Turkish Financial Reporting Standards (Continued)

Amendments to TFRS 9 - Prepayment features with negative compensation

On December 2017, POA has issued amendments to TFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of TFRS 9. Under TFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include 'reasonable additional compensation' for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Company is assessing the potential impact on its financial statements resulting from the application of the amendments to TFRS 9.

Amendments to TAS 28- Long-term interests in Associates and Joint Ventures

On December 2017, POA has issued amendments to TAS 28 to clarify that entities also apply TFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of TAS 28. In applying TFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying TAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Company does not expect that application of these amendments to TAS 28 will have significant impact on its financial statements.

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Company will make the necessary changes to its financial statements after the new standards and interpretations are issued and become effective under TFRS.

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

2.4 Changes in Turkish Financial Reporting Standards (Continued)

IFRS 16 Leases

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to IAS 40 Investment Properties. IFRS 16 Leases eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 Revenue from Contracts with Customers.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

IFRIC 23 –Uncertainty Over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.

The Interpretation is effective from 1 January 2019 with earlier application is permitted. The Company is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.

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

2.4 Changes in Turkish Financial Reporting Standards (Continued)

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Company does not expect that application of these improvements to IFRSs will have significant impact on its financial statements.

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

IAS 12 Income Taxes

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

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

2.4 Changes in Turkish Financial Reporting Standards (Continued)

IFRS 17 –Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly international standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost.

The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier.

2.5 Summary of Significant Accounting Policies

The accounting policies applied in preparation of the accompanying financial statements are as follows.

Cash and cash equivalents

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

Collection risk due from 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 institutaitons on the following day when the sale made within the scope of the credit card sales contracts made under the various banks and financial instutions.

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

2.5 Summary of Significant Accounting Policies (Continued)

Related parties

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

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.

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

2.5 Summary of Significant Accounting Policies (Continued)

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

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.

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 (Note 10). 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.

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

2.5 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment except for lands and building are measured at cost less accumulated depreciation and impairment losses.

The Company has opted for the option of measuring the land and buildings in the tangible fixed assets by revaluation method. The revalued amount is the fair value at the revaluation date, less accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment except for land are depreciated on a straight-line basis (Note 11). The useful lives for property, plant and equipment are as follows:

	Useful lives (year)
Buildings	50
Vehicles	5
Machinery and equipments	4 – 15
Furniture and fixtures	5 – 10
Leasehold improvements	5 – 10

Useful lives of property and equipment are reviewed at each reporting date and necessary adjustments are applied if necessary.

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 useful lives of intangible assets are as follows:

	Useful lives (year)
Licences, rights and computer software	3 - 15

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

2.5 Summary of Significant Accounting Policies (Continued)

Impairment of 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 has identified stores which are operating more than 1 year generates operating profit/(loss) before income tax except outlets. For the relevant stores, they have made discounted cash flow projections for 10 years. As a result of the study, it has been determined that the Company does not have a provision for the impairment of stores at the end of 2017. If any such indication exists, then the asset's recoverable amount is compared with the carrying amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss and other comprehensive income.

Besides, the Company management accounts for provision for the impairment of the tangible assets of the stores, which are expected to be closed down as of the reporting 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 liabilities

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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.

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

2.5 Summary of Significant Accounting Policies (Continued)

Provisions, contingent assets and liabilities (Continued)

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

Cash flows from operating activities represent cash flows from the sale of technology electronic equipment and air conditioning and white goods sales of the Company.

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

Cash flows arising from financial 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 demand deposits whose maturities are three months or less from date of acquisition. Any restricted cash and cash equivalents that are not ready for the Company's use as at the reporting date, are excluded from the sum of the cash and cash equivalent in the statement of cash flows.

Borrowings and borrowing cost

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.

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

2.5 Summary of Significant Accounting Policies (Continued)

Borrowings and borrowing cost (continued)

Borrowing costs arising from the borrowings made by the Company constitute a part of the cost of that asset when borrowing costs can be directly attributable to the acquisition, construction or production of a qualifying asset that necessarily requires a long period of time, and other borrowing costs are expensed are accounted for as income. The cost of the borrowing is included in the cost of the asset when it is incurred and when the period required to bring the asset to its final use is in progress. Capitalization ceases when the asset is substantially complete and ready for its intended use.

Tax

Tax expense comprises current and deferred tax.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The current tax liability also includes tax liabilities arising from dividend distribution notifications. The deduction of current tax assets and liabilities can only be made when certain conditions are met.

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.

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

2.5 Summary of Significant Accounting Policies (Continued)

Tax (continued)

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.

Employee 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).

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

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

2.5 Summary of Significant Accounting Policies (Continued)

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

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.

	31 December 2017	31 December 2016
USD	3,7719	3,5192
Euro	4,5155	3,7099

Revenue recognition

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.

Gift vouchers sold by the Company to its customers are classified under other current liabilities section as an deferred revenue. 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 deferred revenue.

Interest income is recorded by using the effective interest rate.

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

2.5 Summary of Significant Accounting Policies (Continued)

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 period.

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. 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 (İklimsa) 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.

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

2.5 Summary of Significant Accounting Policies (Continued)

Offsetting

Financial assets and liabilities are offset and the net amounts 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.

Derivative Financial Instruments and Hedge Accounting

The Company started to apply hedge accounting since from November 2015. The Company's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest 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.

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

2.5 Summary of Significant Accounting Policies (Continued)

Derivative Financial Instruments and Hedge Accounting (Continued)

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.

Critical judgments in applying the Company'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 lives of property and equipment and intangible assets

Items of property and equipment and intangible assets except for land and buildings are measured at cost less accumulated depreciation and impairment losses, if any. Depreciation is recognised on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Impairment of property, plant and equipment and intangible assets

The Company assesses at each reporting date to determine whether there is any indication of impairment. If the stores which are operating more than 1 year generates operating profit/ (loss) before income tax lower than the planned performance result, this situation is assessed as an objective evidence for impairment. If any such indication exists, then the asset's recoverable amount is compared with the carrying amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. If the carrying amount of an asset or any cash generating unit that the asset belongs to is higher than its net realizable value, the value of the asset has impaired. Additionally, the Company recognises allowance for impairment for the tangible assets of the stores for which the Company management has expected to close down. The allowance for impairment is calculated with rates applied on the net carrying amount as at the reporting date. The applied rate is 100% for the leasehold improvements and 50% for the equipment. The Company recognised allowance on property, plant and equipment amounting to TL 8.199 as at 31 December 2017 (31 December 2016: TL 3.010).

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

2.5 Summary of Significant Accounting Policies (Continued)

Critical judgments in applying the Company's accounting policies (continued)

Allowance on inventories

In accordance with the accounting policy, inventories are stated at the net realisable value ("NRV"). The Company measures the products with selling prices lower than its cost at lower of cost or NRV. NRV, is the value after deducting the estimated expenditures to be made to bring the stocks at sale at the estimated selling price.

The Company makes aging analysis for its inventories based on certain date ranges from the acquisition date. Impairment is calculated for the old stock over 180 days with different rates applied for each date range based on the aging analysis as at reporting date. The Company recognised allowance on inventories amounting to TL 17.312 as at 31 December 2017 (31 December 2016: TL 16.763). (Note 8)

Deferred tax assets

The Company recognises deferred tax asset or liability in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes in accordance with TAS and the amounts used for taxation purposes. The Company has deferred tax assets arising from carried forward tax losses and other temporary differences deductible from its potential future profits. The Company management estimates the amount of deferred tax assets which is fully and partially recoverable based on the current circumstances and available information. During the assessment, projections of future taxable income, current year and carried forward losses, potential expiration dates for utilisation of tax losses and other tax assets, and tax planning strategies are considered.

Restructuring provisions

The Company recognised provisions in its financial statements for the year ended 31 December 2016 in accordance with the decisions taken in scope of the reorganisation strategy. These provisions are mainly comprised of the provisions for the penalty payments as a result of cancellation of rent agreements and labour related ongoing law suits. Terms of the rent agreements, opinions of the legal counsellor and management expectations are considered to recognise the provisions. The Company agreed on the penalty payments with the landlords based on the negotiations held for the year ended 31 December 2017 and paid the penalties with a discount during the period. Provision for cancellation of rent agreements are released after deducting the payments realised during the current period and remaining amount is recognised in other income from operating activities in the financial statements. As at 31 December 2017, the Company recognised a penalty payment provision going to be paid to lessor due to early termination of a rent contract for store planned to close in 2018.

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

2.5 Summary of Significant Accounting Policies (Continued)

Critical judgments in applying the Company's accounting policies (continued)

Accounting of gift checks

The Company recognises income from the gift checks by estimating the portion which will not be used by the customers based on the historic data. As at 31 December 2017, the amount offset from the deferred revenue from the gift checks recognised in the financial statement is amounting to TL 4.463 (31 December 2016: TL 4.014)

Compliance with the financial requirements

The Company recognised net profit amounting to TL 19.568 for the year ended 31 December 2017. As at 31 December 2017, accumulated losses are amounting to TL 207.380. As at 31 December 2017, negative equity of the Company which includes the prior years' losses is amounting to TL 43.373.

In 2016 the Company management closed the nonperforming stores considering the future profitability factors, and have further taken necessary actions to reduce the rent expenses in the stores and the operational costs in the headquarter, manage clerance of its inventories to reduce the cost of inventories. The Company recognised the expenses and provisions related to these actions taken in its financial statements. As a result of the actions taken, the Company started to generate performance results which improve the negative equity status.

In addition to this, the Company made an announcement on Public Disclosure Platform on 20 February 2018 in accordance with the CMB's principal decision numbered 11/352 as detailed below:

"The Company issued its financial statements which are prepared in accordance with the CMB regulations as at 31 December 2017. The Company's equity in these financial statements amounting to full TL (-) 43.373.000 and the brand value which is the off-balance sheet asset of the Company amounting to full TL 315.159.000 are considered in accordance with the CMB's principal decision numbered 2014/11. However, there is no change in the negative equity status of the Company in these financial statements which are prepared in accordance with above mentioned the CMB regulations. As a result, statement of financial position is prepared in accordance with the related article of TCC 376 based on the CMB's principal decision numbered 2014/11

The brand value is included in the statement of financial position prepared in accordance with the related article of TCC 376. Equity of this statement in the financial position prepared in accordance with the related article of TCC 376 is amounting to full TL (+) 319.376.359 This indicates that the Company maintains its share capital amounting to full TL 110.000.000."

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

NOTE 3 – SEGMENT REPORTING

The Company applies TFRS 8 starting from 1 January 2009 and determined the reportable segments based on the internal management reports which are regularly reviewed by the decision maker.

In order to take the decisions about the allocation of resources to the operating segments and evaluate the performance of these segments, the decision maker reviews the results and the operations by sales channel. The Company's sales channel are as follows: Electronics retail sales, and sales of air conditions and white goods through dealers. These sales are also reviewed as stores and dealers (İklimsa). In addition, assets and liabilities are not included in the segment reporting, since they are not regularly presented to the decision maker and are not reviewed in as a part of segment reporting.

Details of the segment reporting according to the internal management reports are as follows:

	1 January – 31 December 2017		
	Retail stores	**Dealer group**	**Total**
Total segment income	3.157.552	240.303	3.397.855
Income from third party customers	**3.157.552**	**240.303**	**3.397.855**
Profit before interest, tax, employee termination benefits, depreciation and amortisation (EBITDA)	**140.789**	**30.531**	**171.320**

	1 January – 31 December 2016		
	Retail stores	**Dealer group**	**Total**
Total segment income	2.903.661	170.426	3.074.087
Income from third party customers	**2.903.661**	**170.426**	**3.074.087**
Profit before interest, tax, employee termination benefits, depreciation and amortisation (EBITDA)	**20.117**	**18.175**	**38.292**

	1 January – 31 December 2017	1 January – 31 December 2016
Reconciliation of EBITDA with profit before taxes:	171.320	38.292
Depreciation and amortisation expenses	(33.624)	(36.931)
Finance expenses	(60.278)	(66.649)
Income/(expenses) from investing activities	(458)	(16.003)
Other expenses from operating activities- net	(48.651)	(105.913)
Provision for employee termination benefits	(3.932)	(5.716)
Profit/(loss) before tax	**24.377**	**(192.920)**

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

NOTE 4 – RELATED PARTY DISCLOSURES

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

	31 December 2017	
	Receivables	Payables
	Current	Current
Balances with related parties	Trading	Trading
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş.	1.146	--
Avivasa Emeklilik ve Hayat A.Ş.	653	1
Akbank T.A.Ş.	402	--
Hacı Ömer Sabancı Holding A.Ş.	158	--
Brisa Bridgestone Sabancı Lastık San.Ve Tic.A.Ş.	95	--
Enerjisa Enerji A.Ş. ve Bağlı Ortaklıkları	66	31
Akçansa Çimento San. ve Tic. A.Ş.	55	--
Aksigorta A.Ş.	20	140
Bimsa Uluslararası İş Bilgi ve Yönetim Sis. A.Ş.	11	3.123
Çimsa Çimento San. ve Tic. A.Ş.	4	--
Temsa Global Sanayi ve Ticaret A.Ş.	--	1
	2.610	3.296

	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

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

NOTE 4 – RELATED PARTY DISCLOSURES (Continued)

Deposit accounts in Akbank T.A.Ş.	31 December 2017	31 December 2016
Demand deposit	10.702	10.377
Time deposit	--	4.000
	10.702	**14.377**

Credit card receivables in Akbank T.A.Ş.	31 December 2017	31 December 2016
Credit card receivables	3.989	3.301
	3.989	**3.301**

	1 January – 31 December 2017		
Transactions with related parties	**Sale of goods**	**Rent expense**	**Other expenses**
Akbank T.A.Ş.	14.808	--	--
Carrefoursa Carrefour Sabancı Tic. Merkezi A.Ş.	1.447	4.814	156
Aksigorta A.Ş.	384	--	1.607
Avivasa Emeklilik ve Hayat A.Ş.	185	--	--
Akçansa Çimento San. ve Tic. A.Ş.	163	--	--
Enerjisa Enerji A.Ş. ve Bağlı Ortaklıkları	111	--	4.133
Çimsa Çimento San.ve Tic.A.Ş.	48	--	--
Temsa İş Makinaları İmalat Pazarlama ve Satış A.Ş.	15	--	--
Bimsa Uluslararası İş Bilgi ve Yönetim Sis. A.Ş.	13	--	3.356
H.Ö. Sabancı Holding A.Ş.	6	--	31
Philip Morris Sabancı Pazarlama Satış A.Ş.	3	--	--
Brisa Bridgestone Sabancı Las. San. ve Tic. A.Ş.	123	--	--
	17.306	**4.814**	**9.283**

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

NOTE 4 – RELATED PARTY DISCLOSURES (Continued)

	1 January – 31 December 2016		
Transactions with related parties	Sale of goods	Rent expense	Other 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 Tic. 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.	18	--	--
Enerjisa Enerji A.Ş. ve Bağlı Ortaklıkları	6	--	4.634
	6.490	**4.611**	**18.955**

The Company's key management has been identified as the general manager and assistant general managers. 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 are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Salaries and other benefits	4.967	5.579
	4.967	**5.579**

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

NOTE 5 – CASH AND CASH EQUIVALENTS

The details of cash and cash equivalents as at 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Cash	6.082	3.074
Demand deposit	33.543	18.783
Time deposit	9.757	117.235
Credit card slip receivables	23.321	17.002
	72.703	**156.094**

As at 31 December 2017, average effective interest rate on TL denominated time deposits is 13,4%. As at 31 December 2016, average effective interest rate on TL denominated time deposits is 11%. As at 31 December 2017, maturity of time deposits is 4 day (31 December 2016: 4 day).

The Company does not have any blocked deposits as at 31 December 2017 and 2016.

NOTE 6 - TRADE RECEIVABLES AND PAYABLES

The details of trade receivables as at 31 December 2017 and 2016 are as follows:

Short term trade receivables

	31 December 2017	31 December 2016
Trade receivables	52.930	45.442
Notes receivables	13.010	14.180
Due from related parties (Note 4)	2.610	1.701
Allowance for doubtful receivables (-)	(12.422)	(10.974)
	56.128	**50.349**

The average maturity of the Company's trade receivables is 1-7 days for retail receivables and 50 days for dealer groups. (31 December 2016: For retail: 1-7 days, 59 days for dealer receivables). As of 31 December 2017, the Company does not apply overdue interest on trade receivables. (31 December 2016: None).

The Company's exposure to credit and foreign currency risk and impairment for trade receivables are disclosed in Note 27.

The movement of the allowance for doubtful receivables for the years ended 31 December 2017 and 2016 is as follows:

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

NOTE 6 - TRADE RECEIVABLES AND PAYABLES (Continued)

	2017	2016
As at 1 January	10.974	5.867
Charge for the period	1.452	7.159
Reversals	(4)	(2.052)
	12.422	**10.974**

As of 31 December , the Company obtained the collaterals listed below for the checks, notes and trade receivables:

	31 December 2017	31 December 2016
Letters of guarantees received	49.730	14.200
Mortgages	14.892	2.785
	64.622	**16.985**

Fair value of the collaterals which the Company is permitted to sell or repledge without the default by the owner of the collateral is TL 64.622 (31 December 2016: TL 16.985). As at the reporting date, there are not any collaterals or mortgages which are sold or re-pledged by the Company.

Short term trade payables:

	31 December 2017	31 December 2016
Trade payables	669.731	705.483
Due to related parties (Note 4)	3.296	4.201
Expense accruals	1.917	2.639
	674.944	**712.323**

As at 31 December 2017, the Company offset income accruals from its suppliers amounting to TL 24.015 with trade payables (31 December 2016: TL 10.814). Average payment terms of trade payables is 82 days (31 December 2016: 80 days). The Company does not have payments on a monthly basis for late interest as of 31 December 2017. (31 December 2016: None.)

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

NOTE 7 – OTHER RECEIVABLES AND PAYABLES

The details of other receivables and other payables as at 31 December 2017 and 2016 are as follows:

Other receivables:

	31 December 2017	31 December 2016
Deposits and guarantees given	501	556
	501	**556**

Other payables:

	31 December 2017	31 December 2016
Deposits and guarantees received	1.456	1.198
	1.456	**1.198**

NOTE 8 - INVENTORIES

The details of the inventories as at 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Trading goods	434.724	368.380
Goods in transit	1.084	1.070
Allowance for impairment on inventories (-)	(17.312)	(16.763)
	418.496	**352.687**

The movements of allowance for inventories for the year ended at 31 December 2017 and 2016 are as below:

Allowance for inventories:	**2017**	**2016**
As at 1 January	(16.763)	(17.525)
Change of the period	(10.335)	(3.702)
Current year reversal	9.786	4.464
As at 31 December	**(17.312)**	**(16.763)**

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

NOTE 9 – PREPAID EXPENSES AND DEFERRED REVENUE

The details of prepaid expenses as at 31 December 2017 and 2016 are as follows:

Short-term prepaid expenses	**31 December 2017**	**31 December 2016**
Advances given for inventories	916	6.676
Short term prepaid expenses	4.702	4.401
	5.618	**11.077**

Long-term prepaid expenses	**31 December 2017**	**31 December 2016**
Long term prepaid expenses	432	577
	432	**577**

The details of the deferred revenue as at 31 December 2017 and 2016 are as follows:

Short-term deferred revenue	**31 December 2017**	**31 December 2016**
Income from gift checks	9.222	16.724
Advances received	8.341	5.573
Other	97	838
	17.660	**23.135**

NOTE 10 – INVESTMENT PROPERTY

The movement of investment properties and related accumulated depreciation for the year ended 31 December 2017 and 2016 are as follows:

Cost	**Land**	**Buildings**	**Total**
Balance at 1 January 2017	6.529	4.791	11.320
Balance at 31 December 2017	**6.529**	**4.791**	**11.320**
Accumulated depreciation			
Balance at 1 January 2017	--	(1.124)	(1.124)
Charge for the period	--	--	--
Balance at 31 December 2017	**--**	**(1.124)**	**(1.124)**
Net carrying amount as at 1 January 2017	**6.529**	**3.667**	**10.196**
Net carrying amount as at 31 December 2017	**6.529**	**3.667**	**10.196**

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

NOTE 10 – INVESTMENT PROPERTY (Continued)

Cost	Land	Buildings	Total
Balance at 1 January 2016	2.775	8.811	11.586
Revaluation surplus	3.754	--	3.754
Impairment(*)	--	(4.020)	(4.020)
Balance at 31 December 2016	**6.529**	**4.791**	**11.320**
Accumulated depreciation			
Balance at 1 January 2017	--	(1.029)	(1.029)
Charge for the period	--	(95)	(95)
Balance at 31 December 2016	**--**	**(1.124)**	**(1.124)**
Net carrying amount as at 1 January 2016	**2.775**	**7.782**	**10.557**
Net carrying amount as at 31 December 2016	**6.529**	**3.667**	**10.196**

There is no amortization charge as of 31 December 2017. As of 31 December 2016 , TL 95 of amortization expense is included in marketing expenses.

The Company generates rental income by TL 408 (2016: TL 450) from its investment property, which is leased by an operating lease agreement. Direct operating costs arising from the investment property is amounting to TL 709 (2016: TL 717). Operating expenses which are not related to the Teknosa store are distributed to lessees.

Land and buildings which are recognised as property, plant and equipment and investment property were revalued by an independent appraisal firm named TADEM Taşınmaz Değerleme Müşavirlik A.Ş. ("TADEM") on 18 May 2016.

The appraisal firm is an accredited independent firm licensed by CMB, and have appropriate qualifications and recent experience in appraising properties in the relevant locations. The fair value of the land was determined based on the market comparable approach that reflects the recent transaction prices for similar properties. The fair value of the buildings determined based on the highest and best of the current value in use.

(*) Revaluation gain and loss on land and buildings which are classified in investment property amounting to TL 3.754 (gain) and TL 4.020 (loss) are recognised in prior years' losses (Note 2.2), respectively. Fair value of related land and buildings is level 2.

As of 31 December 2017, there is no indication of impairment related to the fair value of the land and building as of 31 December 2016.

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

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment and related accumulated depreciation for the year ended 31 December 2017 are as follows:

Cost	Land	Building	Machinery and equipment	Vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
Balance at 1 January 2017	**26.505**	**6.323**	**339**	**57**	**83.537**	**97.844**	**341**	**214.946**
Additions	--	40	--	--	4.744	7.214	4.582	16.580
Disposals	--	--	(1)	(1)	(5.971)	(3.234)	(432)	(9.639)
Transfers from construction in progress (*)	--	--	31	1	(1.384)	2.304	(3.341)	(2.389)
Balance at 31 December 2017	**26.505**	**6.363**	**369**	**57**	**80.926**	**104.128**	**1.150**	**219.498**
Accumulated depreciation and impairment losses								
Balance at 1 January 2017	**--**	**(3.779)**	**(285)**	**(39)**	**(56.693)**	**(55.406)**	**--**	**(116.202)**
Change for the period	--	(56)	(38)	(7)	(9.763)	(11.045)	--	(20.909)
Disposals	--	--	--	1	5.602	2.686	--	8.289
(Allowance for) / reversal of impairment, net (**)	--	--	--	--	277	(5.466)	--	(5.189)
Transfers (*)	--	--	(29)	(1)	2.211	(2.747)	--	(566)
Balance at 31 December 2017	**--**	**(3.835)**	**(352)**	**(46)**	**(58.366)**	**(71.978)**	**--**	**(134.577)**
Net carrying amount at 1 January 2017	**26.505**	**2.544**	**54**	**18**	**26.844**	**42.438**	**341**	**98.744**
Net carrying amount at 31 December 2017	**26.505**	**2.528**	**17**	**11**	**22.560**	**32.150**	**1.150**	**84.921**

(*) As at 31 December 2017, the Company made an analyze of the classification of tangible and intangible assets and considered the changes as transfers between accounts.
(**) As of 31 December 2017, the impairment loss calculated for property, plant and equipment is TL 6.124 (2016: TL 3.232) Amount of impairment reversed during the period is TL 934 (2016: TL 1.095). Included in marketing expenses of TL 11.053 (2016: TL 12.897) and general administrative expenses of TL 9.856 (2016: TL 10.986) are amortization charges.

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

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The movement of property, plant and equipment and related accumulated depreciation for the year ended 31 December 2016 are as follows:

Cost	Land	Building	Machinery and equipment	Vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
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)
Balance at 31 December 2016	**26.505**	**6.323**	**339**	**57**	**83.537**	**97.844**	**341**	**214.946**
Accumulated depreciation and impairment losses								
Balance at 1 January 2016	**--**	**(810)**	**(265)**	**(38)**	**(55.926)**	**(66.489)**	**--**	**(123.528)**
Charge for the period	--	(79)	(40)	(8)	(10.392)	(13.364)	--	(23.883)
Disposals	--	--	20	7	9.967	23.352	--	33.346
Impairments (*)	--	(2.890)	--	--	--	--	--	(2.890)
(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 dale 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 TL 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 TL 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 TL 3.754 (gain) and TL 4.020 (loss) respectively has been accounted under retained earnings (Note 10 and 2.2). Fair value of the related land and building is level 2.

(***) The investment amounting to TL 3.516 as of 31 December 2016 is made for intangible assets.

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

NOTE 12 – INTANGIBLE ASSETS

The movement of intangible assets and related accumulated depreciation for the year ended 31 December 2017 and 2016 are as follows:

Cost	Licences-rights and computer softwares	Total
Balance at 1 January 2017	**77.583**	**77.583**
Additions	11.658	11.658
Disposals	(35)	(35)
Transfers (Note 11) (*)	(429)	(429)
Balance at 31 December 2017	**88.777**	**88.777**
Accumulated amortisation and impairment losses		
Balance at 1 January 2017	**(55.296)**	**(55.296)**
Charge for the period	(12.715)	(12.715)
Disposals	35	35
Transfers (*)	3.383	3.383
Balance at 31 December 2017	**(64.593)**	**(64.593)**
Net book value as at 1 January 2017	**22.287**	**22.287**
Net book value as at 31 December 2017	**24.184**	**24.184**

(*) As at 31 December 2017, the Company made an analyze of the classification of tangible and intangible assets and considered the changes as transfers between accounts.

Cost	Licences-rights and computer softwares	Total
Balance at 1 January 2016	**67.087**	**67.087**
Additions	9.869	9.869
Disposals	(2.889)	(2.889)
Transfers from construction in progress (Note 11)	3.516	3.516
Balance at 31 December 2016	**77.583**	**77.583**
Accumulated amortisation and impairment losses		
Balance at 1 January 2016	**(45.230)**	**(45.230)**
Charge for the period	(12.953)	(12.953)
Disposals	2.854	2.854
(Provision for)/ reversal of impairment	33	33
Balance at 31 December 2016	**(55.296)**	**(55.296)**
Net book value as at 1 January 2016	**21.857**	**21.857**
Net book value as at 31 December 2016	**22.287**	**22.287**

Amortisation expenses amounting to TL 8.635 (2016: TL 10.242) are included in marketing expenses and TL 4.080 (2016: TL 2.901) are included in general administrative expenses.

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

NOTE 13– PAYABLES RELATED TO EMPLOYEE BENEFITS AND PROVISINS FOR EMPLOYEE BENEFITS

The details of payables related to employee benefits as at 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Social security premiums payable	7.527	5.574
Accrued salaries	7.324	6.295
Income taxes payable	2.026	1.593
	16.877	**13.462**

The details of the provisions for employee benefits as at 31 December 2017 and 31 December 2016 are as follows:

Short-term provisions	31 December 2017	31 December 2016
Provision for sales personnel premium	5.107	3.310
Provision for unused vacation	2.572	2.268
Provision for other premium	2.550	1.818
Restructuring provisions(*)	--	149
	10.229	**7.545**

(*) 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 for 2016 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.

Long-term provisions	31 December 2017	31 December 2016
Provision for employee termination benefit	5.694	4.533
Provision for other premium	872	58
	6.566	**4.591**

Provisions for employment benefits

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).

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:

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

NOTE 13– PAYABLES RELATED TO EMPLOYEE BENEFITS AND PROVISINS FOR EMPLOYEE BENEFITS (Continued)

Long-term provisions (continued)

Provisions for employment benefits (continued)

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Due to 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 2017, 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 4,23 % real discount rate (31 December 2016: 3.76%) calculated by using 6,50% annual inflation rate and 11,00% interest rate. Estimated rates of voluntary leaves for sales personnel and administrative personnel for 0-15 years are taken into consideration as 20,00 % and 12,53%, respectively (31 December 2016: 27.92% and 17.59%), and 0% for employees working for 16 years and over. Ceiling for retirement pay is revised semi-annually. Probability has been determined as 100% for employees whose insurance register began before September 1999 (142 personnel) and the provision has been calculated accordingly.

Ceiling amount of TL 5.001,76 which is effective since 1 January 2018 is used in the calculation of Company's provision for retirement pay liability (2016: TL 4.426,16).

The movement of employment termination benefit provision for the year ended 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Opening balance, 1 January	4.533	4.087
Service cost	453	5.562
Interest cost	3.479	154
Actuarial (gain) / loss	986	(258)
Paid compansation during the year	(3.757)	(5.012)
	5.694	**4.533**

NOTE 14 – PROVISIONS

The details of the other short term provisions as at 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Provisions for ongoing litigation (*)	10.208	9.152
Provision for cancellation of rent agreements (**)	2.313	12.071
Provision for administrative fine of Competition Authority (***)	--	13.519
Other	137	24
	12.658	**34.766**

(*) Provision for ongoing litigation is comprised of lawsuits filed by consumers and former employees against the Company.

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

NOTE 14 – PROVISIONS (Continued)

(**) Provision for cancellation of rent agreements is comprised of penalties to be paid to landlords related to store closures before the termination date of the rent agreements. For the year ended 31 December 2017, the Company paid the penalties with a discount as a result of the negotiations with the landlords. The provision for cancellation of rent agreements recognised as at 31 December 2016 were released and income amounting to TL 7.043 is recognised as other income from operating activities in the accompanying financial statements (Note 20).

(***)The Competition Authority decided to start an investigation by the resolution numbered 15-08/108 and dated 19 February 2015 against the Company and other companies mentioned in the resolution requesting their defence in order to detect if the Act no. 4054 is violated or not. By the resolution numbered 15-28/319-M and dated 7 July 2015, the investigation was extended as consumer electronics and was merged with the former investigation. The Company submitted its written defence for this investigation. Verbal defence was also provided on 25 October 2016. Similarly, by the resolution numbered 15-28/319-M and dated 7 July 2015 Kliksa which was the 100% owned subsidiary of the Company in the previous periods was included to the investigation and the Company submitted the written defence for this investigation on behalf of Kliksa. The final decision of the Competition Authority was published on its official web site for these two investigations on 11 November 2016. In accordance with the decision, the Competition Authority claimed administrative fine by TL 18.026 to Teknosa and Kliksa. Actual settlement was declared by the Competition Authority to the Company on 8 March 2017. The Company paid 3/4 of this administrative fine amounting to TL 13.519 by using the early payment discount with a payment objection notice on 6 April 2017. The Company initiated a legal action against the Competition Authority on 5 May 2017 in the 10th Administrative Court of Ankara with the request of their relevant payment with legal interest. As of reporting date, legal process is ongoing.

The movement of provisions for ongoing litigation and cancellation of rent agreements for the year ended 31 December 2017 and 2016 are as follows:

	1 January 2017	1 January- 31 December 2017 addition	1 January- 31 December 2017 paid/reversal provisions	31 December 2017
Provision for cancellation of rent agreements	12.071	753	(10.511)	2.313
Provisions for ongoing litigation	9.152	1.549	(493)	10.208
Reemployment	*3.868*	*1.419*	--	*5.287*
Consumer lawsuits	*1.984*	--	*(493)*	*1.491*
Provisions for rent lawsuit	*3.300*	*130*	--	*3.430*
	21.223	**2.302**	**(11.004)**	**12.521**

	1 January 2016	1 January- 31 December 2016 addition	1 January- 31 December 2016 paid/reversal provisions	31 December 2016
Provision for cancellation of rent agreements	--	28.988	(16.917)	12.071
Provisions for ongoing litigation	1.520	17.059	(9.427)	9.152
Reemployment lawsuits	*519*	*11.775*	*(8.426)*	*3.868*
Consumer lawsuits	*1.001*	*1.984*	*(1.001)*	*1.984*
Provisions for rent lawsuit	--	*3.300*	--	*3.300*
	1.520	**46.047**	**(26.344)**	**21.223**

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

NOTE 15 – COMMITMENTS

Operating lease agreements

The Company leases various sales areas, offices and warehouses by operating lease agreements. Rental periods of the rent agreements vary between 1-10 years. The lease agreements require a payment of a certain monthly rent or a portion of the revenue of the store. The lease agreements are mainly denominated in TL, Euro and USD and the rent amounts are increased by the inflation rate or a rate close to the inflation rate during the rental period. According to the current 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 lease payments related to non-cancellable operating lease agreements are as follows:

	31 December 2017	31 December 2016
Less than 1 year	160.020	145.871
Between 1-5 years	466.664	428.893
More than 5 years	136.123	124.535
	762.807	**699.299**

Collateral, pledge, mortgage position

Collaterals, pledges and mortgages ("CPM") given by the Company as at 31 December 2017 and 2016 are as follows:

CPMs given by the Company	31 December 2017			
	TL equivalent	USD	Euro	TL
A. Total amount of CPM given on behalf of own legal personality	109.388	7.652	4.894	58.427
- Collaterals	94.496	7.652	4.894	43.535
- Pledges				
- Mortgages	14.892	--	--	14.892
B. Total amount of CPM given in behalf of fully consolidated companies	--	--	--	--
C. Total amount of CPM given for continuation of its economic activities on behalf of third parties	--	--	--	--
D. Total amount of other CPM	--	--	--	--
Total CPM	**109.388**	**7.652**	**4.894**	**58.427**

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

NOTE 15 – COMMITMENTS (Continued)

Collateral, pledge, mortgage position (continued)

CPMs given by the Company	31 December 2016			
	TL equivalent	USD	Euro	TL
A. Total amount of CPM given on behalf of own legal personality	63.205	8.022	5.117	15.990
- Collaterals	63.205	8.022	5.117	15.990
- Pledges	--	--	--	--
- Mortgages	--	--	--	--
B. Total amount of CPM given in behalf of fully consolidated companies	--	--	--	--
C. Total amount of CPM given for continuation of its economic activities on behalf of third parties	--	--	--	--
D. Total amount of other CPM	--	--	--	--
Total CPM	**63.205**	**8.022**	**5.117**	**15.990**

The ratio of other CPM given on behalf of third parties except for the CPM given on behalf of the Company's own legal personality to total equity is 0% as at 31 December 2017 (31 December 2016: 0%).

As at 31 December 2017 and 31 December 2016, the Company is contingently liable in respect of bank letter of guarantees obtained from banks mainly given to lessors in accordance with the lease agreements, enforcement office related to ongoing lawsuits and custom related to import transactions.

NOTE 16 – OTHER CURRENT ASSETS AND LIABILITIES

The details of the other current and non-current assets as at 31 December 2017 and 2016 are as follows:

Other current assets	31 December 2017	31 December 2016
Advances given	1.438	3.251
Personnel advances	274	102
Other current assets	102	37
	1.814	**3.390**

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

NOTE 16 – OTHER CURRENT ASSETS AND LIABILITIES (Continued)

Other current liabilities	31 December 2017	31 December 2016
Value added tax ("VAT") payable	21.452	18.222
Other expense accruals (*)	7.605	8.539
Other liabilities and obligations	430	452
	29.487	**27.213**

(*) Other expense accruals comprised of irrecoverable gift checks which were given and used Teknosacell subscription who withdraw subscription subsequently and other various expense accruals.

NOTE 17 – SHAREHOLDERS' EQUITY

The Company's approved and the issued share capital consists of 11.000.000.000 shares of 1 Kr nominal value.

The details of the shareholder's equity structure as at 31 December 2017 and 2016 are as follows:

	31 December 2017		31 December 2016	
	Share	%	Share	%
Hacı Ömer Sabancı Holding A.Ş.	66.310	60.28228	66.310	60.28228
Dilek Sabancı	5.735	5.21327	5.735	5.21327
Sevil Sabancı	5.735	5.21327	5.735	5.21327
Other	32.220	29.29118	32.220	29.29118
Nominal share capital	**110.000**	**100**	**110.000**	**100**
Adjustment for capital	6.628		6.628	
Adjusted capital	**116.628**		**116.628**	

Restricted reserves

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 2017 and 2016:

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

NOTE 17 – SHAREHOLDERS' EQUITY (Continued)

Restricted reserves (Continued)

	31 December 2017	31 December 2016
Legal reserves	8.704	8.704
	8.704	**8.704**

Profit Distribution

Public companies distribute profit in accordance with Profit Share Communique no 11-19.1 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 communique mentioned above a minimal distribution rate is not designated. Companies distribute their profits in accordance with their main agreements of profit distribution policies.

NOTE 18 - REVENUE

The details of revenue and cost of revenue for the year ended 31 December 2017 and 2016 are as follows:

Revenue (net)	1 January – 31 December 2017	1 January – 31 December 2016
Retail sales	3.157.552	2.903.661
Dealer sales	240.303	170.426
	3.397.855	**3.074.087**

Cost of revenue	1 January – 31 December 2017	1 January – 31 December 2016
Cost of trading goods sold	(2.764.882)	(2.562.289)
Installation and warranty expenses	(13.951)	(10.849)
	(2.778.833)	**(2.573.138)**

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

NOTE 19 – MARKETING AND ADMINISTRATIVE EXPENSES

The details of marketing expenses for the year ended 31 December 2017 and 2016 are as follows:

Marketing expenses	1 January – 31 December 2017	1 January – 31 December 2016
Rent expenses	(156.156)	(164.012)
Personnel expenses	(149.413)	(148.280)
Advertising and promotion expenses	(57.074)	(55.086)
Transportation expenses	(21.475)	(23.147)
Depreciation and amortisation expenses	(19.688)	(23.139)
Energy, fuel and water expenses	(10.532)	(13.456)
Consultancy expenses	(6.593)	(7.364)
Maintenance and cleaning expenses	(5.924)	(8.377)
Communication expenses	(1.330)	(1.104)
Travel and accommodation expenses	(1.213)	(1.270)
Other expenses	(11.377)	(11.857)
	(440.775)	**(457.092)**

The details of administrative expenses for the year ended 31 December 2017 and 2016 are as follows:

General administrative expenses	1 January – 31 December 2017	1 January – 31 December 2016
Personnel expenses	(15.767)	(13.455)
Depreciation and amortisation expenses	(13.936)	(13.792)
IT expenses	(6.212)	(9.804)
Consultancy expenses	(2.745)	(3.414)
Rent expenses	(1.486)	(3.414)
Allowance for doubtful receivables	(1.452)	(1.059)
Maintenance expenses	(441)	(454)
Travel expenses	(435)	(443)
Energy, fuel, water expenses	(207)	(493)
Other expenses	(1.802)	(1.884)
	(44.483)	**(48.212)**

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

NOTE 20 – OTHER INCOME AND EXPENSES FROM MAIN OPERATIONS

The details of other income from operating activities for the year ended 31 December 2017 and 2016 are as follows:

Other income from main operating activities	1 January – 31 December 2017	1 January – 31 December 2016
Unearned interest income from trading activities	11.501	6.096
Foreign exchange gains	8.069	9.081
Reversal of provisions for cancellation of rent agreements (*)	7.043	--
Income from personnel	735	821
Gains from unused gift checks	449	1.588
Other income	1.557	2.482
	29.354	**20.068**

(*) For the year ended 31 December 2017, reversal of provisions for cancellation of rent agreements is comprised of the remaining amount released as a result of a settlement or the penalty payments with a discount to the landlords (2016: None)

The details of other expense from operating activities for the year ended 31 December 2017 and 2016 are as follows:

Other expense from operating activities	1 January – 31 December 2017	1 January – 31 December 2016
Deferred interest expense from trading activities	(53.643)	(38.449)
Foreign exchange losses	(8.234)	(9.355)
Impairment on property, plant and equipment (Note 11)	(5.189)	(2.104)
Litigation expenses	(4.993)	(7.786)
Early termination rent penalties	(753)	(21.965)
Penalty payment for Competition Authority (Note 14)	--	(13.519)
Provisions expenses for supplier confirmation	--	(6.100)
Reorganisation expense	--	(11.454)
Provision expense for customs litigations (*)	--	(8.453)
Rent lawsuits expenses (Note 14)	--	(3.300)
Donation and aid expenses	--	(875)
Other expenses and losses	(5.193)	(2.621)
	(78.005)	**(125.981)**

(*) In 2016, TL 5.157 is custom litigation provision and expenses is composed of receivable reversal and TL 3.297 is composed of provision which is going to be paid on the purpose of utilization from tax amnesty (Note 15).

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

NOTE 21 – INCOME AND EXPENSES FROM INVESTING ACTIVITIES

The details of investment income/expense for the year ended 31 December 2017 and 2016 are as follows:

Income from investing activities

	1 January – 31 December 2017	1 January – 31 December 2016
Interest income on time deposits	336	1.072
	336	**1.072**

Expense from investing activities

The details of other expenses from operating activities for the year ended 31 December 2017 and 2016 are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Loss from sale of fixed assets	(794)	(17.075)
	(794)	**(17.075)**

NOTE 22 – FINANCE EXPENSES

The details of finance expense for the year ended 31 December 2017 and 2016 are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Credit card discount expenses	(29.085)	(36.285)
Interest and commission expenses	(17.053)	(17.748)
Credit card commission expenses	(12.550)	(12.049)
Guarantee letters commission expenses	(591)	(451)
Credit card promotion expenses	--	(63)
Other finance expenses	(999)	(53)
	(60.278)	**(66.649)**

NOTE 23 – INCOME TAXES (DEFERRED TAX ASSET AND LIABILITIES INCLUDED)

Corporate income tax:

In Turkey, corporate tax rate is 20% as of 31 December 2017 (2016: 20%). However, according to the Article 91 of the Law numbered 7061 "Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation" which was published on the Official Gazette numbered 30261 on 5 December 2017 and according to the provisional clause 10 added to the Corporate Tax Law numbered 5520; corporate tax rate for the taxation periods of 2018, 2019 and 2020 is amended to 22%, which would later be applied as 20% at the end of these periods. During these periods, Council of Ministers is entitled to decrease the corporate tax rate of 22% to 20%.

The tax legislation provides for a temporary tax of 20% (2016: 20%) to be calculated and paid based on earnings generated for each quarter for the period ended 31 December 2017. The amounts thus calculated and paid are offset against the final corporate tax liability for the year. With the amendment to the Law, corporate rate is set to 22% for the years 2018, 2019 and 2020.

In Turkey, temporary corporate tax is calculated and filed quarterly. Losses can be carried forward for a maximum period of five years to offset against future taxable income. However, losses cannot be carried back to offset profits from previous periods.

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

As of 31 December 2017 and 2016, the Company has no income tax liabilities.

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

NOTE 23 – INCOME TAXES (DEFERRED TAX ASSET AND LIABILITIES INCLUDED) (Continued)

Corporate income tax (continued):

Tax income / (expenses) for the year ended 31 December 2017 and 2016 are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Tax expense:		
Corporate tax expense of the current period	--	--
Deferred tax expenses:		
Deferred tax (expenses) / income from temporary differences	(4.809)	32.307
	(4.809)	**32.307**

Deferred tax assets and liabilities

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising between the financial statements as reported for TAS purposes and financial statements prepared in accordance with the tax legislation. These differences arise from the differences in accounting periods for the recognition of income and expenses in accordance with TAS and tax legislation. According to the Law numbered 7061 "Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation" which was published on 5 December 2017 corporate tax rate for the taxation periods of 2018, 2019 and 2020 is amended to 22%, which would later be applied as 20% at the end of these periods. During these periods, Council of Ministers is entitled to decrease the corporate tax rate of 22% to 20%.

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

NOTE 23 – INCOME TAXES (DEFERRED TAX ASSET AND LIABILITIES INCLUDED) (continued)

Deferred tax assets and liabilities (continued)

The details of the deferred tax assets and liabilities calculation by using effective tax rates for the year ended 31 December 2017 and 2016 is as follows:

	31 December 2017	31 December 2016
Prior year losses	36.652	40.643
Inventories	6.011	4.632
Kliksa transfer expenses	4.376	4.182
Expense accruals	3.693	2.019
Provision for cancellation of rent agreements	1.263	3.074
Litigations	1.604	1.830
Additional warranty costs	1.992	4.424
Provision for reconciliation differences	1.342	1.220
Provision for employment termination benefits	1.139	906
Withdrawal fees	830	618
Provision for unused vacations	566	454
Discount expenses	53	97
Derivative financial instruments	67	--
Income accruals	(1.267)	(783)
Discount income	(1.562)	(632)
Restatement and depreciation / amortization differences of property, plant and equipment and other intangible assets	(4.928)	(6.625)
Other	(16)	302
Total deferred tax assets / (liabilities)	**51.815**	**56.361**

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

NOTE 23 – INCOME TAXES (DEFERRED TAX ASSET AND LIABILITIES INCLUDED) (continued)

Deferred tax assets and liabilities (continued)

The movements of deferred tax asset and liability as of 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Opening balance at 1 January	56.361	24.570
Current year (loss) / income	(4.809)	32.307
Other comprehensive income / (loss)	263	(1.133)
Effects on equity of change in accounting policies (Note 2.2)	--	617
Closing balance at 31 December	**51.815**	**56.361**

At the balance sheet date, the Company has unused tax losses of TL 180.853 (2016 TL 203.213) available for offset against future profits. A deferred tax asset has been recognized in respect of TL 36.652 (2016: TL 40.643) of such losses.

Carry forward lax losses

The expiration dates of such carry forward tax losses are as follows:

	31 December 2017	31 December 2016
Expires at 2019	--	6.310
Expires at 2020	24.065	40.115
Expires at 2021	156.788	156.788
	180.853	**203.213**

(*) The Company's financial income in 2017 amounting to TL 22.360 has been deducted from the financial losses carried forward from 2014 and 2015.

The reconciliation of the current period tax (expenses) / income and operating profit as follows:

	31 December 2017	31 December 2016
Operatıng profit/ (loss) before income tax	24.377	(192.920)
Effective tax rate	%20	%20
Calculated tax	(4.875)	38.584
Reconciliation of tax provision:		
-Exemptions and discounts	*(3.377)*	*(5.329)*
-Utilization of previous year tax losses	*4.472*	*--*
-Effect of change in tax rate	*(1.856)*	*--*
-Other	*827*	*(948)*
Tax (expenses) / income on income statement	**(4.809)**	**32.307**

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

NOTE 24 – EARNINGS / (LOSS) PER SHARE

Weighted average number of shares and basic earnings per share for the year ended 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Weighted average number of ordinary shares outstanding during the period (in full)	11.000.000.000	11.000.000.000
Profit/(loss) for the year attributable to owners of the company	19.568	(160.613)
Basic (loss) / earnings per share from continuing operations -thousands of ordinary shares (thousands TL)	0,0018	(0,0146)

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:

Financial assets

Cash and cash equivalents are presented on cost basis and are assumed to reflect their fair values as they are liquid and classified as current assets.

Trade receivables are presented netted off related doubtful portion of the receivable and are assumed to reflect their fair 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.

Financial liabilities

Since trade payables are short-term, they are assumed to reflect their fair values.

Loans and other monetary liabilities are considered to approximate their carrying values due to their short-term nature.

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

NOTE 25 - FINANCIAL INSTRUMENTS (continued)

Fair value estimations

The Company classifies the fair value measurement of each class of financial instruments according to the source, using the three-level hierarchy, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
Level 3: inputs for the asset or liability that are not based on observable market. (unobservable inputs).

As of 31 December 2017, the Company does not have any private sector bonds which are quoted in "interbank bond market" (2016: 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 - DERIVATIVES

	31 December 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
Forward exchange	--	304	--	--
Short term	--	304	--	--
Long term	--	--	--	--
	--	**304**	**--**	**--**

The Company signed foreign currency forward contracts with the maturities in four months in order to hedge the foreign exchange exposures arising from the purchases denominated in foreign currency of the dealers. The total nominal amount of foreign exchange forward contracts that the Company is obliged to realize and which are not due is TL 32.467 (31 December 2016: None.) Fair value of the Company's foreign currency forward contracts is estimated to be approximately TL 304.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 TL 304 has been accounted for under equity) (31 December 2016 :None.)

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 factors

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 nest 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).

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

NOTE 27 – NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

b) Financial risk factors (continued)

b.1) Credit risk management

The credit risk as a financial risk factors as at 31 December 2017 is as follows:

	Receivables		
Credit risk of financail instruments	Trade Receivables		Deposits at bank and credit card receivables
31 December 2017	Related Parties	Third Parties	
Maximum credit risk as of balance sheet date (*)	2.610	53.518	66.621
-The part of maximum risk under guarantee with collateral etc. (**)	--	64.622	--
A.Net book value of financial assets that are neither past due nor impaired	2.610	61.419	66.621
B.Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	--	4.521	--
C.Net book value of impaired assets	--	--	
-Past due (gross carrying amount)	--	12.422	--
'-Impairment (-)	--	(12.422)	--
'-The part of net value under guarantee with collateral etc.	--	--	--
-Not past due (gross carrying amount)	--	--	--
'-Impairment (-)	--	--	--
'- The part of net value under guarantee with collateral etc.	--	--	--
D.Off-balance sheet items with credit risk	--	--	--

(*) Guarantees received and other factors increasing loan reliability are not considered in determining this amount.
(**) Guarantees consist of letters of guarantee, notes receivable and cheques obtained from customers.

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

NOTE 27 – NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

b) Financial risk factors (continued)

b.1) Credit risk management (continued)

The credit risk as a financial risk factors as at 31 December 2016 is as follows:

	Receivables		
Credit risk of financail instruments	Trade Receivables		Deposits at bank and credit card receivables
31 December 2016	Related Parties	Third Parties	
Maximum credit risk as of balance sheet date (*)	1.701	48.648	153.020
-The part of maximum risk under guarantee with collateral etc. (**)	--	16.985	--
A.Net book value of financial assets that are neither past due nor impaired	1.701	33.257	153.020
B.Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	--	4.417	--
C.Net book value of impaired assets	--	--	--
-Past due (gross carrying amount)	--	10.974	--
'-Impairment (-)	--	(10.974)	--
'-The part of net value under guarantee with collateral etc.	--	--	--
-Not past due (gross carrying amount)	--	--	--
'-Impairment (-)	--	--	--
'- The part of net value under guarantee with collateral etc.	--	--	--
D.Off-balance sheet items with credit risk	--	--	--

(*) Guarantees received and other factors increasing loan reliability are not considered in determining this amount.
(**) Guarantees consist of letters of guarantee, notes receivable and cheques obtained from customers.

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

NOTE 27 – NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

b) Financial risk factors (continued)

Explanations on the credit quality of financial assets

As of 31 December 2017 and 2016, 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:

	31 December 2017	31 December 2016
Past due 1-30 days	3.531	2.362
Past due1-3 months	196	1.256
Past due 3-12 months	794	799
Past due 1-5 years	--	--
Past due more than 5 years	--	--
Total past due receivables	**4.521**	**4.417**
Total past due receivables		
The part of maximum risk under guarantee with collateral etc.	2.251	1.540

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 TL 1.848.332 that the Company can utilize whenever needed as of 31 December 2017 (2016: TL 1.977.665).

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

NOTE 27 – NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

b) Financial risk factors (continued)

b.2) Liquidity risk (continued)

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

31 December 2017	Book value	Total contract based cash outflow (I+II+III)	Less than 3 months (I)	3 to 12 months (II)	1 to 5 years (III)
Non-derivative financial liabilities					
Trade payables	674.944	677.921	677.921	--	--
Related parties	*3.296*	*3.296*	*3.296*	--	--
Third parties	*671.648*	*674.625*	*674.625*	--	--
Other payables	1.456	1.456	1.456	--	--
Third parties	*1.456*	*1.456*	*1.456*	--	--
Total liabilities	**676.400**	**679.377**	**679.377**	**--**	**--**
Derivative financial liabilities					
Derivative financial assets held for cash flow hedges					
-Cash outflow	*304*	*32.468*	*31.424*	*1.044*	--
-Cash inflow	--	*(31.571)*	*(30.574)*	*(997)*	--
Total liabilities	**304**	**897**	**850**	**47**	**--**

31 December 2016	Book value	Total contract based cash outflow (I+II+III)	Less than 3 months (I)	3 to 12 months (II)	1 to 5 years (III)
Non-derivative financial liabilities					
Trade payables	712.323	715.465	715.465	--	--
Related parties	*4.201*	*4.201*	*4.201*	--	--
Third parties	*708.122*	*711.264*	*711.264*	--	--
Other payables	1.198	1.198	1.198	--	--
Third parties	*1.198*	*1.198*	*1.198*	--	--
Total liabilities	**713.521**	**716.663**	**716.663**	**--**	**--**

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

NOTE 27 – NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

b) Financial risk factors (continued)

Foreign currency risk

As the Company primarily purchases from domestic vendors in TL, the Company is exposed to limited foreign exchange risk.

The risk is monitored by the Board of Directors in regular meetings. The idle cash is invested in foreign currency in order to minimise the foreign exchange risk resulted from balance sheet items. The Company also manages the foreign currency risk by limited use of forward contracts, which is one of derivative instruments, if necessary.

Foreign Currency Position	31 December 2017			
	TL equivalent	USD	EUR	Other
1. Trade receivable	950	251	--	109
2a.Monetary financial assets (including cash on hand and bank accounts)	2.016	163	254	--
2b.Non monetary financial assets	241	45	13	--
3. Other	--	--	--	--
4. CURRENT ASSETS (1+2+3)	**3.207**	**459**	**267**	**109**
5. Trade receivables	--	--	--	--
6a. Monetary financial assets	--	--	--	--
6b. Non monetary financial assets	234	62	--	--
7. Other	--	--	--	--
8. NON CURRENT ASSETS (5+6+7)	**234**	**62**	**--**	**--**
9. TOTAL ASSETS (4+8)	**3.441**	**521**	**267**	**109**
10. Trade payables	(7.253)	(987)	(640)	--
11. Financial liabilities	--	--	--	--
12a. Other monetary liabilities	(3.401)	(349)	(378)	--
12b. Non monetary other liabilities	--	--	--	--
13. CURRENT LIABILITIES (10+11+12)	**(10.654)**	**(1.336)**	**(1.018)**	**--**
14. Trade payables	--	--	--	--
15. Financial liabilities	--	--	--	--
16a. Monetary other liabilities	--	--	--	--
16b. Non monetary other liabilities	--	--	--	--
17. NON CURRENT LIABILITIES (14+15+16)	**--**	**--**	**--**	**--**
18. TOTAL LIABILITIES (13+17)	**(10.654)**	**(1.336)**	**(1.018)**	**--**
19. Net position of financial statement (9+18)	**(7.213)**	**(815)**	**(751)**	**109**
Off-balance sheet derivative assets	31.571	8.370	--	--
Off-balance sheet derivative liabilities	--	--	--	--
20. Net position of foreign currency derrivatives	**31.571**	**8.370**	**--**	**--**
21. Net position of foreign currency asset / (liability) (19+20)	**24.358**	**7.555**	**(751)**	**109**
22. Net position of monetary foreign currency asset / (liability) (19)-(3+7)	**(7.213)**	**(815)**	**(751)**	**109**
23. Total fair value of foreign currency hedge	**--**	**--**	**--**	**--**
24. The amount for the hedged portion foreign currency assets	**--**	**--**	**--**	**--**
25. The amount for the hedged portion of foreign currency liabilities	**31.571**	**8.370**	**--**	**--**

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

NOTE 27 – NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

b) Financial risk factors (continued)

Foreign currency risk (continued)

Foreign currency position (continued)	31 December 2016			
	TL equivalent	USD	EUR	Other
1. Trade receivable	798	173	50	109
2a.Monetary financial assets (including cash on hand and bank accounts)	11	2	1	--
2b.Non monetary financial assets	18	5	--	--
3. Other	--	--	--	--
4. CURRENT ASSETS (1+2+3)	**827**	**180**	**51**	**109**
5. Trade receivables	--	--	--	--
6a. Monetary financial assets	--	--	--	--
6b. Non monetary financial assets	--	--	--	--
7. Other	--	--	--	1
8. NON CURRENT ASSETS (5+6+7)	**--**	**--**	**--**	**1**
9. TOTAL ASSETS (4+8)	**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 (10+11+12)	**(6.851)**	**(1.367)**	**(550)**	**--**
14. Trade payables	--	--	--	--
15. Financial liabilities	--	--	--	--
16a. Monetary other liabilities	--	--	--	--
16b. Non monetary other liabilities	--	--	--	--
17. NON CURRENT LIABILITIES (14+15+16)	**--**	**--**	**--**	**--**
18. TOTAL LIABILITIES (13+17)	**(6.851)**	**(1.367)**	**(550)**	**--**
19. Net position of financial statement (9+18)	**(6.024)**	**(1.187)**	**(499)**	**110**
Off-balance sheet derivative assets	--	--	--	--
Off-balance sheet derivative liabilities	--	--	--	--
20. Net position of foreign currency derrivatives	**--**	**--**	**--**	**--**
21. Net position of foreign currency asset / (liability) (19+20)	**(6.024)**	**(1.187)**	**(499)**	**110**
22. Net position of monetary foreign currency asset / (liability) (19)-(3+7)	**(6.024)**	**(1.187)**	**(499)**	**109**
23. Total fair value of foreign currency hedge	**--**	**--**	**--**	**--**
24. The amount for the hedged portion foreign currency assets	**--**	**--**	**--**	**--**
25. The amount for the hedged portion of foreign currency liabilities	**--**	**--**	**--**	**--**

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

NOTE 27 – NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

b) Financial risk factors (continued)

Foreign currency risk (continued)

Foreign currency sensitivity

The Company is exposed to foreign exchange risk arising primarily from USD and EUR. The following table demonstrates the sensitivity of the Company to a possible change of 10% in US dollar and EUR rates. 10% is the rate is a reasonable rate as it is limited with 10% share capital commitment. Sensitivity analysis based on the foreign exchange risk at the reporting date, is identified with the changes at the beginning of the fiscal year and kept constant during the fiscal period. Negative value implies the effect of 10% increase in USD and in EUR foreign currency rates against TL on the decrease in the net profit.

Foreign Currency Sensitivity Table	31 December 2017	
	Profit / Loss	
	Appreciation of foreign currencies	Appreciation of foreign currencies
In case 10% appreciation of USD against TL		
1 - USD Dollars net assets/liabilities	(307)	307
2- Amount hedged for USD risk (-)	3.157	(3.157)
3- USD net effect (1 +2)	**2.850**	**(2.850)**
In case 10% appreciation of EUR against TL		
4 - EUR net assets/liabilities	(414)	414
5 - Amount hedged for EUR risk (-)	--	--
6- EUR net effect (4+5)	**(414)**	**414**
In case 10% appreciation of other currency against TL		
7- Net assets/liabilities in other foreign currency	1	(1)
8- Amount hedged for other currency risk (-)	--	--
9- Other currency assets net effect (7+8)	**1**	**(1)**
TOTAL (3 + 6 +9)	**2.437**	**(2.437)**

Foreign Currency Sensitivity Table	31 December 2016	
	Profit / Loss	
	Appreciation of foreign currencies	Appreciation of foreign currencies
In case 10% appreciation of USD against TL		
1 - USD Dollars net assets/liabilities	(420)	420
2- Amount hedged for USD risk (-)	--	--
3- USD net effect (1 +2)	**(420)**	**420**
In case 10% appreciation of EUR against TL		
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 TL		
7- Net assets/liabilities in other foreign currency	1	(1)
8- Amount hedged for other currency risk (-)	--	--
9- Other currency assets net effect (7+8)	**1**	**(1)**
TOTAL (3 + 6 +9)	**(604)**	**604**

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

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

As at 31 December, fair value and carrying amounts of assets and liabilities are shown in the table below:

31 December 2017	Loans and receivables	Derivative financial instruments	Financial liabilities at amortised cost	Carrying value	Note
Financial assets					
Cash and cash equivalents	72.703	--	--	72.703	5
Trade receivables (including due from related parties)	56.128	--	--	56.128	6
Other receivables	501	--	--	501	7
Financial liabilities					
Trade payables (including due to related parties)	--	--	674.944	674.944	6
Other payables	--	--	1.456	1.456	7
Derivative liabilities	--	304	--	304	26

31 December 2016	Loans and receivables	Derivative financial instruments	Financial liabilities at amortised cost	Carrying value	Note
Financial assets					
Cash and cash equivalents	156.094	--	--	156.094	5
Trade receivables (including due from related parties)	50.349	--	--	56.349	6
Other receivables	556	--	--	556	7
Financial liabilities					
Trade payables (including due to related parties)		--	712.323	712.323	6
Other payables		--	1.198	1.198	7

The Company management assumes that the carrying values of the financial assets and liabilities are close to their fair value because of their short-term nature.

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

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

Fair values of financial instruments:

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

• Level 1: Market price valuation techniques for the determined financial instruments traded in markets (unadjusted)

• Level 2 : Other valuation techniques includes direct or indirect observable inputs. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates.

• Level 3: Valuation techniques does not contain observable market inputs

Fair value hierarchy table as of 31 December 2017 is as follows:

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:

	Level 1	Level 2	Level 3
31 December 2017			
Derrivative instruments	--	(304)	--
	--	**(304)**	**--**

NOTE 29 – EVENTS AFTER THE REPORTING PERIOD

The Company made a material disclosure on Public Disclosure Platform on 20 February 2018 in accordance with the CMB's principal decision 10 April 2014 dated and numbered 11/352 as detailed below:

"The Company issued its financial statements as at 31 December 2017 which are prepared in accordance with the CMB regulations. The Company's equity in these financial statements amounting to full TL

(-) 43.373.000 and the brand value which is the off-balance sheet asset of the Company amounting to full TL 315.159.000 are considered in accordance with the CMB's principal decision numbered 2014/11. There is no change in the negative equity status of the Company in these financial statements which are prepared in accordance with above mentioned the CMB regulations. As a result, statement of financial position is prepared in accordance with the related article of TCC 376 based on the CMB's principal decision numbered 2014/11.

The brand value is included in the statement of financial position prepared in accordance with the related article of TCC 376. Equity of this statement in the financial position prepared in accordance with the related article of TCC 376 is amounting to full TL (+) 319.376.359 This indicates that the Company maintains its share capital amounting to TL 110.000.000 in full."

Teknosa İç ve Dış Tic. A.Ş.
Teknosa Plaza, Barbaros Mahallesi, Mor Sümbül Sk, No:7/3F 1-18 Nida Kule
Ataşehir Güney, 34746 Ataşehir/Istanbul/Turkey
Tel: (+90 216) 468 36 36
E-mail: yatirimciiliskileri@teknosa.com
Web Site: www.teknosa.com
Report Period: 01 January - 31 December 2017
Trade Registry No: 434426
Mersis No: 836014439300012