

**ENKA İNŞAAT VE SANAYİ  
ANONİM ŞİRKETİ  
AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL  
STATEMENTS AS AT AND FOR THE  
YEAR ENDED  
31 DECEMBER 2017 WITH  
INDEPENDENT AUDITORS' REPORT**

2 March 2018

*This report includes 5 pages of independent auditors' report and 78 pages of consolidated financial statements together with their explanatory notes.*



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 Auditors' Report

To the Board of Directors of Enka İnşaat ve Sanayi Anonim Şirketi

### Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Enka İnşaat ve Sanayi Anonim Şirketi ("the Company") and its subsidiaries and joint operations ("collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Turkey and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The Key Audit Matter	How the matter was addressed in our audit
<p><b><i>Revenue recognition on construction contracts</i></b></p> <p>Revenue derived from construction contracts represents 36% of the Group's total revenue. The measurement and timing of the revenue arising from construction contracts recognized by reference to the "percentage of completion" in the period in which they are incurred. The measurement of contract revenue and estimation of the contract costs have been affected by a variety of uncertainties that depend on the outcome of future events and the management's estimates and judgements need to be revised as events occurred. Revenue recognition on construction contracts was considered to be a key audit matter, due to the significance of the estimates and the level of judgement applied by management.</p> <p>Refer to accounting policies for revenue recognition on construction contracts in Notes 2.5, 5 and 12.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• We assessed the terms and conditions of the significant contracts in order to evaluate the management's estimate whether revenue is recognized within the related period.</li> <li>• We evaluated and tested the operating effectiveness of controls over the relevant processes regarding the accuracy and timing of revenue recognized in the financial statements.</li> <li>• We discussed with the Group finance and operational teams for uncompleted projects and the corresponding statements have been verified with supporting documentation.</li> <li>• The contract revenue associated with the construction contract have been recalculated by using the stage of completion method.</li> <li>• We assessed the management's ability to deliver contracts within budgeted margins by analysing the historical accuracy of forecasting margins and the relationship of cost versus billing status on contracts.</li> </ul>
The Key Audit Matter	How the matter was addressed in our audit
<p><b><i>Impairment of intangible assets (goodwill)</i></b></p> <p>As of 31 December 2017, the consolidated statement of financial position includes goodwill recognized under intangible assets amounting to USD 22,077 thousands after the impairment. The Group has recognized impairment loss for goodwill amounting to USD 33,091 thousands in current period financial statements.</p> <p>In accordance with TAS, the intangible assets with indefinite useful lives to which goodwill has been allocated shall be tested for impairment annually. Within this scope, significant estimates and assumptions applied by management have been used to determine impairment.</p> <p>These estimates and assumptions are based on the long term growth rate used to determine the cash generating unit's future cash flows, discount rates used to determine present value of future cash flows, inflation and foreign currency rates. These estimates and assumptions are highly sensitive to the expected future market conditions.</p> <p>Due to the estimates and judgements used for goodwill impairment test included appropriate considerations, we have identified this matter as a key audit matter.</p> <p>Refer to accounting policies for goodwill impairment in Notes 2.5 and 16.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• We evaluated management's future cash flow forecasts by which they were determined with macroeconomic data, by comparing them to historical results checking that the forecast were consistent and confirming the mathematical accuracy of the underlying calculations.</li> <li>• We used our own valuation specialists to challenge the appropriateness of the key assumptions, long term growth rates used in the calculations, discount rates used to determine present value of future cash flows and compared with the rates used in the relevant sectors.</li> <li>• We considered the disclosures of goodwill described in notes to consolidated financial statements.</li> </ul>



The Key Audit Matter	How the matter was addressed in our audit
<p><b>Valuation of investment property</b></p> <p>As of 31 December 2017, the investment properties represent 26% of the Group's total assets.</p> <p>As explained in Notes 2.5 and 13, the Group measures the investment properties at fair values. The Group has appointed independent valuation firms to determine the fair values of investment properties.</p> <p>Valuation of investment property was considered to be a key audit matter, due to significant estimates and judgement used in valuation methods to determine fair value of investment properties.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• We evaluated the qualifications and competence of the external valuers appointed by the Management for valuation of investment property.</li> <li>• We used our own valuation specialists to challenge the appropriateness of the key assumptions, valuation methods, long term growth rates used in the calculations, discount rates used to determine present value of future cash flows on a sample basis and compared with the rates used in the relevant sectors.</li> <li>• We agreed key inputs used in valuation reports such as rental income, management fee, yields and occupancy rate with the tenancy contracts.</li> <li>• We considered the disclosures of investment properties described in notes to consolidated financial statements.</li> </ul>

#### *Other Matter*

The consolidated financial statements of the Group as at and for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 1 March 2017.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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



## Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group 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 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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

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

Erdal Tıkmak, SMMM  
Partner

2 March 2018  
İstanbul, Turkey

**TABLE OF CONTENTS****PAGE**

<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET).....</b>	<b>1-2</b>
<b>CONSOLIDATED STATEMENT OF PROFIT OR LOSS .....</b>	<b>3</b>
<b>CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME.....</b>	<b>4</b>
<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....</b>	<b>5</b>
<b>CONSOLIDATED STATEMENT OF CASH FLOWS .....</b>	<b>6</b>
<b>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS .....</b>	<b>7-78</b>
NOTE 1 ORGANIZATIONS AND OPERATIONS OF THE GROUP.....	7-9
NOTE 2 BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS....	9-30
NOTE 3 DIVIDENDS.....	31
NOTE 4 INTEREST IN JOINT OPERATIONS.....	32
NOTE 5 SEGMENTAL INFORMATION.....	33-35
NOTE 6 CASH AND CASH EQUIVALENTS.....	36
NOTE 7 FINANCIAL INVESTMENTS.....	36-37
NOTE 8 FINANCIAL LIABILITIES.....	38-40
NOTE 9 TRADE RECEIVABLES AND PAYABLES.....	41-42
NOTE 10 OTHER RECEIVABLES AND PAYABLES.....	42
NOTE 11 INVENTORIES.....	43
NOTE 12 CONSTRUCTION CONTRACTS.....	43
NOTE 13 INVESTMENT PROPERTIES.....	44-45
NOTE 14 PROPERTY, PLANT AND EQUIPMENT.....	46-48
NOTE 15 INTANGIBLE ASSETS.....	49
NOTE 16 GOODWILL.....	49
NOTE 17 PREPAID EXPENSES AND DEFERRED INCOME.....	50
NOTE 18 PROVISIONS, CONTINGENT ASSETS AND LIABILITIES.....	51
NOTE 19 COMMITMENTS.....	52-53
NOTE 20 PROVISIONS FOR EMPLOYEE BENEFITS.....	54
NOTE 21 OTHER ASSETS AND LIABILITIES.....	55
NOTE 22 SHARE CAPITAL AND RESERVES.....	56-58
NOTE 23 SALES AND COST OF SALES.....	58
NOTE 24 MARKETING, SALES, DISTRIBUTION AND ADMINISTRATIVE EXPENSES.....	59
NOTE 25 EXPENSES BY NATURE.....	60
NOTE 26 OTHER OPERATING INCOME / EXPENSES.....	60-61
NOTE 27 INVESTMENT INCOME / EXPENSES.....	61-62
NOTE 28 FINANCIAL INCOME.....	62
NOTE 29 FINANCIAL EXPENSES.....	62
NOTE 30 ASSETS HELD FOR SALE.....	62
NOTE 31 TAXATION ON INCOME.....	63-66
NOTE 32 EARNINGS PER SHARE .....	67
NOTE 33 RELATED PARTY BALANCES AND TRANSACTIONS .....	67-68
NOTE 34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES .....	68-76
NOTE 35 FINANCIAL INSTRUMENTS – FAIR VALUE EXPLANATIONS AND ACCOUNTING POLICY FOR HEDGING FINANCIAL RISK .....	77-78
NOTE 36 EVENTS AFTER THE REPORTING PERIOD .....	78

**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)  
AS AT 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated.)

<b>ASSETS</b>	<b>Notes</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Current Assets</b>		<b>2,086,281</b>	<b>2,468,211</b>
Cash and cash equivalents	6	781,718	1,000,020
Financial investments	7	578,886	684,133
Trade receivables	9	306,459	419,938
Other receivables			
Other receivables from related parties	10,33	21	-
Other receivables from third parties	10	793	1,537
Costs and estimated earnings in excess of billings on uncompleted contracts	12	12,168	3,060
Prepaid expenses	17	90,103	45,679
Inventories	11	223,772	264,804
Other current assets	21	68,725	48,356
		<u>2,062,645</u>	<u>2,467,527</u>
Assets held for sale	30	23,636	684
<b>Non-Current Assets</b>		<b>5,945,008</b>	<b>5,118,410</b>
Financial investments	7	2,118,672	1,510,400
Trade receivables	9	46,877	28,933
Investment properties	13	2,081,941	1,886,911
Property, plant and equipment	14	1,614,651	1,602,005
Intangible assets			
Goodwill	16	22,077	55,168
Other intangible assets	15	34,959	24,462
Prepaid expenses	17	18,745	4,868
Deferred tax assets	31	2,759	1,400
Other non-current assets	21	4,327	4,263
<b>TOTAL ASSETS</b>		<b><u>8,031,289</u></b>	<b><u>7,586,621</u></b>

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



# ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated.)

<b>LIABILITIES</b>	<b>Notes</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Current Liabilities</b>		<b>949,558</b>	<b>851,737</b>
Short-term borrowings	8	40,105	24,279
Current portion of long-term borrowings	8	37,598	42,482
Trade payables	9	153,562	238,110
Payables to employees	20	26,704	21,873
Other payables			
Payables to related parties	10,33	34	90
Payables to third parties	10	19,513	13,133
Billings in excess of costs and estimated earnings on uncompleted contracts	12	267,629	241,027
Deferred income	17	224,234	98,681
Taxation on income	31	60,188	51,979
Provisions			
Provisions for employee benefits	20	20,460	18,342
Other provisions	18	50,795	58,465
Other current liabilities	21	48,736	43,276
<b>Non-Current Liabilities</b>		<b>797,918</b>	<b>1,006,381</b>
Long-term borrowings	8	233,807	217,249
Trade payables	9	59,002	-
Other payables	10	17,997	22,059
Deferred income	17	4,412	329,481
Provisions for employee benefits	20	15,520	16,290
Deferred tax liabilities	31	467,180	421,302
<b>EQUITY</b>		<b>6,283,813</b>	<b>5,728,503</b>
<b>Equity Attributable to Equity Holders of the Parent</b>		<b>6,207,493</b>	<b>5,666,583</b>
Share capital	22	2,556,803	2,445,227
Treasury shares	22	(25,866)	(12,032)
Revaluation surplus	22	176,262	182,004
Currency translation difference		(1,094,940)	(1,190,023)
Other reserves		280	(541)
Legal reserves and accumulated profit		4,594,954	4,241,948
<b>Non-Controlling Interests</b>		<b>76,320</b>	<b>61,920</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>8,031,289</b>	<b>7,586,621</b>

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

# ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated.)

	Notes	1 January - 31 December 2017	1 January - 31 December 2016
<b>CONTINUING OPERATIONS</b>			
Revenue	5,23	2,899,584	3,506,113
Cost of revenues (-)	5,23	(2,148,974)	(2,713,548)
<b>GROSS PROFIT</b>		<b>750,610</b>	<b>792,565</b>
Administrative expenses (-)	5,24	(101,616)	(118,292)
Marketing, selling and distribution expenses (-)	5,24	(26,612)	(30,968)
Other operating income	5,26	42,221	25,409
Other operating expenses (-)	5,26	(26,209)	(40,796)
<b>PROFIT FROM OPERATIONS</b>		<b>638,394</b>	<b>627,918</b>
Income from investing activities	5,27	405,438	273,138
Expenses from investing activities (-)	5,27	(173,694)	(129,688)
<b>OPERATING PROFIT</b>			
<b>BEFORE FINANCE EXPENSES</b>		<b>870,138</b>	<b>771,368</b>
Financial income	5,28	23,241	27,312
Financial expenses (-)	5,29	(18,172)	(11,213)
<b>PROFIT BEFORE TAX</b>			
<b>FROM CONTINUING OPERATIONS</b>		<b>875,207</b>	<b>787,467</b>
Current tax expense (-)	5,31	(118,025)	(143,588)
Deferred tax expense (-)	5,31	(43,186)	(44,449)
<b>PROFIT FOR THE YEAR FROM</b>			
<b>CONTINUING OPERATIONS</b>		<b>713,996</b>	<b>599,430</b>
<b>NET PROFIT FOR THE YEAR</b>		<b>713,996</b>	<b>599,430</b>
<b>Attributable to:</b>			
Non-controlling interests		9,438	10,775
Equity holders of the parent		704,558	588,655
		<b>713,996</b>	<b>599,430</b>
<b>Earning per share from continuing operations</b>			
- ordinary share certificate (full cent)	32	0.15	0.13
<b>Weighted average number of shares</b>			
<b>(1 cent weighted average shares)</b>		458,160,000,000	459,080,000,000

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

# ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated.)

	Notes	1 January - 31 December 2017	1 January - 31 December 2016
<b>NET PROFIT FOR THE YEAR</b>		<b>713,996</b>	<b>599,430</b>
<b>Other Comprehensive Income:</b>			
<i>Items that will not be reclassified subsequently to profit or loss</i>		<i>(5,363)</i>	<i>37,965</i>
Gains / (losses) on revaluation of property, plant and equipment	22,31	(5,787)	33,826
Remeasurement of defined benefit plans	20,31	(1,345)	(483)
Changes in currency translation difference	22,31	315	836
<b>Income tax relating items that will not be reclassified subsequently to profit or loss</b>		<b>1,454</b>	<b>3,786</b>
Income tax relating to gains / (losses)			
on revaluation of property, plant and equipment	31	1,185	3,689
Income tax relating to remeasurement of defined benefit plans	31	269	97
<i>Items that may be reclassified subsequently to profit or loss</i>		<i>102,696</i>	<i>136,577</i>
Changes in currency translation difference	31	102,696	136,577
<b>OTHER COMPREHENSIVE INCOME / (LOSS)</b>		<b>97,333</b>	<b>174,542</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>811,329</b>	<b>773,972</b>
<b>Attributable to:</b>			
Non-controlling interests		17,051	12,842
Equity holders of the parent		794,278	761,130
		<b>811,329</b>	<b>773,972</b>

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

# ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

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

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated.)

	Notes	Share capital	Treasury shares	Revaluation surplus	Currency translation difference	Other reserves	Legal reserves and accumulated profit	Total	Non-controlling interests	Total equity
<b>Balance at 1 January 2016</b>		<b>2,378,041</b>	-	<b>148,222</b>	<b>(1,326,308)</b>	<b>(843)</b>	<b>3,925,973</b>	<b>5,125,542</b>	<b>51,810</b>	<b>5,177,352</b>
Total other comprehensive income		-	-	35,910	136,285	1,123	(386)	172,932	2,067	174,999
Profit for the year		-	-	-	-	-	588,655	588,655	10,775	599,430
Total comprehensive income		-	-	35,910	136,285	1,123	588,269	761,587	12,842	774,429
Purchase of treasury shares		-	(12,032)	-	-	-	-	(12,032)	-	(12,032)
Transfer of depreciation difference		-	-	-	-	-	-	-	-	-
(net of deferred tax) of revaluation effect		-	-	(2,128)	-	-	2,128	-	-	-
Share capital increase	22	67,186	-	-	-	-	(67,186)	-	-	-
Dividends paid		-	-	-	-	-	(208,057)	(208,057)	(2,732)	(210,789)
<b>Balance at 31 December 2016</b>		<b>2,445,227</b>	<b>(12,032)</b>	<b>182,004</b>	<b>(1,190,023)</b>	<b>280</b>	<b>4,241,127</b>	<b>5,666,583</b>	<b>61,920</b>	<b>5,728,503</b>
<b>Balance at 1 January 2017</b>		<b>2,445,227</b>	<b>(12,032)</b>	<b>182,004</b>	<b>(1,190,023)</b>	<b>280</b>	<b>4,241,127</b>	<b>5,666,583</b>	<b>61,920</b>	<b>5,728,503</b>
Total other comprehensive income		-	-	(4,287)	95,083	-	(1,076)	89,720	7,613	97,333
Profit for the year		-	-	-	-	-	704,558	704,558	9,438	713,996
Total comprehensive income		-	-	(4,287)	95,083	-	703,482	794,278	17,051	811,329
Purchase of treasury shares		-	(13,834)	-	-	-	-	(13,834)	-	(13,834)
Transfer of depreciation difference		-	-	-	-	-	-	-	-	-
(net of deferred tax) of revaluation effect		-	-	(1,455)	-	-	1,455	-	-	-
Share capital increase	22	111,576	-	-	-	-	(111,576)	-	-	-
Dividends paid		-	-	-	-	-	(239,534)	(239,534)	(2,651)	(242,185)
<b>Balance at 31 December 2017</b>		<b>2,556,803</b>	<b>(25,866)</b>	<b>176,262</b>	<b>(1,094,940)</b>	<b>280</b>	<b>4,594,954</b>	<b>6,207,493</b>	<b>76,320</b>	<b>6,283,813</b>

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

# ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated.)

		1 January - 31 December 2017	1 January - 31 December 2016
<b>Cash flows from operating activities</b>	<b>Notes</b>		
Profit for the year		713,996	599,430
Adjustments to reconcile net income			
to net cash used in operating activities:			
- Depreciation and amortization of non-current assets	5	106,137	103,620
- Provision for employment termination benefits		2,660	2,475
- Allowance for doubtful receivables	9,26	130	4,141
- Adjustments to deferred income from electricity sale		(311,662)	(163,993)
- (Income) / loss from fair value of forward transactions		3,741	(409)
- Interest expense	29	3,542	2,858
- Interest income		(126,842)	(98,852)
- Dividend income	27	(9,408)	(9,618)
- Provision for inventory impairment, net		34,402	276
- Gain on sale or disposal of property, plant and equipment, net	14	(1,007)	(3,402)
- Fair value increase in investment properties and lands		1,781	(39,055)
- Valuation of investment securities		(106,992)	(10,162)
- Interest accrual		245	308
- Tax expense	31	161,211	188,037
		<u>471,934</u>	<u>575,654</u>
Movements in working capital			
Decrease in trade and other receivables		93,286	83,824
Decrease cost and estimated earnings in			
excess of billings on uncompleted contracts		(9,108)	76,784
(Increase) / decrease in inventory		39,719	(31,481)
Decrease in other current assets			
and other non current assets		(100,943)	24,238
Decrease in trade and other payables		(25,542)	(192,094)
Increase / (decrease) in billings in excess of cost and estimated			
earnings on uncompleted contracts		26,602	80,127
Decrease in provision for liabilities and other liabilities		115,404	(23,777)
		<u>139,418</u>	<u>17,621</u>
Income taxes paid	31	(109,816)	(148,039)
Employee termination benefits paid	20	(3,877)	(1,830)
<b>Net cash generated from operating activities</b>		<b><u>497,659</u></b>	<b><u>443,406</u></b>
<b>Cash flows from investing activities</b>			
Cash receipts from sales of equity or debt instruments of other entities		(396,033)	(182,886)
Proceeds on disposal or sale of property, plant and equipment	14	11,548	10,631
Purchases of property, plant and equipment, intangible assets			
and investment properties	5	(262,356)	(164,424)
Interest received		119,347	91,836
Dividend received		9,408	9,618
<b>Net cash used in investing activities</b>		<b><u>(518,086)</u></b>	<b><u>(235,225)</u></b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		53,279	114,389
Repayments of borrowings		(45,094)	(37,915)
Purchase of treasury shares		(13,834)	(12,032)
Interest paid		(2,458)	(3,413)
Interest received		7,250	6,709
Dividend paid to non-controlling interests		(2,651)	(2,732)
Dividend paid		(239,534)	(208,057)
<b>Net cash used in financing activities</b>		<b><u>(243,042)</u></b>	<b><u>(143,051)</u></b>
Translation reserve		45,167	(14,298)
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b><u>(218,302)</u></b>	<b><u>50,832</u></b>
Cash and cash equivalents at beginning of the year	6	999,020	948,188
<b>Cash and cash equivalents at end of the year</b>	<b>6</b>	<b><u>780,718</u></b>	<b><u>999,020</u></b>

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

# ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

### 1. ORGANIZATIONS AND OPERATIONS OF THE GROUP

Enka İnşaat ve Sanayi Anonim Şirketi (“Enka İnşaat”) was established on 4 December 1967 and registered in İstanbul, Turkey, under the Turkish Commercial Code. The address of the headquarter and registered office of Enka İnşaat is Balmumcu, Zincirlikuyu Yolu No: 10, 34349 Enka Binası Beşiktaş, İstanbul, Turkey.

As of 28 June 2002, Enka İnşaat merged legally with its publicly traded shareholder company, Enka Holding Yatırım Anonim Şirketi (Enka Holding), which were under the common control of Tara Holding Anonim Şirketi and Tara and Gülçelik families. As of 31 December 2017, 12.03% of the shares of Enka İnşaat is traded publicly in İstanbul Stock Exchange (ISE).

As of 31 December 2017, the average numbers of white and blue-collar personnel are respectively 4.641 and 15.751 (31 December 2016 – 4.530 and 14.016).

For the purpose of the consolidated financial statements, Enka İnşaat, its consolidated subsidiaries and its joint operations are hereinafter referred to as “the Group”.

The Group operates in geographical areas below:

- i. *Turkey*: engaged in diverse types of construction activities including construction of industrial and social buildings, motorways and construction and operation of natural gas fired electrical energy generation facilities. Additionally the Group is operating in trading activities.
- ii. *Russian Federation, Georgia, Turkmenistan and Kazakhstan*: engaged in construction activities and also in investment and development of real estate properties and shopping malls in Moscow, Russia.
- iii. Engaged in construction activities in Gabon, Kenya, Djibouti, Mauritania and Equatorial Guinea in Africa; Saudi Arabia, Sri Lanka, India, Oman, Iraq, Afganistan, Mexico in Asia.
- iv. *Europe*: engaged in construction and trading activities in Romania, the Netherlands, Switzerland, Germany, Greece and Kosovo.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

As of 31 December 2017, Enka İnşaat has the following subsidiaries whose business and country of incorporation are provided below:

Name of Subsidiary	Nature of business activities	Country of incorporation	Year of establishment
Enka Pazarlama İhracat İthalat Anonim Şirketi (Enka Pazarlama)	Engaged in marketing and after-sales service of construction machineries, trucks, industrial products and spare parts.	Turkey	1972
Çimtaş Çelik İmalat Montaj ve Tesisat Anonim Şirketi (Çimtaş)	Engaged in manufacturing of structural steel works, installation and establishing of the technical equipment.	Turkey	1973
Titaş Toprak İnşaat ve Taahhüt Anonim Şirketi (Titaş)	Engaged in all kinds of excavation activities, excavation backfilling works and quarrying-crushing operation of highway projects.	Turkey	1974
Kasktaş Kayar Kalıp Altyapı Sondaj Kazık ve Tecrit Anonim Şirketi (Kasktaş)	Engaged in pile dwelling work, any kind of base and superstructure construction, slip form and construction of drilling and ground surveys.	Turkey	1975
Entaş Nakliyat ve Turizm Anonim Şirketi (Entaş)	The firm operates in organization of domestic and international conventions and seminars and also engaged in tour reservations and ticket sales.	Turkey	1976
Enet Proje Araştırma ve Müşavirlik A.Ş. (Enet)	Performs architectural design services.	Turkey	1980
Enka Teknik Genel Müteahhitlik Bakım İşletme Sevk ve İdare Anonim Şirketi (Enka Teknik)	Operates in the business of material handling and storage systems, auxiliary facilities, water treatment and environmental engineering, infrastructure and construction, control systems and instrumentation engineering.	Turkey	1981
Entrade GmbH (Entrade)	Manages foreign investments of the Company.	Germany	1984
Limited Liability Company Enmar (Enmar)	Engaged in ready-mixed concrete production and various construction works.	Russia	1994
Airenka Hava Taşımacılığı A.Ş.(Air Enka)	Engaged in all kinds of air transportation.	Turkey	2001
Enka Holding B.V.	Manages foreign investments of the Company.	Netherlands	2001
Enka Müteahhitlik Hizmetleri A.Ş. (Enka Müteahhitlik)	Engaged in construction activities.	Turkey	2002
Adapazarı Elektrik Üretim Limited Şirketi (Adapazarı Elektrik) (*)	Performs production and selling of electricity.	Turkey	2004
İzmir Elektrik Üretim Limited Şirketi (İzmir Elektrik) (*)	Performs production and selling of electricity.	Turkey	2004
Enka Santral İşletme ve Bakım Hizmetleri Anonim Şirketi	Performs repair and maintenance of the power plants.	Turkey	2004
Gebze Elektrik Üretim Limited Şirketi (Gebze Elektrik) (*)	Performs production and selling of electricity.	Turkey	2004
Enka Limited Liability Company (Enka LLC)	Manages the Company’s construction, engineering and design jobs.	Ukraine	2006
Enka Enerji Ticaret A.Ş.	Will perform sale of electricity.	Turkey	2006
Enka & Co LLC	Engaged in construction activities.	Oman	2010

(\*) İzmir Elektrik, Adapazarı Elektrik and Gebze Elektrik here and after are also referred to as “the Power Companies”.

# ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

The construction contracts are undertaken by Enka İnşaat alone or together with its affiliated companies or, in partnerships with other contractors through joint operations. As of 31 December 2017, Enka İnşaat has the following joint operations:

Bechtel-Enka Joint Venture (Kazakhstan) – Senimdy Kurylys  
Bechtel-Enka Joint Venture (Romania)  
Bechtel-Enka Joint Venture (Albania)  
Bechtel-Enka Joint Venture (Kosovo)  
Bechtel-Enka Joint Venture (Oman)  
Bechtel-Enka Joint Venture (Georgia)  
Other (Europe, Africa, America, Asia)

### 2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### 2.1 Basis of presentation

##### Basis for preparation of the financial statements and significant accounting policies

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The consolidated financial statements have been prepared on the historical cost convention, except for investment properties, buildings, financial assets at fair value through profit or loss and derivative financial instruments which are measured at fair values. The consolidated financial statements are presented in U.S. Dollars (“USD”) and all values are rounded to the nearest thousand (‘000) except when otherwise indicated.

The Group adopted all standards, which were mandatory as of 31 December 2017. The consolidated financial statements of Enka İnşaat were authorized for issue by the management on 2 March 2018. The General Assembly and certain regulatory bodies have the power to amend the financial statements after issue.

Enka İnşaat and its subsidiaries which are incorporated in Turkey, maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (“TL”) in accordance with Turkish Accounting Standards (“TAS”) issued by Public Oversight Accounting and Auditing Standards Authority of Turkey (“POA”) as set out in the Communiqué serial II, No: 14.1 announcement of Capital Markets Board (“CMB”) dated 13 June 2013 related to “Capital Market Communiqué on Principles Regarding Financial Reporting”. The foreign subsidiaries maintain their books of accounts in accordance with the laws and regulations in force in the countries where they are registered. The consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

The Group also reported separately for the consolidated financial statements for the same period prepared in accordance with TAS.

There are no differences between the consolidated financial statements prepared in accordance with TAS and consolidated IFRS financial statements except for the use of TL and USD as the presentation currency, respectively.



## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

### 2.1 Basis of presentation (cont’d)

#### Functional and presentation currency

As significant amount of construction, energy and real estate operations of Enka İnşaat and its consolidated subsidiaries and its joint operations which form main part of the operations of the Group are carried out in U.S. Dollar or indexed to U.S. Dollar, this currency has been determined as the functional and the presentation currency of the Group in line with IAS 21 - The Effects of Changes in Foreign Exchange Rates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies (i.e. any currency other than the functional currency) are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of foreign subsidiaries operating in Russia (Moscow Krasnye Holmy (MKH), Limited Liability Company Mosenka (Mosenka) and Limited Liability Company Enka TC (Enka TC)) are Ruble. The functional currency of jointly managed subsidiaries established in Romania, Kosovo and Albania and Enka Pazarlama are the Euro. The functional currency of some subsidiaries incorporated in Turkey is TL. These companies reporting to Enka İnşaat in the currency of their respective currencies, and balance sheet items are denominated in US Dollar / Ruble, US Dollar / Euro and US Dollar / TL, respectively, income and expenses and cash flows are translated into US Dollar / Ruble, US Dollar / Euro and US Dollar / TL annual average rates, respectively.

The assets and liabilities of the subsidiaries whose functional currency is other than U.S. Dollars are translated into U.S. Dollars at the rate of exchange ruling at the balance sheet date and their consolidated statement of profit or loss are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity as currency translation difference.

Within Turkey, official exchange rates of the Turkish Lira (TL) are determined by the Central Bank of Turkey (CBT) and are generally considered to be a reasonable approximation of market rates. Within the Russian Federation, official exchange rates are determined daily by the Central Bank of the Russian Federation (CBRF), which is also a reasonable approximation of market rates.

The year-end and average rates for 2017 and 2016 for one U.S. Dollar can be summarized as below:

	2017	2016
U.S. Dollars/TL – as of balance sheet date	3.7719	3.5192
U.S. Dollars/TL – yearly average	3.6445	3.0181
U.S. Dollars/RUB – as of balance sheet date	57.6002	60.6569
U.S. Dollars/RUB – yearly average	58.3529	67.0349

#### Inflation accounting

Until 31 December 2005, the financial statements of the subsidiaries, functional currency of which was TL, were restated for the changes in the general purchasing power of TL based on IAS 29 (“Financial Reporting in Hyperinflationary Economies”). Since the objective conditions for the restatement in hyperinflationary economies were no longer applicable at that time, Turkey came off hyperinflationary status effective from 1 January 2006. After the Turkish economy ceased to be hyperinflationary, such subsidiaries no longer restate their financial statements in accordance with IAS 29, and use as the historical costs for translation into the presentation currency the amounts restated to the price level at the date these subsidiaries ceased restating their financial statements. Therefore, the non-monetary assets and liabilities and components of shareholders’ equity of such subsidiaries including share capital reported in the balance sheet as of 31 December 2017 and 2016 are derived by indexing the additions occurred until 31 December 2005 and carrying the additions after this date with their nominal amounts.

#### Comparative information and reclassification of prior year consolidated financial statements

The Group prepares comparative consolidated financial statements, to enable readers to determine financial position and performance trends. For the purposes of effective comparison, comparative consolidated financial statements can be reclassified when deemed necessary by the Group, where descriptions on significant differences are disclosed. In the current year, there is no such reclassification.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

##### **2.1 Basis of presentation (cont’d)**

###### Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company, its joint operations and its subsidiaries as at 31 December each year. The financial statements of the joint operations and the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies so as to benefit from its activities. Subsidiaries in which the Group owns directly or indirectly more than 50% of the voting rights, or has power to govern the financial and operating policies under a statute or agreement are consolidated. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. All significant intra-group transactions and balances between Enka İnşaat and its consolidated subsidiaries and joint operations are eliminated.

Non-controlling interests represent the portion of consolidated statement of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of profit or loss and within equity in the consolidated balance sheet, separately from parent shareholders’ equity.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

### 2.1 Basis of presentation (cont'd)

#### Basis of consolidation (cont'd)

The subsidiaries included in consolidation and their shareholding percentages at 31 December 2017 and 2016 are as follows:

Company name	Segment	Functional Currency	Direct / Indirect ownership	
			31 December 2017	31 December 2016
İzmir Elektrik	Energy	USD	100.00%	100.00%
Adapazarı Elektrik	Energy	USD	100.00%	100.00%
Gebze Elektrik	Energy	USD	100.00%	100.00%
Enka TC LLC	Trade and manufacturing	RUB	100.00%	100.00%
Mosenka	Rental	RUB	100.00%	100.00%
MKH	Rental	RUB	100.00%	100.00%
OMKH	Rental	RUB	100.00%	-
Enka Santral Hizmetleri A.Ş.	Energy	USD	100.00%	100.00%
Enka Enerji Ticaret A.Ş.	Energy	USD	100.00%	100.00%
Enka Holding B.V.	Construction	EUR	100.00%	100.00%
Enka Holding Investment S.A.	Construction	USD	100.00%	100.00%
Enka Power Systems B.V.	Construction	EUR	100.00%	100.00%
Enka Construction & Development B.V.	Construction	EUR	100.00%	100.00%
Far East Development B.V.	Construction	EUR	100.00%	100.00%
Enka Geothermal B.V. Middle East Construction B.V	Construction	EUR	100.00%	100.00%
Enmar	Construction	USD	100.00%	100.00%
Entrade	Construction	EUR	100.00%	100.00%
Capital City Investment B.V.	Construction	EUR	100.00%	100.00%
City Center Investment B.V.	Rental	USD	100.00%	100.00%
Enka LLC	Construction	USD	100.00%	100.00%
Retmos Investment Ltd.	Construction	USD	100.00%	100.00%
Emos LLC	Trade and manufacturing	RUB	100.00%	100.00%
Enmar Construction B.V.	Trade and manufacturing	EUR	100.00%	100.00%
Cmos B.V.	Trade and manufacturing	EUR	100.00%	100.00%
OOO Victoria	Construction	USD	100.00%	100.00%
Enka & Co LLC	Construction	USD	100.00%	100.00%
Enka Müteahhitlik	Construction	TL	100.00%	100.00%
Edco Investment B.V.	Rental	EUR	100.00%	100.00%
Enru Development B.V.	Rental	EUR	100.00%	100.00%
Enkamos Region B.V.	Construction	EUR	100.00%	100.00%
Airenka	Trade and manufacturing	USD	100.00%	100.00%
Poyraz Shipping B.V.	Construction	USD	100.00%	100.00%
Bogazici Shipping B.V.	Construction	USD	100.00%	100.00%
Doga Shipping B.V.	Construction	USD	100.00%	100.00%
Imbat Shipping B.V.	Construction	USD	100.00%	100.00%
TNY Shipping B.V.	Construction	USD	100.00%	100.00%
Alacante Shipping B.V.	Construction	USD	100.00%	100.00%
BRK Overseas Shipping B.V.	Construction	USD	100.00%	100.00%
MML Merchant Shipping B.V.	Construction	USD	100.00%	100.00%
Esta Construction B.V.	Construction	USD	100.00%	100.00%
Enka UK Construction Ltd.	Construction	USD	100.00%	100.00%

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

### 2.1 Basis of presentation (cont'd)

Company name (continuing)	Segment	Functional Currency	Direct / Indirect ownership	
			31 December 2017	31 December 2016
Enet	Construction	TL	100.00%	100.00%
Üstyurt Kurylys	Construction	USD	100.00%	-
Enka Pazarlama	Trade and manufacturing	EUR	99.99%	99.99%
Enka Finansal Kiralama A.Ş.	Trade and manufacturing	TL	99.99%	99.99%
Enka Trading B.V.	Trade and manufacturing	EUR	99.99%	-
Metra Akdeniz Dış Ticaret A.Ş.	Trade and manufacturing	TL	99.99%	99.93%
Entaş	Trade and manufacturing	TL	99.98%	99.98%
Kasktaş	Construction	USD	99.90%	99.90%
Burkas Ltd. Şti.	Construction	USD	99.90%	99.90%
Kasktaş Arabia Ltd.	Construction	USD	99.90%	99.90%
Titaş	Construction	USD	99.50%	99.50%
Çimtaş Gemi İnşa Sanayi ve Ticaret A.Ş.	Construction	USD	97.88%	97.88%
Çimtaş Hassas İşleme Sanayi ve Ltd.Şti	Construction	USD	97.35%	97.35%
Çimtaş Çelik	Construction	USD	97.35%	97.35%
Cimtas Mechanical Contracting B.V.	Construction	USD	97.35%	97.35%
Cimtas (Ningbo) Steel Processing Company Ltd.	Construction	USD	97.35%	97.35%
Cimtas Investment B.V.	Construction	EUR	97.35%	97.35%
Gemlik Deniz Taşımacılık Ltd.Şti.	Construction	USD	97.35%	97.35%
Enka Teknik	Construction	USD	80.00%	77.50%
Enka Systems	Trade and manufacturing	USD	75.00%	-
OOO R-Avtam	Rental	USD	100.00%	60.00%
Cimtas Boru İmalatları ve Ticaret Ltd. Şti.	Construction	EUR	50.00%	50.00%

The Group has interests in joint operations which are jointly controlled entities. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Group recognizes its interest in the joint operations using proportionate consolidation. The breakdown of the controlling interests of the joint operations as of 31 December 2017 and 2016 is as follows:

	Functional Currency	31 December 2017	31 December 2016
Bechtel-Enka Joint Venture (Kazakhstan) – Senimdy Kurylys	USD	50.00%	50.00%
Bechtel-Enka Joint Venture (Romania)	EUR	50.00%	50.00%
Bechtel-Enka Joint Venture (Albania)	EUR	50.00%	50.00%
Bechtel-Enka Joint Venture (Kosovo)	EUR	50.00%	50.00%
Bechtel-Enka Joint Venture (Oman)	USD	50.00%	50.00%
Bechtel-Enka Joint Venture (Georgia)	USD	50.00%	50.00%
AECO Development Limited Liability Company (Oman)	USD	-	50.00%
Other Partnerships (Europe, Africa, America, Asia)	USD	50.00%	50.00%

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

##### 2.2 Changes in the accounting policies

Significant changes in accounting policies are applied retrospectively and prior year consolidated financial statements are restated when necessary. There is no change in accounting policies of the Group in the current year.

##### 2.3 Changes in Accounting Estimates and Errors

If estimated changes in accounting policies are for only one period, changes are applied on the current year but if the estimated changes effect the following periods, changes are applied both on the current and following years prospectively. There is no material change in accounting estimates of the Group in the current year.

When a significant accounting error is identified, it is corrected retrospectively and the prior year consolidated financial statements are restated. The Group did not detect any significant accounting error in the current year.

##### 2.4 Standards and interpretations issued but not yet effective

###### ***Standards issued but not yet effective and not early adopted***

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

###### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 issued in May 2014 replaces existing IFRS 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 expect 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. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

###### **IFRS 9 Financial Instruments**

The last version of IFRS 9, issued in July 2014, replaces the existing guidance in IAS 39 "*Financial Instruments: Recognition and Measurement*". It also carries forward the guidance on recognition, classification, measurement and derecognition of financial instruments from IAS 39 to IFRS 9. The last version of IFRS 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 IFRS 9. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

###### **IFRIC 22 – Foreign Currency Transactions and Advance Consideration**

On 8 December 2016, IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration 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 recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises 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. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group does not expect that application of IFRIC 22 will have significant impact on its consolidated financial statements.

###### **Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions**

IFRS 2 Share-Based Payment has been amended by IASB 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 Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 2.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

### 2.4 Standards and interpretations issued but not yet effective

#### *Standards issued but not yet effective and not early adopted (cont'd)*

##### **IAS 40 – Transfers of Investment Property**

Amendments to IAS 40 - Transfers of Investment Property issued by IASB 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 derecognised (eliminated from the statement of consolidated 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 amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 40.

#### *Annual Improvements to IFRSs 2014-2016 Cycle*

##### **Improvements to IFRSs**

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

##### *IFRS 1 "First Time Adoption of International Financial Reporting Standards"*

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

##### *IAS 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 IFRS 9.

##### **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. IFRS 16 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 Group is assessing the potential impact on its consolidated 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. IFRIC 23 is effective from 1 January 2019, with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 23.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

### 2.4 Summary of significant accounting policies (continued)

#### Standards issued but not yet effective and not early adopted (continued)

##### *Annual Improvements to IFRSs 2015-2017 Cycle*

##### **Improvements to IFRSs**

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

##### **Amendments to IAS 28- Long-term interests in Associates and Joint Ventures**

On 12 October 2017, IASB has issued amendments to IAS 28 to clarify that entities also apply IFRS 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 IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 28.

##### **Amendments to IFRS 9 - Prepayment features with negative compensation**

On 12 October 2017, IASB has issued amendments to IFRS 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 IFRS 9. Under IFRS 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 Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 9.

##### **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. The Group does not expect that application of IFRS 17 will have significant impact on its consolidated financial statements.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

### 2.5 Summary of significant accounting policies

#### Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is reduced for estimated or realized customer returns, discount commissions, rebates and taxes related to sales. The following specific recognition criteria must also be met before revenue is recognized:

#### Construction contract activities

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs.

Revenue arising from cost plus fee contracts is recognized on the basis of costs incurred plus a percentage of the contract fee earned during the year.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Selling, general and administrative expenses are charged to the consolidated statement of profit or loss as incurred. Provisions for estimated losses on uncompleted contracts are made in full, in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Profit incentives are included in revenues when their realization is reasonably assured.

Costs and estimated earnings in excess of billings on uncompleted contracts represent revenues recognized in excess of amounts billed. Billings in excess of costs and estimated earnings on uncompleted contracts represent billings in excess of revenues recognized.

#### Energy activities

The Power Companies have signed an "Electric Sales Agreement" (ESA) with Türkiye Elektrik Ticaret ve Taahhüt A.Ş. (TETAŞ) for the establishment, management and sale of electricity that will be produced for a period of 20 years in accordance with the Build-Own-Operate Law numbered 4283 and Build-Own-Operate regulation. As the period includes project development and construction phases, the contract dates of power plants are 16 years after the beginning of the operation. The sales price and quantity in terms of Kwh during the 16 years period are determined in the ESA. Average energy sales price is determined by dividing yearly sales revenues calculated over yearly sales amounts and unit prices by the 16 year-sales quantities. At the end of each year, the average price is recalculated over the realized amounts. Therefore, revenues from the sale of electricity under long-term contracts are recognized on the average charge per Kwh over the life of the contract. Both the 'investment' and the 'fuel cost' item revenues in the scope of the contract are levelised accordingly. Revenues in excess of the average are recorded as deferred revenue in the consolidated balance sheet and are recognized over the life of the project.

#### Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

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

Revenue is reduced for estimated or realized customer returns, discount commissions, rebates and taxes related to sales.



## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

### 2.5 Summary of significant accounting policies (cont’d)

#### Revenue (cont’d)

##### Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases. Rental income collected in advance is treated as deferred income and is amortised on a monthly basis during the lease period.

##### Rendering of services

Revenue is recognized by reference to the stage of completion.

##### Interest income

Interest income and expenses are recognized in the consolidated statement of profit or loss on an accrual basis taking into account the effective yield on the asset. When loans provided by the Group are considered doubtful by the management of the Group, the interest accrual is not recognized in the consolidated statement of profit or loss.

##### Dividends

Revenue is recognized when the Group’s right to receive the payment is established.

#### Inventories

Inventories are valued at the lower of cost or net realizable value. Costs incurred in bringing each product to its present location and condition, are accounted for as follows:

Raw materials, spare parts, merchandise and construction materials - purchase cost on moving weighted average basis.

Goods for resale - purchase cost on moving weighted average basis.

Finished goods - cost of direct materials and labor and a proportion of manufacturing overheads based on moving weighted average basis.

The Group also provides an allowance for the slow moving and obsolete items.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

#### Property, plant and equipment

With the exception of land and buildings, items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment in value. Land is not depreciated. The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

### 2.5 Summary of significant accounting policies (cont'd)

#### Property, plant and equipment (cont'd)

Repairs and maintenance are charged to the consolidated statements of profit or loss during the financial period in which they are incurred. The costs of major renovations are included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group.

Depreciation is provided on all property, plant and equipment using the straight-line method at rates which approximate estimated useful lives of the related assets as follows:

	Useful life
Land improvements	5-50 years
Buildings	10-50 years
Power plant equipment	35 years
Pipelines	16 years
Electrical interconnection lines	16 years
Machinery and equipment	4-10 years
Motor vehicles	3-10 years
Furniture and fixtures	5-10 years
Barracks, scaffolding and formworks	5 years
Aircrafts	10-15 years
Others	5-10 years

Power plant equipment is recorded at its original cost of construction. Significant additions or improvements are capitalized when they extend the life, improve the efficiency or increase the earnings capacity of the asset. Expenditures for maintenance, repairs and minor renewals to maintain facilities in operating condition are expensed as incurred.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

#### Intangible assets (except goodwill)

Intangible assets mainly includes software rights, they are initially recognized at acquisition cost that are amortized over 3 to 10 years on straight-line basis.

#### Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

### 2.5 Summary of significant accounting policies (cont'd)

#### Investment properties

Land and buildings that are held for long term rental yields or for capital appreciation rather than for in the production of supply of goods or services or for administrative purposes or the sale in the ordinary course of business are classified as "investment property". Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of profit or loss in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of profit or loss in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Investment property also includes long-term leasehold land held under an operating lease, which is accounted for as a finance lease in accordance with IAS 40 "Investment Property" and IAS 17 "Leases". Each lease payment on the long-term leasehold land is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current lease liability on leasehold land. The interest element of the finance cost is charged to consolidated statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

#### Business combinations

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in the consolidated statement of profit or loss as a bargain purchase gain.

## **ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

##### **2.5 Summary of significant accounting policies (cont'd)**

###### **Business combinations (cont'd)**

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquire prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

###### **Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

## **ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

### **2.5 Summary of significant accounting policies (cont’d)**

#### **Non-current assets held for sale**

The Group measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell, and depreciation on such assets are ceased.

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

#### **Discontinued operations**

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and: represents a separate major line of business or geographical area of operations; is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations. The Group measured assets and liabilities related to the disposal group at the lower of their previous carrying amount and fair value less costs to sell (Note 30).

#### **Impairment of non-financial assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

### 2.5 Summary of significant accounting policies (cont'd)

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in the consolidated statement of profit or loss in the period in which they are incurred.

#### **Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

According to IFRS 9 as from 1 January 2010, the group classifies its financial assets in the following categories: those to be measured subsequently at fair value, and those to be measured at amortised cost. This classification depends on whether the financial asset is a debt or equity investment.

##### (a) Financial assets at amortised cost

A debt investment is classified as 'amortised cost' only if both of the following criteria are met: the objective of the group's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The nature of any derivatives embedded in the debt investment are considered in determining whether the cash flows of the investment are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process using the effective interest rate method.

##### (b) Financial assets at fair value

If either of the two criteria above are not met, the debt instrument is classified as 'fair value through profit or loss. The Group has classified their financial assets as financial assets to be measured at fair value.

Regular purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

At initial recognition, the group measures a financial asset at its fair value. A gain or loss on a debt investment that is subsequently measured at fair value and is not part of a hedging relationship is recognised in profit or loss and presented in the consolidated statement of profit or loss within income / (expenses) from investing activities in the period in which they arise. The Group is required to reclassify all affected debt investments when and only when its business model for managing those assets changes.

#### Impairment of financial assets

##### Financial assets at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

### 2.5 Summary of significant accounting policies (cont’d)

#### Financial instruments (cont’d)

##### Impairment of financial assets (cont’d)

##### Financial assets at amortised cost (cont’d)

The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The group, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - i. adverse changes in the payment status of borrowers in the portfolio; and
  - ii. national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The Group’s cash and cash equivalents are classified under the category of ‘Loans and Receivables’.

##### Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

### 2.5 Summary of significant accounting policies (cont'd)

#### Financial instruments (cont'd)

##### Financial liabilities (cont'd)

Financial liabilities are classified as either financial liabilities at fair value through profit and loss or other financial liabilities.

##### a) Financial liabilities at fair value through profit and loss

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

##### b) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

##### Derivative financial instruments and hedging

Derivative financial instruments are initially recognized at fair value and are subsequently remeasured at their fair value. Derivative financial instruments of the Group predominantly constitute forward foreign currency purchase and sale contracts. Forward foreign exchange contracts are not accounted for as hedging derivative instruments for the purpose of hedging risk in the Consolidated Financial Statements due to the fact that they can not provide the effective protection against the risks for the Group economically and in accordance with TAS 39 - "Financial Instruments: Recognition and Measurement"

The fair value of forward foreign exchange contracts measured at fair value and associated with the consolidated profit or loss table is calculated by reference to the market interest rates valid for the rest of the contract for the relevant currency for the relevant period, by comparison with exchange rate. Derivatives are recorded as assets or liabilities in the balance sheet, respectively, depending on whether the fair value is positive or negative. Differences arising from the fair value of derivative financial instruments that are measured at fair value through profit or loss in the consolidated statement of income are reflected in the profit and loss statement in the consolidated statements of income.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:



## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

##### 2.5 Summary of significant accounting policies (cont'd)

###### Financial instruments (cont'd)

###### Derivative financial instruments and hedging (cont'd)

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability and could affect consolidated statement of profit or loss. The Power Companies have borrowings with variable interest rates and the Group uses interest rate caps to hedge the exposure to variability in cash flows due to the change in interest rates. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in consolidated statement of profit or loss.

Amounts taken to equity are transferred to the consolidated statement of profit or loss when the hedged transaction affects consolidated statement of profit or loss.

###### Accounting at the date of transaction

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

###### Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated 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 realise the asset and settle the liability simultaneously.

###### Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

###### Effects of Changes in Foreign Exchange Rates

Transactions in currencies other than functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign currency indexed monetary assets and liabilities are recorded at the rates of exchange prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in the consolidated statement of profit or loss in the period in which they arise.

###### Earnings per share

Basic earnings per share (EPS) disclosed in the consolidated statement of profit or loss are determined by dividing net profit by the weighted average number of shares that have been outstanding during the related year concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (Bonus Shares) to existing shareholders without a consideration for amounts resolved to be transferred to share capital from retained earnings. For the purpose of the EPS calculation, such bonus share distributions are regarded as stock dividends. If the number of ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic EPS for all periods presented is adjusted retrospectively. If these changes occur after the balance sheet date but before the financial statements are authorized for issue, the EPS calculations for those and any prior period financial statements presented is based on the new number of shares.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

##### 2.5 Summary of significant accounting policies (cont'd)

###### Provisions, contingent liabilities, contingent assets

###### Provisions

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

###### Contingent liabilities and assets

If contingent liabilities does not carry a high probability of resource allocation (cash outflow), they are not recognized in the consolidated financial statements but disclosed in the footnotes. However, contingent assets are not recognized in consolidated financial statements but disclosed in the footnotes when an inflow of economic benefits is probable.

###### Leases - The Group as lessee

###### Finance leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against consolidated statement of profit or loss. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonably certainty that the Group will obtain ownership by the end of the lease term, capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

###### Operating lease

Leases of assets under which substantially all the risks and rewards of ownership are effectively retained by the lessor, are classified as operating leases, except long-term leasehold land classified as investment property. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognized as a reduction of rental expense over the lease term on a straight-line basis.

###### Leases - The Group as lessor

###### Operating lease

The Group has entered into commercial and residential property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases. Lease income from operating leases is recognized in consolidated statement of profit or loss on a straight-line basis over the lease term. Costs, including depreciation, incurred in earning the lease income are recognized as an expense. Initial direct costs incurred by the Group in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

###### Related parties

Related parties are individuals or entities that are related to the entity that is preparing its financial statements (reporting entity).

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

### 2.5 Summary of significant accounting policies (cont'd)

#### Related parties (cont'd)

a) An individual or a close family member is considered related party of the reporting entity when the following criteria are met: If a certain individual,

- i) Has control or joint control over the reporting entity,
- ii) Has significant influence over the reporting entity,
- iii) Is a key management personnel of the reporting entity or a parent company of the reporting entity.

b) An entity is considered related party of the reporting entity when the following criteria are met:

- i) If the entity and the reporting entity is within the same group (meaning every parent company, subsidiary and other subsidiaries are considered related parties of others.
- ii) If the reporting entity is a subsidiary or a joint venture of another entity (or of another entity that the entity is within the same group).
- iii) If both of the entities are a joint venture of a third party.
- iv) If one of the entities are a joint venture of a third party while the other entity is a subsidiary of this third party.
- v) If entity has plans of post employment benefits for employees of reporting entity or a related party of a reporting entity. If the reporting entity has its own plans, sponsor employers are also considered as related parties.
- vi) If the entity is controlled or jointly controlled by an individual defined in the article (a).
- vii) If an individual defined in the clause (i) of article (a) has significant influence over the reporting entity or is a key management personnel of this certain entity (or a parent company of the entity)

Related party transaction is the transfer of resources, services or liabilities regardless of whether a price is charged or not.

#### Income tax

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

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the balance sheet date. Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of profit or loss.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that, in the management's judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet dates.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority. Deferred tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of profit or loss.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

### 2.5 Summary of significant accounting policies (cont'd)

#### Employee termination benefits

The Group has both defined benefit and defined contribution plans as described below:

##### Defined benefit plans

In accordance with existing social legislation in Turkey, the Company and its subsidiaries in Turkey are required to make lump-sum termination indemnities to each employee who has completed one year of service and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

These benefits are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. All actuarial gains and losses are recognized in the consolidated statement of other comprehensive income.

Personnel working in branches operating in foreign countries and joint-operations do not have any employee termination benefit as there is no legal obligation in these countries.

##### Defined contribution plans

The Company and its subsidiaries in Turkey pay contributions to publicly administered Social Security Fund on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Foreign subsidiaries and joint operations contribute to the related government body for the pension scheme of its employees in the country they are domiciled. Mandatory contributions to the governmental pension scheme are expensed when incurred.

#### Statement of cash flows

Cash flows are classified according to operating, investment and finance activities in the consolidated statement of cash flows.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, excluding short term deposits with an original maturity of more than three months and deposits blocked in bank accounts as collateral.

#### Events after the reporting period

Events after the reporting period, also known as 'subsequent events' include any favorable or unfavorable event that took place between the balance sheet date and the publication date of the balance sheet, despite any possible event that might arise after the publicization of any information regarding profits or other financial figures.

The Group adjusts its consolidated financial statements if such adjusting subsequent events arise.

### 2.6 Significant accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that are reflected in the measurement of income and expense in the consolidated statement of profit or loss and in the carrying value of assets and liabilities in the consolidated balance sheet, and in the disclosure of information in the notes to the consolidated financial statements. Managements do exercise judgment and make use of information available at the date of the preparation of the consolidated financial statements in making these estimates. The actual future results from operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates.

The key assumptions concerning the future and other key resources of estimation at the consolidated balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and the significant judgments (apart from those involving estimations) with the most significant effect on amounts recognized in the consolidated financial statements are as follows:

## **ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

##### **2.6 Significant accounting judgements, estimates and assumptions (cont’d)**

- a) Determination of total estimated project costs, profitability and calculation of loss accruals under the scope of IAS 11 “Construction Contracts” (Note 12).
- b) Market valuations of investment properties under the scope of IAS 40 “Investment Property” and land and buildings under the scope of IAS 16 “Property, Plant and Equipment” (Note 13 and 14).
- c) Estimation of impairment losses on financial assets and trade receivables (Note 7 and 9).
- d) Significant management judgement is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and the level of future taxable profits together with future tax planning strategies (Note 31).
- e) The Group management has made significant assumptions for determining the economic lives of tangible and intangible assets with the guidance of experienced technical staff (Note 14, 15).
- f) Impairment test of goodwill (Note 16).
- g) In accordance with the accounting policies referred to in Note 2.5, provisions are based on the assumption that the Group has a legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and the amount to be paid can be reliably estimated. The Group is subject to various legal processes, requests and regulatory negotiations whose results are uncertain. The Group assesses the likelihood of adverse consequences as well as other factors, and the possibility of reasonably estimating losses. Unforeseeable events and changes in these factors may require an increase or decrease in the provisions that the Group accounts for (whether it is considered unlikely or has not recorded a provision due to inability of a reliable estimation).

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 3. DIVIDENDS

Based on the Group's Ordinary General Assembly held on 24 March 2017; regarding to the distribution of the year 2016 profit, it has been resolved to distribute dividend to its shareholders for each TL 1 (full TL) nominal valued share, 0.12 full TL gross / 0.108 full TL net in total TL 784,000 (2016 - TL 600,000); further it has been resolved to distribute TL 29,352 (2016 - TL 21,998) as cash dividend to founder shares. Net in total TL 280,000 from TL 784,000 has been distributed as an advance dividend on 28 September 2016 and 14 December 2016, and the remaining amount net in total TL 504,000 is distributed on 19 April 2017.

In 2017 and 2016, the Group distributed dividends as detailed below:

	2017		2016	
	Dividend	Dividends per share	Dividend	Dividends per share
Ordinary share owners (1 Full TL nominal value)	504,000	0.12 Full TL	320,000	0.08 Full TL
Founder share owners	29,352	29.35 TL	21,998	21.99 TL
Ordinary share owners (1 Full TL nominal value) (*)	165,000	0.03 Full TL	140,000	0.03 Full TL
Ordinary share owners (1 Full TL nominal value) (**)	184,000	0.03 Full TL	140,000	0.03 Full TL
	<u>882,352 TL</u>		<u>621,998 TL</u>	

(\*) Based on the power vested in the Board of Directors of Enka İnşaat by the General Assembly in its ordinary Meeting held on 24 March 2017; regarding to the distribution of the period between 1 January – 30 June 2017 profit, it is resolved to distribute, as of the date of 27 September 2017 a total TL 165,000 from the amount that remains after deduction of the reserves as required, pursuant to the provisions of the Turkish Code of Commerce and the Articles of Association, dividend advances at a rate of 3.59% gross and 3.05% net per share.

(\*\*) Based on the power vested in the Board of Directors of Enka İnşaat by the General Assembly in its ordinary Meeting held on 24 March 2017; regarding to the distribution of the period between 1 January – 30 September 2017 profit, it is resolved to distribute, as of the date of 13 December 2017 a total TL 184,000 from the amount that remains after deduction of the reserves as required, pursuant to the provisions of the Turkish Code of Commerce and the Articles of Association, dividend advances at a rate of 4.00% gross and 3.40% net per share.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 4. INTEREST IN JOINT OPERATIONS

The Group's share in the assets and liabilities and the profit/loss of the of the joint operations using the proportionate consolidation method on a line by line basis is as follows:

	31 December 2017	31 December 2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	170,316	137,463
Trade receivables	58,951	98,690
Other receivables	43	40
Inventories	4,468	8,203
Costs and estimated earnings in excess of billings on uncompleted contracts	7,713	-
Other current assets	13,126	13,297
<b>Group's share in current assets of joint operations</b>	<b>254,617</b>	<b>257,693</b>
<b>Non-Current Assets</b>		
Cost	73,775	67,037
Accumulated depreciation	(46,469)	(40,250)
<b>Group's share in joint operations in property, plant and equipment</b>	<b>27,306</b>	<b>26,787</b>
Other non-current assets	8,086	3,904
<b>Group's share in non-current assets of joint operations</b>	<b>8,086</b>	<b>3,904</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade payables	21,829	24,781
Billings in excess of costs and estimated earnings on uncompleted contracts	187,053	160,386
Provisions	5,264	6,411
Provisions for employee benefits	6,422	2,545
Other current liabilities	9,080	12,070
<b>Group's share in current liabilities of joint operations</b>	<b>229,648</b>	<b>206,193</b>
<b>Non-Current Liabilities</b>		
Other non-current liabilities	1,250	15,000
<b>Group's share in non-current liabilities of joint operations</b>	<b>1,250</b>	<b>15,000</b>

The Group's share in the consolidated statement of profit or loss of the joint operations using the proportionate consolidation method on a line by line basis is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Revenue	410,603	592,361
Cost of revenue	(301,889)	(461,601)
Other operating income	-	15
Other operating expenses	(2,502)	-
Financial income	220	-
Financial expenses	(55)	(2,259)
Taxation charge	(4,672)	(8,370)
<b>Net profit</b>	<b>101,705</b>	<b>120,146</b>

# ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

### 5. SEGMENTAL INFORMATION

The Group's operating businesses are organized and managed separately according to the nature of services and products provided and has four reportable segments as follows: construction, rental, energy and trading and manufacturing.

#### a) Business segments:

1 January - 31 December 2017						
	Construction contracts	Rental	Trade	Energy	Eliminations	Consolidated
Revenues	1,032,871	318,977	227,964	1,319,772	-	2,899,584
Inter-segment revenues	162,137	-	6,281	17,197	(185,615)	-
Cost of revenues (-)	(811,523)	(103,248)	(179,760)	(1,054,443)	-	(2,148,974)
Inter-segment cost of revenues (-)	(162,137)	-	(6,281)	(17,197)	185,615	-
<b>Gross profit</b>	<b>221,348</b>	<b>215,729</b>	<b>48,204</b>	<b>265,329</b>	<b>-</b>	<b>750,610</b>
Administrative expenses (-)	(66,832)	(17,169)	(8,389)	(9,226)	-	(101,616)
Marketing, selling and distribution expenses (-)	(9,811)	(5,576)	(11,215)	(10)	-	(26,612)
Other operating income	38,693	1,218	766	1,544	-	42,221
Other operating expenses (-)	(19,541)	(4,148)	(2,296)	(224)	-	(26,209)
<b>Profit from operations</b>	<b>163,857</b>	<b>190,054</b>	<b>27,070</b>	<b>257,413</b>	<b>-</b>	<b>638,394</b>
Investment income	346,658	58,723	16	41	-	405,438
Investment expenses (-)	(92,628)	(47,975)	-	(33,091)	-	(173,694)
<b>Profit from operations Before financial income/(expenses)</b>	<b>417,887</b>	<b>200,802</b>	<b>27,086</b>	<b>224,363</b>	<b>-</b>	<b>870,138</b>
Financial income	14,939	2,245	5,381	4,782	(4,106)	23,241
Financial expenses (-)	(10,891)	(3,268)	(6,494)	(1,625)	4,106	(18,172)
<b>Profit before tax</b>	<b>421,935</b>	<b>199,779</b>	<b>25,973</b>	<b>227,520</b>	<b>-</b>	<b>875,207</b>
Current tax expense (-)	(42,179)	(38,735)	(5,763)	(31,348)	-	(118,025)
Deferred tax expense (-)	(7,030)	(8,677)	(625)	(26,854)	-	(43,186)
<b>Profit for the year from continuing operations</b>	<b>372,726</b>	<b>152,367</b>	<b>19,585</b>	<b>169,318</b>	<b>-</b>	<b>713,996</b>
31 December 2017						
	Construction contracts	Rental	Trade	Energy		Consolidated
Segment assets	4,232,520	2,204,963	230,174	1,363,632		8,031,289
<b>Total assets</b>	<b>4,232,520</b>	<b>2,204,963</b>	<b>230,174</b>	<b>1,363,632</b>		<b>8,031,289</b>
Segment liabilities	696,449	430,388	91,396	529,243		1,747,476
<b>Total liabilities</b>	<b>696,449</b>	<b>430,388</b>	<b>91,396</b>	<b>529,243</b>		<b>1,747,476</b>
1 January - 31 December 2017						
Other segment information	Construction contracts	Rental	Trade	Energy		Consolidated
<u>Capital expenditures</u>						
Property, plant and equipment & investment property	81,264	139,709	281	28,502		249,756
Intangible assets	12,298	113	48	141		12,600
<b>Total capital expenditures</b>	<b>93,562</b>	<b>139,822</b>	<b>329</b>	<b>28,643</b>		<b>262,356</b>
Depreciation expenses	45,794	2,444	1,018	54,414		103,670
Amortization expenses	2,199	86	41	141		2,467



# ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

### 5. SEGMENTAL INFORMATION (cont'd)

#### a) Business segments (cont'd)

1 January - 31 December 2016						
	Construction contracts	Rental	Trade	Energy	Eliminations	Consolidated
Revenues	1,382,388	318,263	243,691	1,561,771	-	3,506,113
Inter-segment revenues	70,304	730	2,354	20,375	(93,763)	-
Cost of revenues (-)	(1,158,894)	(79,789)	(205,659)	(1,269,206)	-	(2,713,548)
Inter-segment cost of revenues (-)	(70,539)	-	(2,354)	(20,375)	93,268	-
<b>Gross profit</b>	<b>223,259</b>	<b>239,204</b>	<b>38,032</b>	<b>292,565</b>	<b>(495)</b>	<b>792,565</b>
Administrative expenses (-)	(81,105)	(14,140)	(14,384)	(9,393)	730	(118,292)
Marketing, selling and distribution expenses (-)	(15,499)	(5,035)	(10,434)	-	-	(30,968)
Other operating income	14,851	6,123	2,737	1,698	-	25,409
Other operating expenses (-)	(26,212)	(6,112)	(1,626)	(6,846)	-	(40,796)
<b>Profit from operations</b>	<b>115,294</b>	<b>220,040</b>	<b>14,325</b>	<b>278,024</b>	<b>235</b>	<b>627,918</b>
Investment income	226,768	46,257	13	100	-	273,138
Investment expenses (-)	(129,688)	-	-	-	-	(129,688)
<b>Profit from operations Before financial income/(expenses)</b>	<b>212,374</b>	<b>266,297</b>	<b>14,338</b>	<b>278,124</b>	<b>235</b>	<b>771,368</b>
Financial income	13,360	7,186	4,179	6,791	(4,204)	27,312
Financial expenses (-)	(4,593)	(6,117)	(3,086)	(1,579)	4,162	(11,213)
<b>Profit before tax</b>	<b>221,141</b>	<b>267,366</b>	<b>15,431</b>	<b>283,336</b>	<b>193</b>	<b>787,467</b>
Current tax expense (-)	(67,090)	(34,022)	(7,780)	(34,696)	-	(143,588)
Deferred tax expense (-)	838	(14,588)	369	(31,068)	-	(44,449)
<b>Profit for the year from continuing operations</b>	<b>154,889</b>	<b>218,756</b>	<b>8,020</b>	<b>217,572</b>	<b>193</b>	<b>599,430</b>

  

31 December 2016					
	Construction contracts	Rental	Trade	Energy	Consolidated
Segment assets	3,807,351	1,960,577	211,590	1,607,103	7,586,621
<b>Total assets</b>	<b>3,807,351</b>	<b>1,960,577</b>	<b>211,590</b>	<b>1,607,103</b>	<b>7,586,621</b>
Segment liabilities	728,170	400,904	88,524	640,520	1,858,118
<b>Total liabilities</b>	<b>728,170</b>	<b>400,904</b>	<b>88,524</b>	<b>640,520</b>	<b>1,858,118</b>

  

1 January - 31 December 2016					
	Construction contracts	Rental	Trade	Energy	Consolidated
<b>Other segment information</b>					
<u>Capital expenditures</u>					
Property, plant and equipment & investment property	67,638	57,390	86	32,919	158,033
Intangible assets	6,122	59	12	198	6,391
<b>Total capital expenditures</b>	<b>73,760</b>	<b>57,449</b>	<b>98</b>	<b>33,117</b>	<b>164,424</b>
Depreciation expenses	45,383	3,100	738	52,591	101,812
Amortization expenses	1,426	113	99	170	1,808

# ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

### 5. SEGMENTAL INFORMATION (cont'd)

#### a) Business segments (cont'd)

Transfer prices between business segments are set out on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

For the year ended 31 December 2017, revenue amounting to USD 1,319,772 (31 December 2016 - USD 1,561,771) is from Türkiye Elektrik Ticaret ve Taahhüt A.Ş. (TETAŞ), the share of which in consolidated revenue exceeds 10%. For the year ended 31 December 2017, cost of sales of the above mentioned revenues from TETAŞ, amounting to USD 908,581 (31 December 2016 - USD 1,135,046) is related with the purchases from Boru Hatları ile Petrol Taşıma A.Ş. (BOTAŞ), the share of which in consolidated cost of revenues exceeds 10%.

#### b) Geographical segments

1 January - 31 December 2017						
	Turkey	Russian Federation, Kazakhstan, Georgia	Iraq	Other	Eliminations	Consolidated
Net sales	1,867,310	681,436	164,836	186,002	-	2,899,584
Inter-segment sales	65,838	119,777	-	-	(185,615)	-
Capital expenditures	98,160	142,763	8,282	13,151	-	262,356

31 December 2017						
	Turkey	Russian Federation, Kazakhstan, Georgia	Iraq	Other	Eliminations	Consolidated
Segmental assets	5,073,605	2,630,522	101,135	226,027	-	8,031,289

1 January - 31 December 2016						
	Turkey	Russian Federation, Kazakhstan, Georgia	Iraq	Other	Eliminations	Consolidated
Net sales	2,181,304	697,006	320,707	307,096	-	3,506,113
Inter-segment sales	48,986	44,777	-	-	(93,763)	-
Capital expenditures	87,091	64,864	10,323	2,146	-	164,424

31 December 2016						
	Turkey	Russian Federation, Kazakhstan, Georgia	Iraq	Other	Eliminations	Consolidated
Segmental assets	3,939,352	2,380,154	152,300	1,114,815	-	7,586,621

**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**6. CASH AND CASH EQUIVALENTS**

	31 December 2017	31 December 2016
Cash on hand	1,769	1,837
Cash in bank		
Demand deposits	312,195	647,980
Time deposits	464,379	347,260
Other	3,375	2,943
	<u>781,718</u>	<u>1,000,020</u>
Less: Restricted time deposits with maturity over three months and less than one year	(1,000)	(1,000)
Cash and cash equivalents at consolidated statement of cash flows	<u>780,718</u>	<u>999,020</u>

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

**7. FINANCIAL INVESTMENTS****Current financial investments**

Short-term financial investments of the Group classified as financial assets at fair value through profit or loss as of 31 December 2017 and 2016 are detailed below:

	31 December 2017	31 December 2016
Financial assets at fair value through profit or loss		
Private sector bonds		
- International markets	42,400	40,736
Foreign Government bonds		
- International markets	99,716	267,639
Equity securities		
- International markets	323,449	273,216
Mutual funds		
- International markets	113,321	102,480
- Domestic market	-	62
	<u>578,886</u>	<u>684,133</u>

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 7. FINANCIAL INVESTMENTS (cont'd)

##### Non-current financial investments

Long-term financial investments of the Group classified as financial assets at fair value through profit or loss as of 31 December 2017 and 2016 are detailed below:

	31 December 2017	31 December 2016
Financial assets at fair value through profit or loss		
Private sector bonds		
- International markets	1,744,174	1,466,390
Foreign Government bonds		
- International markets	358,234	15,015
Turkish Government bonds		
- International markets	15,955	28,742
Equity securities	309	253
	<u>2,118,672</u>	<u>1,510,400</u>

Maximum maturity dates of financial assets in the nature of borrowings are as follows:

	31 December 2017	31 December 2016
Private Sector Bonds - International markets	28 March 2073	28 March 2073
Foreign Government Bonds - International markets	17 October 2044	17 October 2044
Turkish Government Bonds - International markets	14 January 2041	14 January 2041

**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**8. FINANCIAL LIABILITIES****a) Bank loans**

31 December 2017				
<b>Short-term borrowings:</b>	Weighted Average	Currency	Original	USD
	Interest Rate	Type	Currency	Equivalent
Short-term bank borrowings	1.04%	EUR	33,500	40,103
	0.00%	TL	7	2
Total short-term borrowings				<b>40,105</b>
<b>Long-term borrowings:</b>				
Other long-term bank borrowings (*)	2.50%	EUR	50,090	59,965
	1.64%	JPY	7,808,046	69,182
Finance lease obligations				142,258
				<b>271,405</b>
Less: Current portion of long-term borrowings				(37,598)
Total long-term borrowings				<b>233,807</b>

(\*) Loan denominated in Japanese Yen were obtained to finance the operations of Enka Pazarlama which is the subsidiary of the Group.

31 December 2016				
<b>Short-term borrowings:</b>	Weighted Average	Currency	Original	USD
	Interest Rate	Type	Currency	Equivalent
Short-term bank borrowings	0.75%	EUR	13,500	14,232
	2.15%	USD	10,047	10,047
Total short-term borrowings				<b>24,279</b>
<b>Long-term borrowings:</b>				
Hermes loan (*)	1.16%	EUR	732	771
Other long-term bank borrowings (*)	2.50%	EUR	49,999	52,708
	1.89%	JPY	8,101,623	69,124
Finance lease obligations				137,128
				<b>259,731</b>
Less: Current portion of long-term borrowings				(42,482)
Total long-term borrowings				<b>217,249</b>

**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**8. FINANCIAL LIABILITIES (cont'd)****a) Bank loans (cont'd)**

(\*) Hermes loan and loan denominated in Japanese Yen were obtained to finance the operations of Enka Pazarlama which is the subsidiary of the Group.

Repayment schedule of long-term bank borrowings are as follows:

	31 December 2017	31 December 2016
Less than 1 year	32,225	37,869
1 - 2 years	32,123	30,026
2 - 3 years	32,017	22,543
3 - 4 years	17,867	22,542
4 - 5 years	14,915	9,623
More than 5 years	-	-
Less : Current portion of long-term borrowings	(32,228)	(37,869)
	<u>96,919</u>	<u>84,734</u>

The reconciliation of the cash flows arising from the financing activities of the year ended 31 December 2017 and the movements in liabilities is as follows:

	31 December		Non-cash		31
	2016	Cash flows	Exchange rate change	Other non-cash movements	December 2017
Short term bank loans	24,279	11,621	4,002	203	40,105
Long term bank loans	122,603	(3,436)	9,996	(16)	129,147
Lease obligations (LT)	132,515	(4,612)	6,251	2,731	136,885
Total liabilities arising from financing activities (Note 8)	<u>279,397</u>	<u>3,573</u>	<u>20,249</u>	<u>2,918</u>	<u>306,137</u>

The reconciliation of the cash flows arising from the financing activities of the year ended 31 December 2016 and the movements in liabilities is as follows:

	31 December		Non-cash		31
	2015	Cash flows	Exchange rate change	Other non-cash movements	December 2016
Short term bank loans	6,076	18,225	-	(22)	24,279
Long term bank loans	62,671	58,249	1,742	(59)	122,603
Lease obligations (LT)	73,803	(2,589)	13,767	47,534	132,515
Total liabilities arising from financing activities (Note 8)	<u>142,550</u>	<u>73,885</u>	<u>15,509</u>	<u>47,453</u>	<u>279,397</u>

**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**8. FINANCIAL LIABILITIES (cont’d)****b) Finance lease obligations**

31 December 2017				
	Weighted Average Interest Rate	Currency Type	Original Currency	USD Equivalent
Current portion of long-term finance lease obligations	3.00%	RUB	309,504	5,373
				<u>5,373</u>
Long-term	3.00%	RUB	7,884,622	136,885
				<u>136,885</u>
				<u>142,258</u>

31 December 2016				
	Weighted Average Interest Rate	Currency Type	Original Currency	USD Equivalent
Current portion of long-term finance lease obligations	3.00%	RUB	279,775	4,613
				<u>4,613</u>
Long-term	3.00%	RUB	8,038,026	132,515
				<u>132,515</u>
				<u>137,128</u>

**c) Finance lease commitments**

As of 31 December 2017 and 2016, repayment schedule of finance lease obligations are as follows:

	31 December 2017	31 December 2016
Less than 1 year	5,373	4,613
1 - 5 years	25,912	24,495
More than 5 years	110,973	108,020
Total finance lease obligations	<u>142,258</u>	<u>137,128</u>
Interest	-	-
Present value of total finance lease obligations	<u>142,258</u>	<u>137,128</u>

**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**9. TRADE RECEIVABLES AND PAYABLES****a) Trade receivables**

	31 December 2017	31 December 2016
<u>Short-term trade receivables</u>		
Trade receivables	161,437	186,960
Discount on trade receivables (-)	(49)	(31)
Contract receivables	151,315	248,381
Notes and cheques receivables	4,945	3,288
Discount on notes and cheques receivables (-)	(163)	(134)
Retention receivables (*)	11,634	10,421
	<u>329,119</u>	<u>448,885</u>
Less: Allowance for doubtful receivables	(22,660)	(28,947)
	<u>306,459</u>	<u>419,938</u>

(\*) Retention receivables are described as withheld by the customers until the contracts are completed or, in certain instances for even longer periods and undue trade receivables in the construction contracts.

Collection periods of receivables from construction works depends on the agreement conditions are between 30 and 90 days.

As of 31 December 2017 and 2016, movement of allowance for doubtful receivables is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Balance at beginning of the year	28,947	28,702
Additional provision (Note 26)	130	4,141
Foreign currency translation effect	2,096	(249)
Amounts recovered during the year (Note 26)	(17)	(189)
Write-offs (*)	(8,496)	(3,458)
Closing balance	<u>22,660</u>	<u>28,947</u>

(\*) Allowances of the previous periods which were decided as bad debts were written-off as of 31 December 2017 and 2016.

	31 December 2017	31 December 2016
<u>Long-term trade receivables</u>		
Notes and cheques receivables	1,088	800
Discount on notes and cheques receivables (-)	(22)	(22)
Trade receivables	45,831	28,175
Discount on trade receivables (-)	(20)	(20)
	<u>46,877</u>	<u>28,933</u>

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



**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**9. TRADE RECEIVABLES AND PAYABLES (cont'd)****b) Trade payables**

	31 December 2017	31 December 2016
Short-term trade payables		
Trade payables	153,166	237,699
Notes payable	88	73
Other trade payables	308	338
	<u>153,562</u>	<u>238,110</u>
Long term trade payables		
Trade payables	59,002	-
	<u>59,002</u>	<u>-</u>

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

**10. OTHER RECEIVABLES AND PAYABLES****a) Other receivables**

	31 December 2017	31 December 2016
Short-term other receivables		
Deposits and guarantees given	793	1,537
Other receivables from related parties (Note 33)	21	-
	<u>814</u>	<u>1,537</u>

**b) Other payables**

	31 December 2017	31 December 2016
Short-term other payables		
Deposits and guarantees taken	19,513	13,133
Other payables to related parties (Note 33)	34	90
	<u>19,547</u>	<u>13,223</u>
Long-term other payables		
Deposits and guarantees taken	17,192	20,708
Other taxes payable	802	1,351
Other payable	3	-
	<u>17,997</u>	<u>22,059</u>

**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**11. INVENTORIES**

	31 December 2017	31 December 2016
Raw materials and spare parts	150,975	174,220
Work in progress	23,783	24,167
Trade goods (machinery and others)	29,855	25,969
Finished goods	4,897	6,502
Goods in transit	3,542	9,577
Construction materials	12,984	25,321
Allowance for impairment on inventory (*)	(2,264)	(952)
	<u>223,772</u>	<u>264,804</u>

(\*) As of 31 December 2017 and 2016, allowance for impairment on finished goods and trade goods is recognized as an expense in cost of sales.

As of 31 December 2017, there is not any pledge on inventories (31 December 2016 - None).

**12. CONSTRUCTION CONTRACTS**

	31 December 2017	31 December 2016
Costs incurred on uncompleted contracts	2,259,859	1,802,842
Recognized profit less recognized losses to date, net	384,951	265,532
	<u>2,644,810</u>	<u>2,068,374</u>
Less: Progress billing	(2,900,271)	(2,306,341)
	<u>(255,461)</u>	<u>(237,967)</u>

The net balance is included in the consolidated balance sheet under the following captions:

	31 December 2017	31 December 2016
Costs and estimated earnings in excess of billings on uncompleted contracts (net)	12,168	3,060
Billings in excess of costs and estimated earnings on uncompleted contracts (net)	(267,629)	(241,027)
	<u>(255,461)</u>	<u>(237,967)</u>

As of 31 December 2017, the amount of advances received of subsidiaries and companies shares in joint operations is USD 26,322 (31 December 2016: USD 68,406).

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 13. INVESTMENT PROPERTIES

As of 31 December 2017 and 2016, movement of investment properties is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance	1,886,911	1,558,724
Currency translation difference	62,260	180,443
Change in fair value, net (Note 27)	(1,781)	45,870
Additions	136,569	54,474
Change in present value of lease obligations	(2,018)	47,465
Disposals	-	(65)
Closing balance	<u>2,081,941</u>	<u>1,886,911</u>

Investment properties include mainly real estate properties in Russia and Turkey which are leased to tenants. As of 31 December 2017 and 2016 investment properties consist of real estates in Russia from which rent income is obtained and lands and buildings held as investment in Turkey amounting to USD 11,021 (31 December 2016 - USD 11,021).

"Krasconsalt" which is licenced by Russian Federation as an independent valuation firm, has revalued the fair values of the investment properties of the Group in Russia.

Investment properties of the consolidated subsidiaries MKH, Mosenka and Enka TC have been revalued at fair value. Fair values of such investment properties are reviewed every year through the report of independent valuers. As of 31 December 2017, the fair values of investments properties of the consolidated subsidiaries MKH, Mosenka and Enka TC have been set respectively as follows: MKH; 11.96 million RUB equivalent to USD 207,690 (31 December 2016 - 11.84 million RUB equivalent to USD 195,131), Mosenka; 4.40 million RUB equivalent to USD 76,407 (31 December 2016 - 4.42 million RUB equivalent to USD 72,911), Enka TC; 53.66 million RUB equivalent to USD 931,656 (31 December 2016 - 48.72 million RUB equivalent to USD 803,184).

The fair values of the investment properties of the Company in Russia, determined at 31 December 2017 as USD 712,907 (31 December 2016 - USD 654,946). The investment properties of the Group located in Moscow includes land leased from Moscow City Authorities under a 49 year operating lease agreement, which are renewable at the option of the Group.

The investment properties owned by the Group are carried at fair value determined by independent professionally qualified valuers on the basis of market value supported by market evidence and other information obtained in the course of market research. Fair values of such investment properties are periodically reviewed by the Group through the report of independent valuers.

Valuation models such as income capitalization, discounted cash flow model and market value model for the circumstances that the fair value of the properties have not been determined based on transactions observable in the market because of the nature of the property and the lack of comparable data, a valuation model based on income capitalisation method has been applied. The fair value of the investment properties of the Group are estimated by using income capitalization method, with capitalization and discount rates ranging between 11.02% to 15.04% and 11.33% to 15.35% (31 December 2016 - 11.60% to 15.80% and 11.40% to 15.60%) respectively.

**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**13. INVESTMENT PROPERTIES (cont'd)**

As of 31 December 2017 and 2016 fair value hierarchy table of investment properties is as follows:

	31 December 2017	Fair value as at 31 December 2017		
		1. Level USD	2. Level USD	3. Level USD
Investment properties in Russia	2,070,920	-	-	2,070,920
Investment properties in Turkey	11,021	-	11,021	-
Total	2,081,941	-	11,021	2,070,920

  

	31 December 2016	Fair value as at 31 December 2016		
		1. Level USD	2. Level USD	3. Level USD
Investment properties in Russia	1,875,890	-	-	1,875,890
Investment properties in Turkey	11,021	-	11,021	-
Total	1,886,911	-	11,021	1,875,890

There is no transition between second and third levels during the year.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 14. PROPERTY, PLANT AND EQUIPMENT

	Land and land improvements	Buildings and barracks	Machinery and equipment	Motor vehicles	Furniture and fixtures	Scaffolding and formworks	Aircraft (*)	Others	Construction in progress	Total
<u>Cost</u>										
Opening balance as of 1 January 2017	235,982	165,226	2,160,577	34,375	55,584	22,889	14,899	14,796	16,922	2,721,250
Currency translation differences	4,676	6,533	10,508	1,079	1,022	96	-	(254)	1,150	24,810
Revaluation (**)	-	(5,390)	-	-	322	-	-	(322)	-	(5,390)
Additions	146	2,534	23,937	2,709	3,548	528	-	2,675	77,110	113,187
Disposals	(80)	(5,233)	(28,635)	(1,689)	(2,495)	(18)	-	(264)	(551)	(38,965)
Transfers to investment properties	489	15,098	67,370	168	232	-	-	6	(83,363)	-
Closing balance as of 31 December 2017	241,213	178,768	2,233,757	36,642	58,213	23,495	14,899	16,637	11,268	2,814,892
<u>Accumulated depreciation</u>										
Opening balance as of 1 January 2017	(27,634)	(20,622)	(964,218)	(20,066)	(44,458)	(20,871)	(9,935)	(11,441)	-	(1,119,245)
Currency translation differences	(28)	(76)	(4,439)	(201)	(595)	(63)	-	42	-	(5,360)
Revaluation (**)	-	(397)	-	-	(98)	-	-	98	-	(397)
Charge of the year	(2,657)	(7,089)	(84,584)	(2,997)	(3,336)	(728)	(995)	(1,284)	-	(103,670)
Other reclassifications (***)	-	(2)	150	(169)	22	-	-	(1)	-	-
Disposals	-	2,205	23,227	1,390	1,593	13	-	3	-	28,431
Closing balance as of 31 December 2017	(30,319)	(25,981)	(1,029,864)	(22,043)	(46,872)	(21,649)	(10,930)	(12,583)	-	(1,200,241)
Net book value as of 1 January 2017	208,348	144,604	1,196,359	14,309	11,126	2,018	4,964	3,355	16,922	1,602,005
Net book value as of 31 December 2017	210,894	152,787	1,203,893	14,599	11,341	1,846	3,969	4,054	11,268	1,614,651

(\*) The amount consists of the aircraft used by subsidiary of the Company, Air Enka.

(\*\*) As of 31 December 2017, Group’s investments in hotel building of OMKH is revalued by independent qualified valuer “American Appraisal”. Revaluation difference arising from difference between book value and fair value is netted off with the related deferred tax and classified as revaluation surplus and included under equity. Revaluations are made by discounted cash flow methods.

(\*\*\*) Other reclassifications are classifications between sub-groups of fixed assets and have no effect on net book value of fixed assets.

# ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

	Land and land improvements	Buildings and barracks	Machinery and equipment	Motor vehicles	Furniture and fixtures	Scaffolding and formworks	Aircraft (*)	Others	Construction in progress	Total
<b>Cost</b>										
Opening balance as of 1 January 2016	222,762	147,104	2,076,150	33,365	53,906	26,212	14,899	12,153	21,765	2,608,316
Currency translation differences	(2,514)	2,832	(1,588)	76	81	(35)	-	277	107	(764)
Revaluation (**)	15,091	377	-	-	-	-	-	-	-	15,468
Additions	971	5,113	41,509	1,717	4,073	933	-	2,424	46,819	103,559
Other reclassifications (***)	-	575	16,583	191	239	-	-	(80)	-	17,508
Disposals	(1,041)	(2,759)	(7,999)	(1,322)	(2,730)	(4,221)	-	(90)	(2,675)	(22,837)
Transfers to investment properties	713	11,984	35,922	348	15	-	-	112	(49,094)	-
Closing balance as of 31 December 2016	235,982	165,226	2,160,577	34,375	55,584	22,889	14,899	14,796	16,922	2,721,250
<b>Accumulated depreciation</b>										
Opening balance as of 1 January 2015	(28,945)	(20,261)	(874,464)	(18,236)	(42,085)	(24,403)	(8,281)	(11,363)	-	(1,028,038)
Currency translation differences	(368)	(228)	1,489	61	54	12	-	(60)	-	960
Revaluation (**)	4,733	6,810	-	-	-	-	-	-	-	11,543
Charge of the year	(3,093)	(8,790)	(80,661)	(2,499)	(4,419)	(701)	(473)	(1,176)	-	(101,812)
Disposals	39	2,422	5,569	953	2,235	4,221	-	171	-	15,610
Other reclassifications (***)	-	(575)	(16,151)	(345)	(243)	-	(1,181)	987	-	(17,508)
Closing balance as of 31 December 2016	(27,634)	(20,622)	(964,218)	(20,066)	(44,458)	(20,871)	(9,935)	(11,441)	-	(1,119,245)
Net book value as of 1 January 2016	193,817	126,843	1,201,686	15,129	11,821	1,809	6,618	790	21,765	1,580,278
Net book value as of 31 December 2016	208,348	144,604	1,196,359	14,309	11,126	2,018	4,964	3,355	16,922	1,602,005

(\*) The amount consists of the aircraft used by subsidiary of the Company, Air Enka.

(\*\*) As of 31 December 2016, Group's investments in Turkey are revalued by Artı Gayrimenkul Değerleme A.Ş. which is a CMB licenced independent valuation firm and hotel building of MKH is revalued by independent qualified valuer "American Appraisal". Revaluation difference arising from difference between book value and fair value is netted off with the related deferred tax and classified as revaluation surplus and included under equity. Revaluations are made by discounted cash flow methods.

(\*\*\*) Other reclassifications are classifications between sub-groups of fixed assets and have no effect on net book value of fixed assets.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

As of 31 December 2017, total cost of property, plant and equipment obtained via finance lease and the related accumulated depreciation amounts to USD 4,063 (31 December 2016 - USD 4,063) and USD 3,867 (31 December 2016 - USD 3,730).

As of 31 December 2017, there is no security on the property, plant and equipment of the Group (31 December 2016 - None).

If the buildings were measured using the cost model, the carrying amounts would be as follows:

	31 December 2017	31 December 2016
Cost	292,216	295,355
Accumulated depreciation	(99,553)	(99,749)
Net book value	192,663	195,606

The distribution of depreciation expenses as of 31 December 2017 and 2016 is presented in Note 25.

As of 31 December 2017 and 2016 fair value hierarchy table of fixed asset is as follows:

31 December 2017	Fair value as at 31 December 2017		
	1. Level USD	2. Level USD	3. Level USD
Lands	210,894	-	210,894
Buildings	152,787	-	152,787
Total	363,681	-	210,894

31 December 2016	Fair value as at 31 December 2016		
	1. Level USD	2. Level USD	3. Level USD
Lands	208,348	-	208,348
Buildings	144,604	-	144,604
Total	352,952	-	208,348

There is no transition between second and third levels during the year.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 15. INTANGIBLE ASSETS

	1 January - 31 December 2017	1 January - 31 December 2016
<u>Cost</u>		
Opening balance	37,325	31,024
Currency translation difference	773	(65)
Additions	12,600	6,391
Disposals	(7)	(25)
Closing balance	50,691	37,325
<u>Accumulated amortization</u>		
Opening balance	(12,863)	(10,784)
Currency translation difference	(407)	(294)
Charge of the year	(2,467)	(1,808)
Disposals	5	23
Closing balance	(15,732)	(12,863)
Carrying value	34,959	24,462

As of 31 December 2017, there is not any pledge on intangible assets (31 December 2016 - None).

The distribution of amortization expenses as of 31 December 2017 and 2016 is presented in Note 25.

#### 16. GOODWILL

The Group had acquired the remaining part and increased to 100% interest stake in the Power Companies, where the Company had 40% shareholding. Regarding these acquisitions goodwill amounting to USD 22,077 (31 December 2016 - USD 55,168) was recorded in the consolidated financial statements.

In accordance with the accounting policies described in Note 2.5, the Group reviews carrying amount of goodwill for impairment annually, or more frequently in cases where the circumstances indicate impairment. As of 31 December 2017, the Group tested impairment of carrying amount of goodwill by comparing the recoverable amount which is determined by value in use calculations. These calculations are based on projected before-tax cash flows based on financial budgets/forecasts approved by the Board of Directors. Expected growth rates are used to discount projected cash flows for periods greater than five years. Operating market growth rates, per capita gross domestic product and pricing information such as indices, have been acquired from outside sources. Estimations related to parameters such as selling prices, working capital requirements and fixed assets investments are based on Group's predictions and previous period realizations. In this analysis, Usd currency and %9,25 weighted average cost of capital has been used for estimation on Group's discounted cash flow over approved financial budget till 2032. The Group predicts that analysis which is related more than five years period regarding evaluation of results and estimations are more appropriate therefore impairment test bases fifteen year plans.

As of 31 December 2017 and 2016, the movement of goodwill is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance	55,168	55,168
Impairment loss	(33,091)	-
Closing balance	22,077	55,168



**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**17. PREPAID EXPENSES AND DEFERRED INCOME**

	31 December 2017	31 December 2016
<b>Short-term Prepaid Expenses</b>		
Advances given	45,100	40,599
Prepaid expenses	45,003	5,080
	<u>90,103</u>	<u>45,679</u>
<b>Long-term Prepaid Expenses</b>		
Prepaid expenses	18,745	4,868
	<u>18,745</u>	<u>4,868</u>
<b>Short-term Deferred Income</b>		
Advances taken	25,043	53,519
Deferred rent revenue	199,191	45,162
	<u>224,234</u>	<u>98,681</u>
<b>Long-term Deferred Income</b>		
Deferred income (*)	-	311,662
Advances taken	3,550	17,080
Deferred rent revenue	862	739
	<u>4,412</u>	<u>329,481</u>

(\*) Represents the Power Companies’ deferred income, which is the difference between the average price recognized over the life of the project and actual charges.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 18. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

	31 December 2017	31 December 2016
Short-term accrued expenses		
Accrual for construction costs	21,832	38,631
Provision for legal claims	13,347	11,029
Accrued expenses	10,978	7,892
Forward accrual (*)	4,045	891
Other accrued expenses	593	22
	<u>50,795</u>	<u>58,465</u>

(\*) As of 31 December 2017, the Group's derivative liabilities formed from forward foreign-currency transactions are USD 4,045 (31 December 2016 - derivative liabilities USD 891). These contracts are reflected in the consolidated financial statements as follows.

#### Derivative instruments / forward contracts purchase – sales agreements

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

The table below shows derivative financial instruments analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

As of 31 December 2017 and 2016, the fair value of financial instrument is calculated by using forward exchange rates at the balance sheet date.

	31 December 2017			
	Unrealized Loss	1 to 12 months	1 to 2 years	2 to 5 years
Derivative instruments	(3,881)	-	-	-
Forward contracts sales agreements	-	91,223	-	-
Forward contracts purchase agreements	-	87,189	-	-

  

	31 December 2016			
	Unrealized Loss	1 to 12 months	1 to 2 years	2 to 5 years
Derivative instruments	(891)	-	-	-
Forward contracts sales agreements	-	34,920	-	-
Forward contracts purchase agreements	-	34,752	-	-

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 19. COMMITMENTS

##### Operating lease commitments – Group as lessor

The minimum future rental income of the Group under non-cancelable operating leases at 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Within one year	260,192	252,694
After one year but not more than five years	595,788	569,690
More than 5 years	273,273	250,494
	<u>1,129,253</u>	<u>1,072,878</u>

##### Litigations

As of 31 December 2017, the international arbitration which has been filed by the Group for the losses incurred and unbilled receivables related to the joint operation in Oman was under progress. Necessary provisions have been reserved in the Group’s consolidated financial statements.

As of 31 December 2017, The group has initiated necessary legal procedures regarding its receivables from overseas projects which is amounting to 38,211 USD.

**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**19. COMMITMENTS (cont'd)**

The breakdown of letters of guarantee, guarantee notes given, mortgage and pledges (together referred to as Guarantees) by the Group as of 31 December 2017 and 2016 is as follows:

Letters of guarantee, guarantee notes given, mortgage and pledges	31 December 2017		31 December 2016	
	Original Currency	USD Equivalent	Original Currency	USD Equivalent
A. Total amount of guarantees provided by the Company on behalf of itself		510,867		543,737
-USD	346,577	346,577	398,701	398,701
-EUR	76,192	91,213	101,035	106,510
-TL	79,838	21,166	53,923	15,323
-Others (*)		51,911		23,203
B. Total amount for guarantees provided on behalf of subsidiaries accounted under full consolidation method		69,282		70,033
-USD	85	85	85	85
-EUR	-	-	526	555
-TL	826	219	957	272
-Others (*)		68,978		69,121
C. Provided on behalf of third parties in order to maintain operating activities (to secure third party payables)		-		-
D. Other guarantees given		-		-
i. Total amount of guarantees given on behalf of the parent company		-		-
ii. Total amount of guarantees provided on behalf of the associates which are not in the scope of B and C		-		-
iii. Total amount of guarantees provided on behalf of third parties which are not in the scope of C		-		-
		<u>580,149</u>		<u>613,770</u>

(\*) U.S Dollar equivalents of letters of guarantee, guarantee notes given, mortgage and pledges other than USD, TL and EUR.

As of 31 December 2017 the portion of other guarantess given to shareholders' equity is 0% (31 December 2016 - 0%).

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 20. PROVISIONS FOR EMPLOYEE BENEFITS

##### a) Short-term employee benefits

###### Liabilities with the scope of employee benefits

	31 December 2017	31 December 2016
Payroll payable	26,704	21,873
	<u>26,704</u>	<u>21,873</u>

###### Short-term provisions related to employee benefits

	31 December 2017	31 December 2016
Bonus accrual	12,143	9,402
Vacation pay liability	8,317	8,940
	<u>20,460</u>	<u>18,342</u>

##### b) Long-term employee benefits

In accordance with existing social legislation, the Company and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay limited to a maximum of full TL 4,732 equivalent to full USD 1,255 (31 December 2016 - full TL 4,297 equivalent to full USD 1,221) per year of employment at the rate of pay applicable at the date of retirement or termination.

The liability is not funded as there is no funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. IAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 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 4.69% real discount rate, assuming an annual inflation rate of 6.5% and a discount rate of 11.50% (31 December 2016 – 3.99 %).

Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration. Retirement ceiling pay revised each six month period basis and ceiling amount of full TL 5,001 which is in effect since 1 January 2018 is used in the calculation of Groups' provision for retirement pay liability (1 January 2017 – full TL 4,426).

Movements of the provision for employee termination benefits during years ended 31 December 2017 and 2016 are as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance	16,290	16,952
Service cost	2,890	2,606
Actuarial loss	1,345	483
Retirement benefits paid	(3,877)	(1,830)
Translation gain	(1,128)	(1,921)
Closing balance	<u>15,520</u>	<u>16,290</u>

**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**21. OTHER ASSETS AND LIABILITIES**

	31 December 2017	31 December 2016
<b>Other current assets</b>		
Deferred VAT	8,550	7,647
VAT receivable	25,867	9,228
Prepaid taxes and funds	13,554	13,040
Other	20,754	18,441
	<u>68,725</u>	<u>48,356</u>
	31 December 2017	31 December 2016
<b>Other non-current assets</b>		
Prepayment for land leases	3,441	3,530
Other	886	733
	<u>4,327</u>	<u>4,263</u>
	31 December 2017	31 December 2016
<b>Other current liabilities</b>		
VAT payable	27,908	24,800
Taxes and funds payable	20,398	17,786
Other	430	690
	<u>48,736</u>	<u>43,276</u>

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 22. SHARE CAPITAL AND RESERVES

##### a) Share capital

The shareholders of the Group and their percentage of ownership as of 31 December 2017 and 2016 is as follows:

	31 December 2017		31 December 2016	
	Percentage of ownership	Amount	Percentage of ownership	Amount
Tara Holding A.Ş.	49.52%	1,266,129	49.42%	1,208,431
Vildan Gülçelik	7.99%	204,289	7.99%	195,374
Sevda Gülçelik	6.43%	164,402	6.43%	157,228
Enka Spor Eğitim ve Sosyal Yardım Vakfı	5.87%	150,084	5.87%	143,535
Other	30.19%	771,899	30.29%	740,659
	100%	2,556,803	100%	2,445,227
Purchase of treasury shares (*)		(25,866)		(12,032)
		<u>2,530,937</u>		<u>2,433,195</u>

(\*) Group’s buyback transactions have reached 920,000,000 shares (2016:920,000,000) in 2017. Group has paid USD 25,866 (2016 :12.032 USD) for the buyback transactions.

Based on the Group’s Ordinary General Assembly held on 24 March 2017 ; it has been resolved to increase the share capital from TL 4,200,000 to TL 4,600,000; and covered the TL 400,000 from dividend.

Within the above mentioned shares, founders of Enka İnşaat and former Enka Holding have one thousand founders share each. The founder shares of Enka İnşaat and the founder shares of former Enka Holding are entitled to receive, 5% and 2.5%, respectively, of the net income after the deduction of legal reserve and the first dividends.

The issued Capital of the Company has been divided into 460,000,000,000 registered shares with a nominal value of 1 (one) kr each. These shares contain 2 groups, 1,167 share A group (privileged) and 459,999,998,833 share B group. Privileged shares solely carry voting rights. In General Assembly A group shares has 10, B group shares has 1 voting rights. As of 1 November 2017 with the published resolution of the board of the directors the group has decided to remove privileges of the A group shares and approved the related amendment to articles of association. This amendment will be submitted to approval of the shareholders in 2017 Annual General Assembly.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 22. SHARE CAPITAL AND RESERVES (cont’d)

##### b) Revaluation surplus

###### *Revaluation fund*

Revaluation difference arising from difference between book value and fair value of the buildings is netted off with the related deferred tax and classified as revaluation surplus and included under equity.

The movement of revaluation fund for years 2017 and 2016 is as follows:

	1 January- 31 December 2017	1 January- 31 December 2016
Opening balance	182,004	148,222
Currency translation difference	315	836
Revaluation of fixed assets	(5,787)	33,826
Deferred tax effect of revaluation of fixed assets	1,185	3,624
Share of non-controlling interests	-	(2,376)
Transfer of depreciation difference (net of deferred tax) of revaluation effect	(1,455)	(2,128)
Closing balance	176,262	182,004

###### *Financial Risk Hedge Fund*

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

##### c) Legal reserves and accumulated profit

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (“TCC”). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the company’s paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can be used only to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital. Dividend distributions are made in TL in accordance with its Articles of Association, after deducting taxes and setting aside the legal reserves as discussed above.

Public companies in Turkey make profit distributions in accordance with the regulations of CMB.



## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 22. SHARE CAPITAL AND RESERVES (cont’d)

##### c) Legal reserves and accumulated profit (cont’d)

Equity inflation adjustment and carrying value of extraordinary reserves can be used in free capital increase, cash profit distribution and loss deduction. However, equity inflation adjustment is subject to corporate tax if it is used in cash profit distribution.

As of 31 December 2017, legal reserves of Enka İnşaat are amounting to TL 703,819 equivalent to USD 186,595 (31 December 2016 – TL 560,570 equivalent to USD 159,289).

The movement of the share capital (in numbers and in historical TL) of the Group during 31 December 2017 and 2016 is as follows:

	31 December 2017		31 December 2016	
	Number	TL	Number	TL
At 1 January,	419,160,000,000	4,191,600	400,000,000,000	4,000,000
Bonus shares issued out of general reserve	39,920,000,000	399,200	20,000,000,000	200,000
Treasury shares	(920,000,000)	(9,200)	(840,000,000)	(8,400)
	<u>458,160,000,000</u>	<u>4,581,600</u>	<u>419,160,000,000</u>	<u>4,191,600</u>

#### 23. SALES AND COST OF SALES

Sales	1 January - 31 December 2017	1 January - 31 December 2016
Domestic sales	1,867,310	2,181,304
Export sales	1,032,274	1,324,809
	<u>2,899,584</u>	<u>3,506,113</u>
Cost of Sales	1 January - 31 December 2017	1 January - 31 December 2016
Cost of domestic sales	1,467,469	1,776,448
Cost of export sales	681,505	937,100
	<u>2,148,974</u>	<u>2,713,548</u>

Segmental information of the Group is disclosed in Note 5.

**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**24. MARKETING, SALES, DISTRIBUTION AND ADMINISTRATIVE EXPENSES**

	1 January - 31 December 2017	1 January - 31 December 2016
Administrative expenses	101,616	118,292
Marketing, sales and distribution expenses	26,612	30,968
	<u>128,228</u>	<u>149,260</u>

**a) Marketing, sales and distribution expenses**

	1 January - 31 December 2017	1 January - 31 December 2016
Employee benefit expenses	16,783	21,344
Advertisement & Commission Expenses	3,771	3,530
Transportation expenses	1,468	1,762
Office expenses	778	1,046
Business development expenses	611	339
Depreciation and amortization expenses (Note 25)	56	67
Other	3,145	2,880
	<u>26,612</u>	<u>30,968</u>

**b) General administrative expenses**

	1 January - 31 December 2017	1 January - 31 December 2016
Employee benefit expenses	55,865	67,617
Consulting and legal expenses	6,992	16,027
Depreciation and amortization expenses (Note 25)	6,987	6,701
Insurance expense	5,216	5,336
Transportation expenses	4,902	4,404
Office Expenses	4,346	3,864
Rent expenses	849	915
Other	16,459	13,428
	<u>101,616</u>	<u>118,292</u>

**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**25. EXPENSES BY NATURE**

Depreciation and amortization expenses are detailed below:

	1 January - 31 December 2017	1 January - 31 December 2016
<u>Depreciation expenses</u>		
Cost of revenues	96,722	95,387
Selling and administrative expenses	6,948	6,425
	<u>103,670</u>	<u>101,812</u>
<u>Amortization expenses</u>		
Cost of revenues	2,372	1,465
Selling and administrative expenses	95	343
	<u>2,467</u>	<u>1,808</u>
	<u>106,137</u>	<u>103,620</u>

Employee benefit expenses are detailed below:

	1 January - 31 December 2017	1 January - 31 December 2016
Wages and salaries	228,180	218,189
Social security costs	45,258	34,456
Provision for employee termination benefits	4,235	3,089
Other benefits	3,238	6,716
	<u>280,911</u>	<u>262,450</u>

**26. OTHER OPERATING INCOME / EXPENSES**

	1 January - 31 December 2017	1 January - 31 December 2016
<u>Other operating income</u>		
Reversal of provision	22,818	-
Foreign exchange gains from trade receivables	8,879	10,553
Machinery and other rent income	1,500	1,802
Repaired spare parts gained as an inventory	1,440	1,297
Compensation income (net)	1,013	6,085
Insurance income	905	908
Service income	725	735
Collection of doubtful receivables (Note 9)	17	189
Commission income	3	183
Other	4,921	3,657
	<u>42,221</u>	<u>25,409</u>

**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**26. OTHER OPERATING INCOME / EXPENSES (cont'd)**

	1 January - 31 December 2017	1 January - 31 December 2016
<b>Other operating expense</b>		
Foreign exchange losses from trade receivables	8,156	9,722
Donations	5,241	3,953
Litigation provisions	2,995	10,004
Tax penalties	2,523	-
Commission expense	1,028	685
Capital increase expense	537	541
Provision for doubtful receivables (Note 9)	130	4,141
Loss from change in fair value of lands	-	6,815
Other	5,599	4,935
	<u>26,209</u>	<u>40,796</u>

**27. INVESTMENT INCOME / EXPENSES**

	1 January - 31 December 2017	1 January - 31 December 2016
<b>Income from investing activities</b>		
Interest revenue from financial investments	119,347	92,143
Increase in value of financial investments	151,156	63,416
Increase in the fair value of investment properties (Note 13)	58,723	45,870
Foreign exchange income from investing activities	44,385	16,053
Income from sale of securities	21,481	41,833
Dividend income	9,408	9,618
Gains from sales of property, plant and equipment	938	4,205
	<u>405,438</u>	<u>273,138</u>

**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**27. INVESTMENT INCOME / EXPENSES (cont'd)**

	1 January - 31 December 2017	1 January - 31 December 2016
<b>Expenses from investing activities</b>		
Decrease in the fair value of investment properties (Note 13)	(60,504)	-
Losses from valuation of investment securities	(44,164)	(53,254)
Foreign exchange losses from investing activities	(35,595)	(41,439)
Goodwill impairment	(33,091)	-
Losses from sale of securities	(409)	(34,192)
Loss from sales of property, plant and equipment	69	(803)
	<u>(173,694)</u>	<u>(129,688)</u>

**28. FINANCIAL INCOME**

	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange gains	15,586	18,403
Interest income	7,495	6,709
Forward income	286	2,092
Other	(126)	108
	<u>23,241</u>	<u>27,312</u>

**29. FINANCIAL EXPENSES**

	1 January - 31 December 2017	1 January - 31 December 2016
Bank commission expenses	5,113	5,160
Foreign exchange losses	4,816	1,559
Forward losses	4,027	1,016
Interest expenses	3,542	2,858
Commission expenses of letters of guarantee	508	507
Other	166	113
	<u>18,172</u>	<u>11,213</u>

**30. ASSETS HELD FOR SALE****Lands and buildings held for sale**

As of 31 December 2017, assets held for sale comprise of lands and buildings obtained by Enka Pazarlama and Enka Kazakhstan Branch in consideration of their doubtful receivables and are amounting to USD 23,636 (31 December 2016 – USD 684).

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 31. TAXATION ON INCOME

##### Corporate Tax

The Company and its subsidiary in Turkey, are subject to the tax legislation and practices in force in Turkey. The corporation tax is declared until the evening of the twenty-fifth day of the fourth month following the end of the accounting period and is paid in one installment until the end of the relevant month.

In Turkey, the corporation tax rate is 20% as of 31 December 2017 (2016: 20%). However, in accordance with Article 91 of the "Law on Amendments to Certain Tax Laws and Other Laws" numbered 7061 and published in the Official Gazette dated 5 December 2017 and numbered 30261 and the provisional article 10 added to the Tax Law No.5520. It is foreseen that the corporation tax that should be paid over the profits of the 2018,2019 and 2020 taxation periods is calculated as 22% and the taxation will be continued with 20% During this period, the Council of Ministers was given the authority to reduce the rate of 22% to 20%.

As of 31 December 2017, provisional tax is payable at the rate of 20% (2016: 20%) on the income generated for the three-month periods pursuant to tax legislation and the amounts paid in this manner are deducted from the tax calculated on the annual earnings. With the amendment made in the law, this ratio was set at 22% for the years 2018, 2019 and 2020.

Tax legislation in Turkey does not allow to fill consolidated tax returns of the Company and its subsidiary. Therefore, the tax liability reflected in the financial statements is calculated separately for each company.

According to the Corporate Tax Law, financial losses shown on the declaration can be deducted from the corporate tax base of the period not exceeding 5 years. Declarations and related accounting records can be examined within five years of the tax year, and tax accounts can be revised.

Turkey the joint-stock companies, corporation tax and non-responsible for the income tax and who are resident in Turkey, those made to those except for exempt and non-natural persons and dividend payments to legal persons not resident in Turkey are subject to 15% income tax.

Dividend payments by resident corporations to resident joint-stock company in Turkey again in Turkey are not subject to income tax. In addition, if the profit is not distributed or added to the capital, the income tax is not calculated.

Dividend income (excluding profits from investment funds 'participation certificates and investment trusts' shares) obtained from participating in the capital of another corporation which is fully taxpayed is exempt from corporation tax. In addition, 75% of the profits arising from the sale of founders' shares, redeemable shares and preferential rights of real estates (immovables) owned by the same duration as the participation shares included in the assets of the institutions for at least two full years are exempt from corporate taxation as of December 31, 2017. However, with the amendment made by Law No. 7061, this ratio has been reduced from 75% to 50% in terms of immovables and this ratio will be used as 50% in tax declarations to be prepared from 2018.

In order to benefit exclusively, the earning must be kept in a passive fund account and not withdrawn for 5 years. The sales price must be collected until the end of the second calendar year following the year in which the sale is made.

##### Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. Income tax withholding 24 April 2003 - 22 July 2006 is 10% among all companies. This rate since 22 July 2006, by the Council of Ministers No. 2006/10731 of 15% is applied. Undistributed dividends incorporated in share capital are not subject to income tax withholding.

##### Deferred Tax:

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its consolidated financial statements as reported for TAS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for TAS and tax purposes and they are given below.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 31. TAXATION ON INCOME (cont'd)

Deferred tax assets and liabilities are calculated by using valid tax rates in related countries.

	1 January - 31 December 2017	1 January - 31 December 2016
Consolidated statement of profit or loss		
Current corporate tax	(118,025)	(143,588)
Deferred tax expense	(43,186)	(44,449)
	<u>(161,211)</u>	<u>(188,037)</u>

#### Tax legislations in other countries

As of 31 December 2017 and 2016 effective corporation tax rate in other countries are as follows:

	31 December 2017	31 December 2016
Russia	20%	20%
Netherlands	25%	25%
Kazakhstan	% 28 - % 32	% 28 - % 32
Iraq	% 15 - % 35	% 15 - % 35
Romania	16%	16%
Oman	12%	12%
Kosovo	10%	10%

The movement of the current income tax liability is given as follows:

	2017	2016
1 January	51,979	56,430
Current year tax expense	118,025	143,588
Taxes paid	(109,816)	(148,039)
31 December	<u>60,188</u>	<u>51,979</u>

A reconciliation of the nominal (on the basis of the income tax rate of the Company and the Turkish subsidiaries) to the effective tax rate for the years ended 31 December 2017 and 2016 is provided below:

	1 January - 31 December 2017		1 January - 31 December 2016	
Profit before tax	875,207		787,467	
Tax per statutory tax rate 20%	175,041	20%	157,493	20%
Jobsites exempt from income tax	(14,672)	(%0.5)	(9,454)	(1.2%)
Effect of different functional currencies and others	842	0.1%	39,998	5.1%
Taxation charge	<u>161,211</u>	<u>19.6%</u>	<u>188,037</u>	<u>23.9%</u>

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 31. TAXATION ON INCOME (cont'd)

As of 31 December 2017 and 2016, the breakdown of temporary differences which give rise to deferred taxes is as follows:

	31 December 2017	31 December 2016
Remeasurement and revaluation of property, plant and equipment, intangible assets and investment property	(439,718)	(435,679)
GE Inventory in the context of "PSA" (*)	(47,975)	(47,927)
Adjustments on financial instruments and derivatives	(19,518)	(11,276)
Gross deferred income tax liabilities	(507,211)	(494,882)
Adjustment of revenue levelization	30,324	61,709
Allowance for retirement pay liability	2,154	2,446
Allowance for doubtful receivables	1,207	2,562
Allowance for inventories	543	339
Others	8,562	7,924
Gross deferred income tax assets	42,790	74,980
Net deferred tax liability	(464,421)	(419,902)

(\*) Implies deferred tax liabilities estimated from temporary differences related to "Parts and Services Agreement" (PSA) made with the Group's spare part supplier General Electric (GE).

Reflected as:

	31 December 2017	31 December 2016
Deferred tax assets	2,759	1,400
Deferred tax liabilities	(467,180)	(421,302)
Net deferred liabilities	(464,421)	(419,902)

Total amount of temporary differences and deferred tax liabilities which have not been recognized as of 31 December 2017 related with Group's shares in its subsidiaries, branches and associates is USD 1,556,891 (31 December 2016 - USD 1,623,266).



**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**31. TAXATION ON INCOME (cont’d)**

Movement of net deferred tax asset (liability) can be presented as follows:

	2017	2016
Balance at 1 January	419,902	363,515
Deferred income tax expense recognized in consolidated statement of profit or loss	43,186	44,449
Deferred income tax expense recognized in equity	(1,454)	(3,786)
Currency translation difference	2,787	15,724
31 December	464,421	419,902

As of 31 December 2017 and 2016, the breakdown of deferred taxes which are recognised in other comprehensive income is as follows:

	31 December 2017			31 December 2016		
	Deferred tax			Deferred tax		
	Before Taxation	(expense)/ income	Netted-off deferred tax	Before Taxation	(expense)/ income	Netted-off deferred tax
Change in revaluation of buildings	(5,787)	1,185	(4,602)	33,826	3,689	37,515
Revaluation loss of defined benefit plans	(1,345)	269	(1,076)	(483)	97	(386)
Changes in currency translation differences	103,011	-	103,011	137,413	-	137,413
	95,879	1,454	97,333	170,756	3,786	174,542

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 32. EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such bonus share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Company, are regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares without consideration through 31 December 2017.

	31 December 2017	31 December 2016
Earning per share		
- ordinary share certificate (full cent)	0.15	0.13
- founder shares (*)	-	-
Weighted average number of share certificates (nominal value of 1 Kr each)		
- ordinary share certificate	458,160,000,000	459,080,000,000
- treasury shares	459,080,000,000	460,000,000,000
- founder shares	(920,000,000)	(920,000,000)
	2,000	2,000

(\*) Since 2017 profit distribution was not determined as of the date of the preparation date of the consolidated financial statements, total of the earnings per share is reflected on ordinary share certificates.

#### 33. RELATED PARTY BALANCES AND TRANSACTIONS

##### Related parties

The Group is controlled by Tara Holding (49.52%) (31 December 2016 – 49.42%) and Tara and Gülçelik families (28.01%) (31 December 2016 – 28.01%). For the purposes of the consolidated financial statements, balances with the shareholder companies, individual shareholders, unconsolidated subsidiaries, associated companies, equity participations and their affiliates are referred to as "related parties". Related parties also include management and members of the Group's Board of Directors.

In the course of conducting business, the Group conducted various business transactions with related parties on commercial terms. The breakdown of balances with related parties and details of significant related party transactions are as follows:

	31 December 2017		31 December 2016	
	Receivables	Payables	Receivable	Payables
Shareholders	-	34	-	82
Enka Spor Kulübü	21	-	-	8
	<u>21</u>	<u>34</u>	<u>-</u>	<u>90</u>

As of 31 December 2017, the Group gained USD 7.13 rent income from related parties (31 December 2016 - USD 6.96). As of 31 December 2017 the Group does not have any sales to related parties (2016 - None).

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 33. RELATED PARTY BALANCES AND TRANSACTIONS (cont’d)

##### Top management’s remuneration

The total wages paid for the members of Board of Directors of the Group is amounting to USD 2,817 (31 December 2016 - USD 7,112), the social security payments and retirement pay provisions are USD 453 (31 December 2016 – USD 632) and USD 234 (31 December 2016– USD 272) respectively. Total wages paid for the general manager, general coordinators and vice general managers of the Group (except BOD members), is amounting to USD 15,156 (31 December 2016 – USD 18,728), the social security payment and retirement pay provisions are USD 1,109 (31 December 2016 – USD 1,057) and USD 1,598 (31 December 2016 – USD 1,334) respectively.

#### 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s principal financial instruments comprise bank loans, investment securities, finance leases, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Group’s financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The management reviews and agrees policies for managing each of these risks. The Group monitors the market price risk arising from all financial instruments periodically.

##### Capital risk management

The primary objective of the Group’s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. Capital structure of the Group comprises from liabilities, cash and cash equivalents, paid-in capital and legal reserves explained in Note 22.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or the shareholders may make a direct cash contribution of the needed working capital to the Group. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 2016.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including ‘current and non-current borrowings’ as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as ‘equity’ as shown in the consolidated statement of financial position plus net debt.

##### **Total Assets / Total Equity**

	31 December 2017	31 December 2016
Cash and cash equivalents (*)	3,479,276	3,194,553
Less: Total Financial Liabilities	311,510	284,010
Net Assets	3,167,766	2,910,543
Equity	6,283,813	5,728,503
Equity - Net Assets	3,116,047	2,817,960
Total Net Assets to Equity Ratio	50.41%	50.81%

(\*) Includes short and long term financial investments.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

##### Financial risk factors

##### **Interest risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates. The Group is managing interest risk that arises from assets and liabilities sensitive to interest risk by using balancing assets and liabilities.

The following table demonstrates the sensitivity to a reasonably possible increase of 1% in the interest rates, with all other variables held constant, on the floating rate borrowings of the Group's profit before tax and the Group's non-controlling interest.

	<u>31 December 2017</u>	<u>31 December 2016</u>
<u>Financial assets with floating rates</u>		
Financial assets	-	-
Financial liabilities	-	(8)

##### **Foreign currency risk**

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to Euro, Russian Ruble and also U.S Dollar which arises from the liabilities belonging to the companies in the consolidation scope, whose the functional currency is not U.S Dollar.

The Group is engaged in construction, trading, energy and real estate operations business in several countries and, as a result, is exposed to movements in foreign currency exchange rates. In addition to transactional exposures, the Group is also exposed to foreign exchange movements on its net investments in foreign subsidiaries. The Group manages foreign currency risk by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

The foreign currency risk of the Group arises from the credits used in U.S. Dollars and Euro. In order to mitigate the risk, the Group continuously monitors its cash inflows/outflows and also uses financial instruments to hedge the risk when it is necessary.

The following table details the Group's foreign currency position as at 31 December 2017 and 2016:

	<u>31 December 2017</u>	<u>31 December 2016</u>
A. Assets denominated in foreign currency	819,844	929,056
B. Liabilities denominated in foreign currency	<u>(406,852)</u>	<u>(424,604)</u>
Net foreign currency position (A+B)	<u>412,992</u>	<u>504,452</u>

# ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

#### Financial risk factors (cont'd)

#### **Foreign currency risk (cont'd)**

The Group's foreign currency position at 31 December 2017 and 2016 is as follows (non monetary items are not included in the table as they don't have foreign currency risk):

31 December 2017							
	TL	USD Equivalent	Euro	USD Equivalent	Other USD (*)	USD (**)	Total USD Equivalent
Cash and cash equivalents	23,571	6,249	72,952	87,331	189,815	16,798	300,193
Financial investments	286,925	76,069	101,119	121,050	48,303	-	245,422
Trade and other receivables	122,326	32,431	21,694	25,970	23,301	3,629	85,331
Other current assets	207,691	55,063	3,998	4,785	19,705	42,825	122,378
<b>Current assets</b>	<b>640,513</b>	<b>169,812</b>	<b>199,763</b>	<b>239,136</b>	<b>281,124</b>	<b>63,252</b>	<b>753,324</b>
Financial investments	-	-	12,341	14,773	40,485	-	55,258
Trade and other receivables	10	3	-	-	-	-	3
Other non-current assets	9,192	2,437	35	42	4,276	4,504	11,259
<b>Non-current assets</b>	<b>9,202</b>	<b>2,440</b>	<b>12,376</b>	<b>14,815</b>	<b>44,761</b>	<b>4,504</b>	<b>66,520</b>
<b>Total assets</b>	<b>649,715</b>	<b>172,252</b>	<b>212,139</b>	<b>253,951</b>	<b>325,885</b>	<b>67,756</b>	<b>819,844</b>
Short-term borrowings	7	2	33,500	40,103	15,628	-	55,733
Trade and other payables	56,151	14,887	14,083	16,859	28,339	348	60,433
Other current liabilities and accrued expenses	340,102	90,167	4,061	4,861	40,858	18,946	154,832
<b>Current liabilities</b>	<b>396,260</b>	<b>105,056</b>	<b>51,644</b>	<b>61,823</b>	<b>84,825</b>	<b>19,294</b>	<b>270,998</b>
Trade and other payables	11	3	-	-	-	-	3
Long-term borrowings	-	-	50,090	59,963	72,921	-	132,884
Other non-current liabilities	3,180	843	-	-	-	2,124	2,967
<b>Non-current liabilities</b>	<b>3,191</b>	<b>846</b>	<b>50,090</b>	<b>59,963</b>	<b>72,921</b>	<b>2,124</b>	<b>135,854</b>
<b>Total liabilities</b>	<b>399,451</b>	<b>105,902</b>	<b>101,734</b>	<b>121,786</b>	<b>157,746</b>	<b>21,418</b>	<b>406,852</b>
<b>Net foreign currency position</b>	<b>250,264</b>	<b>66,350</b>	<b>110,405</b>	<b>132,165</b>	<b>168,139</b>	<b>46,338</b>	<b>412,992</b>
<b>Net notional amount of derivatives</b>	-	-	76,075	91,069	-	-	91,069

(\*) U.S.Dollar equivalents of the foreign currency balances other than TL and Euro.

(\*\*) U.S.Dollar balances of consolidated subsidiaries and joint ventures whose functional currency is other than U.S.Dollar.

# ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

#### Financial risk factors (cont'd)

#### Foreign currency risk (cont'd)

31 December 2016							
	TL	USD Equivalent	Euro	USD Equivalent	Other USD (*)	USD (**)	Total USD Equivalent
Cash and cash equivalents	28,033	7,966	197,247	207,938	192,380	100,465	508,749
Financial investments	235,130	66,814	69,137	72,884	93,243	-	232,941
Trade and other receivables	21,790	6,192	25,465	26,845	32,261	256	65,554
Other current assets	41,799	11,877	25,310	26,682	12,030	4,775	55,364
<b>Current assets</b>	<b>326,752</b>	<b>92,849</b>	<b>317,159</b>	<b>334,349</b>	<b>329,914</b>	<b>105,496</b>	<b>862,608</b>
Financial investments	-	-	10,255	10,811	38,231	-	49,042
Trade and other receivables	-	-	580	611	-	6,666	7,277
Other non-current assets	6,501	1,847	247	261	4,055	3,966	10,129
<b>Non-current assets</b>	<b>6,501</b>	<b>1,847</b>	<b>11,082</b>	<b>11,683</b>	<b>42,286</b>	<b>10,632</b>	<b>66,448</b>
<b>Total assets</b>	<b>333,253</b>	<b>94,696</b>	<b>328,241</b>	<b>346,032</b>	<b>372,200</b>	<b>116,128</b>	<b>929,056</b>
Short-term borrowings	-	-	14,026	14,786	37,855	-	52,641
Trade and other payables	39,662	11,270	53,185	56,068	34,142	3,515	104,995
Other current liabilities and accrued expenses	282,742	80,343	14,684	15,480	33,967	29,865	159,655
<b>Current liabilities</b>	<b>322,404</b>	<b>91,613</b>	<b>81,895</b>	<b>86,334</b>	<b>105,964</b>	<b>33,380</b>	<b>317,291</b>
Trade and other payables	-	-	-	-	-	15	15
Long-term borrowings	-	-	49,999	52,709	50,833	-	103,542
Other non-current liabilities	5,096	1,448	79	84	-	2,224	3,756
<b>Non-current liabilities</b>	<b>5,096</b>	<b>1,448</b>	<b>50,078</b>	<b>52,793</b>	<b>50,833</b>	<b>2,239</b>	<b>107,313</b>
<b>Total liabilities</b>	<b>327,500</b>	<b>93,061</b>	<b>131,973</b>	<b>139,127</b>	<b>156,797</b>	<b>35,619</b>	<b>424,604</b>
<b>Net foreign currency position</b>	<b>5,753</b>	<b>1,635</b>	<b>196,268</b>	<b>206,905</b>	<b>215,403</b>	<b>80,509</b>	<b>504,452</b>
<b>Net notional amount of derivatives</b>	<b>-</b>	<b>-</b>	<b>2,450</b>	<b>2,583</b>	<b>-</b>	<b>-</b>	<b>2,583</b>

(\*) U.S.Dollar equivalents of the foreign currency balances other than TL and Euro.

(\*\*) U.S.Dollar balances of consolidated subsidiaries and joint ventures whose functional currency is other than U.S.Dollar.

# ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

#### Financial risk factors (cont'd)

##### **Foreign currency risk (cont'd)**

The details of the forward contracts and sales-purchase agreements are explained in Note 18 in order to manage Group's foreign currency position.

The following table demonstrates the sensitivity to reasonably possible increase of 10% in the exchange rates against functional currency, with all other variables held constant, of the Group's consolidated statement of profit or loss.

The following table details the Group's foreign currency sensitivity as at 31 December 2017 and 2016:

	31 December 2017		31 December 2016	
	Profit / (loss)		Profit / (loss)	
	Valuation of foreign currency	Valuation of foreign currency	Valuation of foreign currency	Valuation of foreign currency
<i>In the case of TL gaining 10% value against US Dollar</i>				
1- TL net asset / (liability)	6,635	(6,635)	164	(164)
2- Portion hedged against TL risk (-)	-	-	-	-
<b>3- TL net effect (1+2)</b>	<b>6,635</b>	<b>(6,635)</b>	<b>164</b>	<b>(164)</b>
<i>In the case of Euro gaining 10% value against US Dollar</i>				
4- Euro net asset / (liability)	13,217	(13,217)	20,691	(20,691)
5- Portion hedged against Euro risk (-)	9,107	(9,107)	258	(258)
<b>6- Euro net effect (4+5)</b>	<b>22,324</b>	<b>(22,324)</b>	<b>20,949</b>	<b>(20,949)</b>
<i>In the case of other foreign currencies gaining 10% value against US Dollar</i>				
7- Other foreign currency net asset / (liability)	16,814	(16,814)	21,540	(21,540)
8- Portion hedged against other foreign currency risk (-)	-	-	-	-
<b>9- Other foreign currency net effect (7+8)</b>	<b>16,814</b>	<b>(16,814)</b>	<b>21,540</b>	<b>(21,540)</b>
<b>Total (3+6+9)</b>	<b>45,773</b>	<b>(45,773)</b>	<b>42,653</b>	<b>(42,653)</b>

#### **Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage its credit risk exposure through diversification of sales activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate. It is the Group's policy to enter into financial instruments with a diversity of creditworthy counterparties. Therefore, the Group does not expect to incur material credit losses on its risk management or other financial instruments.

# ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

#### Financial risk factors (cont'd)

##### Credit risk (cont'd)

	Receivables				Bank deposits	Derivative instruments	Financial assets at fair value through profit or loss (**)
	Trade receivables	Other receivables	Trade receivables	Other receivables			
	Related party	3rd party	Related party	3rd party			
<b>31 December 2017</b>							
The maximum amount of exposure to credit risk at the end of the reporting period (A+B+C+D+E)	-	353,336	21	793	779,949	-	2,373,800
- Total receivable that have been secured with collaterals, other credit enhancements etc.*	-	120,254	-	-	-	-	-
A. Financial assets that are either past due or impaired	-	322,512	21	793	779,949	-	2,373,800
B. The amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated	-	-	-	-	-	-	-
C. The amount of financial assets that are past due as at the end of the reporting period but not impaired.	-	30,824	-	-	-	-	-
- The amount that have been secured with collaterals, other credit enhancements etc.	-	30,824	-	-	-	-	-
D. The amount of financial assets that are impaired	-	-	-	-	-	-	-
- Past due (Gross book value)	-	22,660	-	-	-	-	-
- The amount of impairment (-)	-	(22,660)	-	-	-	-	-
- The amount that have been secured with collaterals, other credit enhancements etc.	-	-	-	-	-	-	-
- Not past due (Gross book value)	-	-	-	-	-	-	-
- The amount of impairment (-)	-	-	-	-	-	-	-
E. Off balance sheet credit risk amount	-	-	-	-	-	-	-
	Receivables						
	Trade receivables	Other receivables			Bank deposits	Derivative instruments	Other
<b>31 December 2016</b>							
Overdue between 1 to 30 days	13,377	-	-	-	-	-	-
Overdue between 1 to 3 months	9,940	-	-	-	-	-	-
Overdue between 3 to 12 months	7,238	-	-	-	-	-	-
Overdue between 1 to 5 years	24	-	-	-	-	-	-
Overdue over 5 years	245	-	-	-	-	-	-
	30,824	-	-	-	-	-	-

(\*) As of 31 December 2017, trade receivables from TETAŞ amounting to USD 80,046 are guaranteed by Turkish Treasury.

(\*\*) Equity securities are excluded since they do not expose any credit risk.



# ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

#### Financial risk factors (cont'd)

##### Credit risk (cont'd)

	Receivables				Bank deposits	Derivative instruments	Financial assets at fair value through profit or loss (**)
	Trade receivables	Other receivables					
	Related party	3rd party	Related party	3rd party			
<b>31 December 2016</b>							
<b>The maximum amount of exposure to credit risk at the end of the reporting period (A+B+C+D+E)</b>							
	-	448,871	-	1,537	998,183	-	1,921,064
- Total receivable that have been secured with collaterals, other credit enhancements etc.*	-	120,254	-	-	-	-	-
A. Financial assets that are either past due or impaired	-	438,287	-	1,537	998,183	-	1,921,064
B. The amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated	-	-	-	-	-	-	-
C. The amount of financial assets that are past due as at the end of the reporting period but not impaired.	-	10,584	-	-	-	-	-
- The amount that have been secured with collaterals, other credit enhancements etc.	-	10,054	-	-	-	-	-
D. The amount of financial assets that are impaired	-	-	-	-	-	-	-
- Past due (Gross book value)	-	28,947	-	-	-	-	-
- The amount of impairment (-)	-	(28,947)	-	-	-	-	-
- The amount that have been secured with collaterals, other credit enhancements etc.	-	-	-	-	-	-	-
- Not past due (Gross book value)	-	-	-	-	-	-	-
- The amount of impairment (-)	-	-	-	-	-	-	-
E. Off balance sheet credit risk amount	-	-	-	-	-	-	-
	Receivables						
	Trade receivables	Other receivables			Bank deposits	Derivative instruments	Other
<b>8 Temmuz 1905</b>							
Overdue between 1 to 30 days	3,129	-	-	-	-	-	-
Overdue between 1 to 3 months	925	-	-	-	-	-	-
Overdue between 3 to 12 months	5,533	-	-	-	-	-	-
Overdue between 1 to 5 years	546	-	-	-	-	-	-
Overdue over 5 years	451	-	-	-	-	-	-
	10,584	-	-	-	-	-	-

(\*) As of 31 December 2016, trade receivables from TETAŞ amounting to USD 103,308 are guaranteed by Turkish Treasury.

(\*\*) Equity securities are excluded since they do not expose any credit risk.

**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)****Financial risk factors (cont’d)****Liquidity risk**

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements. The risk is mitigated by matching the cash in and out flow volume supported by committed lending limits from qualified credit institutions.

The maturity analysis of the non-derivative financial liabilities is presented based on the period between balance sheet date and maturity date of these non-derivatives financial liabilities.

The table below summarizes the maturity profile of the Group’s financial liabilities based on contractual undiscounted payments.

**Current liabilities****31 December 2017**

	<u>Total cash outflow</u>				
		<u>according to</u>		<u>1 to 3</u>	<u>3 to 12</u>
<u>Contractual maturity analysis</u>	<u>Carrying</u>	<u>contract</u>	<u>Up to 1</u>	<u>months</u>	<u>months</u>
	<u>value</u>	<u>(I+II+III)</u>	<u>month (I)</u>	<u>(II)</u>	<u>(III)</u>
<b>Non-derivative financial liabilities</b>					
Financial liabilities and finance lease obligations	77,703	78,962	17,968	19,474	41,520
Trade payables	153,562	153,562	91,881	25,279	36,402
Other payables to related parties	34	34	34	-	-
Other payables	19,513	19,513	7	-	19,506

**Non-current liabilities****31 December 2017**

	<u>Total cash outflow</u>				
		<u>according to</u>		<u>3 to 5</u>	
<u>Contractual maturity analysis</u>	<u>Carrying</u>	<u>contract</u>	<u>1 -3 years</u>	<u>years</u>	<u>5+ years</u>
	<u>value</u>	<u>(I+II+III)</u>	<u>(I)</u>	<u>(II)</u>	<u>(III)</u>
<b>Non-derivative financial liabilities</b>					
Financial liabilities and finance lease obligations	233,807	235,628	95,045	43,166	97,417
Trade payables	59,002	59,005	59,005		-
Other payables	17,997	17,994	17,339	506	149

**ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

**34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)****Financial risk factors (cont'd)****Liquidity risk (cont'd)****Current liabilities****31 December 2016**

<u>Contractual maturity analysis</u>	<u>Carrying value</u>	<u>Total cash outflow according to contract</u>		<u>1 to 3</u>	<u>3 to 12</u>
		<u>(I+II+III)</u>	<u>Up to 1 month (I)</u>	<u>months (II)</u>	<u>months (III)</u>
<b>Non-derivative financial liabilities</b>					
Financial liabilities and finance lease obligations	66,761	68,260	848	9,106	58,306
Trade payables	238,110	238,110	163,264	17,426	57,420
Other payables to related parties	90	90	90	-	-
Other payables	13,133	13,133	-	2	13,131

**Non-current liabilities****31 December 2016**

<u>Contractual maturity analysis</u>	<u>Carrying value</u>	<u>Total cash outflow according to contract</u>		<u>3 to 5 years</u>	<u>5+ years</u>
		<u>(I+II+III)</u>	<u>1 -3 years (I)</u>	<u>(II)</u>	<u>(III)</u>
<b>Non-derivative financial liabilities</b>					
Financial liabilities and finance lease obligations	217,249	222,478	69,560	58,530	94,388
Other payables	22,059	22,059	21,852	207	-

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 35. FINANCIAL INSTRUMENTS – FAIR VALUE EXPLANATIONS AND ACCOUNTING POLICY FOR HEDGING FINANCIAL RISK

##### *Fair value of financial assets and liabilities*

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

Foreign currency denominated receivables and payables are revalued with the exchange rates valid as of the date of the financial statements.

The following methods and assumptions were used to estimate the fair value of the financial instruments that are not carried at fair value on the balance sheet:

##### *Financial assets*

The fair values of cash, amounts due from banks and other monetary assets are considered to approximate their respective carrying values due to their short-term nature. The carrying values of trade receivables are estimated to be their fair values due to their short-term nature. It is considered that the fair values of the long term receivables are approximate to their respective carrying values as they are accounted for in foreign currencies.

##### *Financial liabilities*

The fair values of trade payables and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature. The fair values of the trade receivables after discount are considered to be approximate to their corresponding carrying values. It is considered that the fair values of the long term payables and long term financial borrowings are approximate to their respective carrying values as they are accounted for in foreign currencies.

##### *Fair value hierarchy*

The Group classifies the fair value measurement of each class of financial instruments that are measured at fair value on the balance sheet, according to the source, using three-level hierarchy, as follows:

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

Level 2: Other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

## ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

#### 35. FINANCIAL INSTRUMENTS – FAIR VALUE EXPLANATIONS AND ACCOUNTING POLICY FOR HEDGING FINANCIAL RISK (cont'd)

##### *Fair value hierarchy (cont'd)*

##### 31 December 2017:

	Level 1	Level 2	Level 3
Private sector bonds	1,786,574	-	-
Equity securities	323,758	-	-
Foreign government bonds	457,950	-	-
Turkish government bonds	15,955	-	-
Mutual funds	113,321	-	-
<b>Financial assets at fair value through profit or loss</b>	<b>2,697,558</b>	-	-
Derivative instruments	-	3,881	-
<b>Financial liabilities at fair value through profit or loss</b>	<b>-</b>	<b>3,881</b>	<b>-</b>

##### 31 December 2016:

	Level 1	Level 2	Level 3
Private sector bonds	1,507,126	-	-
Equity securities	273,469	-	-
Foreign government bonds	282,654	-	-
Turkish government bonds	28,742	-	-
Mutual funds	102,542	-	-
<b>Financial assets at fair value through profit or loss</b>	<b>2,194,533</b>	-	-
Derivative instruments	-	891	-
<b>Financial liabilities at fair value through profit or loss</b>	<b>-</b>	<b>891</b>	<b>-</b>

#### 36. EVENTS AFTER THE REPORTING PERIOD

On 16 January 2018, according to the press release of the Capital Markets Board of Turkey (the Board) dated 25.07.2016 in order to protect the interests of minority shareholders, Board of Directors has resolved to buyback the shares up to nominal value of 4,600,000 Full TL, to determine the funds to be reserved as 50,000,000 Full TL for this purpose and to authorize Vice President İlhan Gücüyener for the transactions till the second announcement of the Board. As of 2 March 2018, the company has bought back all the determined shares.