DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2016
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

CONVENIENCE TRANSLATION INTO ENGLISH OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş.

Report on the Consolidated Financial Statements

1. We have audited the accompanying consolidated financial statements of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

2. The Group's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Turkish Accounting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error

Independent Auditor's Responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our audit was conducted in accordance with standards on auditing issued by the Capital Markets Board of Turkey and Independent Auditing Standards that part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority. Those standards require that ethical requirements are complied with and that the audit is planned and performed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

4. As explained in Note 25 to the accompanying consolidated financial statements, the consolidated balance sheet as at 31 December 2016 consists of trade receivables amounting to TL 9,660,758 which were occurred as a result of the Group's operations and their due dates considerably exceeded 180 days and over. Furthermore, the Group management has recognized foreign exchange gain amounting to TL 1,545,721 in other operating income for the period 1 January - 31 December 2016, due to the translation of foreign currency denominated trade receivables to TL, which their due dates considerably exceeded 180 days and over. We were unable to obtain sufficient appropriate audit evidence on which to determine whether there is any impairment of such balances. As a result, we were unable to determine whether adjustments were necessary in respect of the recoverability of this amount.

5. The Company's subsidiaries, Doğtaş Holland B.V., Doğtaş Bulgaria Eood and Doğtaş Germany GmbH have been determined as immaterial subsidiaries with respect to the consolidated financial statements by the Group management and classified under available-for-sale financial assets in the consolidated financial statements. Due to the limited operations and unsecured total net assets of available-for-sale financial assets amounting to TL 9,469,958 which were recognized at cost in accordance with Turkish Accounting Standards 39 "Financial Instruments: Recognition and Measurement" in the financial statements as at 31 December 2016, we have concluded that provision for impairment should have been recognized for the entire carrying amount of available-for-sale financial assets in the consolidated opening balance sheet as at 1 January 2015. As a result, had the Group accounted provision for impairment in its consolidated financial statements, the Group's accumulated losses would have been increased by TL 9,469,958.

Qualified Opinion

6. In our opinion, except for the possible effect of the matter in paragraph 4 and except for the effect of the matter described in paragraph 5, the consolidated financial statements present fairly, in all material respects the financial position of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. and its subsidiaries as at 31 December 2016 and their financial performance and cash flows for the year then ended in accordance with Turkish Accounting Standards.

Emphasis of Matter

7. As explained in Note 2.5 to the accompanying consolidated financial statements, as at 31 December 2016 the Group's current liabilities exceeded its current assets by TL 83,211,075 (31 December 2015: exceeded by TL 30,319,696). Accordingly, the Group's management, performed a detailed assessment and took precautions as disclosed in note 2.5.

Other Matter

8. The consolidated financial statements of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. and its subsidiaries as at 31 December 2015 and for the year then ended were audited by another audit firm whose audit report dated 21 March 2016 expressed a qualified opinion

Other Responsibilities Arising From Regulatory Requirements

9. In accordance with subparagraph 4 of Article 398 of the Turkish Commercial Code ("TCC") No: 6102; auditor's report on the early risk identification system and committee has been submitted to the Company's Board of Directors on 13 March 2017.

10. In accordance with subparagraph 4 of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2016 is not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.

11. In accordance with subparagraph 4 of Article 402 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016

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CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2016

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

	Notes	2016	2015
ASSETS			
Cash and cash equivalents	3	737,786	7,177,720
Trade receivables		81,114,376	81,052,856
- Trade receivables from related parties	*24*	*3,197,367*	*2,225,082*
- Trade receivables from third parties	*4*	*77,917,009*	*78,827,774*
Other receivables from third parties	5	3,524,277	3,763,297
Inventories	6	142,410,216	105,264,234
Current income tax assets	23	156,475	398,612
Prepaid expenses	8	19,823,938	15,464,988
Other current assets	7	427,901	1,231,572
Current assets		**248,194,969**	**214,353,279**
Assets classified as held for sale	10	491,200	566,200
Total current assets		**248,686,169**	**214,919,479**
Trade receivables from related parties	4	-	828,995
Other receivables from third parties	5	446,975	387,324
Available-for-sale financial assets	9	9,469,958	9,469,958
Investment properties	11	55,264	56,476
Property, plant and equipment	12	172,078,671	147,336,781
Intangible assets	13	23,054,803	20,943,216
Prepaid expenses		-	16,213
Deferred tax assets	23	156,642	1,266,862
Non-current assets		**205,262,313**	**180,305,825**
Total assets		**453,948,482**	**395,225,304**

These financial statements as at 1 January - 31 December 2016 and for the year then ended, have been approved for issue by the Board of Directors on 13 March 2017.

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

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2016

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

	Notes	2016	2015
LIABILITIES			
Short-term borrowings	14	95,204,131	59,645,357
Short-term portion of long term borrowings	14	42,503,009	34,147,189
Trade payables		127,260,011	126,184,832
- Due to related parties	*24*	*70,349*	*-*
- Due to other parties	*4*	*127,189,662*	*126,184,832*
Payables related to employee benefits	16	4,803,886	4,766,784
Other payables		975,118	475,797
- Other payables from related parties	*5*	*975,118*	*475,545*
- Other payables from other parties		*-*	*252*
Deferred revenue	8	56,348,113	15,025,880
Short-term provisions		4,751,999	4,907,687
- Provisions for employee benefits	*16*	*2,566,228*	*2,927,508*
- Other provisions	*15*	*2,185,771*	*1,980,179*
Other current liabilities		50,977	85,649
Total current liabilities		**331,897,244**	**245,239,175**
Long-term borrowings	14	91,235,372	109,547,560
Other payables		906,312	588,998
- Other payables from other parties		*906,312*	*588,998*
Long-term provisions		2,915,003	3,323,010
- Long-term provisions related to employee benefits	*16*	*2,082,327*	*2,950,900*
- Other long-term provisions	*15*	*832,676*	*372,110*
Deferred revenue		38,960	116,720
Deferred tax liabilities	23	1,043,194	612,188
Total non-current liabilities		**96,138,841**	**114,188,476**
Share capital	18	209,069,767	209,069,767
Reverse merger capital differences	18	(159,069,767)	(159,069,767)
Share premium		282,945	282,945
Treasury shares (-)	18	(10,991)	(5,367,595)
Other comprehensive income/expense not to be reclassified to profit or loss			
- Increase on revaluation of property and equipment		*68,479,964*	*45,166,056*
- Actuarial gain arising from employee benefits		*1,867,562*	*1,518,839*
Legal reserves	18	607,177	607,177
Accumulated deficit		(55,666,145)	(28,677,323)
Net loss for the period		(39,648,115)	(27,732,446)
Total equity		**25,912,397**	**35,797,653**
Total liabilities and equity		**453,948,482**	**395,225,304**

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016
(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

	Notes	2016	2015
Revenue	19	395,471,738	373,342,615
Cost of sales (-)	19	(265,166,697)	(247,780,328)
Gross profit		**130,305,041**	**125,562,287**
General administrative expenses (-)	20	(24,256,338)	(20,862,784)
Marketing expenses (-)	20	(93,966,776)	(81,830,059)
Research and development expenses (-)	20	(3,222,867)	(2,785,077)
Other operating income	21	15,482,522	11,979,090
Other operating expenses (-)	21	(18,003,842)	(12,662,586)
Operating profit		**6,337,740**	**19,400,871**
Income from investing activities		581,887	201,134
Operating profit before financial income/(expenses)		**6,919,627**	**19,602,005**
Financial income	22	12,553,495	25,821,450
Financial expenses (-)	22	(61,581,367)	(79,937,777)
Loss before tax		**(42,108,245)**	**(34,514,322)**
Taxation on income:			
Deferred tax income	23	2,460,130	6,781,876
Net loss for the period		**(39,648,115)**	**(27,732,446)**
Loss per share	28	(0.0019)	(0.0013)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Notes	2016	2015
Net loss for the period		**(39,648,115)**	**(27,732,446)**
Items not to be classified to profit or loss		*25,005,349*	*12,127,660*
Revaluation reserves	12	28,570,801	13,419,089
Remeasurement differences	16	435,904	72,030
Deferred tax expense	23	(4,001,356)	(1,363,459)
Other comprehensive loss		**(14,642,766)**	**(15,604,786)**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Share capital	Share premium	Treasury shares	Legal reserves	Remeasurement differences	Revaluation reserves	Accumulated deficit	Net loss for the period	Total equity
Balance at 1 January 2015	**50,000,000**	**282,945**	**(5,367,595)**	**607,177**	**1,461,215**	**34,006,514**	**(18,320,168)**	**(11,267,649)**	**51,402,439**
Transfers	-	-	-	-	-	(910,494)	(10,357,155)	11,267,649	-
Total comprehensive loss	-	-	-	-	57,624	12,070,036	-	(27,732,446)	(15,604,786)
Balance at 31 December 2015	**50,000,000**	**282,945**	**(5,367,595)**	**607,177**	**1,518,839**	**45,166,056**	**(28,677,323)**	**(27,732,446)**	**35,797,653**
Balance at 1 January 2016	**50,000,000**	**282,945**	**(5,367,595)**	**607,177**	**1,518,839**	**45,166,056**	**(28,677,323)**	**(27,732,446)**	**35,797,653**
Transactions in treasury shares	-	-	5,356,604	-	-	-	(599,094)	-	4,757,510
Transfers	-	-	-	-	-	(1,342,718)	(26,389,728)	27,732,446	-
Total comprehensive loss	-	-	-	-	348,723	24,656,626	-	(39,648,115)	(14,642,766)
Balance at 31 December 2016	**50,000,000**	**282,945**	**(10,991)**	**607,177**	**1,867,562**	**68,479,964**	**(55,666,145)**	**(39,648,115)**	**25,912,397**

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

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE PERIOD 1 JANUARY 2016-31 DECEMBER 2016

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

	Notes	2016	2015
A. CASH FLOWS FROM OPERATING ACTIVITIES		**18,969,763**	**50,665,294**
Net loss for the period		**(39,648,115)**	**(27,732,446)**
Loss from continuing operations		(39,648,115)	(27,732,446)
Adjustments to reconcile loss for the period		**55,152,395**	**74,532,071**
Depreciation and amortisation	20	15,843,537	12,634,192
Adjustments related to impairment		182,266	1,549,365
Adjustments related to impairment on receivables	*4*	*182,266*	*1,549,365*
Adjustments related to provisions		2,652,229	2,845,132
Adjustments related to provisions For employment termination benefits		*524,659*	*856,873*
Adjustments related to guarantee		*1,487,271*	*1,610,261*
Adjustments related to other provisions		*640,299*	*377,998*
Adjustments related to financial income/ expenses		14,672,227	14,237,548
Adjustments related to financial expenses	*22*	*17,828,911*	*15,310,162*
Adjustments related to financial income	*22*	*(11,873)*	*(212,351)*
Unincurred finance expense		*277,652*	*414,608*
Unincurred finance income		*(3,422,463)*	*(1,274,871)*
Adjustments to unrealised foreign currency differences		25,714,518	51,020,912
Adjustments to gain/(loss) on sale of property and equipment		(581,887)	(201,134)
Adjustments to gain/(loss) on sale of property and equipment		*(581,887)*	*(201,134)*
Other adjustments to reconcile gain/(loss)		(870,365)	(772,068)
Adjustments related to tax expenses	23	(2,460,130)	(6,781,876)
Changes in net working capital		**3,465,483**	**3,865,669**
Adjustments related to increases in inventories		(37,145,982)	(29,817,594)
Adjustments related to increases in trade receivables		307,557	(23,894,270)
Decrease/(increase) in trade receivables from related parties		*1,279,842*	*(22,062,118)*
Decrease/(increase) in trade receivables from third parties		*(972,285)*	*(1,832,152)*
Adjustments related to increases in other receivables related with operations		179,369	(2,504,408)
Adjustments related to increases in other receivables related with operations From third parties		*179,369*	*(2,504,408)*
Adjustments related to (increase)/decrease in prepaid expenses		(4,342,737)	(3,451,634)
Decrease/(increase) in prepaid expenses from third parties		*(4,342,737)*	*(3,451,634)*
Adjustments related to (increase)/decreases in deferred income		41,244,473	(5,065,611)
Adjustments related to provisions for employment termination benefits		(760,082)	3,557,899
Adjustments related to increase in trade payables		4,497,642	69,846,589
Increase/(decrease) in trade payables to related parties		*70,349*	-
Increase/(decrease) in trade payables to third parties		*4,427,293*	*69,846,589*
Adjustments related to increases in other payables related with operations		816,635	(1,885,211)
Increase (decrease) in other payables related with operations from related parties		*(252)*	-
Increases/(decreases) in other payables related with operations from third parties		*816,887*	*(1,885,211)*
Adjustments related to increase/(decrease) in other working capital1,087,348		(180,430)	
Increase/decrease in other assets related to operations		*1,122,020*	*561,313*
Increase/decrease in other liabilities related to operations		*(34,672)*	*(741,743)*
Employee termination benefits paid		(957,328)	(1,601,071)
Payments for other provisions		(1,461,412)	(1,138,590)

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

CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE PERIOD 1 JANUARY 2016-31 DECEMBER 2016

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

	Notes	2016	2015
B. CASH FLOWS FROM INVESTING ACTIVITIES		**(13,779,387)**	**(17,817,084)**
Cash outflows from purchases of tangible and intangible assets		(14,830,292)	(18,726,681)
Purchases of tangible assets	*13*	*(9,916,234)*	*(17,259,928)*
Purchase of intangible assets	*14*	*(4,914,058)*	*(1,466,753)*
Cash outflows from purchases of held for sale properties	10	(65,000)	(312,500)
Proceeds from disposal of tangible and intangible assets		975,905	609,597
Disposal from tangible assets		*975,905*	*609,597*
Proceeds from purchases of assets held for sale properties		140,000	612,500
C. CASH FLOWS FROM FINANCING ACTIVITIES		**(11,630,310)**	**(44,883,346)**
Interest paid		(16,287,581)	(15,310,162)
Interest received		11,873	212,351
Proceeds from purchase of treasury shares		4,757,510	-
Proceeds from borrowings		85,158,604	110,871,125
Proceeds from bank borrowings		*85,158,604*	*110,871,125*
Payments of financial liabilities		(85,270,716)	(140,656,660)
Cash outflows due to payments of bank borrowings		*(85,270,716)*	*(140,656,660)*
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES (A+B+C)		**(6,439,934)**	**(12,035,136)**
D, CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**4**	**7,177,720**	**19,212,856**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (A+B+C+D)	**4**	**737,786**	**7,177,720**

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Registered head office:

Rüzgarlıbahçe Mahallesi Kavak Sokak No: 31/1 B Blok Smart Plaza Kat: 4-5 Kavacık, Beykoz - İstanbul.

Registered market:

The Company is registered in Capital Market Board (“CMB”) and its shares have been traded in Borsa İstanbul A.Ş. ("BİST") since 1990 (formerly known as "Istanbul Stock Exchange") under the name DGKLB. As of 31 December 2016, 7.89% of its shares are open for trading (2015: 7.89%).

Nature of operations:

The main operating segment is production and sale of furnitures.

The Company’s production facilities are located at Doğanlı Köyü 9. km Düzce and İdriskoru Köyü Hacıvenez Mevkii No: 29 Biga Çanakkale and both locations are owned by the Company itself.

Kelebek Mobilya ve Kontrplak Sanayi A.Ş. was founded in Istanbul in 1935. Legal name of the Company which were Kelebek Mobilya ve Kontrplak Sanayi A.Ş. has been changed to Kelebek Mobilya Sanayi ve Ticaret A.Ş. by the decision taken in extraordinary general assembly meeting dated 12 December 2003 and registered to Trade Registry Gazette of Turkey on 29 December 2003.

A chain of retail stores established in 2006 in order to operate in furniture and trade goods sale by 3K Mobilya Dekorasyon San. Ve Tic. A.Ş. ("3K"), which is a subsidiary of the Company. In 2013, the Company has transferred the stores (8 units) to franchisees owned by 3K. 2K Oturma Grupları İnşaat Taahhüt Sanayi ve Ticaret A.Ş. which also is a subsidiary of the Company ceased its operations as of 28 March 2007 and the production facilities were terminated.

Doğtaş Mobilya Pazarlama Ticaret A.Ş. ("Doğtaş Pazarlama") which is a subsidiary of the Company was established in 1996 and operates in selling and marketing of furniture and sofa groups and commercial products. Doğtaş Pazarlama has no branches in Turkey as of 31 December 2016 (2015: None).

Doğ-taş Doğanlar Mobilya İmalat Enerji Üretim Sanayi ve Ticaret A.Ş. (“Doğtaş İmalat”) acquired 67% shares of Kelebek Mobilya Sanayi ve Ticaret A.Ş. on 6 September 2012.

In 2013, the merger transaction has been completed in accordance with Turkish Commercial Code Law No. 6102 clause 136 and other merger related clauses in which were Corporate Tax Law article 18, 19, 20, Capital Markets Law from the identifiable net assets of Doğ-Taş Doğanlar Mobilya İmalat Enerji Üretim Sanayi A.Ş. as at 31 December 2013. The merger transaction has been registered on 21 October 2013 and the legal name of the Company changed as Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş.

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

Consolidated financial statements were approved by the Company's Board of Directors to be published on 13 March 2017. The General Assembly and related legal entities have the right to amend the financial statements prepared in accordance with the legal regulations and the financial tables in this consulate.

The shareholding structure of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. as of 31 December 2016 and 2015 is as follows:

	2016		2015	
Shareholder	**TL**	**Proportion of ownership (%)**	**TL**	**Proportion of ownership (%)**
International Furniture B.V.	96,284,884	46.05	96,284,884	46.05
Davut Doğan	16,047,503	7.68	16,047,503	7.68
Adnan Doğan	16,047,484	7.68	16,047,484	7.68
Şadan Doğan	16,047,474	7.68	16,047,474	7.68
İsmail Doğan	16,047,474	7.68	16,047,474	7.68
İlhan Doğan	16,047,474	7.68	16,047,474	7.68
Murat Doğan	16,047,474	7.68	16,047,474	7.68
Other	16,500,000	7.89	16,500,000	7.89
	209,069,767	**100**	**209,069,767**	**100**

As of 31 December 2016 and 2015, the paid-in share capital of the Company is TL 209,069,767. However, the portion of the capital amounting to TL 159,069,767 is attributable to Doğan Taş Doğanlar Mobilya İmalat Enerji Üretim Sanayi A.Ş. and Kelebek Mobilya Sanayi ve Ticaret A.Ş. during the merger (Note 18).

The subsidiaries within the Group and their nature of operations are as follows:

Subsidiaries	**Registered country**	**Nature of operation**
Doğtaş Mobilya Pazarlama Ticaret A.Ş. ("Doğtaş Pazarlama")	Turkey	Sales and marketing of furniture
Doğtaş Bulgaria Eood ("Doğtaş Bulgaria")	Bulgaria	Sales and marketing of furniture
Doğtaş Holland B.V. ("Doğtaş Holland")	Nederland	Sales and marketing of furniture
Doğtaş Germany GmbH ("Doğtaş Germany")	Germany	Sales and marketing of furniture
2K Oturma Grupları İnşaat ve Taahhüt San. ve Tic. A.Ş. ("2K")	Turkey	Sales of sitting group
3K Mobilya Dekor. San. ve Tic. A.Ş. ("3K")	Turkey	Furniture decoration

The Company's subsidiaries, Doğtaş Holland B.V., Doğtaş Bulgaria Eood and Doğtaş Germany GmbH have been determined as immaterial subsidiaries with respect to the consolidated financial statements by the Group management and classified under available-for-sale financial assets in the consolidated financial statements.

As of 31 December 2016, the number of employees of the Company and its subsidiaries (collectively referred to as the "Group") is 1,300 (2015: 1,355).

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

Adequacy of the Company's share capital under the Turkish Commercial Code:

As a result of the merger between Doğ-Taş Doğanlar Mobilya İmalat Enerji Üretim Sanayi A.Ş. and Kelebek Mobilya Sanayi ve Ticaret A.Ş. in 2013, share capital reached to TL 209,069,767 and while the share capital of the Company were increased to TL 159,069,767 "Reverse Merger Differences" account was charged at the same amount, with respect to Series I, No. 31 of the Communiqué on Principles Regarding Merger Transactions. Such entries were recorded under the books prepared in accordance with Turkish Commercial Code and Capital Market.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

2.1.1 Financial reporting standards

The consolidated financial statements are prepared in accordance with Communiqué Serial II, No: 14.1, "Principles of Financial Reporting in Capital Markets" ("the Communiqué") published in the Official Gazette numbered 28676 on 13 June 2013. According to Article 5 of the Communiqué, consolidated financial statements are prepared in accordance with the Turkish Accounting Standards ("TAS") issued by Public Oversight Accounting and Auditing Standards Authority ("POAASA"). TAS contains Turkish Accounting Standards, Turkish Financial Reporting Standards ("TFRS") and its addendum and interpretations.

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

The Group and its Turkish subsidiaries maintains their books of accounts and prepares their statutory financial statements in accordance with the principles issued by CMB, the Turkish Commercial Code ("TCC"), tax legislation, the Uniform Chart of Accounts issued by the Ministry of Finance. The foreign subsidiary maintains its books of account in accordance with the laws and regulations in force in the countries in which they operate. These consolidated financial statements have been prepared under historical cost conventions except for the financial assets and investment properties carried at fair value. The consolidated financial statements are based on the statutory records, which are maintained under historical cost conventions, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with TAS. The consolidated financial statements are presented in accordance with "Announcement regarding with TAS Taxonomy" which was published on 2 June 2016 by POAASA and the format and mandatory information recommended.

2.1.2 Comparatives and restatement of prior period's financial statements

The consolidated financial statements of the Group are prepared comparatively to enable the determination of the trends of the financial position and performance. The Group presented the consolidated balance sheet at 31 December 2016 comparatively with the consolidated balance sheet at 31 December 2015. The Group presented the consolidated statements of income, other comprehensive income, cash flows and changes in equity for the period ended 31 December 2016 comparatively with the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year ended 31 December 2015.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.1 Financial reporting standards (continued)

As of 31 December 2015, the other value added tax amounting to TL 1,076,621 which is included in "other current assets" account in the balance sheet has been classified under "other current liabilities".

As of December 31, 2015, future expenditures for the next period amounting to TL 8,393,065 included in the "prepaid expenses" account in the balance sheet have been classified under "deferred income".

As of 31 December 2015, unused vacation provision amounting to TL 2,927,508 included in "Long-term provisions related to employee benefit provision" in the consolidated balance sheet has been reclassified to "Short-term provisions related to employee benefits".

The various outsourcing expenses amounting to TL 4.267.823 included in the "marketing expenses" account in the profit or loss table for the period 1 January - 31 December 2015 are classified under "cost of sales" account.

The outsourcing expenses amounting to TL 3.305.460 included in the "general administrative expenses" account in the income statement for the period 1 January - 31 December 2015 are classified under "cost of sales" account.

Government incentives amounting to TL 2.375.232 included in "Other operating income" account in the income statement for the period 1 January - 31 December 2015 are classified under "marketing expenses" account.

Advertising and marketing expenses amounting to TL 538.586 which are included in "general administrative expenses" account in the income statement for the period 1 January - 31 December 2015 are classified under "marketing expenses" account.

Rent income amounting to TL 2,636,877 which is included in "Other income from operating activities" in the income statement for the period 1 January - 31 December 2015 is classified under "Other expenses from main operations".

2.2 New and amended international financial reporting standards

a) Amendments to published standards and interpretations effective starting from 31 December 2016

- Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 4 standards:

  - TFRS 5 “Non-current assets held for sale and discontinued operations” regarding methods of disposal.
  - TFRS 7 “Financial instruments: Disclosures”, (with consequential amendments to TFRS 1) regarding servicing contracts.
  - TAS 19 “Employee benefits” regarding discount rates.
  - TAS 34 “Interim financial reporting” regarding disclosure of information.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.2 New and amended international financial reporting standards (Continued)

- Amendment to TAS 16 “Property, plant and equipment” and TAS 38 “Intangible assets”, on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment the it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The standart has no impact on the financial position or performance of the Group.

- Amendments to TAS 16 “Property,plant and equipment”, and TAS 41 “Agriculture”, regarding bearer plants, effective from annual periods beginning on or after 1 January 2016. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. It has been decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of TAS 16, instead of TAS 41. The produce growing on bearer plants will remain within the scope of TAS 41. The standart has no impact on the financial position or performance of the Group.

- Amendments to TAS 27 ‘Separate financial statements” on the equity method, effective from annual periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The standart has no impact on the financial position or performance of the Group.

- Amendment to TFRS 10 “Consolidated financial statements” and TAS 28 “Investments in associates and joint ventures”, effective from annual periods beginning on or after 1 January 2016.These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. The standart has no impact on the financial position or performance of the Group.

- Amendment to TAS 1 “Presentation of financial statements” on the disclosure initiative, effective from annual periods beginning on or after 1 January 2016, these amendments are as part of the IASB initiative to improvepresentation and disclosure in financial reports. The standart has no impact on the financial position or performance of the Group.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.2 New and amended international financial reporting standards (Continued)

b) Standards, amendments and interpretations issued as of 31 December 2016 but not effective:

- Amendments to TAS 7 "Statement of cash flows" on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. This standard is not expected to have a significant effect on the financial position and performance of the Group.

- Amendments TAS 12 "Income Taxes", effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarify certain other aspects of accounting for deferred tax assets. This standard is not expected to have a significant effect on the financial position and performance of the Group.

- TFRS 9 "Financial instruments", effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. This standard is not expected to have a significant effect on the financial position and performance of the Group.

- TFRS 15 "Revenue from contracts with customers", effective from annual periods beginning on or after 1 January 2018. TFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. This standard is not expected to have a significant effect on the financial position and performance of the Group.

- Amendment to TFRS 15 "Revenue from contracts with customers", effective from annual periods begining on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard. This standard is not expected to have a significant effect on the financial position and performance of the Group.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.2 New and amended international financial reporting standards (Continued)

- TFRS 16 "Leases", effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in TAS 17 and is a farreaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The effects of the standard on the Group's financial position and performance are being evaluated.

- Amendment to TAS 40 "Investment property" relating to transfers of investment property, effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence. This standard is not expected to have a significant effect on the financial position and performance of the Group.

- IFRIC 22 "Foreign currency transactions and advance consideration", effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

- Annual improvements 2014–2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 3 standards:

    - TFRS 1 "First-time adoption of TFRS", regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19, and TFRS 10 effective 1 January 2018.

    - TFRS 12"Disclosure of interests in other entities" regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.

    - TAS 28 "Investments in associates and joint ventures" regarding measuring an associate or joint venture at fair value effective 1 January 2018.

Group will evaluate the effect of the aforementioned changes within its operations and apply changes starting from effective dates.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.3 Changes in accounting policies, estimates and errors

Significant changes in accounting policies or significant errors are corrected, retrospectively; by restating the prior period consolidated financial statements.

The effect of changes in accounting estimates affecting the current period is recognised in the current period; the effect of changes in accounting estimates affecting current and future periods is recognised in the current and future periods.

As of 31 December 2016, there are no significant accounting errors that the Group has identified in the accounting policies.

2.4 Summary of significant accounting policies

Significant accounting policies applied in the preparation of the consolidated financial statements are summarized below:

2.4.1 Basis of consolidation

Consolidated financial statements include the financial statements of the companies controlled by the Group in Note 1. The necessary adjustments have been made to eliminate between group companies sales and purchases, between group receivables and payables and intra-group capital and subsidiaries.

Subsidiaries are companies over which the Company has the power to control the financial and operating policies for the benefit of the Company, either (a) through the power to exercise more than 50% of the voting rights relating to shares in the companies as a result of ownership interest owned directly and indirectly by itself, or (b) although not having the power to exercise more than 50% of the ownership interest, and/or as a result of agreements by certain the Company members and companies owned by them whereby the Company exercises control over the ownership interest of the shares held by them; otherwise the power to exercise control over the financial and operating policies.

The table below sets out the subsidiaries and shows the proportion of ownership interests:

	2016		2015	
Subsidiaries	**Direct and indirect ownership interest by the Group**	**Proportion of effective interest**	**Direct and indirect ownership interest by the Group**	**Proportion of effective interest**
Doğtaş Pazarlama	100.00	100.00	100.00	100.00
2K	100.00	100.00	100.00	100.00
3K	100.00	100.00	100.00	100.00

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

The Group fully consolidated the individual income and expenses and assets and liabilities. Investment in subsidiaries are eliminated with the capital of the subsidiaries invested.

Subsidiaries are consolidated from the date on which the control is transferred to the Group and are deconsolidated from the date that the control ceases. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

2.4.2 Related parties

Shareholders, members of Board of Directors and key management personnel, in each case together with their families and companies controlled by or affiliated with them, joint ventures and associates are considered and referred to as related parties.

2.4.3 Cash and cash equivalents

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

2.4.4 Trade receivables

Trade receivables that are recognised by way of providing goods or services directly to a debtor are accounted for initially at fair value and subsequently are measured at amortised cost, using the effective interest method, less provision for impairment, if any.

A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount. The recoverable amount is the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted by the original effective interest rate of the originated receivables at inception.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the consolidated statement of income.

2.4.5 Inventories

Inventories are valued at the lower of cost or estimated selling price less estimated costs necessary to make a sale. Cost elements included in inventory are purchase costs and other costs necessary to prepare the asset for its intended use. Cost elements included in inventories are materials, labor and production overheads.

The cost is determined using the monthly weighted average method for inventories. . Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

2.4.6 Assets held for sale

Assets held for sale are comprise of real-estates which were obtained from customers whose receivables are past due. These assets are measured at the lower of cost or estimated selling price less estimated costs necessary to make a sale and depreciation process is ceased for abovementioned assets. When right of usage is earned by court order or customer consent, the respective amount for impairment reclassified to assets held for sale after offsetting its cost, and the difference between fair value of asset and the amount of trade receivables is recognized in the consolidated statement of profit or loss. When these assets are sold, the difference between the consideration and carrying value of asset is recognized in the consolidated statement of income.

2.4.7 Investment properties

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

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property is included in profit or loss in the period in which the property is derecognized

Depreciation is calculated for investment property using linear depreciation method based on their economic lives. Their useful life is identified as 50 years.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4.8 Property, plant and equipment

Land, land improvements and buildings and machinery and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated impairment losses. The Group can make the fair value assessments between 3 and 5 years. The fair value assessments of land, land improvements and buildings were made on 2016 and the fair value assessments of machinery and equipment were made on 2013. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the relevant asset, and the net amount is restated to the revalued amount of the assets.

Property, plant and equipment are carried at the acquisition cost less accumulated depreciation and impairment, if any. Land is not depreciated. Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

A decrease in carrying amount arising on the revaluation of such buildings is charged to profit or loss to the extent that is exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognized.

The depreciation periods for property and equipment, which approximate the estimated economic useful lives of such assets, are as follows:

Land improvements	15 - 50 years
Machinery, plant and equipment	5 - 28 years
Furniture and fixtures	2 - 15 years
Vehicles	4 - 5 years
Leasehold improvements	4 - 5 years

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Estimated useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The cost of an item of property, plant and equipment comprises:

- Acquisition costs, including import duties and non-refundable purchase taxes, less discounts and rebates
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating
- Employee benefits arising directly from the construction or acquisition of the item of the asset
- Site preparation and expropriation costs for the construction works
- Initial delivery and handling costs
- Installation and assembly costs
- Professional fees
- Borrowing costs eligible for capitalisation

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset less the costs of disposal. Value in use is the present value of the future cash flows expected to be derived from an asset.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating income or other operating expense in the consolidated statement of income.

2.4.9 Intangible assets

Intangible assets are presented with net book value after deduction of amortisation. Intangible assets are capitalized if future economic benefits arising from intangible assets are going to be beneficial to the firm and cost can be measured.

Purchased intangible assets are amortised on a straight-line basis over their useful lives for two to five years.

Intangible assets include acquired rights and copyrights.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Kelebek brand value

Doğ-taş Doğanlar Mobilya İmalat Enerji Üretim Sanayi ve Ticaret A.Ş., acquired 67% shares of Kelebek Mobilya Sanayi ve Ticaret A.Ş. on 6 September 2012. The value of the Kelebek brand acquired through this acquisition has been recorded at fair value on 6 September 2012 in accordance with TFRS 3 and the financial statements have unlimited life for this brand with no legally restricted use. The brand value is subject to an impairment test once a year.

2.4.10 Available for sale financial assets

Available for sale financial assets are constituted from subsidiaries which has not been consolidated because of materiality by the Group (Note 9). Available for sale financial assets are valued at the fair value if they are measured reliably after they recognized. Marketable securities are shown on cost value that are not measured reliably.

2.4.11 Taxes on income

Taxes on income for the period comprise current tax and the change in deferred income taxes. Current year tax liability consists of the taxes calculated over the taxable portion of the current year income by reference to corporate income tax rates enacted as of the balance sheet date and adjustments provided for previous years' income tax liabilities.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income taxes.

Deferred income tax liabilities are recognised for all taxable temporary differences, whereas deferred income tax assets resulting from deductible temporary differences, deductible tax losses carried forward and unused investment allowances are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised.

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

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

2.4.12 Impairment of non-financial assets

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Value in use is the present value of estimated future cash flows expected to arise from the use of an asset and from its disposal at the end of its useful life while the net selling price is the amount that will be collected from the sale of the asset less costs of disposal. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or has decreased. The reversal is recorded in the statement of income.

2.4.13 Financial investments

Classification

The Group classifies its financial assets in the following categories: loans and receivables, available-for-sale financial assets and held to maturity financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of reporting period. Those with maturities greater than 12 months are classified as non-current assets. The receivables are classified as "trade and other receivables" in the consolidated balance sheets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose it within 12 months of the end of reporting period.

Recognition and measurement

Loans and receivables are carried at amortised cost using the effective interest method. The translation differences on monetary securities are recognized in the income statement; translation differences on non-monetary securities are recognized in equity.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

If the market for a financial asset is not active and the fair value of the financial asset cannot be measured reliably, aforementioned financial assets are accounted for cost less impairment in the consolidated financial statements.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is removed from equity and recognized in the statement of income. Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income.

2.4.14 Borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale. All other borrowing costs are charged to the consolidated statement of income when they are incurred.

2.4.15 Trade payables

Trade payables represent mandatory payments for goods and services provided by suppliers for the ordinary activities of the business. Trade payables are recognized initially at fair value and are subsequently measured at amortised cost using the effective interest rate method.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

2.4.16 Employee benefits

Defined benefit plans:

In accordance with existing social legislation in Turkey, the Company is required to make lump-sum termination indemnity payments to each employee who has completed over one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. As detailed in Note 14, the employee benefit liability is provided for in accordance with TAS 19 "Employee Benefits" and is based on an independent actuarial study. Actuarial gains and losses that calculated by professional actuarials, are recognized in the actuarial gain/loss fund regarding employee termination benefits in the equity. Recognized gains and losses shall not be transferred to comprehensive statement of income in the following periods. Reserve for employee termination benefits is recognized to financial statements that calculated with the discount rate estimated by professional actuarial.

Unused vacation

Unused vacation rights accrued in the consolidated financial statements represents estimated total provision for potential liabilities related to employees' unused vacation days as of the balance sheet date.

2.4.17 Provisions, contingent assets and contingent liabilities

Provision are recognised in the consolidated financial statements, when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate, used to calculate the present value of the provision should be pre-tax rate reflecting the current market assessments of the time value of money and the risks specific to the liability. The discount rate shall not reflect risks for which future cash flow estimates have been adjusted.

A possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group have not been recognised in these consolidated financial statements and treated as contingent liabilities and contingent assets.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

2.4.18 Revenue recognition

Sales revenue

Revenue includes the invoiced values of goods sales. Revenue is recognized on the accrual basis at the fair value of the consideration received or receivable, the delivery of the product, the transfer of the risks and benefits related to the product, the amount of revenue can be reliably determined and the economic benefits related to the transaction are likely to flow to the Group. Significant risks and benefits during the sale are transferred when the goods are delivered to the buyer or when the legal owner passes to the buyer. Net sales represent the invoiced value of delivered goods, excluding sales returns and sales tax.

Interest Income

Interest income: Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. The interest calculated is recognised as interest income.

2.4.19 Offsetting

All items with significant amounts and nature, even with similar characteristics, are presented separately in the consolidated financial statements. Insignificant amounts are grouped and presented by means of items having similar substance and function.

2.4.20 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new options are shown in equity as a deduction from the proceeds.

2.4.21 Treasury shares

The Group recognises consideration fee paid to acquire its own shares under "treasury shares" account in equity. In case of a resale of those treasury shares, difference between the consideration received and paid is recognized in accumulated losses.

2.4.22 Dividend distribution

Dividend distribution to the shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

2.4.23 Earnings or losses per share

Basic earnings per share is calculated by dividing the net profit for the period by the weighted average number of ordinary shares outstanding during the period. All shares of the Company are in same status.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

2.4.24 Events after the balance sheet date

The Group adjusts the amounts recognised in the consolidated financial statements to reflect the adjusting events after the balance sheet date. If non-adjusting events after the balance sheet date have material influences on the economic decisions of users of the financial statements, they are disclosed in the notes to the consolidated financial statements.

2.4.25 Cash flow statement

Cash flows during the period are classified and reported by operating, investing and financing activities in the consolidated statements of cash flows.

Cash flows related to operating activities represent the cash flows of the Group generated from energy and transportation activities.

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

Cash flows related to financing activities represent the cash proceeds from the financing activities of the Group and repayments of these funds.

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

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.5 Going concern

The consolidated financial statements were prepared under the going concern assumption.

The Group incurred high cost of financing and investing activities primarily due to its strategy which was based on rapid growing and increasing its market share through external borrowings. As at 31 December 2016, the Group's current liabilities exceeded its current assets by TL 83,211,075 (2015: TL 30,319,696). Within this context the Group management took below precautions:

The Group has initiated negotiations with the financial institutions in respect to restructuring of its short-term bank borrowings and agreed on restructuring of short-term bank borrowings amounting to TL 46,741,921 as at the approval of this consolidated financial statements. Furthermore, negotiations for restructuring of short-term bank borrowings amounting to TL 14,315,272 were ongoing and it is expected to complete with an agreement.

In the subsequent period of these consolidated financial statements, the Group have come to an agreement for housing-furniture projects which have a total contract amount TL 24,594,658. Furthermore, starting from February 2017, value added tax ratio has been decreased to 8% from 18% and this regulation is expected to have positive effect on the operations. It is expected that the precautions determined by the Group and regulations regarding the market is going to have TL 39,845,602 positive effect to operating profit in 2017, with respect to 2017 budget which were approved by the Board of Directors.

The Group has generated TL 6,337,740 operating profit in the consolidated statement of profit or loss for the year ended 31 December 2016 (2015: TL 19,400,871). As the financial liabilities will decrease in 2017, management expects to incur profit before tax in its consolidated financial statements in foreseeable future. Furthermore, the Group, has generated a net cash inflow of TL 18,969,763 for the year ended 31 December 2016 (2015: TL 50,665,294).

Accordingly, management believes that the Group will be able to continue its operations in the foreseeable future.

2.6 Significant accounting estimates and assumptions

The preparation of the consolidated financial statements necessitates the use of estimates and assumptions that affect asset and liability amounts reported as of the balance sheet date, explanations of contingent liabilities and assets; and income and expense amounts reported for the accounting period. Although these estimates and assumptions are based on all management information related to the events and transactions, actual results may differ from them. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities for the next reporting period are outlined below:

2.6.1 Useful lives of tangible and intangible assets

In accordance with the accounting policy stated in Note 2.4.8 and Note 2.4.9 tangible and intangible assets depend on the best estimates of management, and are reviewed in each financial period and corrected accordingly.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.6 Significant accounting estimates and assumptions (Continued)

2.6.2 Revaluation of land, land improvements buildings and machinery and equipment

Land, land improvements and buildings that were revalued at 31 December 2016 by independent external valuers, were recorded on determined fair values on the consolidated financial statements. The fair value assessments of machinery and equipment were made on 2013. The frequency of revaluation operations is determined to ensure that the carrying amounts of the revalued tangible assets are not significantly different from their fair values at the end of the reporting period. The frequency of revaluation depends on the change in the fair value of property, plant and equipment. In cases where it is believed that the revalued amount is significantly different from the carrying amount of the revalued amount, it is necessary to repeat the revaluation and the assessment is performed for the entire asset level with revalued assets at the same date. Besides, it is not considered necessary to repeat the revaluation for tangible assets whose fair value changes are insignificant.

There are various calculation methods to estimate best fair value calculation as follows:

- The fair value comparison method are found to be comparable to the new market with similar features in the existing market, to apply appropriate comparison procedures and to make various adjustments in comparable selling price.

- The fair value of buildings, land and land improvements are calculated in deference to amortisation and reconstruction cost on cost approach method.

The values that may occur during the realization of the purchase and sales transaction may differ from these values.

The values are determined by cost approach method are assessed as to whether or not there is any indication of impairment according to TAS 36 "Impairment of Assets" standard at the date of first presentation of the financial statements in the consolidated financial statements and related period ends.

2.6.3 Warranty expenses provision

Warranty expenses are recognized on an accrual basis for amounts estimated based on prior periods' realization. It is expected that the payment will be occur in the next fiscal year. The management decides on demand warranty information, historical demand information in and the circumstances that future demand forecasts of current trends will need to change.

The Group generally guarantees 24 months for the furniture products. The management decides on demand warranty information, historical demand information in and the circumstances that future demand forecasts of current trends will need to change. The current year estimations are consist with prior year estimations. The factors that may affect forecasted demands include part and labor costs as well as the Group's efficiency and quality initiatives' success. The carrying amount of provision is 1,502,555 TL on 31 December 2016 (2015: TL 1,476,696). If the estimation had appreciated/depreciated by 10%, the provision amount would have been 150,206 TL higher/lower (2015: TL 147,670 higher/lower).

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.6 Significant accounting estimates and assumptions (continued)

2.6.4 Taxation on income

Deferred income tax assets are recognized to extent that the realisation of the related tax benefit through the future taxable profits is probable. Deferred income tax assets are recognized for tax losses carried forward and unused investment incentives to extent that the realisation of the related tax benefit is probable.

As at 31 December 2016, the Group recognised deferred income tax assets amounting to TL 13,085,716 (31 December 2015: TL 10,922,136) over the carryforward tax losses amounting to TL 65,428,578 (31 December 2015: TL 54,610,680).

The Group management estimated that carryforward tax losses amounting to TL 65,428,578 will be utilized considering its budgeted financial statements which were prepared in accordance with the approved 5-years business plan.

NOTE 3 - CASH AND CASH EQUIVALENTS

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

	2016	**2015**
Cash	58,266	39,381
Banks		
- Demand deposit	536,953	1,303,097
- Time deposit	-	5,800,000
Credit card receivables	142,567	35,242
	737,786	**7,177,720**

As at 31 December 2015, the Group has time deposit amounting to TL 5,800,000 with a weighted effective interest rate 8% and four days to maturity.

NOTE 4 - TRADE RECEIVABLES AND PAYABLES

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

Short term trade receivables

	2016	**2015**
Customers	74,318,415	77,152,213
- Due from related parties (Note 24)	*3,197,367*	*2,225,082*
- Other	*71,121,048*	*74,927,131*
Cheques and notes receivable	7,911,378	4,611,838
Doubtful of receivables	18,594,824	18,412,558
Provision for doubtful of receivables (-)	(18,594,824)	(18,412,558)
Unearned finance income (-)	(1,115,417)	(711,195)
	81,114,376	**81,052,856**

NOTE 4 - TRADE RECEIVABLES AND PAYABLES (Continued)

As at 31 December 2016 the average term of trade receivables is less than 2 month. (2015: less than 2 month). The maturity of the trade receivables of the Group varies and the interest rate applied for trade receivables is 11.00% (2015: 10.85%).

Trade receivables amounting to TL 19,654,649 (2015: TL 16,668,521) as at 31 December 2016 have not been evaluated as doubtful receivables despite the past due. The maturity analysis of these receivables is as follows:

Since the average collection period of trade receivables is shorter, the fair values of trade receivables were considered to approximate their respective carrying values.

Movements of provision for doubtful trade receivables for the years ended 31 December 2016 and 2015 are as follows:

	2016	**2015**
Balance at the beginning of the period	18,412,558	16,863,193
Provisions	182,266	1,799,379
Written-off	-	(250,014)
Balance at the end of the period	**18,594,824**	**18,412,558**

Short term trade payables

	2016	**2015**
Supplier current accounts	70,363,909	104,326,723
- Due to related parties (Note 24)	*70,349*	-
- Other	*70,293,560*	*104,326,723*
Cheques and notes payable	61,593,436	23,132,980
Unincurred finance cost (-)	(4,697,334)	(1,274,871)
	127,260,011	**126,184,832**

As of 31 December 2016 the average term of trade payables is less than 3 month. (31 December 2015: less than 4 months). The interest rate applied for trade receivables is 9.66%.

Since the average maturity of trade receivables in short-term, the fair values of trade payables were considered to approximate their respective carrying values.

NOTE 5 - OTHER RECEIVABLES AND PAYABLES

Short-term other receivables	**2016**	**2015**
Deposits and guarantees given	2,843,035	2,742,849
Receivables from tax authority	631,190	782,195
Receivables from personnel	50,052	238,253
	3,524,277	**3,763,297**

Long-term other receivables	**2016**	**2015**
Deposits and guarantees given	446,975	387,324

Short-term other payables	**2016**	**2015**
Taxes and funds payable	971,080	470,650
Other payables	4,038	5,147
- Due to related parties (Note 24)	-	*252*
- Other	*4,038*	*4,895*
	975,118	**475,797**

NOTE 6 - INVENTORIES

	2016	**2015**
Raw materials and supplies	90,973,717	40,312,152
Semi-finished goods	15,160,138	25,254,711
Finished goods	17,849,742	26,172,833
Trade goods	18,426,619	13,524,538
	142,410,216	**105,264,234**

NOTE 7 – OTHER CURRENT ASSETS

Other current asset

	2016	**2015**
Deferred VAT	326,341	784,465
Advences given to personnel	96,560	442,106
Other	5,000	5,001
	427,901	**1,231,572**

NOTE 8 - PREPAID EXPENSES AND DEFERRED REVENUE

Short-term prepaid expenses

	2016	2015
Advances given for inventories	18,350,934	13,691,955
Prepaid expenses	1,473,004	1,773,033
	19,823,938	**15,464,988**

Short-term deferred revenue

	2016	2015
Advances received	55,413,828	14,433,245
Deferred revenue	934,285	592,635
	56,348,113	**15,025,880**

Advances received comprise of notes receivables obtained from the franchisee.

NOTE 9 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group's financial investments consist of investments classified as available-for-sale financial assets. The details of the financial investments as of 31 December 2016 and 2015 are as follows:

	2016		2015	
	Ownership interest (%)	**Carrying amount (TL)**	**Ownership interest (%)**	**Carrying amount (TL)**
Doğtaş Holland	100.00	4,657,668	100.00	4,657,668
Doğtaş Germany	100.00	3,393,430	100.00	3,393,430
Doğtaş Bulgaria	100.00	1,418,860	100.00	1,418,860
		9,469,958		**9,469,958**

Available-for-sale investments that do not have a quoted market price in active markets and whose fair value cannot be measured reliably are carried at cost less any provision for diminution in value.

NOTE 10 – AVAILABLE–FOR-SALE PROPERTIES

	2016	**2015**
Balances at 1 January	566,200	866,200
Additions	65,000	312,500
Disposal (-)	(140,000)	(612,500)
Balances at 31 December	**491,200**	**566,200**

As of 31 December 2016, available for sale real estates consist of buildings acquired from customers in the past periods that were intentionally turned into doubtful receivables.

The aim of the Group's management is to remove the real estates in a short period of time.

NOTE 11- INVESTMENT PROPERTIES

	1 January 2016	**Additions**	**31 December 2016**
Cost:			
Buildings	60,600	-	60,600
	60,600	**-**	**60,600**
Accumulated amortisation:			
Buildings	(4,124)	(1,212)	(5,336)
	(4,124)	**(1,212)**	**(5,336)**
Net book value	**56,476**		**55,264**

	1 January 2015	**Additions**	**31 December 2015**
Cost			
Buildings	60,600	-	60,600
	60,600	**-**	**60,600**
Accumulated amortisation:			
Buildings	(2,912)	(1,212)	(4,124)
	(2,912)	**(1,212)**	**(4,124)**
Net book value	**57,688**		**56,476**

As at 31 December 2016, the fair value of investment property is determined by cost method and the amount is TL 405,000.

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2016	Additions	Disposals	Transfers	Revaluation	31 December 2016
Cost:						
Land	31,773,097	-	-	-	11,999,903	43,773,000
Land improvements and buildings	61,241,460	69,966	-	-	16,570,898	77,882,324
Machinery, plant and equipment	74,767,138	1,167,972	(18,052)	-	-	75,917,058
Vehicles	1,949,995	-	(463,200)	-	-	1,486,795
Furniture and fixtures	39,723,063	5,929,635	-	65,000	-	45,717,698
Leasehold improvements	23,200,172	4,655,754	(570,735)	411,713	-	27,696,904
Construction in progress	5,518,949	515,634	-	(2,899,440)	-	3,135,143
	238,173,874	**12,338,961**	**(1,051,987)**	**(2,422,727)**	**28,570,801**	**275,608,922**
Accumulated deprecation:						
Land improvements and buildings	(15,858,191)	(1,947,133)	-	-	-	(17,805,324)
Machinery, plant and equipment	(42,601,507)	(2,075,883)	18,052	-	-	(44,659,338)
Vehicles	(1,949,995)	-	463,200	-	-	(1,486,795)
Furniture and fixtures	(23,120,052)	(4,669,439)	-	-	-	(27,789,491)
Leasehold improvements	(7,307,348)	(4,658,672)	176,717	-	-	(11,789,303)
	(90,837,093)	**(13,351,127)**	**657,969**	**-**	**-**	**(103,530,251)**
Net book value	**147,336,781**					**172,078,671**

As at 31 December 2016 and 2015, total mortgages on property, plant and equipment of the Group amounting to EUR 70,000,000 and TL 22,500,000.

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2015	Additions	Disposals	Transfers	Revaluation	31 December 2015
Cost:						
Land	22,874,662	-	-	-	8,898,435	31,773,097
Land improvements and buildings	55,931,759	11,550	-	777,497	4,520,654	61,241,460
Machinery, plant and equipment	75,401,457	630,043	(1,275,912)	11,550		74,767,138
Vehicles	1,972,996	-	(23,001)	-	-	1,949,995
Furniture and fixtures	34,035,136	5,685,678	(7,501)	9,750	-	39,723,063
Leasehold improvements	17,196,496	3,212,984	(400,000)	3,190,692	-	23,200,172
Construction in progress	1,788,765	7,719,673	-	(3,989,489)	-	5,518,949
	209,201,271	**17,259,928**	**(1,706,414)**	**-**	**13,419,089**	**238,173,874**
Accumulated deprecation:						
Land improvements and buildings	(14,344,095)	(1,514,096)	-	-	-	(15,858,191)
Machinery, plant and equipment	(41,787,272)	(2,090,147)	1,275,912	-	-	(42,601,507)
Vehicles	(1,696,204)	(271,814)	18,023	-	-	(1,949,995)
Furniture and fixtures	(18,740,206)	(4,383,862)	4,016	-	-	(23,120,052)
Leasehold improvements	(3,944,520)	(3,362,828)	-	-	-	(7,307,348)
	(80,512,297)	**(11,622,747)**	**1,297,951**	**-**	**-**	**(90,837,093)**
Net book value	**128,688,974**					**147,336,781**

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Revalued assets

The land and buildings carried on the revaluation method consist of the factory buildings of the Group and their buildings. The comparative method in the value analysis of the arcs, the cost approach method in the case of determining the values of the entire buildings.

The machinery and equipment that were brought to fair value in 2013 are made up of machines used in the production lines of the Group's factories. In 2016, when the fair values of the machines were not expected to change, no real value was determined for the assets.

The fair value determinations were made by the valuation companies with the license of the Capital Markets Board.

Significant unobservable entries:

Price per square meter of land TL 115 - TL 125
Price per square meter of building TL 450 - TL 620

Significant increases and decreases in the square meter prices will significantly change the value of the determined reality.

If the revalued assets were carried at cost model, net book value would be TL 48,703,709 as of 31 December 2016.

NOTE 13 - INTANGIBLE ASSETS

	1 January 2016	Additions	Transfers	31 December 2016
Cost:				
Brand	17,530,000	-	-	17,530,000
Rights	9,908,652	2,491,331	2,422,727	14,511,437
	27,438,652	**2,491,331**	**2,422,727**	**32,041,437**
Accumulated amortisation:				
Rights	(6,495,436)	(2,491,198)	-	(8,986,634)
	(6,495,436)	**(2,491,198)**	**-**	**(8,986,634)**
Net book value	**20,943,216**			**23,054,803**

NOTE 13 - INTANGIBLE ASSETS (Continued)

	1 January 2015	Additions	31 December 2015
Cost:			
Brand	17,530,000	-	17,530,000
Rights	8,441,899	1,466,753	9,908,652
	25,971,899	**1,466,753**	**27,438,652**
Accumulated amortisation:			
Rights	(5,485,203)	(1,010,233)	(6,495,436)
	(5,485,203)	**(1,010,233)**	**(6,495,436)**
Net book value	**20,486,696**		**20,943,216**

NOTE 14 - BORROWINGS

The details of the borrowings as of 31 December 2016 and 2015 are as follows:

	2016		
	Effective interest rate per annum (%)	**Original currency**	**TL**
Short-term borrowings:			
EUR denominated bank borrowings	0.75 - 5.52	16,558,668	61,431,002
TL denominated bank borrowings	13.75 - 15.80	33,773,129	33,773,129
			95,204,131
Short-term portion of long-term borrowings:			
EUR denominated bank borrowings	0.75 - 5.52	11,456,645	42,503,009
Total short-term borrowings			**137,707,140**
Long-term bank borrowings:			
EUR denominated bank borrowings	0.75 - 5.52	24,592,407	91,235,372
Total bank borrowings			**228,942,512**

NOTE 14 – BORROWINGS (Continued)

	2015		
	Effective interest rate per annum (%)	**Original currency**	**TL**
Short-term bank borrowings:			
EUR denominated bank borrowings	0.75 - 5.52	18,469,314	58,688,091
TL denominated bank borrowings	-	957,266	957,266
			59,645,357
Short-term portion of long-term borrowings:			
TL denominated bank borrowings	0.75 - 5.52	10,746,220	34,147,189
Total short-term borrowings			**93,792,546**
Long-term bank borrowings:			
TL denominated bank borrowings	0.75 - 5.52	34,474,937	109,547,560
Total bank borrowings			**203,340,106**

The redemption schedule of long-term borrowings is as follows:

	2016	2015
Up to 3 months	79,829,059	65,777,610
3-12 months	57,878,081	28,014,936
1-5 years	91,235,372	109,547,560
	228,942,512	**203,340,106**

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions:

	2016	2015
Provision for litigations	887,798	483,198
Provision for warranty expenses	669,879	1,104,586
Provision for project expenses	628,094	392,395
	2,185,771	**1,980,179**

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Long-term provisions:

	2016	**2015**
Provision for warranty expenses	832,676	372,110

Movements in the provision for warranty expense are as follows:

	2016	**2015**
Balance at 1 January	**1,476,696**	**1,005,025**
Additions	1,487,271	1,610,261
Payments	(1,461,412)	(1,138,590)
Balance at 31 December	**1,502,555**	**1,476,696**

Movements in the provision for litigation are as follows:

	2016	**2015**
Balance at 1 January	**483,198**	**717,944**
Additions	404,600	308,140
Balance at 31 December	**887,798**	**483,198**

Movements in the provision for project expenses are as follows:

	2016	**2015**
Balance at 1 January	**392,395**	**322,537**
Additions,net	235,699	69,858
Balance at 31 December	**628,094**	**392,395**

Contingent assets and liabilities:

As at 31 December 2016 and 2015, total mortgages on property, plant and equipment of the Group amounting to EUR 70.000.000 and TL 22.500.000

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Summary of guarantees received and given is stated below:

Guarantees given	**2016**	**2015**
Letters of guarantees given (*)	282,193,000	244,932,000
Letters of guarantees given to government institutions (**)	103,087,036	131,141,259
Letters of guarantees given to customers	1,769,566	4,152,854
Letters of guarantees given to suppliers	589,438	735,275
Letters of guarantees given for litigation	-	493,379
	387,639,040	**381,454,767**

(*) Mortgages on property, plant and equipment are related to loans used for purchasing and financing purposes.

(**) Consists of letters of guarantees given to Türkiye İhracat Kredi Bankası A.Ş. with respect to loans used mainly.

Guarantees received	**2016**	**2015**
Letter of guarantees received from franchisees	100,932,235	62,079,935
Mortgages received from domestic franchisees	17,916,135	16,220,000
Mortgages received from foreign franchisees	7,804,616	7,980,776
Letters of commitment received (*)	-	18,875,000
	126,652,986	**105,155,711**

(*) The group was terminated the commitment process for franchisees on 31 December 2016.

As of 31 December 2016 and 31 December 2015, breakdown of the guarantees, mortgage and pledges given by the Group is as follows:

	2016	**2015**
Total amount of guarantees, pledges and mortgages given on behalf of its own legal name	395,531,585	381,454,767

The GPMs given by the Group comprise of letter of guarantees on behalf of its own legal name. Below GPMs were given by the Group:

a) On behalf of associates that are included to full consolidation
b) On behalf of third parties to conduct business activities
c) On behalf of majority shareholder
d) On behalf of other group companies which are not included in item B or C
e) On behalf of third parties which are not covered by item C

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

The total number of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. ordinary shares 19,256,976,700 shares with a par value of 1 TL per share hold in pledge because of Group's borrowing on 31 December 2016 and 2015.

The insurance amount on property plant and equipments and inventories is TL 69,362,700 and TL 42,684,000 respectively. (2015: property, plant and equipment: TL 68,791,700 TL, inventories: TL 38,893,000).

Operating leases

The future payments for operational leases that can not be canceled are as follows:

	2016	**2015**
Up to 1 year	348,000	650,000
1 - 2 years	348,000	-
	696,000	**650,000**

As of 31 December 2016, the Group has recorded an operating lease amounting to TL 700,000 (2015: TL 827,386) in the income statement in the consolidated balance sheet.

NOTE 16 - EMPLOYEE BENEFITS

Short-term employee benefits	**2016**	**2015**
Payables to personnel	2,663,995	2,931,099
Social security premiums	1,464,803	1,059,623
Taxes and funds payable	675,088	776,062
	4,803,886	**4,766,784**

NOTE 16 - EMPLOYEE BENEFITS (Continued)

Short-term employee benefits	**2016**	**2015**
Provision for unused vacation	2,566,228	2,927,508
	2,566,228	**2,927,508**

Long-term employee benefits	**2016**	**2015**
Provision for employment termination benefits	2,082,327	2,950,900
	2,082,327	**2,950,900**

The amount payable consists of one month’s salary limited to a maximum of TL 4.297,21 for each period of service as of 31 December 2016 (2015: TL 3.828,37). The retirement pay provision ceiling is revised semi-annually, and TL 4.426,16 which is effective from 1 January 2017, is taken into consideration in the calculation of provision for employee benefits (2015: TL 4.092,53 effective from 1 January 2016). Liability of employee benefits is not subject to any funding as there isn’t an obligation. Provision is calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. TAS 19 “Employee Benefits” requires actuarial valuation methods to be developed to estimate the Group’s obligation under the defined benefit plans. The following actuarial assumptions are used in the calculation of the total liability. Actuarial loss/ (gain) are accounted in the statement of comprehensive income under revaluation reserves.

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

	2016	**2015**
Inflation rate (%)	7.00	7.00
Discount rate (%)	11.00	11.00
Turnover rate to estimate the probability of retirement (%)	3.74	3.74

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying consolidated financial statements as of 31 December 2016 and 2015 the provision is calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. Provisions at the balance sheet date were calculated with real discount rate 5.19% (2015: 2.97%) by assuming an annual inflation rate of 6% (31 December 2015: 6%) and an interest rate of 11.50% (2015: 9.60%). The anticipated rate of forfeitures that occurred on voluntary turnovers is considered. The estimated rates of 31 December 2016 date for store personnel 84.65% (2015: 79.83%) and 93.70% for the management and other personnel (2015: 96.50%).

NOTE 16 - EMPLOYEE BENEFITS (Continued)

The movement of employee benefits is as follows:

	2016	2015
Balances at 1 January	2,950,900	3,767,128
Cost of interest	271,946	301,370
Cost of service	252,713	555,503
Actuarial gain	(435,904)	(72,030)
Payments (-)	(957,328)	(1,601,071)
Balances at 31 December	**2,082,327**	**2,950,900**

NOTE 17 - GOVERNMENT GRANTS

The Group were started its investment in order to expand production capacity of its plant located in Çanakkale and their incentive certificate is utilized with regard to corporate tax discount of 60% which is calculated with 20% in Turkey, together with custom and value added tax exemption.

With respect to certificate, the Group entitled to tax deduction of corporate tax amounting to TL 1,954,500 which were equal to 30% of total investment amounting to TL 6,515,000. This deduction would be utilized from income of related investment and this amount should be kept in spate book in accordance with Corporate Tax Law. If it is not eligible to keep it separately, income related to investment could be calculated by compared ratio between total investment amounts to total fixed assets.

The approvals related to abovementioned incentives were completed as at 2013 and the Group utilized from a corporate tax discount amounting to TL 283,635. The Group recognized deferred tax assets amounting to TL 1,670,865 (2015: TL 1,670,865) within the scope of this incentive. Furthermore, deferred tax assets amounting to TL 1,005,663 (2015: TL 1,005,663) were recognized within the two investments started in 2013 and not completed yet.

The Group benefits from 50% of its expenditures on foreign franchises within the scope of Turquality. These incentives were not offset in the consolidated financial statements because it is paid to aforementioned franchisees in order to cover their expenditures.

NOTE 18 - EQUITY

The shareholders and the shareholding structure of the Company as at 31 December 2016 and 2015 are as follows:

	2016		2015	
	TL	**Share (%)**	**TL**	**Share (%)**
International Furniture B.V.	96,284,884	46.05	96,284,884	46.05
Davut Doğan	16,047,503	7.68	16,047,503	7.68
Adnan Doğan	16,047,484	7.68	16,047,484	7.68
Şadan Doğan	16,047,474	7.68	16,047,474	7.68
İsmail Doğan	16,047,474	7.68	16,047,474	7.68
İlhan Doğan	16,047,474	7.68	16,047,474	7.68
Murat Doğan	16,047,474	7.68	16,047,474	7.68
Other	16,500,000	7.89	16,500,000	7.89
	209,069,767	**100.00**	**209,069,767**	**100.00**
Reverse merger capital differences	(159,069,767)		(159,069,767)	
Paid-in share capital	**50,000,000**		**50,000,000**	

As registered in the Turkish Trade Registry Gazette dated 26 June 2007 and numbered 6838, the registered capital, which is TL 80,000,000, has been increased to 209,069,768 TL in 2013.

There are 20,906,976,700 units of shares with a face value of TL 0.01. As at 31 December 2016 and 2015 paid-in share capital of the Company amounting to TL 50,000,000 with each share has a face value of TL 0.01.

As of 31 December 2016 and 2015, there are no preferred shares representing the capital.

Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. the amounts of reserves held in legal financial statements prepared in accordance with the Tax Procedure Law are as follows:

	2016	**2015**
Reserves on retained earnings	607,177	607,177
Extraordinary reserves	955,943	955,943
Share premium	282,945	282,945

As of 31 December 2016 and 2015, the Company's 19,256,976,700 shares were pledged due to the borrowings of the Group.

NOTE 19 - REVENUE AND COST OF SALES

	2016	2015
Domestic sales	443,207,627	355,399,224
Foreign sales	46,603,669	36,701,704
Sales returns (-)	(7,689,591)	(5,703,365)
Sales discounts (-)	(86,649,967)	(13,054,948)
Net sales	**395,471,738**	**373,342,615**
Cost of sales	(265,166,697)	(247,780,328)
Gross profit	**130,305,041**	**125,562,287**

NOTE 20 - EXPENSES BY NATURE

	2016	2015
Marketing expenses		
Advertisement	21,246,987	21,273,400
Personnel	19,189,777	15,887,571
Transportation	17,625,337	15,118,149
Rent	15,404,875	14,231,657
Depreciation and amortisation	8,904,047	6,664,554
Travel	1,352,593	1,550,346
Repair and maintenance	1,227,582	837,291
Utilities	1,194,144	1,126,324
Representation	1,116,665	1,333,229
Consultancy	796,656	419,310
Other	5,908,113	3,388,228
	93,966,776	**81,830,059**

General administrative expenses		
Personnel	10,288,360	9,415,771
Consultancy	4,919,831	5,510,428
Depreciation and amortisation	1,695,047	1,008,489
Rent	1,659,561	593,662
Travel	828,616	892,522
Representation	368,338	396,965
Communication	226,734	220,316
Other	4,269,851	2,824,631
	24,256,338	**20,862,784**

NOTE 20 - EXPENSES BY NATURE (Continued)

	2016	2015
Research and development expenses		
Personnel	2,134,887	1,830,544
Rent	293,569	122,461
Material	90,548	2,040
Other	703,863	830,032
	3,222,867	**2,785,077**

Functional classification of personnel and amortisation and depreciation expenses are as follows:

Personnel expenses:

Cost of sales	36,453,832	28,858,631
Marketing expenses	19,189,777	15,887,571
General administrative expenses	10,288,360	9,415,771
Research and development expenses	2,134,887	1,830,544
	68,066,856	**55,992,517**

Depreciation and amortisation:

Marketing expenses	8,904,047	6,664,554
Cost of sales	5,069,487	4,869,754
General administrative expenses	1,695,047	1,008,489
Research and development expenses	174,956	91,395
	15,843,537	**12,634,192**

NOTE 21 - OTHER OPERATING INCOME AND EXPENSES

	2016	2015
Other operating income:		
Foreign exchange gains	10,698,224	8,448,701
Interest income	3,422,463	1,274,871
Other	1,361,835	2,255,518
	15,482,522	**11,979,090**
Other operating expenses:		
Interest expense	(10,797,696)	(5,318,842)
Foreign exchange losses	(6,456,223)	(5,514,985)
Provision expense	(586,866)	(1,799,379)
Other	(163,057)	(29,380)
	(18,003,842)	**(12,662,586)**

NOTE 22 - FINANCIAL INCOME AND EXPENSES

	2016	2015
Financial income		
Foreign exchange gains	12,541,622	25,609,099
Interest income	11,873	212,351
	12,553,495	**25,821,450**
Financial expenses		
Foreign exchange losses	(43,752,456)	(64,627,615)
Interest expense on borrowings	(17,828,911)	(15,310,162)
	(61,581,367)	**(79,937,777)**

NOTE 23 - TAX ASSETS AND LIABILITIES

Current income tax assets:

Turkish tax legislation does not allow for the submission of tax returns over consolidated financial statements, which include its subsidiaries, joint ventures and associates. Therefore, tax considerations reflected in consolidated financial statements have been calculated on a separate-entity basis.
The Turkish corporation tax rate for 2016 is 20% (31 December 2015: 20%). This rate is applicable to the tax base derived upon exemptions and deductions stated in the tax legislation through addition of disallowable expenses to the commercial revenues of the companies with respect to the tax legislation.

Taxes on profit for the period consist of the following:

	2016	2015
Corporate tax calculated	-	-
Prepaid taxes (-)	(156,475)	(398,612)
Current income tax assets (-)	**(156,475)**	**(398,612)**

Taxation on income in the consolidated income statements are as follows:

	2016	2015
Current period tax expense	-	-
Current period tax expense	2,460,130	6,781,876
	2,460,130	**6,781,876**

Current income taxes

Turkish tax legislation does not allow for the submission of tax returns over consolidated financial statements, which include its subsidiaries. Therefore, tax considerations reflected in consolidated financial statements have been calculated on a separate-entity basis.

Corporation tax is payable at a rate of 20% on the total income of each local company after adjusting for certain disallowable expenses, exempt income and allowances.

Corporation tax rate is applied to the tax base that will result in deducting expenses that are not accepted as deductible according to the tax legislation of the corporation's commercial income, deduction in the tax laws (exemption of participation profits etc.) and deductions (such as deduction). No further tax is payable if the profit is not distributed.

Dividends paid to non-resident corporations which have a place of business in Turkey and for resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital resulting from issuing bonus shares is not considered a profit distribution and thus does not incur withholding tax.

NOTE 23 - TAX ASSETS AND LIABILITIES (Continued)

Corporations are required to declare a provisional tax of 20% on their quarterly financial profits and pay till the 10th day of the second month following that period and pay till the evening of the 17th day. The temporary tax paid during the year belongs to that year and is deducted from the corporation tax that will be calculated on the tax declaration of the institutions to be given in the following year. If the temporary tax amount paid remains in spite of the indictment, this amount can be refunded or any other financial debt to the state can be deducted.

There is no practice to reconcile with the tax authority on the taxes payable in Turkey. The corporation tax returns are given to the tax attached until the evening of the 25th day of the fourth month following the close of the accounting period.

Authorities may review the accounting records for a period of five years retroactively and may change the tax amounts due to the tax assessment that arises if an incorrect transaction is detected.

According to Turkish tax legislation, financial losses shown on the tax return can be deducted from the period corporate income for not more than 5 years. However, financial losses cannot be deducted from retained earnings.

Investment allowance regime was applied in Turkey for many years and calculated with 40% of property plant and purchases acquisitions exceeding a certain amount was abolished by Law No 5479 dated 30 March 2006. However, in accordance with the temporary article 69 of the Income Tax Law, income and corporate taxpayers can deduct following investment allowance amounts which they could not offset against 2005 gains which were present at 31 December 2005:

a) Investment amounts, within the scope of addendum 1, 2, 3, 4, 5 and 6 of Income Tax Law no: 193, which were started before abolishment of aforementioned Income Tax Law by Law no: 4842 dated 9 April 2003

b) Incentives based on investments which were calculated in accordance with the legislation as at 31 December 2005 and formed an economic and technical integrity with the investment started before 1 January 2006 within the scope of abrogated 19th article of Income Tax Law no: 193, can be deducted from income related to the years 2006, 2007 and 2008.

Deferred tax:

The Group recognises deferred income tax assets and liabilities based upon temporary differences arising between their financial statements prepared in accordance with IFRS and their statutory tax financial statements. Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income under the liability method using an enacted tax rate.

NOTE 23 - TAX ASSETS AND LIABILITIES (Continued)

The breakdown of cumulative temporary differences and the resulting deferred income tax assets/liabilities provided using enacted tax rates are as follows:

	Cumulative temporary differences		Deferred income tax assets/(liabilities)	
	2016	**2015**	**2016**	**2015**
Deferred income tax assets:				
Carry forward tax losses	65,428,578	54,610,680	13,085,716	10,922,136
Investment incentives	13,382,640	13,382,640	2,676,528	2,676,528
Provision for doubtful receivables	9,037,307	9,177,020	1,807,461	1,835,404
Provision for unused vacation	2,566,228	2,927,510	513,246	585,502
Provision for employee benefits	2,082,327	2,950,900	416,465	590,180
Provision for warranty	1,502,555	1,476,695	300,511	295,339
Provision for litigation	887,798	483,195	177,560	96,639
Other	247,852	-	49,570	-
			19,027,057	**17,001,728**
Deferred income tax liabilities:				
Property, plant and equipment	(96,882,565)	(79,298,475)	(19,376,513)	(15,859,695)
Cut-off	(2,685,479)	(1,529,414)	(537,096)	(305,883)
Other	-	(907,381)	-	(181,476)
			(19,913,609)	**(16,347,054)**
Deferred income tax (liabilities)/assets, net			**(886,552)**	**654,674**

The reconciliation of tax expense stated in the consolidated income statements is as follows:

	2016	**2015**
Loss before taxation on income	(42,108,245)	(34,514,322)
Tax calculated at enacted tax rate	8,421,649	6,902,864
Loss of rights due to tax base increase (*)	(5,461,068)	-
Non-deductible expenses	(476,453)	(146,073)
Other	(23,998)	25,085
Total tax income	**2,460,130**	**6,781,876**

(*) In the period 1 January – 31 December 2016, the Group utilized from tax base increase related to 31 December 2015, 2014 and 2013. Within this context, carryforward tax losses which are deductible from future taxable profits has been reversed by 50%.

NOTE 23 - TAX ASSETS AND LIABILITIES (Continued)

Carry forward tax losses:

Deferred income tax assets are recognized for tax losses carried forward to extent that the realization of the related tax benefit through the future taxable profits is probable.

As at 31 December 2016, the Group has recognised deferred income tax assets amounting to TL 13,085,716, (2015: TL 10,922,136) over the carry forward tax losses amounting to TL 65,428,578 (2015: TL 54,610,680) in consolidated financial statements.

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

	2016	**2015**
2017	-	4,199,931
2018	579,703	3,166,911
2019	7,187,347	14,470,539
2020	16,470,292	32,773,299
2021	41,191,236	-
	65,428,578	**54,610,680**

Movements in deferred income taxes are as follows:

	2016	**2015**
Balance at the beginning of the period	654,674	(4,763,743)
Credited to income statement	2,460,130	6,781,876
Charged to other comprehensive income	(4,001,356)	(1,363,459)
Balance at the end of the period	**(886,552)**	**654,674**

NOTE 24 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a) Trade receivables and payables due from related parties as of 31 December 2016 and 2015 are as follows:

	2016	2015
Due from related parties		
Doğtaş Germany GmbH	1,653,592	249,633
Doğtaş Bulgaria Eood	515,296	434,307
Doğtaş Holland B.V.	510,597	295,645
Real person shareholders	223,945	108,447
International Furniture B.V.	103,940	-
Doğanlar Yatırım Holding A.Ş.	-	1,036,921
Other	189,997	100,129
	3,197,367	**2,225,082**

Due to related parties:		
Doğanlar Yatırım Holding A.Ş.	69,486	-
Other	863	252
	70,349	**252**

b) Rendered of goods and services to related parties as of 31 December 2016 and 2015 are as follows:

	2016	2015
Sales and services rendered:		
Doğtaş Germany GmbH	1,216,943	491,911
Doğanlar Yatırım Holding A.Ş	226,683	5,906,602
Other	82,373	47,941
	1,525,999	**6,446,454**

c) Purchase and of goods and services to related parties as of 31 December 2016 and 2015 are as follows:

	2016	2015
Sales and services purchased:		
Doğan Kent Elektrik Enerjisi Toptan Satış A.Ş,	2,874,994	2,804,303
Doğanlar Yatırım Holding A.Ş,	690,095	176,198
Other	5,521	21,104
	3,570,610	**3,001,605**

NOTE 24 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

d) Key management compensation

	2016	**2015**
Short term compensation	4,947,714	3,471,300
	4,947,714	**3,471,300**

The Group has determined key management personnel as the chairman, members of the Board of Directors and general manager of the Company.

NOTE 25 - FINANCIAL RISK MANAGEMENT

Credit Risk

In connection with trade receivables arising from credit sales and deposits held in the banks, the Group is exposed to credit risk.

Credit risk is managed on Group and entity basis, except for credit risk relating to accounts receivable balances. Each entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

The management assesses the credit quality of its customers, taking into account financial position, past experience and other factors. The Group monitors the performance of these financial assets on a regular basis to identify incurred collection losses.

NOTE 25 - FINANCIAL RISK MANAGEMENT (Continued)

	Receivables					
	Trade		**Other**			
Maximum exposure to credit risk for financial assets	**Due from related parties**	**Other**	**Due from related parties**	**Other**	**Cash and Cash equivalents**	**Derivative financial instruments**
Maximum exposure to credit risk as of 31 December 2017 (A+B+C+D+E)	**3,197,367**	**77,917,009**	**-**	**3,971,252**	**737,786**	**-**
A. Neither past due nor impaired	3,197,367	58,262,360	-	3,971,252	737,786	-
B. Restructured	-	-	-	-	-	-
C. Past due but not impaired	-	19,654,649	-	-	-	-
D. Impaired	-	-	-	-	-	-
- Past due	-	-	-	-	-	-
- Gross carrying amount	-	18,594,824	-	-	-	-
- Impairment (-)	-	(18,594,824)	-	-	-	-
- The part of net value under guarantee with collateral	-	-	-	-	-	-
- Not past due	-	-	-	-	-	-
- Gross carrying amount		-				
- Impairment (-)	-	-	-	-	-	-
- The part of net value under guarantee with collateral	-	-	-	-	-	-
Maximum exposure to credit risk as of 31 December 2015 (A+B+C+D+E)	**2,225,082**	**78,827,774**	**-**	**4,150,621**	**7,177,720**	**-**
A. Neither past due nor impaired	2,225,082	61,702,798	-	4,150,621	7,177,720	-
B. Restructured	-	-	-	-	-	-
C. Past due but not impaired	17,124,976	-	-	-	-	
D. Impaired	-	-	-	-	-	-
- Past due	-	-	-	-	-	-
- Gross carrying amount		18,370,163				
- Impairment (-)	-	(18,370,163)	-	-	-	-
- The part of net value under guarantee with collateral	-	-	-	-	-	-
- Not past due	-	-	-	-	-	-
- Gross carrying amount	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- The part of net value under guarantee with collateral	-	-	-	-	-	-

NOTE 25 - FINANCIAL RISK MANAGEMENT (Continued)

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

	2016	**2015**
Up to 1 month	1,838,230	2,022,053
1-3 months	3,866,457	3,170,495
3-6 months	4,289,204	3,817,392
Over 180 days	9,660,758	8,115,037
	19,654,649	**17,124,977**

Liquidity Risk

Liquidity risk comprises the risks arising from the inability to fund the increase in the assets, the inability to cover the liabilities due and the operations performed in illiquid markets. In the framework of liquidity risk management, funding sources are being diversified and sufficient cash and cash equivalents are held. In order to meet instant cash necessities it is ensured that the cash and cash equivalent assets level does not fall below a predetermined portion of the short-term liabilities.

As of 31 December 2016 and 31 December 2015 the undiscounted contractual cash flows of the financial liabilities of the Group are as follows:

2016	**Demand or up to 3 months**	**3-12 month**	**1-5 years**	**Total**
Non-derivate instruments				
Borrowings	83,496,697	66,771,803	106,147,113	256,415,613
Trade payables	105,628,402	26,328,943	-	131,957,345
Related parties	*70,349*	-	-	*70,349*
Third parties	*105,558,053*	*26,328,943*	-	*131,886,996*
Other payables	-	975,118	906,312	1,881,430
Third parties	-	*975,118*	*906,312*	*1,881,430*
	294,683,152	**119,429,689**	**106,147,113**	**520,259,954**

2015	**Demand or up to 3 months**	**3-12 month**	**1-5 years**	**Total**
Non-derivate instruments				
Borrowings	70,131,385	28,921,135	117,586,437	216,638,957
Trade payables	91,734,780	35,724,923	-	127,459,703
Third parties	*91,734,780*	*35,724,923*	-	*127,459,703*
Other payables	252	475,545	588,998	1,064,795
Related parties	*252*	-	-	*252*
Third parties	-	*475,545*	*588,998*	*1,064,543*
	161,866,417	**65,121,603**	**118,175,435**	**345,163,455**

NOTE 25 - FINANCIAL RISK MANAGEMENT (Continued)

Interest Rate Risk

The Group manages its interest rate risk by applying risk management strategies whereby its strives to balance off the dates of changes in interest rates related to assets and liabilities.

Interest rate positions are as follows:

	2016	2015
Financial instruments with fixed interest rates		
Financial assets	-	5,800,000
Financial liabilities	51,872,854	132,948,881
Financial instruments with floating interest rates		
Financial liabilities	174,970,388	70,391,225

Foreign Exchange Risk

As the functional currency of the Group is TL, the Group monitors its foreign exchange risk by analysing the foreign currency denominated (mainly USD and EUR) assets and liabilities. The Group defines the foreign currency risk as the mismatch between foreign currency denominated assets and liabilities.

Foreign currency denominated assets and liabilities as of 31 December 2016 and 2015 is set out in the table below:

	2016	2015
USD	3.5192	2.9076
EUR	3.7099	3.1776

The Group is exposed to currency risk in USD and EUR.

Foreign currency position

Assets and liabilities denominated in foreign currency held by the Group are as follows:

	2016	2015
Assets	28,717,457	23,949,941
Liabilities	(146,140,794)	(210,422,315)
Net foreign currency position	**(117,423,337)**	**(186,472,374)**

NOTE 25 - FINANCIAL RISK MANAGEMENT (Continued)

Assets and liabilities denominated in foreign currency held by the Group are as follows:

31 December 2016		Foreign currency position TL equivalent (functional currency)	USD	EUR	Other
1.	Trade receivables	28,699,767	1,516,181	6,297,750	-
2a.	Monetary financial assets, (cash and banks account included)	17,690	1,061	3,761	-
2b.	Non-Monetary financial assets	-	-	-	-
3.	Other	-	-	-	-
4.	**Current assets (1+2+3)**	**28,717,457**	**1,517,242**	**6,301,511**	**-**
5.	Trade receivables	-	-	-	-
6a.	Monetary financial assets	-	-	-	-
6b.	Non-Monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	**Non-Current Assets (5+6+7)**	**-**	**-**	**-**	**-**
9.	**Total asset (4+8)**	**28,717,457**	**1,517,242**	**6,301,511**	**-**
10.	Trade payables	(718,608)	-	(193,700)	-
11.	Financial liabilities	(56,925,965)	-	(15,344,339)	-
12a.	Other monetary liabilities	-	-	(1,141,248)	-
12b.	Other non-monetary liabilities	-	-	-	-
13.	**Current Liabilities (10+11+12)**	**(57,644,573)**	**-**	**(16,679,287)**	**-**
14.	Trade payables	-	-	-	-
15.	Financial Liabilities	(88,496,221)		(23,854,072)	
16a.	Other monetary liabilities	-	-	-	-
16b.	Other non-monetary liabilities	-	-	-	-
17.	**Non-current liabilities (14+15+16)**	**(88,496,221)**	**-**	**(23,854,072)**	**-**
18.	**Total liabilities (13+17)**	**(146,140,794)**	**-**	**(40,533,359)**	**-**
19.	Net assets of off balance sheet derivative items (liability) position (19a-19b)	-	-	-	-
19a.	Total amount of assets hedged	-	-	-	-
19b.	Total amount of liabilities hedged	-	-	-	-
20.	**Net foreign assets / (liability) position (9+18+19)**	**(117,423,337)**	**1,517,242**	**(34,231,848)**	**-**
21.	**Net foreign currency asset / (liability) /(position of monetary items (=1+2a+3+5+6a+10+11+12a+14+15+16a)**	**(117,423,337)**	**1,517,242**	**(34,231,848)**	**-**
22.	Fair value of derivative instruments used in foreign currency hedge	-	-	-	-
23.	Export	37,353,252	2,833,513	7,380,671	-
24.	Import	9,636,139	501,823	2,121,384	-

NOTE 25 - FINANCIAL RISK MANAGEMENT (Continued)

31 December 2015		**Foreign currency position TL equivalent (functional currency)**	**USD**	**EUR**	**Other**
1.	Trade receivables	23,495,387	1,374,133	6,136,694	-
2a.	Monetary financial assets, (cash and banks account included)	454,554	132,856	21,482	-
2b.	Non-Monetary financial assets	-	-	-	-
3.	Other	-	-	-	-
4.	**Current assets (1+2+3)**	**23,949,941**	**1,506,989**	**6,158,176**	-
5.	Trade receivables	-	-	-	-
6a.	Monetary financial assets	-	-	-	-
6b.	Non-Monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	**Non-Current Assets (5+6+7)**	-	-	-	-
9.	**Total asset (4+8)**	**23,949,941**	**1,506,989**	**6,158,176**	-
10.	Trade payables	(8,039,475)	(126,187)	(2,414,582)	-
11.	Financial liabilities	(92,835,280)	-	(29,215,534)	-
12a.	Other monetary liabilities	-	-	-	-
12b.	Other non-monetary liabilities	-	-	-	-
13.	**Current Liabilities (10+11+12)**	**(100,874,755)**	**(126,187)**	**(31,630,116)**	-
14.	Trade payables	-	-	-	-
15.	Financial Liabilities	(109,547,560)	-	(34,474,937)	-
16a.	Other monetary liabilities	-	-	-	-
16b.	Other non-monetary liabilities	-	-	-	-
17.	**Non-current liabilities (14+15+16)**	**(109,547,560)**	-	**(34,474,937)**	-
18.	**Total liabilities (13+17)**	**(210,422,315)**	**(126,187)**	**(66,105,053)**	-
19.	Net assets of off balance sheet derivative items (liability) position (19a-19b)	-	-	-	-
19a.	Total amount of assets hedged	-	-	-	-
19b.	Total amount of liabilities hedged	-	-	-	-
20.	**Net foreign assets / (liability) position (9+18+19)**	**(186,472,374)**	**1,380,802**	**(59,946,877)**	-
21.	**Net foreign currency asset / (liability) /(position of monetary items (=1+2a+3+5+6a+10+11+12a+14+15+16a)**	**(186,472,**374)	1,380,802	(59,946,877)	-
22.	Fair value of derivative instruments used in foreign currency hedge	-	-	-	-
23.	Export	20,667,382	1,693,263	5,687,218	-
24.	İmport	5,590,454	2,193,705	1,977,535	-

NOTE 25 - FINANCIAL RISK MANAGEMENT (Continued)

As of 31 December 2016, if USD had appreciated/depreciated by 10% against TL, with all other variables held constant, loss before taxation on income would have been TL 533,948 lower/ higher, mainly as a result of forei9gn exchange losses/gains on the translation of the foreign currency position. (2015: TL 401,482)

As of 31 December 2016, if EUR had appreciated/depreciated by 10% against TL, with all other variables held constant, loss before taxation on income would have been TL 12,699,673 lower/ higher, mainly as a result of foreign exchange losses/gains on the translation of the foreign currency position. (2015: TL 19,048,720)

Capital risk management

In capital management, the Group aims to enable continuity of the Group’s operations and to maintain the most suitable capital structure so as to provide earnings to its partners and benefits to other shareholders and to decrease capital cost.

In order to maintain or re-arrange the capital structure, the Group may change the amount of dividends paid to shareholders, return the capital to shareholders, issue new shares, and sell its assets in order to decrease the level of its borrowings.

As of 31 December 2016 and 2015, the net debt, calculated by deducting the cash and cash equivalents from the total financial debts, dividing to total equity founded by financial debt equity ratio is as bellows:

	2016	**2015**
Financial debt	228,942,512	203,340,106
Cash and cash equivalents	(737,786)	(7,177,720)
Net financial debt	228,204,726	196,162,386
Total equity	25,912,397	35,797,653
Total capital	**254,117,123**	**231,960,039**
Total equity/net financial debt ratio (%)	**90**	**85**

NOTE 26 - FINANCIAL INSTRUMENTS ADDITIONAL DISCLOSURES

The estimated fair values of financial instruments have been determined by the Group, using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

NOTE 26 - FINANCIAL INSTRUMENTS ADDITIONAL DISCLOSURES

Fair value of financial instruments

The estimated fair values of financial instruments have been determined by the Group, using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

Financial assets - Due to their short-term nature and being subject to insignificant credit risk, it is considered that they are close to the fair values of cash and cash equivalents and the carrying values of accrued interest and other financial assets. The carrying amount of trade receivables is considered to approximate their fair value when the provision for doubtful receivables is deducted.

Financial liabilities - Trade payables and other monetary liabilities are considered to approximate their carrying values due to their short-term nature. Bank loans are stated at amortised cost and transaction costs are added to the initial cost of the loans. Long-term Euro bank loans are considered to be worthy of their fair value because their interest rates have been updated to reflect changing market conditions. Short term fixed rate TL loans are assumed to reflect fair value because their maturity is short.

NOTE 27 - ADDITIONAL DISCLOSURES THAT ARE NOT REQUIRED UNDER TAS

EBITDA, are not defined by TAS. These items determined by the principles defined by the Group management comprises incomes/expenses which are assumed by the Group management that are not part of the normal course of business and are non-recurring items. These items which are not defined by TAS are disclosed by the Group management separately for a better understanding and measurement of the sustainable performance of the Group.

	2016	**2015**
Net loss for the period	(39.648.115)	(27.732.446)
Tax	(2.460.130)	(6.781.876)
Financial income	(12.553.495)	(25.821.450)
Financial expense	61.581.367	79.937.777
Amortisation	15.843.537	12.634.192
Provision for employee benefit	524.659	856.873
Provision for unused vacation	(361.280)	542.887
EBITDA	**22.926.543**	**33.635.957**

NOTE 28 - EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit or loss attributable to equity holders of the Company by the weighted average of the number of shares of common stock outstanding during the fiscal year excluding the ownership interest in the equity shares issued and repurchased by the shareholders of equity shares issued during the year:

	2016	**2015**
Net income or loss attributable to the owners of the parent	(39,648,115)	(27,732,446)
Weighted average number of shares in issue	20,552,245,211	20,550,314,207
Earning/(loss) per share	**(0.0019)**	**(0.0013)**

NOTE 29 - EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to the decision no 82/1 dated 11 January 2017 taken at the Board of Directors, with the regard to the loan agreement signed with Yapı Kredi A.Ş., properties in Düzce are are encumbered with mortgage amounting TL 37,500,000.

The Company has signed a loan agreement with Yapı Kredi A.Ş. on 19 January 2017. Accordingly the Company utilized a loan amounting to TL 27,400,000 with a fixed interest rate of 15.90% and maturity of 3 years.

The Group has initiated negotiations with the financial institutions in respect to restructuring of its short-term bank borrowings and agreed on restructuring of short-term bank borrowings amounting to TL 46,741,921 on 10 February 2017 and 6 March 2017.

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