Türk Telekomünikasyon Anonim Şirketi and Its Subsidiaries

31 December 2017

Consolidated Financial Statements
And Independent Auditor's Report

8 February 2018

This report contains 7 pages of "Independent Auditor's Report" and 108 pages of financial statements and explanatory notes.

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TÜRK TELEKOMÜNİKASYON ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017
(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

		Current period	Prior period
		Audited	Audited
	Notes	31 December 2017	31 December 2016
Assets			
Current assets		**10.566.394**	**9.186.483**
Cash and cash equivalents	*4*	4.100.204	3.016.366
Trade receivables			
- Due from related parties	*8*	23.707	26.193
- Trade receivables from third parties	*6*	4.792.834	4.118.551
Other receivables			
- Other receivables from third parties	*9*	57.894	52.933
Derivative financial instruments	*15*	557.712	601.401
Inventories	*10*	203.978	261.264
Prepaid expenses	*13*	343.332	324.367
Current tax related assets		33.884	184.985
Other current assets	*12*	415.488	563.062
		10.529.033	**9.149.122**
Assets held for sale	*17*	37.361	37.361
Non-current assets		**18.582.141**	**17.687.968**
Financial investments	*14*	11.840	11.840
Trade receivables			
- Trade receivables from third parties	*6*	91.197	42.095
Other receivables			
- Other receivables from third parties	*9*	33.837	33.885
Derivative financial instruments	*15*	59.006	51.397
Investment property	*18*	22.376	24.559
Property, plant and equipment	*19*	9.115.520	8.734.951
Intangible assets			
-Goodwill	*16*	44.944	44.944
-Other intangible assets	*20*	8.437.536	8.341.272
Prepaid expenses	*13*	68.935	58.725
Deferred tax assets	*11*	660.707	316.213
Other non-current assets	*12*	36.243	28.087
Total assets		**29.148.535**	**26.874.451**

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

(Convenience translation of a report and financial statements originally issued in Turkish)

TÜRK TELEKOMÜNİKASYON ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017
(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

		Current period	**Prior period**
		Audited	**Audited**
	Notes	**31 December 2017**	**31 December 2016**
Liabilities			
Current liabilities		**8.661.581**	**8.351.705**
Financial liabilities			
- Bank borrowings	*5*	66.714	72.574
Short term portion of long term financial liabilities			
- Bank borrowings	*5*	2.395.531	1.897.421
- Obligations under finance leases	*7*	617	603
- Bills, bonds and notes issued	*5*	23.800	17.235
Trade payables			
- Due to related parties	*8*	2.326	8.812
- Trade payables to third parties	*6*	4.066.558	4.522.389
Employee benefit obligations	*12*	175.712	203.233
Other payables			
- Other payables to third parties	*9*	844.592	739.920
Derivative financial instruments	*15*	192.052	233.560
Deferred revenue	*13*	226.864	160.829
Income tax payable	*33*	24.344	17.929
Short term provisions			
-Short term provisions for employee benefits	*21*	162.906	165.862
-Other short term provisions	*21*	433.238	264.200
Other current liabilities	*12*	46.327	47.138
Non-current liabilities		**15.931.867**	**15.136.125**
Financial liabilities			
- Bank borrowings	*5*	10.270.506	9.569.254
- Obligations under finance leases	*7*	1.982	1.570
- Bills, bonds and notes issued	*5*	3.732.588	3.482.522
Trade payables			
- Trade payables to third parties	*6*	–	83.679
Other payables			
- Other payables to third parties	*9*	375.233	494.176
Derivative financial instruments	*15*	117.389	152.408
Deferred revenue	*13*	367.201	305.200
Long term provisions			
-Long term provisions for employee benefits	*21*	813.393	783.401
-Other long-term provisions	*21*	8.035	7.887
Deferred tax liability	*11*	245.540	256.028
Equity		**4.555.087**	**3.386.621**
Paid-in share capital	*22*	3.500.000	3.500.000
Inflation adjustments to paid in capital (-)	*22*	(239.752)	(239.752)
Share based payments (-)	*22,23*	9.528	9.528
Other comprehensive income / expense items not to be reclassified to profit or loss			
-Actuarial loss arising from employee benefits		(526.583)	(493.990)
Other comprehensive income/expense items to be reclassified to profit or loss			
-Hedging reserves		(299.552)	(245.564)
-Foreign currency translation reserve		218.920	99.405
Restricted reserves allocated from profits	*22*	2.355.969	2.355.969
Other reserves	*22*	(1.320.942)	(1.320.942)
(Accumulated losses) / retained earnings		(278.033)	446.307
Net profit /(loss) for the period		1.135.532	(724.340)
Total liabilities and equity		**29.148.535**	**26.874.451**

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

(Convenience translation of a report and financial statements originally issued in Turkish)

TÜRK TELEKOMÜNİKASYON ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

	Notes	Current Period Audited 1 January - 31 December 2017	Prior Period Audited 1 January - 31 December 2016
Sales	*3, 27*	18.139.554	16.108.594
Cost of sales (-)	*28*	(10.029.082)	(9.023.396)
Gross profit		**8.110.472**	**7.085.198**
General administrative expenses (-)	*28*	(2.175.077)	(2.211.725)
Marketing, sales and distribution expenses (-)	*28*	(2.404.461)	(2.187.900)
Research and development expenses (-)	*28*	(124.737)	(93.821)
Other operating income	*30*	291.123	323.863
Other operating expense (-)	*30*	(540.970)	(775.631)
Operating profit		**3.156.350**	**2.139.984**
Income from investing activities	*31*	130.398	60.040
Expense from investing activities (-)	*31*	(5.610)	(4.048)
Operating profit before financial expenses		**3.281.138**	**2.195.976**
Financial income	*32*	722.307	664.759
Financial expense (-)	*32*	(2.525.118)	(3.257.296)
Profit / (loss) before tax	3	**1.478.327**	**(396.561)**
Tax expense			
- Current tax expense	*33*	(696.792)	(405.784)
- Deferred tax income	*11, 33*	353.997	78.005
Profit / (loss) for the year		**1.135.532**	**(724.340)**
Earnings / (losses) per shares attributable to equity holders of the parent from (in full Kuruş)	*22*	0,3244	(0,2070)
Earnings / (losses) per diluted shares attributable to equity holders of the parent from (in full Kuruş)	*22*	0,3244	(0,2070)

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

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

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

	Notes	**Current Period** **Audited** **1 January - 31 December 2017**	**Prior Period** **Audited** **1 January - 31 December 2016**
Profit / (loss) for the period		**1.135.532**	**(724.340)**
Other comprehensive income items not to be reclassified to profit or loss:			
Actuarial loss from employee benefits	*21*	(40.417)	(74.360)
-Tax effect of actuarial loss from employee benefits	*11*	7.824	14.755
Other comprehensive income items to be reclassified to profit or loss:			
Change in foreign currency translation differences		119.515	54.975
Cash flow hedges-effective portion of changes in fair value	*15*	31.566	6.861
Hedge of net investment in a foreign operation		(99.051)	(53.009)
Tax effect on other comprehensive income items to be reclassified to profit or loss		13.497	9.230
-Tax effect of cash flow hedges-effective portion of changes in fair value	*11*	(6.313)	(1.372)
-Tax effect of hedge of net investment in a foreign operation		19.810	10.602
Other comprehensive income / (loss), net of tax		**32.934**	**(41.548)**
Total comprehensive income / (loss)		**1.168.466**	**(765.888)**

(Convenience translation of a report and financial statements originally issued in Turkish)

TÜRK TELEKOMÜNİKASYON ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

					Other comprehensive income items not to be reclassified to profit or loss in subsequent periods	Other comprehensive income items to be reclassified to profit or loss in subsequent periods				Retained earnings / (losses)		
					Gains/(losses) on revaluation and re-measurement	Reserve of gains/(losses) on hedging						
	Paid-in share capital	Inflation adjustment to paid in capital	Share based payment reserve	Other gains / (losses)	Actuarial loss arising from employee benefits	Gains or losses on hedges of net investment in foreign operations	Cash flow hedge reserve	Foreign currency translation reserve	Restricted reserves allocated from profits	Retained earnings /(losses)	Net profit / (loss) for the period	Equity
Balance at 1 January 2016	**3.500.000**	**(239.752)**	**9.528**	**(1.320.942)**	**(434.385)**	**(89.537)**	**(119.109)**	**44.430**	**2.289.384**	**446.307**	**907.444**	**4.993.368**
Transfers	–	–	–	–	–	–	–	–	66.585	–	(66.585)	–
Total comprehensive income	–	–	–	–	(59.605)	(42.407)	5.489	54.975	–	–	(724.340)	(765.888)
Profit for period	–	–	–	–	–	–	–	–	–	–	*(724.340)*	(724.340)
Other comprehensive income	–	–	–	–	*(59.605)*	*(42.407)*	*5.489*	*54.975*	–	–	–	(41.548)
Dividends paid (Note 22)	–	–	–	–	–	–	–	–	–	–	(840.859)	(840.859)
Balance at 31 December 2016	**3.500.000**	**(239.752)**	**9.528**	**(1.320.942)**	**(493.990)**	**(131.944)**	**(113.620)**	**99.405**	**2.355.969**	**446.307**	**(724.340)**	**3.386.621**
Balance at 1 January 2017	**3.500.000**	**(239.752)**	**9.528**	**(1.320.942)**	**(493.990)**	**(131.944)**	**(113.620)**	**99.405**	**2.355.969**	**446.307**	**(724.340)**	**3.386.621**
Transfers	–	–	–	–	–	–	–	–	–	(724.340)	724.340	–
Total comprehensive income	–	–	–	–	(32.593)	(79.241)	25.253	119.515	–	–	1.135.532	1.168.466
Profit for period	–	–	–	–	–	–	–	–	–	–	1.135.532	1.135.532
Other comprehensive income	–	–	–	–	*(32.593)*	*(79.241)*	*25.253*	*119.515*	–	–	–	32.934
Balance at 31 December 2017	**3.500.000**	**(239.752)**	**9.528**	**(1.320.942)**	**(526.583)**	**(211.185)**	**(88.367)**	**218.920**	**2.355.969**	**(278.033)**	**1.135.532**	**4.555.087**

TÜRK TELEKOMÜNİKASYON ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

(Currency in thousands of Turkish Lira ("TL") unless otherwise stated, all other currencies are also disclosed in thousands)

	Notes	Current Period Audited 1 January - 31 December 2017	Prior Period Audited 1 January - 31 December 2016
Net profit / (loss) for the period		1.135.532	(724.340)
Adjustments to reconcile net profit to cash provided by operating activities:			
Adjustments for depreciation and amortisation expense	*29*	2.906.444	2.796.343
Adjustments for impairment loss / (reversal of impairment loss)		608.257	433.866
- Adjustments for impairement loss of receivables	*6, 9*	*468.115*	*371.223*
- Adjustments for impairment loss of ınventories		*27.354*	*10.425*
- Adjustments for impairment loss of property, plant and equipment	*29*	*112.788*	*52.218*
Adjustments for provisions		561.221	412.992
- Adjustments for provisions related with employee benefits	*21*	*324.368*	*299.997*
- Adjustments for reversal of lawsuit and/or penalty provisions	*21*	*236.705*	*112.819*
- Adjustments for other provisions	*21*	*148*	*176*
Adjustments for interest expenses and income		376.277	417.302
- Adjustments for interest expense and income		*326.225*	*337.988*
- Deferred financial expenses from credit purchases		*50.052*	*79.314*
Adjustments for unrealised foreign exchange losses		1.506.495	2.229.488
Adjustments for fair value losses /(gain)	*32*	(27.620)	(189.431)
- Adjustments for fair value gains on derivative financial instruments	*32*	*(27.620)*	*(189.431)*
Adjustments for tax expenses	*33*	342.795	327.779
Adjustments for gains arised from sale of tangible assets	*31*	(124.788)	(55.992)
Other adjustments for non-cash items	*25*	(81.027)	(47.458)
Operating profit before working capital changes		**7.203.586**	**5.600.549**
Changes in working capital:			
Adjustments for increase in trade receivable		(1.151.197)	(692.422)
Adjustments for (increase) / decrease in inventories		29.932	(68.478)
Adjustments for increase in trade payable		415.372	1.027.318
Decrease in other third party receivables related with operations		134.657	174.723
Increase in other operating payables to third parties		158.096	27.111
Cash flow from operating activities:			
Interest received		105.850	100.320
Payments related with employee benefits	*21*	(337.799)	(319.772)
Payments related with other provisions	*21*	(68.166)	(146.011)
Income taxes paid		(534.115)	(694.273)
Other outflows of cash	*25*	(12.031)	(76.669)
Net cash from operating activities		**5.944.185**	**4.932.396**
Investing activities			
Payments related to liabilities arising from acquisition of non-controlling interests		(205.000)	(27.500)
Proceeds from sale of property, plant, equipment and intangible assets		151.001	82.659
Purchases of property, plant, equipment and intangible assets		(4.223.530)	(4.667.267)
Net cash used in investing activities		**(4.277.529)**	**(4.612.108)**
Cash flows from financing activities			
Proceeds from loans		1.560.795	3.522.579
Repayments of borrowings		(1.854.449)	(2.807.518)
- Loan repayments		*(1.854.449)*	*(2.807.518)*
Payments of finance lease liabilities	*25*	(71)	(7.862)
Cash inflows /(outflows) from derivative instruments,net	*25*	18.788	97.647
Dividends paid	*22*	–	(840.859)
Interest paid		(456.516)	(430.085)
Interest received		181.787	125.893
Other cash outflows, net	*25*	(57.412)	(61.567)
Net cash used in financing activities		**(607.078)**	**(401.772)**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES		1.059.578	(81.484)
EFFECT OF CHANGES IN FOREING EXCHANGE RATES IN CASH AND CASH EQUIVALENTS		12.229	183.394
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		2.616.297	2.514.386
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	*4*	**3.688.104**	**2.616.297**

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

1. REPORTING ENTITY

Türk Telekomünikasyon Anonim Şirketi ("Türk Telekom" or "the Company") is a joint stock company incorporated in Turkey. The Company has its history in the Posthane – i Amirane (Department of Post Office) which was originally established as a Ministry on 23 October 1840. On 4 February 1924, under the Telephone and Telegraph Law No. 406, the authorization to install and operate telephone networks throughout Turkey was given to the General Directorate of Post, Telegraph and Telephone ("PTT"). The Company was founded on 24 April 1995 as a result of the split of the telecommunication and postal services formerly carried out by the PTT. All of the personnel, assets and obligations of the PTT pertaining to telecommunication services were transferred to the Company, the shares of which were fully owned by the Prime Ministry Under secretariat of Treasury ("the Treasury").

On 24 August 2005, Oger Telekomünikasyon A.Ş. ("OTAŞ"), entered into a Share Sale Agreement with the Turkey's Privatization Authority for the purchase of a 55% stake in the Company. A Shareholders Agreement and a Share Pledge Agreement for the block sale of the Company were signed on 14 November 2005 and then after, OTAŞ became the parent company of the Company.

Out of TL 3.500.000 nominal amount of capital, 15% of the Company's shares owned by the Treasury corresponding to a nominal amount of TL 525.000 have been issued to the public through an initial public offering with the permission of Directorate of Istanbul Stock Exchange on 15 May 2008. Since then Company shares are traded in Borsa İstanbul with the name of TTKOM.

Oger Telecom Limited ("Oger Telecom") owns 99% of the shares of OTAŞ, which in turn owns 55% of the Company. Oger Telecom is an entity incorporated in August 2005 as a limited liability company under the laws of the Dubai International Financial Centre.

As at 31 December 2017 and 31 December 2016, the ultimate parent and controlling party of the Company is Saudi Oger Ltd ("Saudi Oger"), because of its controlling ownership in Oger Telecom.

A concession agreement ("the Concession Agreement") was signed by the Company and Turkish Telecommunication Authority (now named the Information and Communication Technologies Authority ("ICTA") as at 14 November 2005. The Concession Agreement covers the provision of all kinds of telecommunication services, establishment of necessary telecommunications facilities and the use of such facilities by other licensed operators and the marketing and supply of telecommunication services for 25 years starting from 28 February 2001. The Concession Agreement will terminate on 28 February 2026 and the Company will transfer the entire infrastructure that has been used to provide telecommunication services to ICTA in working condition.

Türk Telekom has the right to apply to the ICTA for renewal of the Türk Telekom Concession Agreement one year prior to the expiry of its term, with any such renewal to be granted at the discretion of the ICTA.

1. REPORTING ENTITY (CONTINUED)

The details of the Company's subsidiaries as at 31 December 2017 and 31 December 2016 are as follows:

Name of Subsidiary	Place of incorporation and operation	Principal activity	Functional Currency	Effective ownership of the Company (%) 31 December 2017	31 December 2016
TTNet Anonim Şirketi ("TTNet")	Turkey	Internet service provider	Turkish Lira	100	100
Avea İletişim Hizmetleri A.Ş.("Avea")	Turkey	GSM operator	Turkish Lira	100	100
Argela Yazılım ve Bilişim Teknolojileri Sanayi ve Ticaret Anonim Şirketi("Argela")	Turkey	Telecommunication solutions	Turkish Lira	100	100
Innova Bilişim Çözümleri Anonim Şirketi ("Innova")	Turkey	Telecommunication solutions	Turkish Lira	100	100
Assistt Rehberlik ve Müşteri Hizmetleri Anonim Şirketi ("AssisTT")	Turkey	Call center and customer relations	Turkish Lira	100	100
Sebit Eğitim ve Bilgi Teknolojileri A.Ş.("Sebit")	Turkey	Web Based Learning	Turkish Lira	100	100
NETSIA Inc.	USA	Telecommunications solutions	U.S. Dollar	100	100
Sebit LLC	USA	Web based learning	U.S. Dollar	100	100
TT International Holding B.V.("TT International") (*)	Netherlands	Holding company	Euro	100	100
Türk Telekom International AG ("TTINT Austria")(*)	Austria	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International Hu Kft (TTINT Hungary)(*)	Hungary	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
S.C. Euroweb Romania S.A.("TTINT Romania") (*)	Romania	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International Bulgaria EODD ("TTINT Bulgaria")(*)	Bulgaria	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International CZ s.r.o ("TTINT Czech Republic") (*)	Czechia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
TTINT Telcomd.o.o Beograd ("TTINT Serbia") (*)	Serbia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
TTINT Telcomunikacijed.o.o ("TTINT Slovenia") (*)	Slovenia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International SK s.r.o ("TTINT Slovakia") (*)	Slovakia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
TT International Telekomünikasyon Sanayi ve Ticaret Limited Şirketi ("TTINT Turkey") (*)	Turkey	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International UA TOV ("TTINT Ukraine") (*)	Ukraine	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International Italy S.R.L. (TTINT Italy) (*)	Italy	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
TTINT International DOOEL Skopje("TTINT Macedonia") (*)	Macedonia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International LLC ("TTINT Russia") (*)	Russia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekomunikasyon Euro Gmbh. ("TT Euro") (*)	Germany	Mobil service marketing	Euro	100	100
Türk Telekom International d.o.o.(*)	Croatia	Internet/data services, infrastructure and wholesale voice services provider	Euro	100	100
Türk Telekom International HK Limited (*)	Hong Kong	Internet/data services, infrastructure and wholesale voice services provider	H.K. Dollar	100	100
Net Ekran TV ve Medya Hiz. A.Ş. ("Net Ekran")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
TTES Elektrik Tedarik Satış A.Ş.("TTES")	Turkey	Electrical energy trading	Turkish Lira	100	100
TT Euro Belgium S.A. (*)	Belgium	Mobile service marketing	Euro	100	100
TT Ödeme Hizmetleri A.Ş.	Turkey	Mobile finance	Turkish Lira	100	100
Net Ekran1 TV ve Medya Hiz. A.Ş. ("Net Ekran1")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran2 TV ve Medya Hiz. A.Ş. ("Net Ekran2")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran3 TV ve Medya Hiz. A.Ş. ("Net Ekran3")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran4 TV ve Medya Hiz. A.Ş. ("Net Ekran4")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran5 TV ve Medya Hiz. A.Ş. ("Net Ekran5")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran6 TV ve Medya Hiz. A.Ş. ("Net Ekran6")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran7 TV ve Medya Hiz. A.Ş. ("Net Ekran7")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran8 TV ve Medya Hiz. A.Ş. ("Net Ekran8")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran9 TV ve Medya Hiz. A.Ş. ("Net Ekran9")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran10 TV ve Medya Hiz. A.Ş. ("Net Ekran10")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran11 TV ve Medya Hiz. A.Ş. ("Net Ekran11")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran12 TV ve Medya Hiz. A.Ş. ("Net Ekran12")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran13 TV ve Medya Hiz. A.Ş. ("Net Ekran13")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran14 TV ve Medya Hiz. A.Ş. ("Net Ekran14")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran15 TV ve Medya Hiz. A.Ş. ("Net Ekran15")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
Net Ekran16 TV ve Medya Hiz. A.Ş. ("Net Ekran16")	Turkey	Television and radio broadcasting	Turkish Lira	100	100
11818 Rehberlik ve Müşteri Hizmetleri A.Ş. ("11818")	Turkey	Call center and customer relations	Turkish Lira	100	100
TT Satış ve Dağıtım Hizmetleri Anonim Şirketi	Turkey	Selling and Distribution Services	Turkish Lira	100	-

(*) Hereinafter, will be referred as TTINT Group.

1. REPORTING ENTITY (CONTINUED)

Hereinafter, Türk Telekom and its subsidiaries together will be referred to as "the Group".

The Group's principal activities include the provision of local, national, international and mobile telecommunication services, internet products and services, as well as call center and customer relationship management, technology and information management.

The Company's registered office address is Turgut Özal Bulvarı, 06103 Aydınlıkevler, Ankara.

The number of personnel subject to collective agreement as at 31 December 2017 is 11.770 (31 December 2016: 11.681) and the number of personnel not subject to collective agreement as at 31 December 2017 is 22.732 (31 December 2016: 21.543). The total number of personnel as at 31 December 2017 and 31 December 2016 are 34.502 and 33.224, respectively.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation of the consolidated financial statements

a) Statement of compliance with TAS

The accompanying consolidated financial statements are based 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" ("Communiqué") which is published in official gazette, no 28676. TAS is composed of Turkish Accounting Standards, Turkish Financial Reporting Standards, appendixes and interpretations

b) Preparation of financial statements

The accompanying consolidated financial statements and notes are presented in accordance with the illustrative financial statements published by CMB on 7 June 2013.

The accompanying consolidated financial statements are approved by the Company's Board of Directors on 8 February 2018. General Assembly and related legal institutions have the right to correct these financial statements and statutory financial statements.

c) Correction of financial statements during the hyperinflationary periods

CMB, with its resolution dated 17 March 2005, announced that all publicly traded entities operating in Turkey was not obliged to apply inflationary accounting effective from 1 January 2005. In accordance with this resolution, TAS 29 "Financial Reporting in Hyperinflationary Economies" is not applied to the consolidated financial statements since 1 January 2005.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.1 Basis of presentation of the consolidated financial statements (continued)

d) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the property, plant and equipment and investment property acquisitions prior to 1 January 2000 for which the deemed cost method was applied in accordance with TAS 29 "Financial Reporting in Hyperinflationary Economies", derivative financial instruments and non-controlling interest put option liability which have been reflected at their fair values. Investment properties and tangible assets which are recognized with deemed cost method are valued with fair values as of 1 January 2000, non-controlling interest put option liabilities and derivative financial liabilities are valued with fair values as of balance sheet date.

The methods used to measure the fair values are discussed further in Note 2.4 (u).

e) Functional and presentation currency

Excluding the subsidiaries incorporated outside of Turkey, functional currency of all entities' included in consolidation is Turkish Lira ("TL") and they maintain their books of account in TL in accordance with Turkish Commercial Code, Tax Legislation and the Uniform Chart of Accounts issued by the Ministry of Finance.

Functional currencies of the subsidiaries are presented in Note 1.

The consolidated financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with the Turkish Accounting Standards published by the POA and are presented in TL.

Additional paragraph for convenience translation to English:

The accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying consolidated financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") with respect to the application of inflation accounting, classification of some income statement items and also for certain disclosures requirement of the POA.

2.2 Basis of consolidation

The accompanying financial statements include the accounts of the parent company Türk Telekom and its subsidiaries. The financial statements of the entities included in the consolidation have been prepared as at the date of the consolidated financial statements.

a) Subsidiaries

As at 31 December 2017, the consolidated financial statements include the financial results of Türk Telekom and its subsidiaries that the Group has control over its financial and operational policies which are listed at Note 1.

Control is normally evidenced when the Company controls an investee if and only if the Company has all the following; a) power over the investee b) exposure, or rights, to variable returns from its involvement in the investee and c) the ability to use its power over the investee to affect the amount of company's returns. The results of subsidiaries acquired are included in the consolidated statements of income from the effective date of acquisition as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group. The consolidated financial statements are prepared using uniform accounting policies for similar transactions and events and are prepared with the same chart of accounts of the Company.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.2 Basis of consolidation (continued)

b) Business combinations

From 1 January 2010 the Group has applied revised TFRS 3 "Business Combinations" standard. The change in accounting policy has been applied prospectively and had no effect on business combinations completed during prior periods.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquirer. The consideration transferred is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners of the entity and the equity interests issued by the Group. When the agreement with the seller includes a clause that the consideration transferred could be adjusted for future events, the acquisition-date fair value of this contingent consideration is included in the cost of the acquisition. All transaction costs incurred by the Group have been recognized in general administrative expenses. For each business combination, the Group elects whether it measures the non-controlling interest in the acquirer either at fair value or at the proportionate share of the acquirer's identifiable net assets.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquirer.

Acquisition method requires allocation of the acquisition cost to the assets acquired and liabilities assumed at their fair values on the date of acquisition. Acquired assets and liabilities and contingent liabilities assumed according to TFRS 3 are recognized at fair values on the date of the acquisition. Acquired company is consolidated starting from the date of acquisition.

If the fair values of the acquired identifiable assets, liabilities and contingent liabilities or cost of the acquisition are based on provisional assessment as at the balance sheet date, the Group made provisional accounting. Temporarily determined business combination accounting has to be completed within twelve months following the combination date and adjustment entries have to be made beginning from the combination date.

c) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

d) Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currencies of the Group entities at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to the functional currency at the exchange rate ruling at the date. Foreign currency differences arising on translation of foreign currency transactions are recognized in the income statement.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.2 Basis of consolidation (continued)

d) Foreign currency

i) Foreign currency transactions (devamı)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on qualifying cash flow hedges to the extent the hedge is effective, which are recognized in other comprehensive income.

ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to reporting currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to reporting currency at average exchange rates in the related periods. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity.

The Group entities use USD, Euro or TL, as functional currency since these currencies are used to a significant extent in, or have a significant impact on, the operations of the related Group entities and reflect the economic substances of the underlying events and circumstances relevant to these entities. All currencies other than the functional currency selected for measuring items in the financial statements are treated as foreign currencies. Accordingly, transactions and balances not already measured in the functional currency have been re-measured to the related functional currencies. The Group uses TL as the reporting currency.

The financial statements of subsidiaries that report in the currency of an economy formerly accepted as hyperinflationary (Turkey) are restated to the unit of currency effective at the reporting date until 1 January 2005. As stated above, with the resolution dated 17 March 2005 to end the hyperinflation accounting for the periods starting after 31 December 2004, TL is not assessed as a currency of a hyperinflationary economy effective from 1 January 2005.

The foreign currency exchange rates as of the related periods are as follows:

	Average		**Period end**	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Euro / TL	4,1159	3,3375	4,5155	3,7099
USD / TL	3,6445	3,0181	3,7719	3,5192

iii) Hedge of net investment in a foreign operation

The Company acquires foreign currency bank loans in order to hedge its net investment in a foreign operation. Foreign exchange gain and/or loss resulting from the subsidiary's net investment portion of this loan is reclassified to other comprehensive income. Foreign exchange gain and/or loss resulting from the subsidiary's net investment portion of this loan reclassified to other comprehensive income will be transferred to profit and loss in case of disposal. Tax effects of foreign exchange gain and/or loss resulting from the subsidiary's net investment portion of this loan is recognized under other comprehensive income as well.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Changes in accounting policies, comparative information and restatement of prior periods' financial statements

The reclassifications that are made as at 31 December 2016

Set-top boxes and and satellite receivers amounting to TL 49.034 for the year ended 31 December 2016 which were previously presented in inventory in consolidated financial statements, are reclassified in property, plant and equipment.

Amortization expenses amounting to TL 21,060 and TL 24,205 which were previously presented under marketing, sales and distribution expenses and general administrative expenses, respectively, in the consolidated profit or loss statement for the year ended 31 December 2016, are reclassified to cost of sales as a results of amendments in cost mappings of one of the subsidiary of the Group.

2.4 Summary of significant accounting policies

a) Financial instruments

i) Non-derivative financial assets

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets are comprised, loans and receivables and cash and cash equivalents and financial investments.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables, receivables from related parties and financial investments.

Receivables from customers in relation to a component of revenue are recognized as trade receivables in financial statements. Receivables that are not classified as trade receivables and are not financial investments are recognized as other receivables.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies

a) Financial instruments

i) Non-derivative financial assets

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents comprise cash, cash at banks and other cash and cash equivalents.

Project and reserve accounts are included in other current assets. The use of project and reserve accounts are subjected to the approval of the lender in accordance with the financial contracts.

Accounting for finance income and expenses is discussed in Note 2.4 (o).

Financial investments

As of 31 December 2017 and 2016, the Group accounted its 20% shareholding in Cetel Telekom İletişim Sanayi ve Ticaret Anonim Şirketi (Cetel) as financial investments in the consolidated financial statements. As of 31 December 2017 and 2016, Cetel is carried at cost after deducting impairment, if any and accounted under financial investments in the consolidated financial statements because the Company does not have significant influence at Cetel.

ii) Non-derivative financial liabilities

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans, debt securities issued, trade and other payables, payables to related parties and other payables.

Trade payables are payables to third parties in relation to their capacity as suppliers. Payables stemming from transactions with parties that are not suppliers or customers which are not classified as trade payables and are not a result of financing operations are recognized as other payables.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

When a financial instrument gives rise to a contractual obligation on the part of the Group to deliver cash or another financial asset or to exchange another financial instrument under conditions that are potentially unfavorable, it is classified as a financial liability. The instrument is equity instrument if, are met:

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies

a) Financial instruments (continued)

ii) Non-derivative financial liabilities (continued)

a) The instrument includes no contractual obligation to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group.

b) If the instrument will or may be settled in the Group's own equity instruments, it is a non-derivative that includes no contractual obligation for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

iii) Share capital

The ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

iv) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

The fair value of derivative financial instruments is determined by reference to market value for similar instruments.

For the purpose of hedge accounting, hedges are classified as; cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company assesses the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. It is expected that hedge transaction is to be effective in stabilizing changes between changes in fair value or cash flow. During all financial reporting periods in which it is defined, hedge transaction is evaluated continuously for identification of effectiveness and it is expected to be consistent with documented risk management strategy. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

The derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

a) Financial instruments (continued)

iv) Derivative financial instruments (continued)

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity.

The amount recognized in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognized in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognized. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

b) Property, plant and equipment

i) Recognition and measurement

Property, plant and equipment ("PPE") of the Group is carried at cost less accumulated depreciation and any accumulated impairment losses. The Group elected to measure property, plant and equipment of the Company on a deemed cost basis in the first period of application of TAS 29 "Financial Reporting in Hyper Inflationary Economy" since detailed records of the acquisition date and costs of items of PPE were not available for the Company prior to 1 January 2000. The deemed cost values for land and buildings as at 1 January 2000 were appraised by CMB licensed real-estate valuation companies. The network equipment and vehicles values were appraised by Detecon International GmbH (a subsidiary of Deutsche Telecom AG). Other than the PPE for which cost was determined on a deemed cost basis, the cost of PPE generally 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. PPE that are recognized at deemed cost basis or at cost are restated for the effects of inflation until 31 December 2004 in accordance with TAS 29.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor costs are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are calculated as the difference between the net proceeds from disposal and the carrying amount of the item and are recognized net within "income / (expense) from investing activities" in profit or loss.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

b) Property, plant and equipment (continued)

ii) Subsequent cost

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in consolidated statement of profit / (loss) as incurred.

iii) Depreciation

Depreciation is calculated effective from purchase or replacement date to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Land is not depreciated.

Useful lives of property, plant and equipment are as follows:

Property plant and equipment	*Useful life (years)*
Buildings	21-50 years
Outside plant	5-21 years
Transmission equipment	5-21 years
Switching equipment	5-8 years
Data networks	3-10 years
Vehicles	5 years
Furniture and fixtures	3-5 years
Set-top box and satellite receiver	4 years
Other property, plant and equipment	2-8 years

Useful lives and residual values are reviwed at each reporting date and adjusted if appropriate.

The remaining useful lives of the PPE of the Company are limited to the concession periods. Considering the Concession Agreement the remaining useful lives of tangible fixed assets are 9 years at the most.

Leased assets are depreciated by the same method used for property and equipment over the shorter of the lease term and their useful lives.

c) Intangible assets

i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognized amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

c) Intangible assets (continued)

i) Goodwill (continued)

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Transactions costs, other than those associated with the issuance of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

ii) Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is charged to the consolidated income statement during the year when the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or infinite. The Group does not have any intangible assets with infinite useful lives. Intangible assets with finite lives are amortized on a straight line basis over the shorter of their useful economic lives or remaining concession period. Whenever there is an indication that the intangible asset may be impaired it is assessed for impairment. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed each financial year end at least.

Changes in the expected useful lives or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement. The amortization periods for intangible assets are between 3 and 25 years. The remaining useful lives of the intangible items are limited to the concession period. Considering the Concession Agreement, the remaining useful lives of intangible fixed assets are 9 years at the most.

iii) Research and development

Research costs are expensed as incurred. Development expenditure on an individual project is recognized as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Impairment test is performed periodically in order to identify whether there is any impairment in the development stage. After initial recognition, development costs are recognized at cost less amortization and impairment. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Periodic impairment tests are applied to the assets in order to foresee any probable impairment on the assets in the period that they are not ready for utilization yet.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

d) Investment properties

Investment properties, which are properties held to earn rent and/or for capital appreciation are measured initially at cost plus all direct transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. The Group decided to measure investment property on a deemed cost basis in the first period of application of TAS 29, since detailed records of the acquisition date and costs of items of investment property were not available prior to 1 January 2000 and restated these deemed cost basis for the effects of inflation until 31 December 2004.

Investment properties are transferred from/to property, plant and equipment when their utilization purpose is changed. When investment properties are disposed, the difference between sales revenue and the carrying amount is charged to the consolidated income statement.

Market values of the investment properties at 1 January 2000 were determined by CMB licensed independent real-estate appraisers. Following initial recognition, investment properties are carried at costs less any accumulated amortization and any accumulated impairment losses.

Depreciation is charged to investment properties excluding land, over their estimated useful economic lives, using the straight-line method. The useful lives of buildings that are owned by the Group range between 15 - 50 years. The remaining useful life of the investment property is limited by the concession agreement, except for the exception of the concession agreement. When considering the Concession agreement the remaining useful lives of investment property is 9 years at the most.

e) Assets held for sale

The Group classifies a non-current asset 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 the group of assets held for sale) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable management must be committed to a plan to sell the asset (or the group of assets held for sale) and an active program to set the buyers and complete the plan must have been initiated. Furthermore, the asset (or the group of assets held for sale) must be actively marketed for sale at a price that is reasonable in relation to its 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.

In case the period to complete sale of assets is extended due to circumstances which are not under the control of the Group, the assets will continue to be classified as assets held for sale provided that the Group has still an active sales program.

The Group measures assets held for sale at the lower of its carrying amount and fair value less costs to sell. The Group does not depreciate a non-current asset when it is classified as held for sale and the gain or loss arising from the sale of the assets is classified at income / expense from investing activities accounts.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

f) Leased assets

i) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease in the consolidated statement of income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

ii) The Group as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Financial charges are included to the consolidated income statement.

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

g) Inventory

Inventories are recognized at the lower of cost and net realizable value. Costs comprise purchase cost and, where applicable and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value is the less marketing, selling and other various expenses to be incurred in order to realize sale.

Modems are transferred from inventories to property, plant and equipment when the subscriber is connected to the platform.

Content inventory

Rights to feature contents such as films, TV shows etc. acquired under license agreements along with related obligations are recorded at the contract value when a license agreement is executed or the license period has begun. The amounts recognized are amortized on the licensing period or a per play basis over the licensing period. To the extent that it is determined that the content has no future programming usefulness and will no longer be exploited, the unamortized cost of the content is written off.

h) Impairment

i) Financial assets

At each balance sheet date, The Group assesses whether a financial asset or group of financial assets is impaired. When an objective evidence exists which represents that an impairment loss occurred in the receivables and loans stated as its amortized cost or the investments held until their maturity, amount of the loss has been determined as the difference between the current value calculated by discounting the estimated cash flows (excluding unrealized loan losses in the future) in the future based on the original interest rate (the effective interest rate calculated when initial accounting occurred) of the financial asset and the carrying value. Carrying value of the asset is decreased directly or by using a provision account. The related loss amount is recognized in income statement.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

h) Impairment (continued)

i) Financial assets (continued)

In the subsequent term, if the impairment loss decreases and the related decrease is objectively associated with a case (such as improvement at the credit rate of the obligator) occurred after the impairment loss has been recognized/accounted, the recognized impairment loss has been reversed directly or by using a provision account. The reverse cannot cause carrying value of the related financial asset to be higher than the amortized value which arised as at the date of the reversal of impairment if the impairment is not recognized/accounted. The reversed amount is recognized/accounted in income statement.

Reserve is provided for the overdue uncollectible receivables. Also portfolio reserve is provided for the not due receivables based on certain criteria. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

ii) Non-financial assets

Property, plant and equipment and intangible assets

At each balance sheet date, the Group assesses whether there is an indication that any of its PPE and intangible assets may be impaired. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where 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.

The 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.

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 (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated income statement.

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Whenever the carrying amount exceeds the recoverable amount, an impairment loss is recognized in the consolidated income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the acquisition, irrespective of whether other assets or liabilities are assigned to these units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

h) Impairment (continued)

ii) Non-financial assets (continued)

Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amounts of the net assets assigned to the cash-generating unit, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

i) Reserve for employee severance indemnity

Payments to defined contribution retirement benefit plans are charged as an expense in the year in which the contributions relate to. Payments made to the Social Security Institution of Turkey and Turkish Republic Retirement Fund are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan. The Group pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense in the period to which the employees' service relates.

For defined benefit plans and other long-term employment benefits, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. The Company recognizes the service cost of the previous period as expense at the earlier of the dates below:

a) The date of the change or reduction in the plan, and

b) The date of the recognition of the related restructuring costs (see: TAS 37) or the benefits deriving from the termination of the employment contract,

The retirement benefit obligation recognized in consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for any unrecognized past service cost. There is no funding requirement for defined benefit plans. The Group recognizes actuarial gains and losses in the consolidated statement of comprehensive income.

j) Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

k) Contingent assets and liabilities

Possible assets or obligations that arise from past events and for which their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the Group are treated as contingent assets or liabilities.

A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. If the possibility of transfer of assets is probable, contingent liability is recognized in the financial statements.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

k) Contingent assets and liabilities

A contingent asset is disclosed in consolidated financial statements, when the possibility of an inflow of economic benefits to the entity is probable. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs.

l) Related parties

Parties are considered related to the Company if;

a) A person or a close member of that person's family is related to a reporting entity if that person:

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

b) The entity and the reporting entity are members of the same group.

- i. The entity and the company are members of the same group.
- ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- iii. Both entities are joint ventures of the same third party.
- iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- vi. The entity is controlled or jointly controlled by a person identified in (a).
- vii. A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

m) Revenue

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of the goods and services can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes. Service revenues are recorded at the time services are rendered.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

m) Revenue (continued)

i) Fixed-line revenues

Revenues from fixed-line telecommunication services like network access, local usage, domestic and international long distance and infrastructure leases are recognized on an accrual basis as services are provided. Connection fees are immediately recognized as revenue when connection services are provided and the cost of connection is also recognized immediately as an expense.

Revenues from sale of Indefeasible Right of use contracts, which are long term capacity/line rental arrangements, are accounted over the term of the contract.

ii) Mobile revenues

Revenues generated from mobile telecommunication services such as outgoing and incoming traffic, roaming revenues, revenues from value added services and monthly fees which are recognized at the time services are rendered. With respect to prepaid outgoing revenues, the Group generally collects cash in advance by selling scratch cards to dealers and distributors. In such cases, the Group does not recognize revenues until the subscribers use the service and present such amounts under deferred revenues in the consolidated financial statements.

The Group recognizes content revenue based on the agreement between the Group and the content providers. As the Group is the primary obligor of the service, the revenue received from the subscribers is presented on gross basis and the portion paid to the content providers is recognized as operating expense.

iii) Equipment sale revenues

Revenues from sales of phone device, modem and other network equipment are recorded as revenue at the time of delivery of equipment to customers.

In connection with campaigns, other telecommunication services may be bundled with phone devices and modems. Total consideration related to the bundled contract is allocated to the different components if the component has standalone value to the customer and the fair value of the component can be measured reliably. Total consideration is allocated to each component in proportion to the fair value of the individual components. Revenue attributed to delivered component is limited with the amount not contingent to the undelivered component. Equipment revenues are presented in other revenues. Cost of products and services are recognized as expense when related revenue is recognized.

iv) TV revenues

Revenues from TV subscriptions are charged to contract customers on a monthly basis. Revenues are invoiced and recorded as part of a periodic billing cycle, and are recognized as the services are provided. Pay-per-view revenue is recognized when the movie is rented. Advertising revenue is recognized as the commercials are aired.

n) Income from investing activities and expense from investing activities

Income from investing activities are comprised of incomes from scrap and property, plant and equipment sales.

Expense from investing activities are comprised of loss on sales of property, plant and equipment sales.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

o) Financial income and financial expenses

Financial income is comprised of interest income, foreign exchange gain, dividend income, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Financial expenses are comprised of interest expense on borrowings, transaction costs, coupon payments of bond, impairment losses recognized on financial assets (except for trade receivables) and losses on hedging instruments that are recognized in the profit or loss. Borrowing costs that cannot be matched with acquisition, construction or production of an asset are recognized in profit or loss by using effective interest rate.

Rediscount, interest and foreign exchange gains and losses arising from trading transactions are recognized in other operating income and expense.

p) Earnings per share

Earnings per share is calculated by dividing the consolidated profit/(loss) for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

r) Taxes

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the consolidated statement of profit/ (loss) except to the extent that it relates to a business combination or items recognized directly in equity or other comprehensive income.

i) Current tax

Current tax is comprised of the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Prepaid corporation taxes and corporate tax liabilities are offset when they relate to income taxes levied by the same taxation authority.

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 consolidated financial statements, have been calculated on a separate-entity basis.

ii) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

r) Taxes (continued)

ii Deferred tax (continued)

Deferred tax is not recognized for:

• Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and loss;

• Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group's able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

• Taxable temporary differences arising on the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The Company and the other consolidated subsidiaries have reflected their deferred tax asset and liabilities by netting their individual balances; however, there is no netting on a consolidation basis. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized.

Deferred tax assets are recognized for unused tax loses, unused tax credits an deductible temporary differences to the extent that it is possible that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

iii) Tax exposures

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

s) Subscriber acquisition costs

The Group recognizes subscriber acquisition costs in the consolidated statement of profit/(loss) during the year they are incurred. Subscriber acquisition costs include subsidization of the handset, taxes on subscription, commissions and premiums incurred for acquisitions.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

t) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's board of directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

u) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

i) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows discounted at the market rate of interest at the reporting date. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. This fair value is determined at initial recognition and at the end of each reporting period for disclosure purposes.

ii) Derivatives

The fair value of interest rate swaps and forward exchange contracts are based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

iii) Bills, bonds and notes issued

The fair values of bills, bonds and notes issued are determined with reference to their quoted value at the measurement date. Subsequent to initial recognition, the fair values of bills, bonds and notes issued are determined for disclosure purposes only.

iv) Other non-derivative financial liabilities

Other non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

v) Standards and interpretations issued but not yet effective

Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements 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.

TFRS 9 Financial Instruments – Classification and Measurement

TFRS 9 Financial Instruments, has been published in January 2017, replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. This version includes referrals in earlier versions of TFRS 9 and revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from TAS 39. TFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company plans to apply the standard with the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings recognised at 1 January 2018. Prior period comperative financial statements will not be restated. The Group is in the process of assessing the impact of the standard on consolidated financial position or performance of the Group.

TFRS 15 Revenue from Contracts with Customers

The standard replaces existing TFRS guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognizing revenue over time. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under TFRS.

The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group. The effects on the Group's consolidated financial statements from implementation of the standard will be attributable to identification of separate performance obligations in the contracts, determination of the transaction price and its allocation to performance obligations on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract as well as capitalization and amortization of incremental costs of obtaining a contract with a customer over the period during which the economic benefits are expected from that contract. The Company plans to apply the standard retrospectively with the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings recognized at 1 January 2018. Prior period comparative financial statements will not be restated.

TFRS Interpretation 22 – Foreign Currency Transactions and Advance Consideration

The amendments clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

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

Amendments to TFRS 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 does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

TAS 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 derecognized (eliminated from the statement of financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

Improvements to IFRSs

The IASB issued Annual Improvements to IFRSs - 2014–2016 Cycle. The amendments are effective as of 1 January 2018. Earlier application is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

Annual Improvements 2014- 2016

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

IFRS 1 is amended to clarify that the deletion of 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.

TAS 28 "Investments in Associates and Joint Ventures"

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

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

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

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

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

IFRS 16 Leases

On 13 January 2016, IASB published 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 change IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15-Revenue from Contracts with Customers. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

IFRIC 23 –Uncertainty over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Interpretation is effective from 1 January 2019 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 23.

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.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.4 Summary of significant accounting policies (continued)

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

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

Improvements to IFRSs

Annual Improvements to IFRSs 2015-2017 Cycle

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle. 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.

***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 recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income or equity.

***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 re-measures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not re-measured.

***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 amortized 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.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.5 Significant accounting assessments, estimates and assumptions

In the process of applying the Group's accounting policies, the management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements (excluding those involving estimations).

i) Operating Lease Commitments – Group as Lessor: The Company has entered into a cross-occupation agreement with PTT. The Group has determined that it retains all the significant risks and rewards of ownership of its properties subject to the agreement which are leased out on operating leases.

ii) *Income from Sales Campaign:* Group makes sales campaigns with suppliers under which they bundle telecommunication services with equipment supplied by the suppliers. The Group management accounts bundled offers as an agent if the sale transaction satisfies the below conditions:

- Group, has no inventory risk.
- Group has no responsibility on technical qualifications of equipment delivered to customers and responsibility after sale belongs to supplier.
- Group does not make any modification on the equipment.
- Group earns either a fixed rate of commission or zero profit on the transaction.

iii) Prepaid Card Sales Agent - Principal Analysis: Since Avea is primarily responsible for providing the service, has credit and inventory risk and determinant in setting prices; starting from April 2010, Avea recognizes prepaid card incomes on a gross basis.

iv) *Commission income*: The Group renders intermediary collection services regarding handsets sold by the distributors at the Group exclusive sale channels. Accordingly, the arrangement with the customer includes both handset principal amount and GSM services. Total considerations have been collected from the customers with up to 36 month instalments via GSM bills where each benefit is clearly identifiable and separable. the Group does not recognize any revenues from the sale of handsets and acts as an agent since it has no control over price , nor risk on stock . However, the collection risk of handset principal amount is on the Group and the distributors collect this amount from the Group on monthly basis. Apart from the GSM revenues, since customer base and sales channels are made available to the distributors, the Group charges a commission to those distributors. This commission income is classified under other revenues and it is recognized when the handset is delivered to the customer.

v) *Content Sales*: Since Avea is primarily responsible for providing the service, has credit and determinant in setting prices; Avea recognizes content revenues on a gross basis.

vi) Liabilities within the scope of vendor financing: For capital expenditures, the Group carries out vendor financing with some of its suppliers in accordance with the agreements made with banks and those suppliers. Since the terms are not substantially different with the discounted present value of the cash flows under the new terms of the liabilities, the Group continues to classify those liabilities as trade payables.

Critical judgments of the management in relation with TFRS Interpretation 12 are explained in "key sources of estimation uncertainty" in TFRS Interpretation 12 section.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.5 Significant accounting assessments, estimates and assumptions (continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the 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, are discussed below.

a) The Group determines whether property, plant and equipment are impaired by estimating the recoverable amount of the assets whenever there is an indication of impairment. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows (Note 16).

b) The estimates used by the Group in the application of TFRS Interpretation 12 are as follows:

i) The Company assesses that approximately 30% of the foreseen network investments related to the replacement of the network equipment which are reclassified to intangible assets and which are then recognized in the financial statements as intangible assets are the contractual replacements as required by the concession agreement. The Group has provided a provision amounting to TL 8.035 (31 December 2016: TL 7.887) (Note 21) in the consolidated financial statements for the foreseen contractual replacements in the future. Aforementioned provision is the present value of the contractual replacement expenses as at 31 December 2017 that will be realized in the future. Discount rate used in the provision calculation is determined as 14,40% (31 December 2016: 15,60%).

ii) In accordance with TFRS Interpretation 12, the Company has determined the cost of the investments in intangible assets recognized under the scope of TFRS Interpretation 12 by adding the profit margin, which is applied in the market for similar construction services, to the cost of acquiring the related network equipment. The estimated profit margin used in construction services provided in exchange for concession right is 13% (31 December 2016: 13%) for the year ended as of 31 December 2017. The profit margin of property, plant and equipment accounted within the scope of TFRS Interpretation 12 amounting to TL 704.315 (31 December 2016: TL 412.516) (Note 20) is TL 81.028 for the year ended as of 31 December 2017 (31 December 2016: TL 47.458).

c) A deferred tax asset is recognized only to the extent that it is probable that a tax benefit will be realized in the future. If it is probable that a tax benefit will be realized, a deferred tax asset is recognized on unused tax losses, unused tax credits and other deductible temporary differences. With the expectation to recover certain part of its tax losses carried forward in Avea, the Group has recognized deferred tax assets on statutory tax losses available for offsetting with future statutory taxable profits. Every year, the Group re-assesses its tax loss carry forwards and if there is a material change in the deferred tax asset recognized in the consolidated financial statements, the deferred tax assets are also changed (Note 11).

d) Assumptions used in the impairment test of property, plant and equipment and intangible assets have been explained in Note 16.

e) The impairment losses in trade and other receivables are based on management's evaluation of the volume of the receivables outstanding, historical collection trends and general economic conditions. The Group follows collection of trade receivables periodically and on the basis of previous years' collection ratios, records provisions in case of losses due to trade receivables. Should economic conditions, collection trends or any specific industry trend worsen compared to management estimates, allowance for doubtful receivables recognized in consolidated financial statements may not be sufficient to cover bad debts.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.5 Significant accounting assessments, estimates and assumptions (continued)

Key sources of estimation uncertainty (continued)

f) Assumptions used by Company in goodwill impairment test are explained in Note 16. The Group determines the useful life of an asset by considering its future economic benefits. This evaluation is driven by the Group's previous experience on similar assets. The Group also considers useful life of the asset from technical and commercial perspectives due to changes and developments in market in order to assess whether additional impairment is required or not.

There are other estimations made by the management during the determination of provisions for litigations (Note 24).

3. SEGMENT REPORTING

The Group has two main segments; fixed line and mobile. Fixed line services are provided by Türk Telekom, TTNet, Argela, Innova, Sebit, AssisTT and TTINT Group whereas mobile service is provided by Avea. Group management assesses segment performance over earnings before interest, tax, depreciation and amortization (“EBITDA”). EBITDA is calculated by adjusting the operating income by i) adding income/expense from investing activities, depreciation, amortization and impairment expenses and ii) deducting exchange gains/losses, interest and rediscount income/ expenses on current accounts presented in other operating income and expense. Group management uses EBITDA as it is comparable with other companies in the sector. As Group management does not monitor Group’s performance over geographical segments, geographical segment reporting is not presented. The segment results and balance sheet items are presented below:

3. SEGMENT REPORTING (CONTINUED)

	Fixed line		Mobile		Intra-group eliminations and consolidated adjustments		Consolidated	
	1 January - 31 December 2017	1 January - 31 December 2016	1 January - 31 December 2017	1 January - 31 December 2016	1 January - 31 December 2017	1 January - 31 December 2016	1 January - 31 December 2017	1 January - 31 December 2016
Revenue	12.803.650	11.556.979	6.695.859	5.797.353	(1.359.955)	(1.245.738)	18.139.554	16.108.594
Contributive revenue (*)	11.537.237	10.395.512	6.602.317	5.713.082	−	−	18.139.554	16.108.594
Contributive EBITDA (**)(***)	4.787.299	4.185.395	1.664.609	1.284.487	−	−	6.451.908	5.469.882
Capital expenditure (***)	2.254.645	1.829.183	977.417	1.236.550	(11.227)	(38.986)	3.220.835	3.026.747

(*) "Contributive revenue" represents operating segments' revenues from companies other than those included in the consolidated financial statements. Group management still monitors financial performance of the segments based on their separate financial statements and because of this there is no change at the segment information disclosed. However, contribution of operating segments on the Group's revenue is presented to give additional information to the readers of the financial statements.

(**) "Contributive EBITDA" represents operating segments' EBITDA arose from transactions with companies other than those included in the consolidated financial statements. Group management still monitors financial performance of the segments based on their separate financial statements and because of this there is no change at the segment information disclosed. However, contribution of operating segments on the Group's revenue is presented to give additional information to the readers of the financial statements.

(***) Capital expenditures do not include TL 81.028 (31 December 2016: TL 47.458) amounted profit margin which is capitalized on intangible assets that are accounted within the scope of TFRS Interpretation 12.

(****) 2016 "Contributive EBITDA " amounts were revised by allocation of intra-group charges for shared costs.

3. SEGMENT REPORTING (CONTINUED)

	1 January - 31 December 2017	1 January - 31 December 2016
Fixed line contributive EBITDA	4.787.299	4.185.395
Mobile contributive EBITDA	1.664.609	1.284.487
EBITDA	**6.451.908**	**5.469.882**
Foreign exchange gains, interest income, discount income on current accounts presented in other operating income	172.841	181.983
Foreign exchange losses, interest income, discount income on current accounts presented in other operating expense (-)	(324.379)	(607.328)
Financial income	722.307	664.759
Financial expense (-)	(2.525.118)	(3.257.296)
Depreciation, amortisation and impairment	(3.019.232)	(2.848.561)
Consolidated profit /(loss) before tax	**1.478.327**	**(396.561)**

31 December 2017	Fixed Line	Mobile	Eliminations	Consolidated
Total segment assets	19.831.444	9.649.583	(332.492)	29.148.535
Total segment liabilities	(21.438.677)	(3.477.001)	322.230	(24.593.448)

31 December 2016	Fixed Line	Mobile	Eliminations	Consolidated
Total segment assets	20.613.523	10.089.774	(3.828.846)	26.874.451
Total segment liabilities	(19.913.378)	(7.382.452)	3.808.000	(23.487.830)

4. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash on hand	298	358
Cash at banks– demand deposit	631.227	911.595
Cash at banks– time deposit	3.467.650	2.100.430
Other	1.029	3.983
	4.100.204	**3.016.366**

As of 31 December 2017, time deposits are all short-term, maturing within one month and denominated in both foreign currencies and TL. The interest rates are between 5,00% and 15,45% for TL deposits, between 0,10% and 4,60% for US Dollar deposits and between 0,05% and 2,77% for Euro deposits (31 December 2016: for TL deposits between 3,00% and 12,00%, for US Dollar deposits between 0,25% and 3,93%, for Euro deposits between 0,10% and 2,41%).

Reconciliation of cash and cash equivalents to the statement of cash flows is as follows:

	31 December 2017	31 December 2016
Cash and cash equivalents	4.100.204	3.016.366
Less: restricted amounts		
- Collection protocols and ATM collection	(377.983)	(380.960)
- Other	(34.117)	(19.109)
Unrestricted cash	**3.688.104**	**2.616.297**

As of 31 December 2017, demand deposits amounting to TL 377.983 (31 December 2016: TL 380.960) is restricted due to collection protocols signed with banks for receipts from the subscribers, under which proceeds are made available to the Group a certain number of days after the cash is collected.

As of 31 December 2017, the Group has bank loans amounting to EURO 136.252 (31 December 2016: USD 11.415 and Euro 105.576) which have been committed to banks and have not been utilized yet, having maturity dates on 17 November 2020 and 20 December 2020, respectively.

5. FINANCIAL LIABILITIES

Bank borrowings

	31 December 2017			31 December 2016		
	Weighted average nominal interest rate (%)	Original amount	TL equivalent	Weighted average nominal interest rate (%)	Original amount	TL equivalent
Short-term borrowings:						
TL bank borrowings with fixed interest rates	13,86	65.459	65.459	14,05	70.200	70.200
Interest accruals:						
TL bank borrowings with fixed interest rates		1.255	1.255		2.374	2.374
Short-term borrowings			**66.714**			**72.574**
Short-term portion of long-term bank borrowings:						
USD bank borrowings with fixed interest rates	3,08	40.582	153.072	3,06	50.865	179.005
USD bank borrowings with variable interest rates(*)	3,76	288.451	1.088.010	3,31	302.549	1.064.727
EUR bank borrowings with variable interest rates (**)	1,27	238.168	1.075.450	1,22	162.517	602.920
Interest accruals of long-term bank borrowings:						
USD bank borrowings with fixed interest rates		202	761		505	1.778
USD bank borrowings with variable interest rates (*)		18.560	70.007		11.522	40.547
EUR bank borrowings with variable interest rates (**)		1.823	8.231		2.276	8.444
Short-term portion of long-term bank borrowings			**2.395.531**			**1.897.421**
Total short-term borrowings			**2.462.245**			**1.969.995**
Long-term borrowings:						
TL bank borrowings with fixed interest rates	17,00	14.600	14.600	–	–	–
USD bank borrowings with fixed interest rates	3,08	20.870	78.718	3,06	61.402	216.085
USD bank borrowings with variable interest rates (*)	3,76	1.633.262	6.160.503	3,31	1.588.956	5.591.854
EUR bank borrowings with variable interest rates (**)	1,27	889.533	4.016.685	1,22	1.013.859	3.761.315
Total long-term borrowings			**10.270.506**			**9.569.254**
Total financial liabilities			**12.732.751**			**11.539.249**

(*) As at 31 December 2017, interest rate varies between Libor+ 0,54% and 3,40% (31 December 2016: Libor + 0,54% and 3,40%)

(**) As at 31 December 2017, interest rate varies between Euribor + 0,25% and 2,59% (31 December 2016: Euribor + 0,25% and 2,59%)

5. FINANCIAL LIABILITIES (CONTINUED)

Bank borrowings (continued)

The contractual maturities of financial liabilities in equivalent of TL are as follows:

	31 December 2017						31 December 2016					
	Up to 3 months	**3 months to 1 year**	**1 year to 2 years**	**2 years to 5 years**	**More than 5 years**	**Total**	**Up to 3 months**	**3 months to 1 year**	**1 year to 2 years**	**2 years to 5 years**	**More than 5 years**	**Total**
TL bank borrowings with fixed interest rates	31.969	34.745	14.600	–	–	81.314	64.816	7.758	–	–	–	72.574
USD bank borrowings with fixed interest rates	15.064	138.769	60.908	17.810	–	232.551	11.679	169.104	142.636	73.449	–	396.868
USD bank borrowings with variable interest rates	180.176	977.841	1.433.414	3.874.871	852.218	7.318.520	485.973	619.301	996.966	2.996.316	1.598.572	6.697.128
Euro bank borrowings with variable interest rates	31.017	1.052.664	1.406.622	1.809.161	800.902	5.100.366	26.749	584.615	875.653	2.373.603	512.059	4.372.679
	258.226	**2.204.019**	**2.915.544**	**5.701.842**	**1.653.120**	**12.732.751**	**589.217**	**1.380.778**	**2.015.255**	**5.443.368**	**2.110.631**	**11.539.249**

5. FINANCIAL LIABILITIES (CONTINUED)

Bill, bonds and notes issued

	31 December 2017			31 December 2016		
	Weighted average nominal interest rate (%)	Original amount	TL equivalent	Weighted average nominal interest rate (%)	Original amount	TL equivalent
Bill, bonds and notes issued:						
USD bank borrowings with fixed interest rates	4,54	6.310	23.800	4,54	4.897	17.235
Short-term bills, bonds and notes issued		**6.310**	**23.800**		**4.897**	**17.235**
Long-term bills, bonds and notes issued:						
USD bank borrowings with fixed interest rates	4,54	989.578	3.732.588	4,54	989.578	3.482.522
Long-term bills, bonds and notes issued		**989.578**	**3.732.588**		**989.578**	**3.482.522**
Total financial liabilities		**995.888**	**3.756.388**		**994.475**	**3.499.757**

The sales process of the bond issuances amounted to USD 500.000 with 10 years of maturity, and 4,875% coupon rate based on 4,982% reoffer yield was completed on June 19th, 2014. The bonds are now quoted at Irish Stock Exchange.

The sales process of the bond issuances amounted to USD 500.000 with 5 years of maturity, and 3,75% coupon rate based on 3,836% reoffer yield was completed on June 19th, 2014. The bonds are now quoted at Irish Stock Exchange.

The contractual maturities of issued long term bills, bonds and notes in equivalent of TL are as follows:

	31 December 2017				31 December 2016			
	3 months to 1 year	1 year to 5 years	More than 5 years	Total	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Issued long term bills, bonds and notes	23.800	1.870.509	1.862.079	3.756.388	17.235	1.745.194	1.737.328	3.499.757
	23.800	**1.870.509**	**1.862.079**	**3.756.388**	**17.235**	**1.745.194**	**1.737.328**	**3.499.757**

6. TRADE RECEIVABLES FROM AND PAYABLES TO THIRD PARTIES

Trade receivables

	31 December 2017	31 December 2016
Short-term		
Trade receivables	6.857.149	5.787.093
Other trade receivables	148.473	140.036
Income accruals	627.510	564.735
Allowance for doubtful receivables (-)	(2.840.298)	(2.373.313)
Total short-term trade receivables	**4.792.834**	**4.118.551**
Long-term		
Trade receivables	91.197	42.095
Total long-term trade receivables	**91.197**	**42.095**

Trade receivables generally have a maturity term of 60 days on average (31 December 2016: 60 days).

The movement of the allowance for doubtful receivables is as follows:

	1 January 2017 - 31 December 2017	1 January 2016 - 31 December 2016
At January 1	(2.373.313)	(2.002.146)
Provision for the year	(610.167)	(517.564)
Reversal of provision - collections	142.397	147.219
Write off of doubtful receivables	1.356	298
Change in currency translation differences	(571)	(1.120)
At 31 December	**(2.840.298)**	**(2.373.313)**

The Group waits up to 90 days before initiating legal action for overdue receivables. Based on its previous collection performance from overdue receivables, the Company expects to make significant collections from its overdue receivables. As of 31 December 2017 and 31 December 2016, the analysis of trade receivables that were neither past nor due and past due but not impaired is as follows:

			Past due but not impaired					
	Total	Neither past due nor impaired	< 30 days	30-60 days	60-90 days	90-120 days	120-360 days	>360 days
31 December 2017	**4.884.031**	3.546.112	288.448	157.752	91.438	79.982	349.930	370.369
31 December 2016	**4.160.646**	2.965.393	301.231	137.177	81.676	77.400	232.356	365.413

Receivables guaranteed of the Group are amounted to TL 17.232 (31 December 2016: TL 34.085).

6. TRADE RECEIVABLES FROM AND PAYABLES TO THIRD PARTIES (CONTINUED)

Trade payables

	31 December 2017	31 December 2016
Short-term		
Trade payables	3.681.260	4.134.350
Expense accruals	385.298	388.039
Total short-term trade payables	**4.066.558**	**4.522.389**
Long-term		
Trade payables	–	83.679
Total long-term trade payables	**–**	**83.679**

As of 31 December 2017, short term trade payables include TV broadcasting and licence rights and other short term trade payables. There is no payable remaining in current period regarding Avea 4.5G licence (31 December 2016: TL 895.470).

The average maturity term of trade payables is between 30 and 150 days (31 December 2016: 30 and 150 days).

As of 31 December 2017, long term trade payables which have a maturity of more than 1 year include TV broadcasting and license rights.

As of 31 December 2017, short term trade payables consists of payables within scope of supplier finance that amounting TL 937.140 (31 December 2016: TL 778.509).

7. RECEIVABLES AND OBLIGATIONS UNDER FINANCE AND OPERATIONAL LEASES

Financial leases:

The Group has no financial lease receivables as of 31 December 2017 and 2016.

Finance lease obligations that the Group has entered into for acquisition of network equipment, vehicle and a building are as follows:

	31 December 2017			31 December 2016		
	Future minimum lease payments	Interest	Present Value of minimum lease payments	Future minimum lease payments	Interest	Present Value of minimum lease payments
Within one year	619	2	617	608	5	603
Between one to two years	1.983	1	1.982	1.571	1	1.570
	2.602	**3**	**2.599**	**2.179**	**6**	**2.173**

Operating leases:

At the balance sheet date, the Group has irrevocable operational leasing commitments on the basis of the other property rental operations. The maturity dates of these commitments as follows:

	31 December 2017	31 December 2016
Within one year	4.358	4.237
Between one to two years (inclusive)	5.018	3.609
In the second to fifth years (inclusive)	4.849	7.439
After fifth year	342	532
	14.567	**15.817**

a) The Company has operating lease agreements with respect to leased lines. The revenue from leased lines for the year ended TL 31 December 2017 amounts to TL 382.573 (31 December 2016: TL 398.079).

b) Group entered into operating lease agreements with respect to base stations and rental buildings. Total operating lease expense for the year ended 31 December 2017 amounts to TL 428.538 (31 December 2016: TL 418.030).

A summary of commitments in relation to base station leases are as follows:

	31 December 2017	31 December 2016
Within one year	125.467	121.749
Between two and five years	464.405	379.844
Later than five years	69.340	63.711
	659.212	**565.304**

8. DUE FROM AND DUE TO RELATED PARTIES

All intra-group transactions and balances including intra-group unrealized profits and losses are eliminated for consolidation purposes and are not disclosed in this note.

Institutions under state control are defined as related parties due to 25% ownership and the golden share of the Treasury. State controlled entities are defined as related parties but in accordance with the exemption provided by the TAS 24 disclosure requirements, state controlled entities are excluded from general reporting requirements.

Details of balances and transactions between the Group and other related parties as at 31 December 2017 and 31 December 2016 are disclosed below:

	31 December 2017	31 December 2016
Due from related parties		
Parent company		
Saudi Telecom Company ("STC") (1)	22.399	25.606
Other related parties		
Other	1.308	587
	23.707	**26.193**
Due to related parties		
Parent company		
STC (1)	2.326	1.406
Other related parties		
OTYH (2)	–	6.574
Other	–	832
	2.326	**8.812**

(1) Shareholder of Oger Telecom
(2) A subsidiary of Saudi Oger

Transactions with shareholders:

Avea is required under the terms of the Avea Concession Agreement, to pay 15% share to the Treasury (the Treasury Share) of its monthly gross revenue. Besides, the Company and its other subsidiaries that are operating in the telecommunications sector are required to pay universal service fund at 1% of their net revenues of each year and ICTA share at 0,35% of revenues to the Ministry of Transport, Maritime Affairs and Communications under the law Global Service Act numbered 5369.

As of 31 December 2017, unpaid portion of Treasury Share, universal service fund and ICTA share are recorded under other short term payables and these expenses are accounted in cost of sales account.

8. DUE FROM AND DUE TO RELATED PARTIES (CONTINUED)

Guarantees provided to related parties:

As of 31 December 2017, guarantees amounting to USD 131.429 and EUR 128.651 are for financial liabilities of Avea which are amounted to USD 230.000 and EUR 191.200, and guarantees amounting to USD 50.000 is given for financial liabilities of TTINT Turkey, amounting to USD 50.000 and guarantees amounting to EUR 300 is given for financial liabilities of TTINT Romania, amounting to EUR 300 by Türk Telekom.

Transactions with other related parties:

The Company is rendering and receiving international traffic carriage services, data line rent services to and from STC and sharing advertisement expenses with STC. For the period ended 31 December 2017, total revenues and expenses incurred in relation to these services amounted to TL 9.968 and TL 1.732, respectively (31 December 2016: TL 20.867 revenue and TL 1.288 expenses).

Compensation of key management personnel

The remuneration of board of directors and other members of key management were as follows:

	1 January - 31 December 2017	**1 January - 31 December 2016**
Short-term benefits	127.307	178.799
Long-term defined benefit plans	2.667	2.605
	129.974	**181.404**

9. OTHER RECEIVABLES AND PAYABLES

Other short term receivable

	31 December 2017	31 December 2016
Other short term receivable	55.044	51.689
Deposits and guarantees given	2.850	1.244
Other doubtful receivables	24.186	23.840
Allowance for other doubtful receivables	(24.186)	(23.840)
	57.894	**52.933**

As of 31 December 2017, TL 37.983 (31 December 2016: TL 31.262) portion of other short term receivables consists of receivables from Ministry of Transport and Communications due to the expenses made under Universal Service Fund.

As of 31 December 2017, other doubtful provision amounting to TL 740 (31 December 2016: TL 1.245) is provided while TL 395 (31 December 2016: TL 366) is reversed.

Other long term receivables

	31 December 2017	31 December 2016
Deposits and guarantees given	33.837	33.821
Other receivables	−	64
	33.837	**33.885**

Other short term payable

	31 December 2017	31 December 2016
Taxes and duties payable	270.653	193.961
ICTA shares	97.540	86.180
Treasury share accruals	104.466	93.350
Universal Service Fund (1)	142.165	134.699
Other payables	229.768	231.730
	844.592	**739.920**

(1) According to the article numbered 5369 related with "International Service Fund" published on 16 June 2005, Türk Telekom, TTNet and AssisTT will contribute 1% of their net revenues of each year to the Ministry of Transportation as Universal Service Fund. The contribution is payable by the end of April of the following year.

Other long term payables

	31 December 2017	31 December 2016
Other payables	340.558	481.772
Deposits and guarantees received	34.675	12.404
	375.233	**494.176**

As of 31 December 2017, other payables in other long term payables and other payables amounting to TL 204.861 in other short term payables is related to discounted payable as a result of share transfer agreement in order to purchase 10,0035% share of Avea's issued capital.

10. INVENTORIES

The Group has inventory amounting to TL 203.978 as at 31 December 2017 (31 December 2016: TL 261.263). Major part of this balance is composed of modems, computer, tablet, dect phones, cable, cable box, SIM cards, contents and consumables such as linkage block.

11. DEFERRED TAX ASSETS AND LIABILITIES

The Group calculates deferred tax assets and liabilities based on temporary differences arising between the carrying amount of assets and liabilities as reported under Turkish Accounting Standards and their tax base for statutory purposes. These temporary differences are mainly due to the timing differences of certain income and expense items in statutory and Turkish Accounting Standards financial statement as disclosed below.

The Group perpetually reassesses unrecognized deferred tax assets and decided to account for deferred tax assets (resulting from Avea, TTnet and TTINT) arising from the tax losses carried forward based on the estimated taxable profits according to the business plan.

As of 31 December 2017, TTI's unrecognized deductable tax losses that will be utilized upon the existence of a tax base and the expiration dates are as follows:

Expiration years	31 December 2017	31 December 2016
2018	1.737	1.427
2019	5.473	4.496
2020	3.040	2.498
2021	3.237	2.660
2022	4.486	2.437
2023	2.700	2.218
2024	2.974	–
Indefinite	384.761	307.756
	408.408	**323.492**

As of 31 December 2017, deferred tax assets arising from prior year tax losses of TTINT Group is amounting to TL 19.673 (31 December 2016: TL 16.001).

As of 31 December 2017, Avea's unrecognized deductable tax losses that will be utilized upon the existence of a tax base and the expiration dates are as follows:

Expiration years	31 December 2017	31 December 2016
2017	–	686.460
2018	309.914	309.914
2019	667.993	667.993
2020	838.843	838.843
2021	1.436.534	1.436.534
2022	1.224.656	–
	4.477.940	**3.939.744**

As of 31 December 2017, the deferred tax asset recognized for Avea's carried forward tax losses amounted to TL 527.120 (31 December 2016: TL 244.472).

As of 31 December 2017, as explained Note 33, Avea has investment allowances amounting to TL 91.637 for which deferred tax asset is not recognized (31 December 2016: TL 79.461).

11. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

In the Official Gazette on 7 April 2015, clause 10 of the Corporate Tax Law is amended with the clause 8 of the law numbered 6637 and with the amendment, it is stated that share capital companies excluding companies operating in finance, banking and insurance sectors and state economic enterprises will be able to deduct 50% of the interest to be calculated over cash capital increase amounts which are registered in Turkish Trade Registry or the interest calculated over the cash capital contributions of the newly established corporations, from their taxable income. The interest amount will be calculated by using the latest "annual weighted average interest rate applied over the "TL denominated commercial loans granted by banks" to be announced by Turkish Central Bank. Such interest calculation will be made for the period from the capital increase to the last day of the financial year and the allowance from tax base will be applicable for each following period. Share capital of Avea is increased by TL 1.000.000 in 2016 and by TL 2.000.000 in 2015 and the company has deductible amounts from the corporate taxes with respect to the capital increase and can be carried format infinitely. As of 31 December 2017 the deferred tax asset recognized over the discount amounted to TL 75.684 (31 December 2016: 38.950)

As of 31 December 2017, TTnet's unrecognized deductable tax losses that will be utilized upon the existence of a tax base and the expiration dates are as follows:

Expiration years (*)	31 December 2017	31 December 2016
2021	86.641	86.641
2022	52.855	−
	139.496	**86.641**

As of 31 December 2017, the deferred tax asset recognized for TTnet's carried forward tax losses amounted to TL 30.689 (31 December 2016: TL 14.823).

11. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

As at 31 December 2017, 20% and 22% tax rate is used for the calculation of deferred tax assets and liabilities for companies established in Turkey depending on the estimation of on which years temporary differences will reverse (31 December 2016: 20%).

	31 December 2017						
Deferred tax asset / (liability)	**Net balance at 1 January 2017**	**Recognised in profit or loss**	**Recognised in OCI**	**Effect of movements in exchange rates**	**Net balance**	**Deferred tax asset**	**Deferred tax liability**
Deferred tax asset recognized from tax losses carried forward	275.356	302.126	--	--	577.482	577.482	--
Deferred tax asset arising from capital increase	38.950	36.734	--	--	75.684	75.684	--
Provision for long-term employee benefits	134.664	(4.716)	7.824	--	137.772	137.772	--
Other short and long term provisions	(9.292)	73.301	--	--	64.009	65.787	(1.778)
Universal service fund and other contributions	23.208	(47.298)	--	--	(24.090)	--	(24.090)
Provision for unused vacation	14.941	3.494	--	--	18.435	18.435	--
Provision for doubtful receivables	(12.484)	33.752	--	--	21.268	29.340	(8.072)
Other	38.818	(82.911)	--	--	(44.093)	29.436	(73.529)
Derivative instruments	(51.210)	(3.932)	(6.313)	--	(61.455)	--	(61.455)
Income accruals	(26.343)	(996)	--	--	(27.339)	3.712	(31.051)
Temporary differences on property, plant and equipment / intangible assets	(366.423)	44.443	--	(526)	(322.506)	32.978	(355.484)
Deferred tax asset / (liability) before net-off	**60.185**	**353.997**	**1.511**	**(526)**	**415.167**	**970.626**	**(555.459)**
Net-off of tax						**(309.919)**	**309.919**
Net deferred tax asset / (liability)					**415.167**	**660.707**	**(245.540)**

As of 31 December 2017, the total amount of current or deferred taxes related to transactions recognized directly in equity is TL 162.179 (31 December 2016: TL 181.402)

As of 31 December 2017, the total amount of the Group's unrecognised deferred tax asset related to subsidiaries is TL 1.242.388 (31 December 2016: TL 1.184.107).

11. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

	31 December 2016						
Deferred tax asset / liability	**Net balance at 1 January 2016**	**Recognized in profit or loss**	**Recognized in OCI**	**Effect of movements in exchange rates**	**Net balance**	**Deferred tax asset**	**Deferred tax liability**
Deferred tax asset recognized from tax losses carried forward	276.890	(1.534)	–	–	275.356	275.356	–
Deferred tax asset arising from capital increase	–	38.950	–	–	38.950	38.950	–
Provision for long-term employee benefits	124.959	(5.050)	14.755	–	134.664	134.664	–
Other short term provisions	74.674	(83.966)	–	–	(9.292)	–	(9.292)
Universal service fund and other contributions	31.828	(8.620)	–	–	23.208	23.208	–
Provision for unused vacation	14.958	(17)	–	–	14.941	14.941	–
Lawsuit fees recognized as receivables	(3.027)	3.027	–	–	–	–	–
Provision for doubtful receivables	(5.649)	(6.835)	–	–	(12.484)	4.411	(16.895)
Other	(6.901)	45.719	–	–	38.818	68.020	(29.202)
Derivative instruments	(33.637)	(16.201)	(1.372)	–	(51.210)	–	(51.210)
Income accruals	(33.938)	7.595	–	–	(26.343)	3.329	(29.672)
Temporary differences on property, plant and equipment / intangible assets	(471.055)	104.937	–	(305)	(366.423)	11.858	(378.281)
Deferred tax asset / (liability) before net-off	**(30.898)**	**78.005**	**13.383**	**(305)**	**60.185**	**574.737**	**(514.552)**
Net-off						**(258.524)**	**258.524**
Deferred tax asset / (liability)					**60.185**	**316.213**	**(256.028)**

12. OTHER CURRENT ASSETS, OTHER LIABILITIES AND EMPLOYEE BENEFIT OBLIGATIONS

Other current assets

	31 December 2017	31 December 2016
Intermediary services for collection (*)	158.437	165.417
Value Added Tax ("VAT") and Special Communication Tax ("SCT")(**)	156.415	314.864
TAFICS projects	25.701	46.006
Advances given (***)	62.074	33.743
Other current assets	12.861	3.032
	415.488	**563.062**

(*) Intermediary services for collections consist of advances given by the Group to its distributors.

(**) Includes "VAT" of payments made to ICTA for IMT Services and Infrastructures Authorization, also known as 4.5G tender in public.

(***) Advances given mainly consists of advances given to suppliers.

	31 December 2017	31 December 2016
Intermediary services for collection	36.232	28.086
Other non-current assets	11	1
	36.243	**28.087**

Other current liabilities

	31 December 2017	31 December 2016
Advances received	23.911	34.760
Other liabilities	22.416	12.378
	46.327	**47.138**

The Company acts as an intermediary of TAFICS projects by transferring advances received to the contractors and supports the management of the projects. Expenditures arising from the projects are deducted from the advances received at the date of the expenditure. Advances not used are held as time deposits and the interest earned is credited to the advances received in accordance with the agreement between the parties.

Employee benefit obligations

	31 December 2017	31 December 2016
Social security premiums payable	71.851	68.879
Payables to personnel	58.360	88.774
Employee's income tax payables	45.501	45.580
	175.712	**203.233**

13. PREPAID EXPENSES AND DEFERRED REVENUES

Short-term prepaid expenses

	31 December 2017	31 December 2016
Prepaid rent expenses	203.766	186.589
Other prepaid expenses	139.566	137.778
	343.332	**324.367**

Other short term prepaid expenses consist of prepaid insurance, prepaid commissions, prepaid advertising and other prepaid expenses.

Long-term prepaid expenses

	31 December 2017	31 December 2016
Prepaid rent expenses	45.056	42.498
Other prepaid expenses	23.879	16.227
	68.935	**58.725**

Short-term deferred revenues

	31 December 2017	31 December 2016
Deferred revenues (*)	139.409	86.174
Advances received (**)	87.455	74.655
	226.864	**160.829**

(*) Deferred revenues mainly consists of the invoiced but unconsumed minutes' sales value and TTINT's indefeasible right of use contracts.

(**) Advances taken mainly result from the advances taken by the Company from the customers.

Long-term deferred revenues

	31 December 2017	31 December 2016
Deferred revenues (*)	268.699	215.985
Advances received (**)	98.502	89.215
	367.201	**305.200**

(*) Deferred revenues mainly result from TTINT's indefeasible right of use contracts.

(**) Advances taken mainly result from the advances taken by TTINT's according for indefeasible right of use contracts.

14. FINANCIAL INVESTMENTS

	31 December 2017	31 December 2016
Cetel	11.840	11.840
	11.840	**11.840**

Cetel was incorporated as a special purpose entity for the purpose of acquiring the 76% shares of Albtecom Sh.A which is located Albania and operates in telecommunication industry.

As of 31 December 2017 and 2016, the Company carries Cetel at cost after deducting impairment losses, if any, because of the lack of timely financial information for equity accounting purposes and due to lack of significant influence.

15. DERIVATIVE FINANCIAL INSTRUMENTS

Cash flow hedges and derivative financial instruments

Interest rate swaps

As of 31 December 2017, fair value of interest rate derivative transactions amounting to TL 117.389 has been recognized under long term financial liabilities (31 December 2016: TL 152.408). Unrealized gain on these derivatives amounting to TL 31.566 (31 December 2016: TL 6.861 gain) is recognized in other comprehensive income. Unrealized gain on these derivatives' time value amounting to TL 3.453 (31 December 2016: TL 1.642 gain) is recognized in statement of profit or loss.

Company	Notional Amount (USD Dollar)	Trade Date	Terms and Maturity Date	Fair Value Amount as at 31 December 2017 (TL)
Türk Telekom	400.000	11 April 2012 – 30 April 2012	Pay fixed rates and receive floating rates between March 2014 and March 2022	(19.527)
Türk Telekom	200.000	8 April 2013 – 17 April 2013	Pay fixed rates and receive floating rates between 19 August 2015 and 21 August 2023	(8.467)
Türk Telekom	300.000	29 April – 20 May 2014	Pay fixed rates and receive floating rates between June 2016 and June 2024	(80.975)
Türk Telekom	150.000	15 May 2014 -16 May 2014	Pay fixed rates and receive rates between June 2016 and and August 2016, and June 2024 and August 2024	(8.420)
				(117.389)

Company	Notional Amount (USD Dollar)	Trade Date	Terms and Maturity Date	Fair Value Amount as at 31 December 2016 (TL)
Türk Telekom	400.000	11 April 2012 – 30 April 2012	Pay fixed rates between March 2014 and March 2022, and receive floating rates	(32.049)
Türk Telekom	200.000	8 April 2013 – 17 April 2013	Pay fixed rates between 19 August 2015 and 21 August 2023, and receive floating rates	(12.462)
Türk Telekom	300.000	29 April – 20 May 2014	Pay fixed rates between June 2016 and June 2024, and receive floating rates	(90.545)
Türk Telekom	150.000	15 May 2014 -16 May 2014	Pay floating price between June 2016, August 2016 June 2024 and August 2024 and receive fixed premiumin certain interest rate corridors through interest option strategies	(17.352)
				(152.408)

15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate derivative instruments which are not designated as hedge

As of 31 December 2017 fair value of the interest rate swap transactions which are not designated as hedge and amounting to TL 59.006 is recognized under long term financial assets (31 December 2016: TL 51.397 assets). Unrealized gain on these derivatives amounting to TL 7.609 (31 December 2016: TL 6.395 gain) is recognized in profit or loss.

Company	Notional Amount (USD Dollar)	Trade Date	Terms and Maturity Date	Fair Value Amount as at 31 December 2017 (TL)
Türk Telekom	400.000	11 April 2012 – 30 April 2012	Pay the difference between floating rate and 6% if floating rate exceeds 6%, between 19 March 2014 and 21 March 2022, and receive fixed premium (0,24%-0,27%)	16.873
Türk Telekom	200.000	8 April 2013 – 17 April 2013	Pay the difference between floating rate and 6% if floating rate exceeds 6%, between 21 August 2015 and 21 August 2023, and receive fixed premium (0,24%-0,27%)	10.454
Türk Telekom	300.000	29 April – 20 May 2014	Pay the difference between floating rate and 4% if floating rate exceeds 4%, between June 2016 and June 2021, and receive fixed premium (0,44%-0,575%) Pay the difference between floating rate and 6% if floating rate exceeds 6%, between June 2021 and June 2024, and receive fixed premium (0,39%-0,45%)	31.679
				59.006

Company	Notional Amount (USD Dollar)	Trade Date	Terms and Maturity Date	Fair Value Amount as at 31 December 2016 (TL)
Türk Telekom	400.000	11 April 2012 – 30 April 2012	Pay the difference between floating rate and 6% if floating rate exceeds 6%, between 19 March 2014 and 21 March 2022, and receive fixed premium (0,24%-0,27%)	15.849
Türk Telekom	200.000	8 April 2013 – 17 April 2013	Pay the difference between floating rate and 6% if floating rate exceeds 6%, between August 2015 and August 2023, and receive fixed premium (0,24%-0,27%)	8.223
Türk Telekom	300.000	29 April – 20 May 2014	Pay the difference between floating rate and 4% if floating rate exceeds 4%, between June 2016 and June 2021, and receive fixed premium (0,44%-0,575%) Pay the difference between floating rate and 6% if floating rate exceeds 6%, between June 2021 and June 2024, and receive fixed premium (0,39%-0,45%)	27.325
				51.397

15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cross Currency swaps instruments which are not designated as hedge (continued)

As of 31 December 2017, fair value of derivative transactions amounting to TL 557.712 (31 December 2016: TL 601.401) is recognized under short term financial assets. Unrealized loss of these derivatives amounting to TL 43.689 (31 December 2016: TL 212.634 gain) is recognized in profit or loss.

As of 31 December 2017, fair value of derivative transactions amounting to TL 151.236 (31 December 2016: TL 49.157) is recognized under short term financial liabilities. Unrealized loss of these derivatives amounting to TL 102.079 (31 December 2016: TL 49.157 loss) is recognized in profit or loss.

Company	Notional Amount (USD Dollar)	Trade Date	Terms and Maturity Date	Fair Value Amount as at 31 December 2017 (TL)
Türk Telekom	500.000	21 April 2015 - 9 July 2015	Pay TL and receive USD between June 2015 and June 2019	485.887
Türk Telekom	100.000	14 September 2017- 26 September 2017	Pay TL and receive USD between September 2015 and June 2024	13.359
Türk Telekom	350.000	31 March 2016 - 13 April 2016	Pay TL and receive USD between June 2016 and June 2024	58.466
				557.712
Türk Telekom	175.000	30 April 2015	Pay EUR and receive USD between June 2015 and June 2024	(63.643)
Türk Telekom	380.000	10 March 2016 - 17 March 2016	Pay EUR and receive USD between June 2016 and November 2020	(73.404)
Türk Telekom	50.000	14 December 2017	Pay TL and receive USD between December 2017 and June 2024	(1.413)
TTINT Türkiye	50.000	16 June 2016	Pay EUR and receive USD between December 2016 and June 2026	(12.776)
				(151.236)

Company	Notional Amount (USD)	Trade Date	Terms and Maturity Date	Fair Value Amount as at 31 December 2016 (TL)
Türk Telekom	175.000	30 April 2015	Pay EUR and receive USD between June 2015 and June 2024	28.196
Türk Telekom	500.000	21 April 2015 - 9 July 2015	Pay TL and receive USD between June 2015 and June 2019	410.946
Türk Telekom	380.000	10 March 2016 - 17 March 2016	Pay EUR and receive USD between June 2016 and November 2020	121.448
Türk Telekom	350.000	31 March 2016 - 13 April 2016	Pay TL and receive USD between June 2016 and June 2024	30.033
TTINT Türkiye	50.000	16 June 2016	Pay EUR and receive USD between December 2016 and June 2026	10.778
				601.401
Türk Telekom	250.000	9 November 2016 - 18 November 2016	Pay USD and receive TL at maturity date	(49.157)
				(49.157)

15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Options which are not designated as hedge (continued)

As of 31 December 2017, fair value of derivative transactions amounting to TL 40.816 (31 December 2016: TL 184.403) is recognized under short term financial liabilities. Unrealized gain on these derivatives amounting to TL 143.587 (31 December 2016: TL 79.730 loss) is recognized in profit or loss.

Company	Notional Amount (EUR)	Trade Date	Terms and Maturity Date	Fair Value Amount as at 31 December 2017 (TL)
Türk Telekom	490.196	6 January 2015- 18 June 2015	Foreign exchange option transactions with maturities between June 2015 and June 2024	(37.129)
Türk Telekom	338.235	10 March 2016- 17 March 2016	Foreign exchange option transactions with maturities between November 2018 and November 2020	(3.687)
				(40.816)

Company	Notional Amount (EUR)	Trade Date	Terms and Maturity Date	Fair Value Amount as at 31 December 2016 (TL)
Türk Telekom	897.725	6 January 2015- 18 June 2015	Foreign exchange option transactions with maturities between June 2015 and June 2024	(138.915)
Türk Telekom	338.235	10 March 2016- 17 March 2016	Foreign exchange option transactions with maturities between November 2018 and November 2020	(45.488)
				(184.403)

Hedge of net investment in a foreign operation

The Company utilized a loan amounting to Euro 150.000 in order to hedge its net investment in a foreign operation with a Euro functional currency. Foreign exchange gain and/or loss resulting from the subsidiary's net investment portion of this loan is reclassified to reserve for hedge of net investment in a foreign operation under equity.

16. GOODWILL

	31 December 2017	31 December 2016
Goodwill of Avea	29.694	29.694
Goodwill of Innova	7.308	7.308
Goodwill of Argela	7.942	7.942
	44.944	**44.944**

The Group performs impairment analysis for goodwill and other non-current asset groups annually as at 31 December. The Group has performed impairment analysis for all of the identified cash generating units.

Türk Telekom and TTNET cash generating unit impairment analysis

For cash generating unit impairment analysis of Türk Telekom and TTNET, total assets and liabilities are considered as one cash generating unit. Recoverable amount is calculated through 5 years business plan which is approved by the management.

Discount rate used for the discount of cash flows for the periods that corporate tax would be paid at 22% is 14,39% and 14,48% for other periods (31 December 2016: 15,6%), 5% expected growth rate and the weighted average cost of capital (WACC) sensitivity as of +0,5% / -0,5% (31 December 2016: +0,5% / -0,5%). Cash flow projections after 2022, TL cash flow estimations are not projected with consideration of inflation rate of business plan and expected growth rate of the country. As a result of test, no impairment is identified for the cash generating unit.

Avea cash generating unit impairment test

Avea have been considered as a single cash generating unit and has been tested for impairment together for goodwill and all other assets. Recoverable amount is calculated through based on 5 years business plan which is approved by the management.

Discount rate used for the discount of cash flows for the periods that corporate tax would be paid at 22% is 15,27% and 15,36% for other periods (31 December 2016: 16,9%). Cash flow projections after 2022 are estimated by using 7,5% growth rate, considering the inflation rate used in the business plan and expected growth rate of Avea. Company value of Avea has been tested at a sensitivity of WACC terminal growth rate by +0,5%/-0,5% (31 December 2016: 0,5%/-0,5%). As a result of the impairment test, it has been noted that there is no impairment is identified on goodwill arising on the Avea acquisition.

16. GOODWILL (CONTINUED)

Innova and Argela cash generating unit impairment test

Innova and Argela, are both considered as single cash generating unit and are tested for impairment of for goodwill and all of their other assets. Recoverable amount was determined through the usage value which is calculated based on the 5 years business plan approved by the management. The estimated value of the projected cash flows consists of the discounted cash flows until 2022. Cash flow projections beyond 2022 are estimated by using 5% growth rate, for both Innova and Argela, respectively, considering the inflation rate used in the business plan and expected growth rate of the country. The discount ratio used in valuation are 17,74% for Innova and 20,40% for Argela for the periods that corporate tax would be paid at 22% and 17,77% for Innova (31 December 2016: 17,1%) and 20,42% for Argela (31 December 2016:20,7%) for other periods. Valuation has been tested at a sensitivity of +0,5%/-0,5%. Growth rate has been tested for sensitivity for +0,5%/ -0,5%. For the WACC calculation, technology companies have been taken as a benchmark for the calculation of the beta coefficient. As a result of the impairment test, no impairment is identified for the cash generating units and the goodwill arising from the acquisition of Argela and Innova.

TTINT cash generating unit impairment test

TTINT cash generating unit recoverable amount is determined over the usage value which had been calculated based on the seven years business plan approved by the management. The estimated value of the projected cash flows consists of the discounted cash flows until 2024. The valuation work has been carried out based on a seven-year business plan so that the Company's long-term cash generating capacity can be measured more accurately. The WACC rate used in valuation is 7% (31 December 2016: 7,2%) and valuation is tested at a sensitivity of +0,5%/-0,5%. In addition to this, gross profit margin rate is tested for sensitivity by +1%/-1% and capex/net sales ratio and growth rate is tested for sensitivity by +0,5%/-0,5%. For the WACC calculation, telecommunication companies are considered as a benchmark for the calculation of the beta coefficient. As a result of test, no impairment is identified for the cash generating unit.

Sebit cash generating unit impairment test

In cash generating unit impairment analysis for Sebit, total assets and liabilities were considered as one cash generating unit. Recoverable amount was determined through the usage value which had been calculated based on the five years business plan approved by the management. The discount ratio used for the cash flows for the periods that corporate tax would be paid at 22% is 21,88% and 21,93% for other periods (31 December 2016: 20,6%). The estimated value of the cash flows consists of the ones which were discounted until 2022. The growth rate for the current and subsequent terms was foreseen as 5% by considering the inflation rate stated in cash flow estimations business plan and the estimated growth rate of the country. Cash generating unit value was tested with +0,5%/-0,5% WACC and growth rate sensitivity of the cash flows (31 December 2016: +0,5%/-0,5%). As a result of test, no impairment is identified for the cash generating unit).

17. ASSETS HELD FOR SALE

Based on the decision of Board of Directors to sell a real estate, this asset was classified as held for sale.

The movement of asset held for sale for the years ended 31 December 2017 and 2016 is given below:

	1 January 2017 - 31 December 2017	1 January 2016 - 31 December 2016
Opening balance	37.361	–
Disposal	–	–
Transfer	–	37.361
As at 31 December	**37.361**	**37.361**

18. INVESTMENT PROPERTY

The movement of investment property and the related accumulated depreciation for the years ended 31 December 2017 and 2016 is given below:

	1 January 2017 - 31 December 2017	1 January 2016 - 31 December 2016
Cost		
Opening balance	43.012	43.854
Transfer	–	(842)
As at 31 December	**43.012**	**43.012**
Accumulated depreciation		
Opening	18.453	16.665
Transfer	(5)	(398)
Depreciation charge for the year	2.188	2.186
As at 31 December	**20.636**	**18.453**
Net book value as at 31 December	**22.376**	**24.559**

Investment property consists of number of buildings and lands mainly occupied by various corporations. The Group assesses whether there is any impairment indicator in investment properties. If such indicator exists the Group compares fair values and carrying values of the investment properties on an individual asset basis and records identified impairment of the investment properties.

The Group's investment properties consist of number of buildings and lands. In accordance with balance between cost and benefit principle the fair values of all investment properties are not determined in each year, instead selected investment properties' fair values have been determined. In this context, fair values of the investment properties as of the balance sheet date are not presented.

19. PROPERTY, PLANT AND EQUIPMENT

The movement of PPE and the related accumulated depreciation for the years ended 31 December 2017 and 2016 is given below:

	Land and buildings	Network and other equipment	Vehicles	Furnitures and fixtures	Other fixed assets	Construction in progress	Total
Cost							
Openning balance, 1 January 2017	2.266.196	37.864.996	141.732	796.945	240.249	744.590	42.054.708
Transfer	21.207	653.038	756	13.122	340	(947.556)	(259.093)
Additions	25.719	917.331	476	17.845	6.175	1.140.566	2.108.112
Disposal	(8.967)	(898.862)	(15.699)	(7.991)	(1.209)	(319)	(933.047)
Foreign currency translation differences	4.017	203.596	766	1.571	343	13.084	223.377
Closing balance, 31 December 2017	**2.308.172**	**38.740.099**	**128.031**	**821.492**	**245.898**	**950.365**	**43.194.057**
Accumulated depreciation							
Openning balance, 1 January 2017	1.178.944	31.181.593	134.139	622.603	202.478	–	33.319.757
Transfers	10.806	(8.716)	–	80	–	–	2.170
Depreciation charge for the year	114.601	1.310.147	2.692	55.581	10.933	–	1.493.954
Disposal	(2.888)	(882.442)	(15.699)	(6.342)	(700)	–	(908.071)
Impairment	26.210	50.687	–	–	–	–	76.897
Foreign currency translation differences	1.154	91.557	89	835	195	–	93.830
Closing balance, 31 December 2017	**1.328.827**	**31.742.826**	**121.221**	**672.757**	**212.906**	**–**	**34.078.537**
Net book value, 31 December 2017	**979.345**	**6.997.273**	**6.810**	**148.735**	**32.992**	**950.365**	**9.115.520**

As of 31 December 2017, net book value of leased assets of Group composes of land and buildings amounting TL 29.752 (31 December 2016: land and buildings amounting to TL 29.580).

The Group does not have any capitalized borrowing cost on property, plant and equipment (31 December 2016: nil).

There is no restriction or pledge on the intangible as at 31 December 2017.

For the year ended 31 December 2017, impairment on property,plant and equipment amounting to TL 50.745 is recognized in cost of sales (2016: TL 23.213), and TL 26.152 is recognized in general administrative expenses (2016: TL 6.168).

19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings	Network and other equipment	Vehicles	Furnitures and fixtures	Other fixed assets	Construction in progress	Total
Cost							
Openning balance, 1 January 2016	2.226.837	38.383.631	149.049	750.920	225.256	936.143	42.671.836
Transfer	(16.874)	144.207	1.082	5.042	38	(334.290)	(200.795)
Additions	65.560	1.560.389	1.897	68.088	18.311	149.175	1.863.420
Disposal	(11.832)	(2.334.605)	(10.626)	(27.692)	(3.670)	−	(2.388.425)
Foreign currency translation difference	2.505	111.374	330	587	314	(6.438)	108.672
Closing balance, 31 December 2016	**2.266.196**	**37.864.996**	**141.732**	**796.945**	**240.249**	**744.590**	**42.054.708**
Accumulated depreciation							
Openning balance, 1 January 2016	1.119.019	32.109.127	136.940	580.306	188.262	−	34.133.654
Transfer	(18.801)	(595)	−	15	(218)	−	(19.599)
Depreciation charge for the year	81.074	1.332.239	7.693	63.404	10.310	−	1.494.720
Disposal	(2.900)	(2.325.670)	(10.527)	(21.670)	(2.807)	−	(2.363.574)
Impairment	−	22.716	−	253	6.412	−	29.381
Foreign currency translation difference	552	43.776	33	295	519	−	45.175
Closing balance, 31 December 2016	**1.178.944**	**31.181.593**	**134.139**	**622.603**	**202.478**	**−**	**33.319.757**
Net book value, 31 December 2016	**1.087.252**	**6.683.403**	**7.593**	**174.342**	**37.771**	**744.590**	**8.734.951**

20. INTANGIBLE ASSETS

	Licence	Customer relationship	Brand	Research and Development	Other intangible assets	Concession rights	Total
Cost							
Openning balance, 1 January 2017	4.544.999	1.050.543	302.916	331.052	4.991.503	3.207.180	**14.428.193**
Transfers	1.517	–	–	11.999	224.784	(18.215)	**220.085**
Disposals	–	–	–	–	(90.194)	(54.307)	**(144.501)**
Additions (*)	–	–	–	31.210	458.228	704.315	**1.193.753**
Foreign currency translation differences	694	36.406	–	212	119.827	–	**157.139**
Closing balance, 31 December 2017	**4.547.210**	**1.086.949**	**302.916**	**374.473**	**5.704.148**	**3.838.973**	**15.854.669**
Accumulated amortization							
Openning balance, 1 January 2017	934.279	952.777	180.806	176.337	3.041.259	801.463	**6.086.921**
Transfers	–	–	–	–	(572)	(40.601)	**(41.173)**
Disposals	–	–	–	–	(88.851)	(54.307)	**(143.158)**
Amortization charge for the year	307.426	11.702	40.629	47.713	769.443	242.048	**1.418.961**
Impairment	–	–	–	(2.640)	2.892	35.639	**35.891**
Foreign currency translation differences	202	16.312	–	260	42.917	–	**59.691**
Closing balance, 31 December 2017	**1.241.907**	**980.791**	**221.435**	**221.670**	**3.767.088**	**984.242**	**7.417.133**
Net book value, 31 December 2017	**3.305.303**	**106.158**	**81.481**	**152.803**	**1.937.060**	**2.854.731**	**8.437.536**

(*) Additions amounting to TL 704.315 (31 December 2016: TL 412.516) comprise intangible assets under scope of TFRS Interpretation 12.

The Group have capitalized borrowing cost on intangible assets amounted TL 2.891 (31 December 2016: 12.114).

For the year ended 31 December 2017, impairment on intangible assets amounting to TL 32.999 is recognized in cost of sales, TL 2.892 is recognized in general administrative expense (31 December 2016: cost of sales TL 22.837).

For the year ended 31 December 2017, depreciation and amortization expense is recognized cost of sales, sales and distribution expenses, general administration expenses and research and development expenses amounting to TL 2.180.672 (2016: TL 2.182.242), TL 337.680 (2016: TL 258.792) and TL 369.572 (2016: TL 339.356), TL 18.520 (2016: 15.953), respectively.

20. INTANGIBLE ASSETS (CONTINUED)

	Licence	Customer relationship	Brand	Research and Development	Other intangible assets	Concession rights	Total
Cost							
Openning balance, 1 January 2016	4.537.300	1.029.602	302.916	286.735	3.997.580	2.819.130	12.973.263
Transfers	–	–	–	11.603	181.417	–	193.020
Disposals	(189)	–	–	–	(8.156)	(24.466)	(32.811)
Additions (*)	7.658	–	–	32.199	758.412	412.516	1.210.785
Foreign currency translation differences	230	20.941	–	515	62.250	–	83.936
Closing balance, 31 December 2016	**4.544.999**	**1.050.543**	**302.916**	**331.052**	**4.991.503**	**3.207.180**	**14.428.193**
Accumulated amortization							
Openning balance, 1 January 2016	653.713	862.076	145.175	125.748	2.355.935	613.730	4.756.377
Transfers	–	–	–	(25)	(268)	–	(293)
Disposals	(189)	–	–	–	(6.339)	(24.466)	(30.994)
Amortization charge for the year	280.726	81.737	35.631	50.100	668.011	189.362	1.305.567
Impairment	–	–	–	–	–	22.837	22.837
Foreign currency translation differences	29	8.964	–	514	23.920	–	33.427
Closing balance, 31 December 2016	**934.279**	**952.777**	**180.806**	**176.337**	**3.041.259**	**801.463**	**6.086.921**
Net book value, 31 December 2016	**3.610.720**	**97.766**	**122.110**	**154.715**	**1.950.244**	**2.405.717**	**8.341.272**

20. INTANGIBLE ASSETS (CONTINUED)

Remaining amortization periods after acquisition of significant intangible assets are as follows:

Avea license	11,4 years
Avea brand name	2 years
TTINT customer relationships	7,8 years
TTINT other	12,8 years

On 26 January 2016, Avea and TTnet brand names are re-branded as "Türk Telekom" based on the decision of Group management. Following the change, useful life of Avea brand, which was 10,1 years, is now estimated as 4 years. The effect of this change on expected amortization expense, included in cost of sales, is as follows:

	2017	**2018**	**2019**	**Later**
Increase /(decrease) in amortization expense	24.972	24.972	24.972	(94.940)

There is no restriction or pledge on the intangible as at 31 December 2017 (31 December 2016:nil).

3G license tender

The tender for authorization of IMT-2000 / UMTS services has been held on 28 November 2008 with the participation of all three GSM operators operating in Turkey.

The license fee (including 18% VAT) amounting to TL 539.332 is paid by Avea in April 2009 and ultimately the Concession Agreement is signed on 30 April 2009.

The net book value of the 3G license as at 31 December 2017 is TL 272.792 (31 December 2016: TL 296.515).

20. INTANGIBLE ASSETS (CONTINUED)

GSM 900 additional frequency band tender

The tender for the reallocation of unused 900 MHz Frequency Bands had been held on 20 June 2008 and Avea had obtained C band with the minimum fee of TL 128 year /channel (excluding VAT).

Avea had been granted 5,5 additional GSM 900 MHz frequency channels as a result of the tender and ultimately total number of GSM 900 MHz frequency channels has reached to 12 together with previously-held 6,5 channels.

Avea made TL 14.122 (including VAT) payment as the tender fee for the remaining GSM license duration and amended license agreement has been signed between Avea and ICTA on 25 February 2009.

The net book value of the GSM 900 license as at 31 December 2017 is TL 5.719 (31 December 2016: TL 6.426)

4.5G license tender

Tender of IMT Services and Infrastructures Authorization, also known as 4.5G tender in public has been held in Ankara on August 26, 2015 by ICTA. In the IMT Service and Infrastructure Authorization Tender done by ICTA, Avea has won the following packages: 2x10 MHz bandwidth in 800 MHz frequency for Euro 380.000, 2x7.6 MHz bandwidth in 900 MHz frequency for Euro 216.819, 2x20 MHz bandwidth in 1800 MHz frequency for Euro 310.000, 2x10 MHz bandwidth in 2600 MHz frequency for Euro 25.859, 1x15 MHz bandwidth in 2600 MHz frequency for Euro 22.000. Total spectrum fee is Euro 954.678. IMT Authorization period is valid until 30 April 2029 and commenced to be rendered services since 1 April 2016. 900 MHz and services in 1.800 MHz frequency are commenced to be rendered since 1 December 2015.

As at 31 December 2017, the Company has paid out the tender fee amountıng to Euro 973.396 (excluding VAT).

As of 31 December 2017 net book value of 4.5G license amounts to TL 2.618.804 (31 December 2016: TL 2.849.875) in the consolidated financial statements.

21. PROVISIONS

Other short-term provisions

The breakdown of provisions as at 31 December 2017 and 2016 is as follows:

	31 December 2017	31 December 2016
Litigation, ICTA penalty and customer return provisions	433.238	264.200
	433.238	**264.200**

The movement of provisions is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
As at 1 January	**264.200**	**296.674**
Provisions for the period	237.225	192.452
Settled provisions	(68.166)	(146.011)
Reversals	(520)	(79.632)
Foreign currency translation difference	499	717
As at 31 December	**433.238**	**264.200**

Short-term provisions for employee benefits

	31 December 2017	31 December 2016
Short term provisions for employee benefits		
Personnel bonus provision	162.906	165.862
	162.906	**165.862**

The movement of provisions is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
As at 1 January	**165.862**	**178.822**
Provision for the period	245.760	167.369
Provisions paid	(201.561)	(169.906)
Reversals	(46.405)	(11.020)
Foreign currency translation difference	(750)	597
As at 31 December	**162.906**	**165.862**

21. PROVISIONS (CONTINUED)

Long term employee benefits excluding defined benefit obligation

	31 December 2017	31 December 2016
Long term provisions for employee benefits		
Defined benefit obligation	711.040	695.953
Unused vacation provisions	102.353	87.448
	813.393	**783.401**

Defined benefit obligation

In accordance with existing social legislation in Turkey, companies are required to make lump-sum payments to employees whose employment has ended due to retirement or for reasons other than resignation or misconduct. The liability is not funded and accordingly there are no plan assets for the defined benefits as there is no funding requirement.

The retirement pay liability as at 31 December 2017 is subject to a ceiling of full TL 4.732,48 (31 December 2016: full TL 4.297,21) per monthly salary for each service year.

In addition to retirement benefits, the Company was liable for certain other long-term employment benefits such as business, service, representation indemnity and jubilee.

i) The movement of defined benefit obligation is as follows:

The movement of provisions is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Defined benefit obligation at January 1	695.953	635.366
Service cost	40.823	67.059
Interest cost	59.156	60.465
Actuarial loss (*)	40.417	74.360
Benefits paid	(125.713)	(141.290)
Foreign currency translation difference	404	(7)
As at 31 December	**711.040**	**695.953**

(*) As at 31 December 2017, actuarial loss amounting to TL 40.417 (31 December 2016: TL 74.360) is recognized in other comprehensive income.

ii) Total expense recognized in the consolidated income statement:

	1 January - 31 December 2017	1 January - 31 December 2016
Service cost	40.823	67.059
Interest cost	59.156	60.465
Total net cost recognized in the consolidated statement of income	**99.979**	**127.524**

	31 December 2017	31 December 2016
Interest rate	11,0%	11,0%
Expected rate of ceiling increases	6,0%	6,0%

21. PROVISIONS (CONTINUED)

Long term provisions for employee benefits (continued)

For the years ahead, voluntary employee withdrawal of the Group is 2,57% (31 December 2016: 2,39%).

As of 31 December 2017, sensitivity analysis is performed for the significant assumptions of defined benefit obligation:

	Discount Rate		**Salary Increase Rate**		**Employee Withdrawal Rate**	
Sensitivity Level	**%0,25 decrease (%9,05)**	**%0,25 increase (%9,55)**	**%0,25 decrease (%5,25)**	**%0,25 increase (%5,75)**	**%0,25 decrease**	**%0,25 increase**
No effect to defined benefit obligation	9.553	(11.711)	(12.282)	9.945	(1.736)	1.500

Long term employee benefits excluding defined benefit obligation

The movement of unused vacation provisions is as follows:

	1 January - 31 December 2017	**1 January - 31 December 2016**
As at 1 January	**87.448**	**79.677**
Provision for the period	55.603	57.479
Provisions paid	(10.525)	(8.576)
Reversals	(30.569)	(41.355)
Foreign currency translation difference	396	223
As at 31 December	**102.353**	**87.448**

Other long-term provisions

	31 December 2017	**31 December 2016**
Provision for the investments under the scope of TFRS Interpretation 12	8.035	7.887
	8.035	**7.887**

22. PAID IN CAPITAL, RESERVES AND RETAINED EARNINGS

As of 31 December 2017 and 2016, the shareholders of the Company with their shareholding percentage are as follows:

	31 December 2017		31 December 2016	
	%	TL	%	TL
The Treasury	25	875.000	30	1.050.000
OTAŞ	55	1.925.000	55	1.925.000
Public Share	15	525.000	15	525.000
Turkish Wealth Fund ("TWF") (*)	5	175.000	–	–
		3.500.000		**3.500.000**
Inflation adjustment to share capital		(239.752)		(239.752)
		3.260.248		**3.260.248**

(*) According to the Council of Ministers decision 6,68% (5% Group B, 1,68% Group D) of the shares of the Company belonging to the Undersecretariat of Treasury were transferred to the Turkish Wealth Fund with regards to Law on Establishment of Turkish Wealth Fund Management Incorporated and on Amending Certain Laws numbered 6741 and dated 19 August 2016.

The Company's share capital is fully paid and consists of 350.000.000.000 shares of 1 kuruş nominal value. OTAS is the holder of Group A shares and the Treasury is the holder of Group B and C Group D shares of the company are open to public and Group C share consists only of a single preferred stock.

The Treasury is the holder of the Preferred Stock (Golden Share) as per the law. This share is non-transferable. It provides certain rights to Treasury in order to protect national interests regarding economy and security: (a) Any proposed amendments to the Company's articles of association, (b) the transfer of any registered shares in the Company which would result in a change in the management control of the Company and (c) the registration of any transfer of registered shares in the Company's shareholders' ledger can not be realized without affirmative vote of the Golden Share at either a meeting of the board of directors or the general assembly. Otherwise, such transactions shall be deemed invalid. The holder of the Golden Share, the Treasury, has one member, representing the Golden Share, among the board of Directors.

As of 31 December 2017, Citicorp Trustee Company Limited has a pledge over 192.500.000.000 Group A shares belonging to OTAŞ which represent 55% of the total company shares on the name and behalf of the creditors of certain loan agreements.

The OTAŞ Term Loan agreement provides certain limitations with respect to dilution, sale and transfer of shares in OTAŞ, the Company and Avea.

Based on the articles of association of the Company, the board of the directors of the Company shall consist of 12 directors.

22. PAID IN CAPITAL, RESERVES AND RETAINED EARNINGS (CONTINUED)

The board of directors shall be composed of 12 members nominated by the OTAŞ and Treasury as follows:

(a) The group A Shareholder shall be entitled to nominate 7 persons for election as directors;

(b) Provided that the Treasury as group B shareholder shall hold:

– 30% or more of the shares, the Treasury shall be entitled to nominate 4 persons for election as independent board members who carry the independence criteria as defined in the Capital Market legislation; or

– 15% or more of the shares (but less than 30% of the shares) the Treasury shall be entitled to nominate 2 persons for election as independent board members who carry the independence criteria as defined in the Capital Markets legislation;

– During the calculation of 15 % and 30 % of the Shares mentioned in above paragraphs, the amount of group B shares and group D shares held by the Treasury shall be taken into account together.

(c) as long as the Treasury holds 15% or more of the shares (but less than 30% of the shares), the group A shareholder shall be entitled to nominate 2 persons, who carry the independence criteria as defined in the Capital Markets legislation, for election as independent board members and 7 persons for election as Director.

(d) while the Treasury holds the C group privileged share, the Treasury shall be entitled to nominate a further 1 person for election as director for the C group privileged share.

The chairman of the board of directors shall be nominated by the directors nominated by the group A shares from among the directors and be elected and removed by the simple majority votes of those present at the meeting of the board of directors.

The meeting quorum at a board meeting shall be seven of the directors provided that there shall be at least one director appointed by the holder of the group A shares and one director appointed by the holder of the group B shares. If a meeting quorum is not present within half an hour of the time appointed for the meeting or ceases to be present, the director(s) present shall adjourn the meeting to a specified place and time not earlier than five business days after the original date .The meeting quorum at such adjourned meeting shall consist of half of the number of directors then in office (regardless of the nominating share holder) plus one provided that three business days' notice has been given to all the directors.

Board resolutions shall be passed by a simple majority of the votes of the directors present at such meeting unless the resolution requires a higher majority vote.

The board of directors shall propose the distribution of the maximum of the Company's profits lawfully available for distribution in each financial year subject to the board of directors making reasonable provisions and transfers to reserves.

22. PAID IN CAPITAL, RESERVES AND RETAINED EARNINGS (CONTINUED)

Based on the articles of association of the Company, the Board of Directors shall by way of a simple majority of those present at the relevant meeting of the Board propose the distribution of the maximum of the Company's profits lawfully available for distribution in each financial year subject to the Board making reasonable provisions and transfers to reserves and complying with the conditions set out below.

Provided that it is not against the legislation regarding capital markets, the net profit may not be distributed, if:

a) the distribution would result in a breach of any covenant or undertaking given by any Group Company (Group Companies are defined in the articles of association) to any lender or would, in the opinion of the simple majority of those present at the relevant meeting of the board of directors, be likely to cause such breach within the following 12 months; or

b) the board of directors resolves by way of a simple majority of those present at the relevant meeting of the board that the distribution is materially prejudicial to the interests of any Group Company (as defined in the articles of associationof the Company) having regard to: (i) implementation of the investment program approved by the board of directors in the business plan or the budget; or (ii) the trading prospects of the Group Companies (as defined in the articles of association of the Company) and the need to maintain the sound financial standing of the group companies.

In accordance with the Turkish Commercial Code, companies are required to assign legal reserves before profit appropriations. The legal reserve consists of first and second legal reserves, allocated in accordance with the Turkish Commercial Code. The first legal reserve is allocated out of last period's statutory profits at the rate of 5% per annum until the total reserve reaches 1/5 of the paid-in share capital (not indexed to the inflation). The second legal reserve is allocated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions.

Dividends

During the year ended 31 December 2017 there is no consolidated profit for the year 2016, no amount is determined as available for dividend distribution.

During the year ended 31 December 2016, remaining balance of 2015 distributable profit after assigning first and second legal reserves, which amounted to TL 840.859 (a dividend of full kuruş 0,2402 per share) has been committed to be distributed and distributed in cash to the shareholders.

Other reserves

The amounts transferred directly to equity, instead of statement of profit or loss as of the reporting date are as follows:

	31 December 2017	31 December 2016
Share based payment reserve (Note 23)	9.528	9.528
Difference arising from acquisition of subsidiary	(1.320.942)	(1.320.942)
Reserve for hedge of net investment in a foreign operation	(211.185)	(131.944)
Cash flow hedge reserve	(88.367)	(113.620)
Actuarial loss arising from employee benefits	(526.583)	(493.990)
Currency translation differences	218.920	99.405
	(1.918.629)	**(1.951.563)**

22. PAID IN CAPITAL, RESERVES AND RETAINED EARNINGS (CONTINUED)

Other reserves

Reserves on hedges of net investment in foreign operations

The Company recognizes the differences arising on the translation of monetary items that are associated with the hedge of net investment in a foreign operation in other comprehensive income (Note 15).

Cash flow hedge reserve

The Group entered into interest rate swaps in order to hedge it position against changes in interest rates. Accordingly, effective fair value changes of these instruments are recognized directly in equity at cash flow hedge reserve (Note 15).

Earnings/losses per share

The calculation of the basic earnings/losses per share attributable to the ordinary equity holders of the Company is as follows:

	1 January - 31 December 2017	**1 January - 31 December 2016**
Weighted average number of ordinary shares outstanding during the year	350.000.000.000	350.000.000.000
Net profit/(loss) for the year attributable to equity holder of the Company	1.135.532	(724.340)
Basic earnings/(losses) per share (in full Kuruş)	0,3244	(0,2070)

23. SHARE BASED PAYMENT

According to the Turkish Council of Ministers decision dated 12 December 2007, which was published in the Turkish Official Gazette on 26 December 2007, 52.500.000.000 (45%) shares of Türk Telekom owned by the Treasury, the minority shareholder of Türk Telekom, has been sold as at 15 May 2008, through an initial public offering ("IPO") (such shares correspondence to corresponding to 15% Türk Telekom's shares). During the IPO, 12.299.160.300 of such shares have been allocated to the employees of Türk Telekom, PTT and small investors together with 5.220.503.800 shares allocated to domestic investors with high purchasing power with discounted price varying according to the payment terms and application date (compared to the price applied to the other corporate investors for the remaining shares of 34.980.335.900. The discounts provided to Türk Telekom employees have been considered as within the scope of IFRS 2 ("Share Based Payment") by the management of Türk Telekom considering the fact that Türk Telekom receives services from its employees. The Group has reflected the fair value of the discounts provided to Türk Telekom employees, amounting to TL 9.528, as an expense in the consolidated statement of profit or loss for year ended 31 December 2008 and credited the same amount into the equity as a share based payment reserve.

The market price during the IPO :	TL 4,60
The average price applied to the employees of Türk Telekom :	TL 4,2937
The number of shares sold to Türk Telekom's employees (lot) :	31.104.948
Total benefits provided to the employees :	TL 9.528

The management of Türk Telekom decided that the discounts provided to PTT's employees, small investors and domestic investors with high purchasing power are not within the scope of IFRS 2 by considering the fact that;

a) Türk Telekom has not received any benefits (goods and services) in exchange for the discounts provided these groups to and

a) the Treasury provided these discounts not as a party acting as a shareholder of Türk Telekom but rather as a State Authority in order to increase the number of small investors as it has been done in all other privatization enhanced through an IPO.

The fair value of the discounts provided to these groups amounts to approximately TL 34.000 in 2008, at the year of the transaction.

24. COMMITMENTS AND CONTINGENCIES

Guarantees received and given by the Group are summarized below:

		31 December 2017		31 December 2016	
		Original currency	TL	Original currency	TL
Guarantees received	**USD**	148.101	558.621	173.893	611.965
	TL	794.884	794.884	800.183	800.183
	Euro	37.966	171.434	42.338	157.068
			1.524.939		**1.569.216**
Guarantees given (*)	**USD**	176.395	665.344	162.577	572.140
	TL	407.836	407.836	254.227	254.227
	Euro	128.478	580.141	239.806	889.657
	Other	43	43	17	12
			1.653.364		**1.716.036**

(*) Guarantees given amounting to US Dollar 151.500 (31 December 2016: US Dollar 151.500) is related to the guarantee provided to the ICTA by Avea with respect to the Avea Concession Agreement, guarantees given amounting to Euro 12.840 (31 December 2016: Euro 12.840) is related with the guarantee provided for 3G license and guarantees given amounting to Euro 57.281 (31 December 2016: Euro 57.281) is related with the guarantee provided for 4.5G license.

The Company's guarantee, pledge and mortgage (GPM) position as at 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
A. GPMs given on behalf of the Company's legal personality	1.653.365	1.716.036
B. GPMs given in favor of subsidiaries included in full consolidation	1.163.655	1.303.204
C. GPMS given by the Company for the liabilities of 3rd parties in order to run ordinary course of business	1.985.846	1.920.454
D. Other GPMs	–	–
i. GPMs given in favor of parent company	–	–
ii. GPMs given in favor of Company companies not in the scope of B and C above	–	–
iii. GPMs given in favor of third party companies not in the scope of C above	–	–
Total	**4.802.866**	**4.939.694**

Based on law 128/1 of Turkish Code of Obligations, the Group has given guarantee to distributors amounting to TL 1.985.846 for the financial obligation that would arise during the purchase of devices that will be sold as commitment sales by the Group (31 December 2016: TL 1.920.454).

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other commitments

The Group has purchase commitments for sponsorships, advertising and insurance services at the amounting to USD 23.500 and TL 2.553 equivalent to TL 91.193 (31 December 2016: TL 70.239) as at 31 December 2017. Payments for these commitments are going to be made in a 3-year period.

The Group has purchase commitments for fixed assets amounting to USD 177.309, Euro 15.180 and TL 386.886 and 82 Pound 386.886 equivalent to TL 1.124.637 (31 December 2016: TL 1.145.296) as at 31 December 2017.

Türk Telekom concession agreement

The Concession Agreement was entered into between the Company and ICTA on 14 November 2005 following the privatization of the Company and the resultant reduction in the public shareholding to less than 50%. The Concession Agreement covers:

-the performance of the telecommunications services which are within the scope of the Agreement;

-the establishment and operation of necessary telecommunications facilities and the submission of these facilities to the use of other operators or persons and institutions making a demand as per the law;

-the marketing and provision of telecommunications services.

The Concession Agreement places an obligation on the Company, in the event of termination or non-renewal of the Concession Agreement, to transfer all equipment affecting the operation of the system together with all its functions and in good condition, and all immovable properties where such equipment is installed and which the Company uses, to the ICTA, or to any other institution to be designated by ICTA, at no cost.

In case ICTA determines that the Company has not fulfilled its obligations stemming from the Concession Agreement and has not corrected the situation within a period granted to it, or that there is a court decision on bankruptcy or composition against the Company, the Company is granted a grace period of not less than 90 days commencing from written notification by ICTA, to fulfil its obligations. Within this grace period, the Company submits a remedy program for its abovementioned obligations to ICTA. In case ICTA accepts the remedy program, the matters in dispute shall be re-examined at the end of the program provided. If the program is not accepted, then ICTA may terminate the Concession Agreement upon expiry of the period granted to the Company.

The Concession Agreement places also a number of obligations with respect to delivering services on the Company in relation to the provision of telecommunications services.

The Consession Agreement requires that the Company shall meet all payments accrued as a result of the Concession Agreement and the establishment and operation of the telecommunication network in accordance with the applicable legislation or agreements concluded by the Government of the Republic of Turkey. These payments specifically includes the permit and utilization fees for the use of frequencies. In addition, the Company is required to pay the ICTA 0,35% of its net sales revenue, as contribution share towards ICTA's expenses.

Under the Concession Agreement, requests for access in relation to the infrastructure should be met to the extent technically possible and without discrimination. The Company is further required to publish reference access and interconnection offers approved by the ICTA.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Türk Telekom concession agreement (continued)

The Concession Agreement also contains an obligation on the Company to provide universal services. According to article 6 entitled "Revenues for Universal Service" of the Universal Service Law No:5369, the Company declares the amount of 1% of its net sales revenue to the Ministry of Transport, Maritime Affairs and Communications until the end of April of the following year and the company inform up to the following month. This amount shall be transferred within the same period to the account of the central accounting department of the Ministry and shall be registered as revenue in the budget under the name of "Revenues for Universal Service".

The tariffs to be charged by the Company are subject to the approval of the ICTA unless expressly provided to the contrary in any regulation issued by the ICTA.

The content of customer bills is governed by relevant laws and regulations. It is possible to issue a separate invoice for each service, as well as to issue one single invoice for more than one service rendered to a subscriber. The cost of each service shall be demonstrated separately, in the event of preparation of one single invoice for more than one service. A detailed bill is sent to the subscribers upon request, to the extent technically possible and subject to the payment of a fee.

Other provisions of the Concession Agreement provide for the confidentiality of communications and the establishment of effective methods to answer customer complaints.

Avea GSM and IMT-2000/UMTS concession agreement and IMT Authorization Certificate

Regarding to Gsm and IMT-2000/UMTS concession agreement and IMT Authorization Certificate, the Company shall provide fixed guarantee by cash and/or letter of bank guarantee amounting to 6% of the Company's Licence fee and right of use fee. In case it is identified that Avea does not fulfill its contractual obligations, ICTA will have the right to record as revenue these guarantees.

Concession Agreement for Licensing of Establishment and Operation of GSM-1800 Digital Cellular Mobile Telephone System

A concession agreement was entered into between Avea and the ICTA ("the Avea Concession Agreement") on 12 January 2005 which replaced and superseded the previous GSM 1800 license agreements in place in relation to Aycell and Aria. After GSM 900 Frequency Band bidding done by ICTA on 20 June 2008 some amendments were made and the contract ("the Avea Concebiddingssion Agreement") was rearranged after the Authorization Tender for IMT Services and Infrastructures made by ICTA on 26 August 2015.

The Avea concession agreement covers the establishment, development and operation of a GSM 1800 network and delivery of the system to the Authority or the establishment to be designated by the Authority at the end of the contracted term as being in an operating condition.

Pursuant to the Avea Concession Agreement, Avea was granted to use 75 channels in the 1800 MHz band and 12 channels in the 900 MHz band. The term of the Avea Concession Agreement is 25 years from 11 January 2001.

Avea may apply to the ICTA for renewal between dates 24 and 6 months before the end of Avea Concession Agreement. ICTA may renew the license of Avea by evaluating the renewal request according to legislation on that date.

In the event of expiry or non-renewal, Avea is under an obligation to transfer the network management centre, being the central operation units of the GSM 1800 system, gateway switchboards and central subscription works systems (including all kinds of technical hardware), together with all equipment affecting the operation of the system and the immovable properties used by Avea to the ICTA or to the establishment to be designated by ICTA at no cost.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concession Agreement for Licensing of Establishment and Operation of GSM-1800 Digital Cellular Mobile Telephone System (continued)

Avea is also committed to renew the network in line with technological improvements and international agreements and maintain the adequacy of the network by means of technology until the end of the agreement. Avea will keep the facilities covered by the Contract in good working condition until the end of the contract period.

License fees were paid prior to the issuance of the concession agreement.

Avea provided a performance bond in the amount of US Dollar 151.500. Avea, additional to that bond, provided performance bond amounting TL 760 corresponding to 6% of bidding amount after GSM 900 Additional Frequency Band bidding by ICTA on 20 June 2008. Should the operator is understood to not perform its contractual obligations, the Authority shall record and confiscate the final guarantee as income.

The Avea Concession Agreement provides that the license may be transferred with the approval of the ICTA and within the terms of the Authorization Ordinance. However, no transfer may be made to an entity which already has a GSM 900 or GSM 1800 license in Turkey, or to related parties of such an entity, to the companies or subsidiaries which is owned or managed somehow by shareholders of entity or to the management of such entity and their first and second blood relatives and relative affinities. In cases such issues are determinate; GSM 1800 license given to them by ICTA is cancelled.

Regarding transfer of shares regulation clauses at the date of the transaction will be applied. The approval of the Competition Authority is also required for any change of control, being a transfer of the shares.

Fund payable to the Treasury

Avea will pay an amount equal to 15% of the gross sales on a monthly basis to the Treasury, except for the default interest imposed on their subscribers for their late payments, indirect taxes, financial obligations such as charges and fees, and the accrual amounts accounted for reporting purposes.

Contribution share to the ICTA

Avea shall pay 0,35% of the gross sales to the ICTA as contribution share to the ICTA's expenses, latest on the last working day of April of the following year.

Coverage area

Avea has guaranteed and undertook to cover (up to 2 Watt outdoors) at least 50% of the population of Turkey within three years after 11 January 2001 and at least 90% of the population of Turkey within five years after 11 January 2001. However, the localities where there are less than 10.000 inhabitants shall not be taken into consideration. This coverage area refers to the area to be covered by Avea alone, and will not be contributed by national roaming. Upon request of the ICTA, yearly utmost two settling areas shall be covered with priority by Avea.

Avea has completed its related liabilities with respect to coverage at 31 December 2004.

Service offerings

Avea agrees and undertakes to provide the services specified within the frame of GSM memorandum of understanding applied by GSM association including, but not limited to the services specified by GSM license agreement (call forwarding, barring of outgoing and incoming calls, technical assistance for subscribers and free call forwarding to police and other public emergency services).

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concession Agreement for Licensing of Establishment and Operation of GSM-1800 Digital Cellular Mobile Telephone System (continued)

Service quality

Avea will comply with the telephone service quality standards set down in the International Telecommunication Union ("ITU-T") recommendations in the GSM 1800 international standards. These standards require blocking rate of the licensed indoor network to be 5% and the call failure rate not to be more than 2%.

Tariffs

Avea may freely determine its tariffs provided that these tariffs are not contrary to the regulations of the ICTA

Emergencies

Avea will take the necessary measures with priority in order to satisfy the requirements and the needs of subscribers and users in emergencies, provided that the public authorities and enterprises will have priority in the case of health and security emergencies or fire and other disasters. Avea has to provide at least two base stations for the use of Ministry of Transport, Maritime Affairs and Communications in emergency.

Investment plans

Avea pursuant to the relevant regulation, until the first day of December every year, Avea will present its investment plan for the following calendar years to the ICTA. These plans will be valid for 3 years and will contain information about the dynamic demand forecasts, and number and locations of the exchange stations, base stations and base control stations to be established, the period of operation, and the investment costs. Within 120 days of receipt of the investment plan, the ICTA will approve the compliance of plans to the article 6th of the agreement. Investment plan will be presented so as to inform the ICTA after the requirements arising from the article 6th of the agreement are met.

National roaming

Avea may enter into contracts with other licensed GSM networks in Turkey for national roaming purposes. Roaming contracts and the financial clause of the contracts has to be presented to ICTA before signature procedures completed.

Suspension of operations

If deemed necessary for public security and national defense in case of war, general mobilization, etc. the Authority may temporarily or permanently suspend all or a part of the operational activities of Avea and may directly operate the network. The period of suspension as above will be added to the term of the license and the income of such a period, if any, will belong to Avea.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concession Agreement for Licensing of Establishment and Operation of GSM-1800 Digital Cellular Mobile Telephone System (continued)

Termination of the agreement by the ICTA

The ICTA may cancel the license or terminate the Agreement for the following reasons;

i) A final judgment of the competent courts for insolvency of Avea or its composition with creditors,

ii) Determination of the failure of Avea to perform its contractual obligations hereunder and to remedy its default in a reasonable period of time granted,

iii) Determination that Avea extends its activities beyond the frequencies allocated hereunder or other frequencies that may be allocated by the ICTA to Avea for use in the GSM 1800 System, and failure of Avea to cease such activities in a reasonable period of time granted,

iv) Failure of Avea to pay the license fees hereunder.

Termination of the agreement by the ICTA (continued)

However, that except for point (iv) above, Avea will be given the opportunity to fulfill its obligations within a period not less than 90 days of written notice by the ICTA. During this period of time, Avea will furnish to the ICTA a corrective action program for fulfillment of its obligations. If this program is accepted by the ICTA, the points of disagreement will be revised at the end of the program. If this program is not acceptable, the ICTA may terminate the Agreement at the end of the time period provided to Avea

Upon termination of the Agreement, Avea shall transfer all of the GSM 1800 system equipment to the ICTA without any remuneration.

Insurance

Avea will maintain adequate all risk insurance for the telecommunication facilities and services established and operated until the end of the license term.

Concession Agreement of the Establishment and Operation of IMT2000/UMTS Infrastructures and Provision of Services

The Concession Agreement with ICTA has been signed on 30 April 2009 and Avea has been granted with 3G license for an amount of Euro 214.000 excluding VAT. The term of the license is 20 years effective from the signature date of the Agreement. 3G services have been launched on 30 July 2009. The contract ("the Avea Concession Agreement") was rearranged after the Authorization Tender for IMT Services and Infrastructures made by ICTA on 26 August 2015.

According to this Agreement;

- Avea shall provide subscribers' and users' 112 calls and other emergency situation calls to public security institutions and other public institutions, and to direct those calls to the centers requested by the said institutions, free of charge bearing all costs.
- Avea shall keep at least 2 units of IMT-2000/UMTS mobile base stations to be used in emergency situations under the request of the Ministry of Transport and Communication.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concession Agreement of the Establishment and Operation of IMT2000/UMTS Infrastructures and Provision of Services (continued)

- Within the first 5 years by the signature of the Agreement, Avea shall obtain the approval of the ICTA for each assignment of Avea shares in ratio exceeding 10% to persons and entities other than the current shareholders and subsidiaries of the current shareholders. Any type of share assignment leading a change in the control of Avea shall be subject to the approval of the ICTA.
- Avea has granted a bank letter of guarantee amounting to Euro 12.840 which is 6% of the license fee, for to act as final guarantee. Should the Avea is understood to not perform its contractual obligations; ICTA shall record and confiscate the final guarantee as income. In such confiscation of final guarantee as income is realized, Avea shall grant new final guarantee within 30 days. Should the new final guarantee not granted within the said period, the Agreement might be terminated.
- During the term of the Agreement, Avea shall each year submit its investment plan related to the subsequent calendar year, till 1 December to the ICTA. This plan shall be prepared for three years and shall include such information as the number, location, coverage areas, investment costs with respect to exchange centres, base stations and control stations to be established, as well as the realization ratio of the previous year's investment plan and reasons of deviation, if any.
- Avea will pay an amount equal to 15% of the gross sales on a monthly basis to the Treasury, except for the default interest imposed on their subscribers for their late payments, indirect taxes, financial obligations such as charges and fees, and the accrual amounts accounted for reporting purposes.
- Avea shall pay 0.35% of the gross sales to the ICTA as contribution share to the ICTA's expenses, latest on the last working day of April of the following year.

Coverage Area Obligations:

Following the signature of the Agreement, Avea shall have under coverage the population within the borders of;

- metropolitan municipalities within 3 years,
- all the municipalities of all provinces and districts within 6 years,
- all the residential locations having a population of more than 5.000 within 8 years,
- residential locations having a population of more than 1.000 within 10 years.

These are the areas which are to be covered by Avea alone and this obligation shall not be fulfilled through roaming.

Avea should maintain service quality in accordance with ICTA regulations, ETSI (European Telecommunications Standards Institute) standards and ITU (International Telecommunication Union) standards, decisions and recommendations given by ITU.

Upon request of the ICTA, yearly utmost two settling areas shall be covered with priority by Avea.

If there is any delay in fulfillment of the coverage area obligations, except the force major conditions, an administrative fine shall be applied within the frame of Relevant Legislation. If there is any delay in fulfillment of the coverage area obligations for a period of more than two years, then the Agreement might be terminated by the ICTA.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concession Agreement of the Establishment and Operation of IMT2000/UMTS Infrastructures and Provision of Services (continued)

The Investments for hardware and software being used in the electronic communications network

Except for the investments made in the lease of place, towers, piles, pipes, containers, channels, energy transfer lines and similar infrastructure plants; each year Avea shall fulfill the following requirements for its investments related to electronic communications network (hardware, software etc.);

a) To procure at least 40% of such investments from vendor companies employing a R&D center established in Turkey and engaged in developing R&D projects in relation with the information and communication technologies provided at least 200 engineers functioning in such company in the first year after the signature of the Agreement, at least 300 engineers in the second year and at least 500 engineers for the third and subsequent years or from vendor companies employing a R&D center with at least 150 engineers functioning in the first year after the signature of the Agreement, at least 250 engineers in the second year and at least 350 engineers for the third and subsequent years however such company to employ also a Technical Assistance Centre with at least 50 engineers in the said first year, at least 100 engineers in the second year and at least 150 engineers in the third and subsequent years.

A vendor company may not establish the R&D center and Technical Assistance Centre together with another vendor company; but may establish with a company, organization or institution resident in Turkey. The vendor company shall have at least 50% share of such centers. Said organization or institution resident in Turkey shall not employ other R&D centers and Technical Assistance Centers that have been established together with other vendor companies functioning in information and communication technologies area.

The university associates may also be employed part time, as engineers to be employed by the vendor company. The number of the university associates may not exceed 5% of the total number of engineers stated above.

Avea is obliged to perform its investments regarding the electronic communications network by auditing and determining whether vendor companies comply with the foregoing terms and conditions.

b) To procure at least 10% of such investments from the vendors in quality of Small and Medium Sized Entities and established in Turkey for the purpose of product and system development.

All the independent software and hardware units to be used in the network of Avea shall have open interface connections with each other.

ICTA may perform audits regarding the execution of this obligation or may commission another organization or institution to perform such auditing when deems necessary. The costs to arise from such audits shall be paid by Avea.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concession Agreement of the Establishment and Operation of IMT2000/UMTS Infrastructures and Provision of Services (continued)

The Investments for hardware and software being used in the electronic communications network (continued)

Should Avea is understood to procure goods and services through methods against the foregoing terms and conditions, an administrative monetary penalty shall be applied to Avea up to 1% of its turnover of the previous calendar year.

Should Avea not perform the said obligations, a penalty as 40% of total amount of its investments in the network (hardware, software etc.), except for the investments for lease of place, towers, piles, pipes, containers, channels, energy transfer lines and similar infrastructure plants, shall be applied separately to Avea for each year. This clause is valid for the first three years following the signature date of the Agreement.

<u>Termination of the Agreement by ICTA:</u>

The Authority might terminate the Agreement for the following reasons;

- A bankruptcy or bankrupt's certificate decision on Avea given by the judicial authorities,
- Avea not performing some of its contractual obligations and not correcting such breach in the given period,
- Avea operating under the frequencies other than the ones allocated to itself by ICTA,
- Termination of Avea Concession Agreement
- Avea not performing national roaming obligation stated in the contract

In such circumstances, ICTA gives Avea the opportunity to fulfill its obligations within 90 days after the written notice. In case Avea cannot fulfill all the obligations within this period, the Agreement will be terminated by ICTA. The license fee or any other fee is not reimbursable in case of a termination of agreement. In the case of cancellation of agreement by ICTA, Avea will alienate all data and documents which constitute system, software affecting the running of system (including tower, beam, blare, container, channel, energy transmission lines, antenna etc), stated and in the usage of Avea to ICTA or to the entity ICTA enounces by making sure that there is no pledge, mortgage, levy and related legal blockages on them and they are free of cost and works free of problems.

The contract ("the Avea Concession Agreement") was rearranged after the Authorization Tender for IMT Services and Infrastructures made by ICTA on 26 August 2015.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concession Agreement of the Establishment and Operation of IMT2000/UMTS Infrastructures and Provision of Services (continued)

Avea has been authorized to provide IMT service and Limited Use Authorization Certificate on 27 October 2015.

According to the Authorization Certificate;

- Avea shall provide emergency call services in line with the regulations of ICTA, free of charge bearing all costs and comply with the regulations of ICTA in relation to this matter.
- Avea shall keep at least 2 mobile base stations so as to be used for the provision of IMT services upon the Ministry's request, in the case of disaster and emergency.
- Within the first 5 years by the signature of the Agreement, Avea shall obtain the approval of the ICTA for each assignment of Avea shares in ratio exceeding 10% to persons and entities other than the current shareholders and subsidiaries of the current shareholders. Any type of share assignment leading a change in the control of Avea shall be subject to the approval of the ICTA.
- Avea has granted a bank letter of guarantee amounting to Euro 57.300 which is 6% of the total fee, for to act as final guarantee. Should be understood that Avea to not perform its contractual obligations; ICTA shall record and confiscate the final guarantee as income. In such confiscation of final guarantee as income is realized, Avea shall grant new final guarantee within 30 days. Should the new final guarantee not granted within the said period, the Authorization might be terminated by ICTA.
- Avea will pay an amount equal to 15% of the gross sales on a monthly basis to the Treasury, except for the default interest imposed on their subscribers for their late payments, indirect taxes, financial obligations such as charges and fees, and the accrual amounts accounted for reporting purposes.
- Avea shall pay the administrative fee at the rate and in the way determined by ICTA in accordance with the applicable law.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Certificate of Rights and Obligations regarding the Installation and Operation of IMT Infrastructure and Provision of IMT Services (continued)

Coverage Area Obligations:

Following the authorization, Avea shall put at least

- 95% of Turkey's population within 8 years
- 90% of the population in each province and district within 8 years
- 99% of highways, high speed and very high speed train routes and tunnels longer than 1 km within 3 years
- 95% of divided highways within 6 years
- 90% of conventional train routes within 10 years

under coverage. Additionally, following the authorization, Avea shall put at least

- 99% of highways, high speed and very high speed train routes and tunnels longer than 1 km added after the first year within 2 years of its entering into service
- 95% of divided highways added after the fourth year within 2 years of its entering into service
- 90% of conventional train routes added after the eight year within 2 years of its entering into service

under coverage.

Areas covered by Avea pursuant to the IMT-2000/UMTS Concession Agreement shall be deemed to be also covered under this authorization on condition that the service quality criteria set forth in the respective article are satisfied. Additionally, areas covered by Avea under this authorization for the purpose of provision of IMT services shall be deemed to be covered in the determination of the coverage obligation of IMT-2000/UMTS services.

Coverage obligation shall be fulfilled by Avea on its own and not through national roaming. However, Avea shall be entitled to share radio access network in the areas under the coverage obligation.

Maximum two settlements per year shall be primarily brought by Avea under coverage upon ICTA's request and under the service quality standards determined for such areas.

In the event that the fulfilment of coverage obligation is delayed for any reason other than force majeure events, administrative fine shall be applied pursuant to the applicable law. In the event that the fulfilment of the coverage obligation is delayed for more than two (2) years, the Authorization might be terminated by ICTA.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Certificate of Rights and Obligations regarding the Installation and Operation of IMT Infrastructure and Provision of IMT Services (continued)

Service quality obligation:

Avea shall ensure data download at minimum 2 Mbps in the areas subject to coverage obligation at a probability of 95% per user. The matters related to the inspection of this obligation shall be determined by ICTA.

These data transmission speeds are minimum values and ICTA shall determine service quality obligations required to be ensured by Avea taking into account ETSI standards, ITU standards, decisions and recommendation, our national development targets, technological improvements and user requirements.

Sharing the Radio Access Network:

On condition that the provisions of the applicable law are not breached, Avea may install and operate the radio access network to be installed for the provision of IMT services together with other operators authorized to provide IMT services and further, lease necessary transmission lines from authorized operators in order to materialize the connections within the radio access network.

This right shall not remove the obligations of Avea under the authorization and shall not constitute a reason for non-fulfilment of such obligations. Avea shall not avoid fulfilling its obligations under the authorization due to reasons arising from the sharing. Avea shall, in the case of sharing, be obliged to take all measures required to prevent any interruption of services it provides under the authorization.

In all settlements having a population less than 10.000, Avea shall, following the authorization, be obliged to:

a) install antenna facilities to be installed under the authorization (excluding in-building antenna facilities) in such manner that facilitates active sharing of radio access network with other operators and share such facilities with the operators,
b) In the event that there exists any antenna facilities installed by other operators at the settlements in question following the authorization for the antenna facilities to be newly installed by Avea under this authorization, Avea shall use such antenna facility by active sharing of radio access network.

Following this authorization, the antenna facilities newly installed under IMT-2000/UMTS Concession Agreements shall also be subject to the obligation prescribed by this paragraph.

Avea shall be obliged to actively share radio access network in the antenna facilities to be newly installed under this authorization in order to cover highways, high speed railways and divided highways following the authorization. Following this authorization, the antenna facilities newly installed under IMT-2000/UMTS Concession Agreements shall also be subject to the aforementioned obligation.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Certificate of Rights and Obligations regarding the Installation and Operation of IMT Infrastructure and Provision of IMT Services (continued)

Investments and communication services related to the hardware and software used in the network

Except investments made for property lease, tower, pole, pipe, container, conduit, power transmission lines and similar infrastructure; Avea shall, following the authorization, be obliged to provide:

a) At least 40% of its investments and communication services related to the network (such as hardware, software);Within two (2) years, from supplier companies established in Turkey as to develop R&D projects in the field of information and communication technologies, employing at least 500 engineers and 100 researchers; within four (4) years, from supplier companies having a R&D center, employing 500 engineers and 250 researchers, or within two (2) years, from supplier companies established in Turkey as to develop R&D projects in the field of information and communication technologies, employing at least 350 engineers and 100 researchers and also within two (2) years from supplier companies having a Technical Assistance Center employing at least 150 engineers, within four (4) years from supplier companies having R&D center employing 350 engineers and 250 researchers and within four (4) years from supplier companies having a Technical Assistance Center employing at least 150 engineers.

b) At least 10% of its investments from products produced in Turkey and from SMEs established to develop products and systems in Turkey.

Up to 60 within 2 years and up to 150 within 4 years following the authorization, of the personnel of Avea employed in the status of researcher at the R&D center established by Avea for the purpose of developing R&D projects in the field of information and communication technologies shall be taken into account under the obligation related to the number of the researchers set forth in the sub-paragraph (a) of this paragraph provided that such center is organized as an independent unit under Avea's organization or all shares of the center are owned by Avea.

Teaching staff of universities who work part-time at R&D centers under the applicable law or while working at universities carry out academic studies requested by the supplier and/or Avea may be included in the researchers to be employed by the supplier and/or Avea at R&D centers. The number of teaching staff may not excess 10% of total number of researchers referred to in this subparagraph (a).

A supplier company may establish R&D and technical assistance centers together with institutions or bodies, except other suppliers, established in Turkey, which operate in the field of information and communication technologies and do not have a R&D or technical assistance center established with other suppliers. The supplier companies must hold at least 50% of the shares of such centers.

All independent software and hardware units to be used by Avea in the network shall be interconnected through explicit interfaces.

Avea shall be obliged to materialize its investments and communication services relating to the network (such as hardware, software) by checking and verifying whether or not the supplier companies and Small Entities ("SME") fulfil the conditions stated above.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Certificate of Rights and Obligations regarding the Installation and Operation of IMT Infrastructure and Provision of IMT Services (continued)

Investments and communication services related to the hardware and software used in the network (continued)

Avea shall be obliged to supply its investments and communication services relating to the network (hardware or software such as base station, switching, router), except investments relating to property lease, tower, pole, container, channel, power transmission lines and similar facilities, from the products determined to be domestic product under the Law No 4734 and applicable law at least by 30% within the first year, at least by 40% within the second year and at least by 45% within subsequent years following the authorization. Such items among the products supplied by the supplier companies and SMEs to Avea, which are determined to be domestic products shall be taken into account under this obligation. Avea contemplating that it will not be able to fulfil its obligations set forth in the this paragraph due to the availability condition of the products determined to be domestic products, supply capacity of the producers and other conditions shall apply to ICTA indicating the reasons, no later than six (6) months before the expiry of the obligation period. ICTA may reduce or terminate the obligation for the respective period if it deems necessary.

Additional to the obligation in the paragraph above; investments specified in the paragraph above, to be measured for periods of 4 years, following the authorization Avea shall be obliged to supply from the products determined to be domestic product under the Law No 4734 and applicable law a minimum average of 30% in the first 4 years, 40% in the second 4 years and 45% in the third 4 years. Such items among the products supplied by the supplier companies and SMEs to Avea, which are determined to be domestic products shall be taken into account under this obligation. Avea contemplating that it will not be able to fulfil its obligations set forth in the this paragraph due to the availability condition of the products determined to be domestic products, supply capacity of the producers and other conditions shall apply to ICTA indicating the reasons, no later than six (6) months before the expiry of the obligation period. ICTA, provided that Ministry's opinion to be taken, may reduce or terminate the obligation for the respective period if it deems necessary.

Whether or not the obligations under this article have been fulfilled shall be evaluated with the obligations of Avea under the IMT-2000/UMTS Concession Agreement.

Cancelation of Authorization:

ICTA may terminate the Authorization Certificate for the following reasons;

- A bankruptcy or bankrupt's certificate decision on Avea given by the judicial authorities,
- Avea not performing some of its contractual obligations and not correcting such breach in the given period,
- Avea operating under the frequencies other than the ones allocated to itself by ICTA and not ceasing these operation within the given period,
- Termination of one of Avea's Concession Agreements signed earlier,
- Avea not performing its obligations stated in the article related to confidentiality of the communication, national security and public order

In such circumstances, ICTA gives Avea the opportunity to fulfill its obligations within 90 days after the written notice. In case Avea cannot fulfill all the obligations within this period, the Authorization Certificate will be terminated by ICTA.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Certificate of Rights and Obligations regarding the Installation and Operation of IMT Infrastructure and Provision of IMT Services (continued)

The Termination of the Authorization Certificate by ICTA (continued)

The license fee or any other fee is not reimbursable in case of a termination of agreement. In the case of cancellation of agreement by ICTA, Avea will alienate all data and documents which constitute system, software affecting the running of system (including tower, beam, blare, container, channel, energy transmission lines, antenna etc), stated and in the usage of Avea to ICTA or to the entity ICTA enounces by making sure that there is no pledge, mortgage, levy and related legal blockages on them and they are free of cost and works free of problems.

Legal proceedings of Türk Telekom

Disputes between the Company and its former personnel

Within the scope of the ongoing restructuring of the personnel organization of the Company in order to achieve the number of personnel identified, the contracts of the employees who are entitled for retirement and whose service are not needed have been terminated based on the Board of Directors Decision. Accordingly, certain number of those employees has filed re-employment lawsuits against the Company. Some of the lawsuits terminated against the Company while the remaining cases are still ongoing. Provision amounting to TL 13.840 (31 December 2016: TL 13.987) is provided as of 31 December 2017 for the ongoing cases.

Disputes between the Company and Municipalities

For contribution to the infrastructure investment and municipality share, municipalities filed against the Company and as at 31 December 2017, total provision including the nominal amount and legal interest charge which is amounting to TL 50.258 (31 December 2016: TL 48.641) is recognized.

Disputes between the Group and the ICTA

The Company has filed various lawsuits against ICTA. These lawsuits are related with the sector-specific and tariff legislations and legislations with respect to the other operators in the market. The sector-specific disputes generally stem from the objections with respect to the provisions of interconnection legislation, legislation with respect to telecommunication services and infrastructure. As of 31 December 2017, TL 23.131 provision provided for ICTA penalties and amounts to be repaid to customers due to ICTA resolutions (31 December 2016: TL 52.346).

Avea's Treasury Share investigation

Undersecretariat of Treasury has performed an audit at Avea over gross sales for the period 2010 and 2011 and calculated additional charges amounting to TL 2.500 regarding 2G Concession Agreement and TL 15.700 regarding 3G Concession Agreement on the allegation that Treasury Share and Universal Service Participation Fee was not fully paid over "sales discounts, subscriber commitment penalties, advertisement charge outs, discount over roaming and exchange rate differences arising from roaming services" based on the ground that such amounts constitutes the base for treasury share.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Meanwhile, the Management has taken the following actions for the claimed amounts:

- Preliminary injunction request is rejected regarding the amount over 2G Concession Agreement, an arbitration case has been initiated.
- A cancellation case has been initiated with stay of execution request regarding the penalties claimed under the 3G Concession Agreement. The stay of execution request was denied. The objection against this ruling is also denied.

The Company paid TL 27.795 in January 2016 including interest for amounts resulting from 3G sales and TL 4.582 in September 2016 for amounts resulting from 2G sales.

In addition, ICTA sent a notification requesting TL 44.940 penalty over 3G Concession Agreement and TL 7.021 penalty over 2G Concession Agreement which is calculated as three times of the principal amount.

Meanwhile, the Management has taken the following actions for the claimed amounts

- Preliminary injunction has been received regarding the penalty accrual over 2G Concession Agreement and arbitration process has been initiated in the precense of International Chamber of Commerce (ICC).
- A cancellation case initiated with stay of execution request regarding penalties claimed under the 3G Concession Agreement. The stay of execution request is denied.While these developments were ongoing, the lawsuits regarding the year of 2009 in relation to previous Treasury reports on 3G services are resulted in favor of Avea in Council of State. Council of State's favourable ruling set a precedent for three more cases and lawsuits on Contribution Fee to Institution Expense, Universal Service Fee and Penalties related to the same period were concluded in favour of Avea in the Council of State. These four decisions set a precedent for the other ongoing cases. Within the framework of the court rulings in favor of the Company regarding the discount cases for 2009, the Company has requested for extension of payment period from ICTA. The objection against the decision to refuse the request of suspension of execution was rejected. Once again stay of execution was requested from Council of State. The request is denied.

As a result of an inspection review on gross sales of Avea for the years 2012 and 2013, Undersecretariat of Treasury requested an additional payment amounting to TL 117.365 in accordance with 2G Concession Agreement and TL 66.697 in accordance with 3G Concession Agreement, claiming that "sales discounts, subscriber commitment penalties, advertisement charge outs and field usage charges should be included in Treasury Share and Contribution Share to the Universal Service calculations.

ICTA sent a notification for penalties amounting to TL 182.476 related to 3G concession agreement (for periods including 2011, 2012 and 2013) and TL 322.923 related to 2G concession agreement (for periods including 2009, 2010, 2011, 2012 and 2013) were sent which are calculated as three times over the principal amount.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Meanwhile, the Management has taken the following actions for the claimed amounts:

- The company's application for preliminary injunction, regarding the treausury share and penalty claimed under 2G Concession Agreement, has accepted. Arbitration case is initiated.
- A cancellation case initiated with stay of execution request regarding the amounts -claimed under the 3G Concession Agreement. Council of State issued a stay of order decision regarding the claimed amounts of treasury shares over 3G Concession Agreement for discounts. While proceeding with legal procedures, the Company has requested reversal of the penalty notification until the finalisation of the legal processes about the decisions ruled by Council of State which are in favor of Avea for the year 2009 and above mentioned stay of order decision. Upon the indirect refusal of this request, regarding for the penal clause a claim has been filed for the suspension for execution and cancellation.

Law numbered 7061 "Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation" was published on the Official Gazette numbered 30261 on 5 December 2017. According to Law numbered 7061 "Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation, the provisional clause added to Telegraph and Telephone Law numbered 406, contribution share to universal service, contribution share to authority expenses, administrative fee, radio fee, penalty fee and ancillaries thereof under dispute or under examination had been stated with 7061 numbered law. In regard to the provisional clause, the Company has decided to utilize the restructuring provisions regarding treasury share, contribution share to universal service, contribution share to authority expenses, administrative fee, radio fee, penalty fee and ancillaries thereof which are the subject of finalized investigations and related litigations.

The Company, made applications for restructuring on 24 January 2018 and terminated all the disputes, relating the subject and mentioned above, by waiving/accepting.

Within the scope of restructuring provisions, total amount calculated in this context is TL 312.181 which includes TL 210.463 principal and TL 101.718 interest (based on Domestic Producer Price Index, Yİ-UFE). Payment will be made in six equal installments (plus deferred payment interest) in two-month periods beginning in January 2018.

The Company has recognized a provision amounting to TL 312.181 in the consolidated financial statements for additional treasury share claim as at 31 December 2017 (31 December 2016: TL 111.554).

Other issues

Provision has been provided in the consolidated financial statements for the probable court cases against the Group based on the lawyers' assessments. The provision for such court cases is amounting to TL 33.828 as at 31 December 2017 (31 December 2016: TL 37.672). For the rest of the cases, Group lawyers commented that basis of those cases are not realistic and should be appealed. Therefore, no provision has been provided for these cases.

25. SUPPLEMENTARY CASH FLOW INFORMATION

Reconciliation of movements of liabilities to cash flows arising from financing activities

	31 December 2016	Cash flows	Non-cash flows			31 December 2017
			Acquition	Foreign exchange movement	Other non-cash changes	
Financial liabilities	15.039.006	(750.170)	556.446	1.644.874	(1.017)	16.489.139
Obligations under finance leases (Note 7)	2.173	(71)	29	468	--	2.599
Derivative financial instruments (Note 15)	385.968	18.788	--	--	(95.315)	309.441
Total liabilities from financing activities	**15.427.147**	**(731.453)**	**556.475**	**1.645.342**	**(96.332)**	**16.801.179**

Other explanations

"Other outflows of cash" in net cash used in operating activities represents change in restricted cash. Restricted cash amount is disclosed in Note 4. "Other outflows of cash, net" in net cash used in financial activities represents change in other financial payment. "Other adjustment for non-cash items" in adjustments to reconcile net profit to cash provided by operating activities represents change in TFRS Interpretation 12.

26. SUBSEQUENT EVENTS

None.

27. REVENUE

	1 January 2017 - 31 December 2017	1 January 2016 - 31 December 2016
Mobile	6.638.683	5.756.291
Broadband	4.899.033	4.243.836
Fixed voice	2.603.435	2.798.072
Corporate data	1.492.416	1.314.613
IFRIC 12 revenue	704.315	412.516
International revenue	639.019	509.792
Tv	228.135	176.913
Other	934.518	896.561
	18.139.554	**16.108.594**

28. OPERATING EXPENSES (INCLUDING COST OF SALES)

	1 January 2017 - 31 December 2017	1 January 2016 - 31 December 2016
Cost of sales (-)	(10.029.082)	(9.023.396)
General administrative expenses (-)	(2.175.077)	(2.211.725)
Marketing, sales and distribution expenses (-)	(2.404.461)	(2.187.900)
Research and development expenses (-)	(124.737)	(93.821)
	(14.733.357)	**(13.516.842)**

29. EXPENSES BY NATURE

	1 January 2017 - 31 December 2017	**1 January 2016 - 31 December 2016**
Personnel expenses	(2.861.189)	(2.787.001)
Taxes	(1.635.517)	(1.444.466)
Domestic interconnection	(1.202.488)	(1.129.938)
Commission expenses	(732.192)	(656.594)
Repair and maintanance expenses	(721.877)	(582.631)
TFRS Interpretation 12 related fixed assets additions and capex provision expenses	(623.288)	(365.058)
Advertisement expenses	(597.423)	(543.781)
Rent expenses	(500.661)	(484.429)
Cost of sales and cost of equipment sales of technology companies	(468.631)	(425.098)
Doubtful receivable expenses	(467.993)	(371.223)
International interconnection	(425.480)	(302.500)
Utilities	(407.888)	(395.706)
Other expenses	(1.069.498)	(1.179.856)
Total operating expenses (excluding depreciation and amortization expense)	**(11.714.125)**	**(10.668.281)**
Depreciation, amortization	**(2.906.444)**	**(2.796.343)**
Impairment expenses	**(112.788)**	**(52.218)**
Total operating expenses	**(14.733.357)**	**(13.516.842)**

30. OTHER OPERATING INCOME / (EXPENSES)

	1 January 2017 - 31 December 2017	1 January 2016 - 31 December 2016
Interest and discount gains	127.972	106.213
Foreign exchange gains	44.869	75.770
Indemnity income	31.048	28.292
Rental income	26.743	20.957
Other	60.491	92.631
Other operating income	**291.123**	**323.863**
Foreign exchange losses	(135.723)	(436.730)
Litigation provision compensation and penalty expenses	(248.852)	(161.093)
Interest and discount losses	(72.195)	(85.207)
Interest expenses on employee benefit obligations (Note 21)	(57.084)	(60.465)
Other	(27.116)	(32.136)
Other operating expense (-)	**(540.970)**	**(775.631)**

31. INCOME/(EXPENSE) FROM INVESTING ACTIVITIES

	1 January 2017 - 31 December 2017	1 January 2016 - 31 December 2016
Gain from scrap sales	112.307	47.149
Gain on sales of property, plant and equipment	18.091	12.891
Income from investing activites	**130.398**	**60.040**
Losses from sales on property, plant and equipment	(5.610)	(4.048)
Expense from investing activites (-)	**(5.610)**	**(4.048)**

32. FINANCIAL INCOME / (EXPENSE)

	1 January 2017 - 31 December 2017	1 January 2016 - 31 December 2016
Gain on derivative instruments	420.785	444.231
Interest income on bank deposits and delay charges	181.787	125.893
Foreign exchange gains	119.389	93.647
Other	346	988
Financial Income	**722.307**	**664.759**
Foreign exchange losses	(1.510.419)	(2.438.672)
Interest expense	(563.762)	(501.252)
Loss on derivative instruments	(393.165)	(254.800)
Other	(57.772)	(62.572)
Financial expenses	**(2.525.118)**	**(3.257.296)**
Financial expenses, net	**(1.802.811)**	**(2.592.537)**

33 TAXATION ON INCOME

	31 December 2017	31 December 2016
Corporate tax payable:		
Current corporate tax provision	651.405	395.175
Prepaid taxes and funds (-)	(627.061)	(377.246)
Tax payable	**24.344**	**17.929**

	1 January 2017 - 31 December 2017	1 January 2016 - 31 December 2016
Tax expense:		
Current tax expense:		
Current income tax expense	(671.216)	(405.776)
Adjustments in respect of income tax of previous year	(25.576)	(8)
Deferred income (Note 11) :		
Deferred tax income	353.997	78.005
	(342.795)	**(327.779)**

As of 31 December 2017 deferred tax income amounting to TL 1.511 (31 December 2016: TL 13.383) and current tax expense amounting to TL 19.810 (31 December 2016: TL 10.602) are recognized in the consolidated statement of other comprehensive income.

33. TAXATION ON INCOME (CONTINUED)

The Company and its subsidiaries located in Turkey are subject to taxation in accordance with the tax regulations and the legislation effective in Turkey where the Group companies operate. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month.

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

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

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

Dividend payments made to resident and non-resident individuals, non-resident legal entities and corporations resident in Turkey (except for the ones exempt from corporate and income tax), are subject to an income tax of 15%.

Dividend payments made from a corporation resident in Turkey to a corporation also resident in Turkey are not subject to income tax. Furthermore, income tax is not calculated in case the profit is not distributed or transferred to equity.

The dividend income (excluding the participation certificates of investment funds and profit shares derived from the share certificates of investment trusts) derived by entities from the participation in the capital of another resident entity is exempt from corporate tax. Furthermore, 75% of the income derived by entities from the sale of participation shares and real estates (immovable property) preferential rights, founders' shares and redeemed shares which are carried in assets at least for two years is exempt from corporate tax as of 31 December 2017. However, according to the amendments by Law numbered 7061, this rate is educed from 75% to 50% with regard to immovable properties and tax declarations starting from 2018 will be calculated using 50% for immovable properties.

In order to be able to benefit from the exemption, the relevant income should be kept under a fund account in the liabilities and should not be withdrawn from the enterprise for 5 years. The sales amount should be collected by the end of the second calendar year following the year of sale.

33. TAXATION ON INCOME (CONTINUED)

The reconciliation between tax expense and the product of accounting profit multiplied by applicable tax is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Profit before tax	1.478.327	(396.561)
Tax at the corporate tax rate of (20%)	(295.665)	79.312
Tax effects of:		
- expenses that are not deductible in determining taxable profit	(28.557)	(62.983)
- tax rate difference of subsidiaries	744	720
- deferred tax asset recognition from cash capital increase	36.734	38.950
- deferred tax asset recognized / derecognized from previous years' tax losses carried forward by subsidiaries	43.825	(1.534)
- the effect of increasing corporate tax ratio from %20 to %22	(22.190)	–
- adjustments and tax losses of subsidiaries not subject to deferred tax	(77.686)	(382.244)
Tax expense for the year	**(342.795)**	**(327.779)**

Investment Incentives

Avea has obtained investment incentive certificates from the Turkish government authorities in connection with certain major capital expenditures, which entitle Avea, among other things, to:

a) A 100% exemption from customs duty on machinery and equipment to be imported,

b) An investment allowance of 100% on approved capital expenditures,

The investment allowance indicated in (b) above is deductible from current or future taxable profits for the purposes of corporation tax; however, such investment allowances are subject to a withholding tax. At 31 December 2017, investment allowances amount to TL 7.633.791 (2016: TL 6.661.406). Unrecognized deferred tax asset is TL 91.637 (2016 : TL 79.461).

The Law foresaw that the taxpayers that have investment allowance rights obtained under the scope of the previous provisions valid before 24 April 2003 and the provisions of the amended article 19 of the Income Tax Law (amended with Law No 4842) that were effective until 31 December 2005 would be able to utilize their investment allowance rights only for their income generated in the years 2006, 2007, and 2008.

However on 15 October 2009, the Constitutional Court decided to cancel the phrases which abolish the investment allowances after 2008 and limit the use of investment allowance incentive allowance with the years 2006, 2007 and 2008. The annulment decision is effective after being published in the Official Gazette no 27456 dated 8 January 2010. Accordingly, Avea may utilize those unused incentive in the future.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk policies of the Group are managed centrally with the support of a committee. All Group companies meet their cash needs determined in business plans approved by their boards, by using credits or capital increase with guidance of the central management. The Group may choose long or short term financing according to their financing needs and market assumptions.

The Group's risk management policies are designed to identify and analyze the risks faced by the Group, to determine appropriate risks limits and controls, and to observe commitment to these limits. Risk management policies and systems are constantly under review to reflect changes in the Group's activities and market conditions.

The Group audit committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group audit committee is assisted in its oversight role by internal audit.Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

Financial risk factors

The Group's principal financial instruments comprise forward market transactions, bank loans and cash and short-term deposits. The main purpose of these financial instruments is to raise funds for the Group's operations and to hedge interest rate risk. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The board reviews and agrees to policies for managing each of these risks.

Credit risk

	Receivables						
	Trade Receivables		Other receivables				
31 December 2017	Related Parties	Third Parties	Related Parties	Third Parties	Deposits and banks	Derivative Instruments	Other
Maximum credit risk exposed to as at the reporting date (A+B+C+D+E)	23.707	4.884.031	–	91.731	4.099.906	616.718	–
- Guaranteed portion of the maximum risk	–	17.232	–	–	–	–	–
A. Carrying amount of financial assets not overdue or not impaired	23.707	3.546.112	–	91.731	4.099.906	616.718	–
B. Carrying amount of financial assets with rediscussed conditions that are considered overdue or impaired if not rediscussed							
C. Carrying amount of financial assets overdue but not impaired	–	1.337.919	–	–	–	–	–
-Amount secured via guarantees	–	–	–	–	–	–	–
D. Carrying amount of assets impaired	–	–	–	–	–	–	–
-Overdue (gross book value)	–	2.840.298	–	24.186	–	–	–
-Impairment (-)	–	(2.840.298)	–	(24.186)	–	–	–
E. Off balance sheet items with credit risk	–	–	–	–	–	–	–

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

	Receivables						
	Trade Receivables		Other receivables				
31 December 2016	Related Parties	Third Parties	Related Parties	Third Parties	Deposits and banks	Derivative Instruments	Other
Maximum credit risk exposed to as at the reporting date (A+B+C+D+E)	26.193	4.160.646	–	86.818	3.016.008	652.798	–
- Guaranteed portion of the maximum risk	–	34.084	–	–	–	–	–
A. Carrying amount of financial assets not overdue or not impaired	26.193	2.965.394	–	86.818	3.016.008	652.798	–
B. Carrying amount of financial assets with rediscussed conditions that are considered overdue or impaired if not rediscussed	–	–	–	–	–	–	–
C. Carrying amount of financial assets overdue but not impaired	–	1.195.252	–	–	–	–	–
-Amount secured via guarantees	–	–	–	–	–	–	–
D. Carrying amount of assets impaired	–	2.373.313	–	23.840	–	–	–
-Overdue (gross book value)	–	(2.373.313)	–	(23.840)	–	–	–
-Impairment (-)	–	–	–	–	–	–	–
E. Off balance sheet items with credit risk	–	–	–	–	–	–	–

Financial losses due to Group's receivables and financial assets which result from not implementing agreement clauses related to financial assets by a customer or other party constitutes credit risk.

When determining the credit risk exposure as at the balance sheet date, items like guarantees received, which increase the credit worthiness have not been considered. The aging for assets overdue but not impaired for has been provided in Note 6.

As of 31 December 2017, the maximum credit risk Company exposure is reflected by presenting all financial assets from carrying amount on consolidated balance sheet.

Liquidity risk

Liquidity risk is uncertainty to cover future financial obligations.

The Group's objective is to maintain a balance between current assets and liabilities through close monitoring of payment plans and cash projections.

The Group manages current and long-term funding by maintaining adequate reserves, banking facilities, reserve borrowing facilities and loan agreements with suppliers through continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2017 and 2016 based on contractual undiscounted payments (including interest payments not due yet).

Contract based maturities as at 31 December 2017	**Book value**	**Total contract based cash outflow (I+II+III+IV)**	**Less than 3 months (I)**	**3 to 12 months (II)**	**1 to 5 years (III)**	**More than 5 years (IV)**
Non-derivative financial liabilities						
Financial liabilities and bills,bonds and notes issued	16.489.139	19.062.316	253.002	2.717.940	12.493.807	3.597.567
Obligations under finance leases	2.599	2.602	154	465	1.983	–
Trade payables	4.066.558	4.066.870	3.739.500	327.370	–	–
Other payables (*)	1.300.601	1.322.274	947.043	–	375.231	–
Related parties	2.326	2.326	–	2.326	–	–
Derivative financial liabilities (net)	**309.441**	**309.442**	**6.069**	**23.766**	**104.747**	**174.859**

Contract based maturities as at 31 December 2016	**Book value**	**Total contract based cash outflow (I+II+III+IV)**	**Less than 3 months (I)**	**3 to 12 months (II)**	**1 to 5 years (III)**	**More than 5 years (IV)**
Non-derivative financial liabilities						
Financial liabilities and bills, bonds and notes issued	15.039.006	17.447.303	535.384	1.772.881	11.702.567	3.436.471
Obligations under finance leases	2.173	2.179	152	456	1.571	–
Trade payables	4.606.068	4.595.288	2.929.286	1.514.882	151.120	–
Other payables (*)	1.321.626	1.570.054	942.680	–	627.374	–
Related parties	8.812	8.812	6.110	2.702	–	–
Derivative financial liabilities (net)	**385.968**	**385.968**	**71.577**	**33.290**	**153.107**	**127.994**

(*) Other payables item includes other payables, employee benefit obligations and other current liabilities. Taxes and other payables contained within employee benefit obligations and advances contained within other current liabilities are excluded.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk

Foreign Currency Risk

	31 December 2017					31 December 2016				
	TL Equivalent	US Dollar	Euro	GBP	Other	TL Equivalent	USD	Euro	GBP	Other
1. Trade receivables	248.843	25.209	34.052	–	–	166.761	25.518	20.700	–	172
2a. Monetary financial assets (Cash and banks accounts included)	2.023.846	366.988	141.646	–	–	720.277	139.625	61.702	–	–
2b. Non-monetary financial assets	–	–	–	–	–	–	–	–	–	–
3. Other	111.129	5.452	20.056	–	–	69.413	1.789	17.011	1	–
4. Current assets (1+2+3)	**2.383.818**	**397.649**	**195.754**	**–**	**–**	**956.451**	**166.932**	**99.413**	**1**	**172**
5. Trade receivables	1.660	440	–	–	–	5.723	956	110	–	2.081
6a. Monetary financial assets	59.006	15.643	–	–	–	58.158	14.612	1.816	–	–
6b. Non-monetary financial assets	–	–	–	–	–	–	–	–	–	–
7. Other	677	2	149	–	–	682	39	147	–	–
8. Non-current assets (5+6+7)	**61.343**	**16.085**	**149**	**–**	**–**	**64.563**	**15.607**	**2.073**	**–**	**2.081**
9. Total assets (4+8)	**2.445.161**	**413.734**	**195.903**	**–**	**–**	**1.021.014**	**182.539**	**101.486**	**1**	**2.253**
10. Trade payables	1.629.635	327.159	87.558	50	3	2.798.874	413.637	362.013	39	3
11. Financial liabilities	2.419.330	354.105	239.991	–	–	1.914.891	370.338	164.793	43	–
12a. Monetary other liabilities	14.929	199	3.140	–	–	24.661	3.102	3.705	–	–
12b. Non-monetary other liabilities	–	–	–	–	–	–	–	–	–	–
13. Short-term liabilities (10+11+12)	**4.063.894**	**681.463**	**330.689**	**50**	**3**	**4.738.426**	**787.077**	**530.511**	**82**	**3**
14. Trade payables	–	–	–	–	–	85.104	93	22.851	–	–
15. Financial liabilities	13.988.494	2.643.710	889.533	–	–	13.051.776	2.639.936	1.013.859	–	–
16 a. Monetary other liabilities	216.834	31.252	21.914	–	–	241.623	43.307	24.048	–	–
16 b. Non-monetary other liabilities	–	–	–	–	–	–	–	–	–	–
17. Long-term liabilities (14+15+16)	**14.205.328**	**2.674.962**	**911.447**	**–**	**–**	**13.378.503**	**2.683.336**	**1.060.758**	**–**	**–**
18. Total liabilities (13+17)	**18.269.222**	**3.356.425**	**1.242.136**	**50**	**3**	**18.116.929**	**3.470.413**	**1.591.269**	**82**	**3**
19. Net asset/(liability) position of off balance sheet derivative instruments (19a-19b)	**3.614.894**	**1.605.000**	**(540.140)**	**–**	**–**	**2.236.771**	**1.205.000**	**(540.140)**	**–**	**–**
19a. Total asset amount hedged	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
19b. Total liability amount hedged	**(3.614.894)**	**(1.605.000)**	**540.140**	**–**	**–**	**(2.236.771)**	**(1.205.000)**	**540.140**	**–**	**–**
20. Net foreign currency asset/(liability) position (9-18+19)	**(12.209.167)**	**(1.337.691)**	**(1.586.373)**	**(50)**	**(3)**	**(14.859.144)**	**(2.082.874)**	**(2.029.923)**	**(81)**	**2.250**
21. Net asset/(liability) position of foreign currency monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	**(15.935.867)**	**(2.948.145)**	**(1.066.438)**	**(50)**	**(3)**	**(17.166.010)**	**(3.289.702)**	**(1.506.941)**	**(82)**	**2.250**
22. Fair value of FX swap financial instruments	**365.659**	**96.943**	**–**	**–**	**–**	**367.841**	**104.524**	**–**	**–**	**–**
23. Hedged amount of foreign currency assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
24. Hedged amount of foreign currency liabilities	**(3.614.894)**	**(1.605.000)**	**540.140**	**–**	**–**	**(2.236.771)**	**(1.205.000)**	**540.140**	**–**	**–**

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

Foreign currency risk (continued)

The Group has transactional currency exposures mainly with respect to the financial liabilities and trade payables. Foreign currency denominated borrowings are stated in Note 5.

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar and Euro exchange rate, with all other variables held constant, of the Group's net profit for the year (due to changes in the fair value of monetary assets and liabilities):

31 December 2017	**Profit/Loss**		**Other comprehensive income**	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
Appreciation of USD against TL by 10%:				
1- USD net asset/liability	(1.137.335)	1.137.335	–	–
2- Hedged portion of USD risk (-) (*)	55.277	(86.024)	(11.895)	11.895
3- USD net effect (1+2)	**(1.082.058)**	**1.051.311**	**(11.895)**	**11.895**
Appreciation of Euro against TL by 10%:				
4- Euro net asset/liability	(472.427)	472.427	–	–
5- Hedged portion of Euro risk (-)	–	–	12.155	(12.155)
6- Euro net effect (4+5)	**(472.427)**	**472.427**	**12.155**	**(12.155)**
Appreciation of other foreign currencies against TL by 10%:				
7- Other foreign currency net asset/liability	(25)	25	–	–
8- Hedged portion of other foreign currency (-)	–	–	–	–
9- Other foreign currency net effect (7+8)	**(25)**	**25**	**–**	**–**
Total (3+6+9)	**(1.554.510)**	**1.523.763**	**260**	**(260)**

(*)Including the fair value differences of cross currency, interest rate swap and option contracts.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

Foreign currency risk (continued)

31 December 2016	**Profit/Loss**		**Other comprehensive income**	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
Appreciation of USD against TL by 10%:				
1- USD net asset/liability	(1.157.069)	1.157.069	–	–
2- Hedged portion of USD risk (-)	(18.169)	(8.359)	–	–
3- USD net effect (1+2)	**(1.175.238)**	**1.148.710**	**–**	**–**
Appreciation of Euro against TL by 10%:				
4- Euro net asset/liability	(552.694)	552.694	–	–
5- Hedged portion of Euro risk (-)	–	–	(10.039)	10.039
6- Euro net effect (4+5)	**(552.694)**	**552.694**	**(10.039)**	**10.039**
Appreciation of other foreign currencies against TL by 10%:				
7- Other foreign currency net asset/liability	176	(176)	–	–
8- Hedged portion of other foreign currency (-)	–	–	–	–
9- Other foreign currency net effect (7+8)	**176**	**(176)**	**–**	**–**
Total (3+6+9)	**(1.727.756)**	**1.701.228**	**(10.039)**	**10.039**

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk

The value of a financial instrument will fluctuate as a result of changes in market prices. The Group's interest rate risk is primarily attributable to its borrowings.

The interest-bearing financial liabilities have variable interest rates, whereas the interest bearing financial assets have a fixed interest rate and future cash flows associated with these financial instruments will not fluctuate in amount. The Group is subject to interest risk due to financial liabilities and finance lease obligations. Policy of the Group is to manage this risk through fixed and variable rates borrowings. In order to cover for these risks, the Group has entered into interest rate swaps (Note 15).

The interest rate risk table is presented below:

	31 December 2017	31 December 2016
Financial instruments with fixed interest rate		
Financial assets	3.467.650	2.100.430
Financial liabilities	(4.070.254)	(3.969.199)
	(602.604)	(1.868.769)
Effect of interest rate swaps	(5.687.597)	(5.114.134)
	(6.290.201)	**(6.982.903)**
Financial instruments with variable interest rate		
Financial liabilities	(12.418.885)	(11.069.807)
Effect of interest rate swaps	5.687.597	5.114.134
	(6.731.288)	**(5.955.673)**

If the base point of denominated interest rates for financial instruments with variable interest rate was higher 0,25%, with all other variables held constant, the Group's income before tax and minority interest would be lower by TL 6.640 (31 December 2016: TL 7.147) and interest rate was lower 0,25%, with all other variables held constant, the Group's income before tax and minority interest would be higher by TL 6.185 (31 December 2016: TL 4.807) as of 31 December 2017.

On the other side because of hedging, if the base point of interest rate higher/lower 0.25%, equity would be higher by TL 40.856 (31 December 2016: TL 45.991), if the base point of interest rate lower 0,25%, equity would be lower by TL 41.472 (31 December 2016: TL 46.792).

Explanation on the presentation of financial assets and liabilities at their fair values

The below table summarizes the carrying and fair values of financial asset and liabilities in the Group's consolidated financial statements.

Due to their short-term nature, the fair value of trade and other receivables represents their book value. The fair value of borrowings with fixed interests is obtained bsy calculating their discounted cash flows using the market interest rate effective at the reporting date. The fair value of foreign currency denominated borrowings with variable interests is obtained by discounting the projected cash flows using estimated market interest rates.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Explanation on the presentation of financial assets and liabilities at their fair values (continued)

	Carrying amount		Fair value	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Financial assets				
Cash and cash equivalents	4.100.204	3.016.366	4.100.204	3.016.366
Trade and other receivables (including related parties)	4.999.469	4.273.657	4.999.469	4.273.657
Other financial investments (*)	11.840	11.840	(*)	(*)
Derivative financial assets	616.718	652.798	616.718	652.798
Financial liabilities				
Bank borrowings	12.732.751	11.539.249	12.731.473	11.538.927
Bills, bonds and notes issued	3.756.388	3.499.757	3.822.545	3.393.503
Financial leasing liabilities	2.599	2.173	2.599	2.173
Trade payables and other liabilities (including related parties) (**)	5.369.485	5.950.127	5.369.485	5.950.127
Derivative financial liabilities	309.441	385.968	309.441	385.968

(*) Group‘s share in Cetel is carried at cost. Information on fair value of share in Cetel is not available.

(**)Trade payables and other liabilities item includes trade and other payables, employee benefit obligations and other liabilities contained within other current liabilities. Taxes and other payables contained within employee benefit obligations and advances contained within other current liabilities are excluded.

Fair value hierarchy table

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

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

Level 2: Other valuation techniques includes direct or indirect observable inputs

Level 3: Valuation techniques does not contains observable market inputs

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Explanation on the presentation of financial assets and liabilities at their fair values (continued)

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

			Fair Value Measurement		
	Date of Valuation	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets measured at fair value:					
Derivative Financial Assets:					
Cross currency swaps	31 December 2017	557.712	–	557.712	–
Interest rate swaps	31 December 2017	59.006	–	59.006	–
Financial liabilities measured at fair value:					
Derivative Financial Liabilities:					
Interest rate swaps	31 December 2017	117.389	–	117.389	–
Cross currency swaps	31 December 2017	192.052	–	192.052	–
Other financial liabilities not measured at fair value					
Bank loans	31 December 2017	12.731.473	–	12.731.473	–
Bills, bonds and notes issued	31 December 2017	3.822.545	3.822.545	–	–

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Explanation on the presentation of financial assets and liabilities at their fair values (continued)

Fair value hierarchy table as at 31 December 2016 is as follows:

			Fair Value Measurement		
	Date of Valuation	**Total**	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial assets measured at fair value:					
Derivative Financial Assets:					
Cross currency swaps	31 December 2016	601.401	–	601.401	–
Interest rate swaps	31 December 2016	51.397	–	51.397	–
Financial liabilities measured at fair value:					
Derivative Financial Liabilities:					
Interest rate swaps	31 December 2016	152.408	–	152.408	–
Non-controlling interest put option liability	31 December 2016	233.560	–	233.560	–
Other financial liabilities not measured at fair value					
Bank loans	31 December 2016	11.538.927	–	11.538.927	–
Bills, bonds and notes issued	31 December 2016	3.393.503	3.393.503	–	–

Capital management policies

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.

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 return capital to shareholders. No changes were made in the objectives, policies or processes during the years 2016 and 2017.