2017 Q1

EARNINGS RELEASE

Net Sales

MILLION TL	Q1 2016	Q1 2017	% Change
TOTAL*	12.906	14.102	*9%*
BANK	5.326	6.159	*16%*
NON-BANK*	7.580	7.943	*5%*
ENERGY	3.270	3.482	*6%*
CEMENT	583	547	*-6%*
RETAIL	1.872	1.736	*-7%*
INSURANCE	570	728	*28%*
INDUSTRIALS	1.245	1.416	*14%*
OTHER*	41	34	*-17%*

** Holding dividend income excluded*

- The key driver of the top line growth was Energy, with 6% growth y-o-y. This was mostly on the back of Regulated Returns in Distribution business.

- This was followed by Insurance with the help of strong premium growth in non-motor segment and solid Life and Protection products sales.

- Revenues from international markets in Industrials, particularly in Kordsa has driven the 14% growth in the industrials segment top line.

- The 7% drop in Retail top line is mainly the result of store network optimization in both businesses.

- Cement segment sales were adversely affected from colder than usual Q1 weather and referendum related demand delays.

EBITDA (EXCLUDING NON OPERATIONAL ITEMS)

MILLION TL	Q1 2016	Q1 2017	% Change
TOTAL*	**2.434**	**2.972**	**22%**
BANK	1.411	1.906	35%
NON-BANK*	**1.023**	**1.066**	**4%**
ENERGY	576	615	7%
CEMENT	154	96	-38%
RETAIL	3	43	1239%
INSURANCE	49	70	42%
INDUSTRIALS	250	254	2%
OTHER*	-9	-12	-40%

Excluding one off items

** Holding dividend income is excluded*

- Banking segment, with its strong core operational income have driven combined EBITDA in Q1 with 35% growth y-o-y.

- Energy segment has posted 7% growth in EBITDA in Q1, thanks to strong profitability in Distribution Business.

- Retail segment continues to deliver strong results thanks to the action plan implemented in 2016. This Q1, EBITDA has reached its highest point over the last five years nominally and EBITDA margin is also at its highest Q1 point since 2014.

- In insurance segment, high underwriting performance and pension profitability has led to 42% boost in profitability in Q1.

- Cement EBITDA was mainly affected by rising fuel costs and the weak demand limiting the ability on reflecting the increased costs to the prices.

CONSOLIDATED NET INCOME

MILLION TL	Q1 2016	Q1 2017	% Change
CONSOLIDATED NET INCOME*	**659**	**722**	**9%**
BANK	441	596	35%
NON-BANK	**219**	**126**	**-43%**
ENERGY	83	-27	-132%
ENERGY-Adjusted for comparison*	75	-27	-136%
CEMENT	44	22	-50%
RETAIL	-42	-26	39%
INSURANCE	16	23	45%
INDUSTRIALS	123	103	-17%
OTHER	-5	31	687%
NON BANK CONSOLIDATED NET INCOME-Adjusted for comparison*	*210*	*126*	*-40%*

**Excludes non-operational one off items.*
*** Consolidated Net Income Adjusted for Comparison - Excluding the effect of Enerjisa Tufanbeyli tax incentive*

- Energy bottom line was impacted by the depreciation of TL vis-a-vis the Euro in Q1. Higher depreciation and the end of capitalization of financing expenses related to the new capacity coming online in **Energy** also offset EBITDA growth and has contributed to the net loss.

- Due to weakening operational profitability **Cement** net income decreased by 50%.

- 45% growth in **Insurance** segment bottom line achieved thanks to strong operational profitability and financial income.

- Lower contribution from Philsa and Yünsa resulted in the 17% contraction in **Industrials** bottom line.

- FX long position at Holding level contributed to the bottom line in Q1 with FX gain of 49 MTL (7 MTL in Q1 2016), included in the «other» line.

SEGMENT HIGHLIGHTS

Energy

MILLION TL	Q1 2016	Q1 2017	% Change
SALES	3.270	3.482	6%
EBITDA*	576	615	7%
NET INCOME*	167	-54	-132%
NET INCOME** - Adjusted for comparison	150	-54	-136%
EBITDA* MARGIN	17,6%	17,7%	

**Excludes non-operational one off items.*
***Tax Incentive regarding Tufanbeyli Lignite Plant is recalculated based on the changes in economic assumptions; the incentive itself is not treated as a one-off item in the financials; excluded only for comparison purposes*

- Q1 2017 and Q1 2016 are comparable in terms of tariff parameters.

- Eligibility limit was decreased to 2.400 KWh per annum for 2017

- Retail business margins were affected negatively from the decrease in the national tariff as of 2016 and increase in FIT Costs in the free market.

- In generation business, natural gas curtailment continued until early February while water inflows were also low in the same period, which resulted in higher market prices.

- Tufanbeyli lignite power plant operated mostly on the incentive price program of TETAS. [185 TL/MWh]

- Additional dispatch opportunities for hydro plants on the renewable tariff to enhance profitability.

- TL depreciation against EUR was significantly higher in Q1 compared to last year.

- As new capacity came online in Q2 and Q3 2016, FX position of the plants started impacting the PL. However, the impacts were managed with hedging transactions.

- Overall Q1 performance was balanced in terms of profitability. EBITDA margin is almost flat with 17,7%. However, increased depreciation and financing expenses offset profitability due to the new plants coming online in June and September 2016.

EEDAŞ Consolidated***

MILLION TL	Q1 2016	Q1 2017	% Change
Net sales	2.637	2.713	3%
*Gross margin (%)***	21,3%	27,6%	6,3pp
*Operational Expenses***	-233	-354	-52%
Other income/(expense)	7	18	156%
EBITDA*	335	413	23%
EBITDA* margin (%)	12,7%	15,2%	2,5pp
Operational FX and Interest Income/(expense)	9	4	-55%
Interest and other financial income/(expense)	-162	-227	-40%
FX income/(expense)	-4	-16	-308%
Net income*	92	81	-12%

****EEDAŞ;Enerjisa Electricity Distribution Company: Distribution & Retail businesses consolidated*

- Despite increased EBITDA margin, with the impact of acquisition and CAPEX financing, profitability was limited. Acquisition and capex financing in EEDAŞ is mostly in TL and is affected by interest rates rather than FX.

- In Q1’16, %20 of the total debt was PPI linked privatization debt; which were fully paid off in Q3 2016. In Q1 2017, the Company’s average borrowing rates are higher because of the change in the loan mix and the increasing trend in interest rates.

Energy – Distribution Business

MILLION TL	Q1 2016	Q1 2017	% Change
SALES	796	1.069	34%
EBITDA	258	394	52%
EBITDA MARGIN	32,4%	36,8%	

** One off items excluded*

- The Regulated Asset Base has continued to increase significantly and reached 1.4x of the level of last year.

- With the RAB growth, and efficiencies in capex management, EBITDA increased by 136 MTL vs last year resulting in a 4.4pp increase in EBITDA margin.

Energy – Retail Business

MILLION TL	Q1 2016	Q1 2017	% Change
SALES	2.623	2.424	-8%
EBITDA- Adjusted for comparison*	77	26	-66%
EBITDA MARGIN	2,9%	1,1%	

* Intercompany corrections excluded. No impact on consolidated level

■ Retail service revenue methodology has been changed, with compensation for doubtful receivables capped at Turkey average.

■ Higher than expected procurement costs on the back of increased market prices for Q1 were not yet reflected to end user prices. Also, regulated National Tariff has been decreased in Q1'17; contrary to the expectations. All these together limited profitability in the free market in Q1'17.

Energy – Generation Business

MILLION TL	Q1 2016	Q1 2017	% Change
Net sales	977	907	-7%
Gross margin (%)	27%	23%	-4,0pp
EBITDA	237	-80	N.M
EBITDA*	**237**	**201**	**-15%**
EBITDA* margin (%)	**24%**	**22%**	**-2,1pp**
Depreciation	-58	-102	-75%
Interest and other financial income/(expense)	-56	-87	-56%
FX income/(expense)	-54	-189	-253%
Net income*	72	-135	-288%
NET INCOME - Adjusted for comparison**	**55**	**-135**	**-345%**

** One off items excluded*

■ Generation volume was 1.6x of the Q1 last year on the back of additional capacity, despite decrease in hydro generation with lower water inflow.

■ With the completion of Tufanbeyli lignite plant and Bandırma II natural gas plant; all major projects were completed in 2016. 55 MTL additional EBITDA was recorded from these new plants in Q1.

■ Q1 2016 was a period with strong water inflows and 2017 does not have the same trend so far. Lower renewable generation and strong base effect in 2016 resulted in a 106 MTL decrease in EBITDA.

■ Capturing favorable dispatch opportunities in the market, Generation company was able to generate 26 MTL additional EBITDA.

■ With the commissioning of Tufanbeyli and Bandırma 2, capitalization for these plants have ended and financial expenses have started to directly impact PL.

Cement

MILLION TL	Q1 2016	Q1 2017	% Change
SALES	583	547	-6%
EBITDA	154	96	-38%
NET INCOME	98	43	-56%
EBITDA MARGIN	26,5%	17,6%	

** One off items excluded*

■ Cement business posted a 9% decline in domestic volumes on the back of two factors: Severe weather conditions especially in January and February, and postponed demand because of referendum.

■ The 7% increase achieved in export volumes was the result of grey cement exports to the US, grey clinker to West Africa and white cement overall. Total volumes posted 5% decline.

■ On the costs side, electricity, petcoke and coal prices are on the rise. For the petcoke, issues in Venezuela was the main problem, while China`s lower coal production and India's increasing demand have led to increases in coal prices.

■ Domestic grey cement prices declined due to competitive environment and lower demand.

■ New Afyon plant of Çimsa has started production at the end of the 2017 Q1.

■ With the lower volumes, declining prices and increasing energy and fuel prices the segment EBITDA decreased by 38% and EBITDA margin decreased by 8.9 pp vs last year.

Retail

MILLION TL	Q1 2016	Q1 2017	% Change
SALES	1.872	1.736	-7%
EBITDA*	3	43	1239%
NET INCOME*	-81	-51	37%
EBITDA* MARGIN	0,2%	2,5%	

** One off items excluded*

■ The retail segment continues to maintain its positive momentum that has started in Q4 2016.

■ Consumer confidence index shows signs of improvement compared to year end 2016.

■ Revenues of retail segment fell 7% y-o-y in Q1 2017. The decline was driven by the loss of revenue from the stores that were closed within the turnaround plan.

■ Following the implementation of the turnaround plan in 2016, there has been a significant improvement in the operational profitability in both businesses.

■ Rising interest rates have increased financial expenses for both companies and this has hit the bottom line.

Carrefoursa

MILLION TL	Q1 2016	Q1 2017	% Change
SALES	1.097	1.047	-5%
EBITDA*	-8	16	304%
NET INCOME*	-68	-48	29%
EBITDA* MARGIN	-0,7%	1,6%	

** One off items excluded*

■ Top line was impacted from the optimization of the store network.

■ The company continues to make progress in all items outlined in the action plan in 2016. (closing low performing stores, improving SKU availability and improvement in assortment)

■ Gross margin has improved with optimization solutions of shelf space, layout ad product positioning within stores.

■ The company has continued to optimize its store operating model to improve the value proposition with the introduction of new fresh food categories, updated sections and self check-out kiosks.

Insurance

MILLION TL	Q1 2016	Q1 2017	% Change
SALES	570	728	28%
EBITDA	49	70	42%
NET INCOME	42	62	48%

** One off items excluded*

■ Segment premium generation has been boosted with non-motor insurance in Aksigorta and with Health and Protection related products in Avivasa. In addition to higher premiums, Avivasa also benefitted from returns on investments and generated strong growth at investment income line.

■ In Aksigorta, profitability was boosted with 23% premium generation growth and 5pps improvement in the combined ratio. This has resulted in 50% growth in underwriting profit. Thanks to solid financial income growth through Investment Portfolio, bottom line reached 2.5 times of last year’s. Aksigorta expects premiums to grow by 12-14% in 2017 leading to a net income growth of 8-10%.

■ Avivasa maintained market leadership position in pension business with 28% growth in AUM compared to last year and continues to grow in Protection and Personal Accident products. Pension business technical income grew by 32% thanks to strong fund management income and management fees. Life Protection and PA technical profit was flat, mainly due to elevated commissions paid and time lag between premium and profit generation. Rise in Auto Enrollment related expenses were partially offset with Investment Income, leading to 14% growth in Net Income.

Industrials

MILLION TL	Q1 2016	Q1 2017	% Change
SALES	1.245	1.416	14%
EBITDA*	250	254	2%
NET INCOME*	171	147	-14%
EBITDA* MARGIN	20,1%	17,9%	

** One off items excluded*

- Top line growth in Q1 has been mostly driven with Kordsa and Brisa with growth in Global Markets for Kordsa, slight improvement in replacement market and export sales coupled with price increases in local market for Brisa.
- On the operational profitability side, EBITDA increased only by 2% in Q1. This is mainly due to decreased operational profitability of Philsa compared to last year and lower operational performance of Temsa bus and automotive business. Thanks to growth in some businesses and cost control initiatives despite the increased raw material prices, positive EBITDA growth was delivered.

Kordsa Global

MILLION TL	Q1 2016	Q1 2017	% Change
SALES	488	631	29%
EBITDA*	78	111	42%
NET INCOME*	64	71	10%
EBITDA* MARGIN	16,0%	17,6%	

** One off items excluded*

- Tire market is picking up in every region.
- The sales revenue grew 29% in the first quarter with increased sales volume and favorable currency translation effect into TL. South America and Asia Pacific regions were the main drivers where in Asia the new tire cord fabric and yarn capacities have been fully utilized.
- Increased capacity utilization and focus on both commercial and operational excellence lead to profitable growth.
- Conversion cost improvements, positive currency translation and commercial optimization helped operational margins to improve and in absolute terms EBITDA grew 42% YoY.
- However, appreciation of Brazilian Real against US Dollar hit the bottom line negatively and diluted the positive impact in EBITDA line. Nevertheless, the company improved its net income by 10%.

Brisa

MILLION TL	Q1 2016	Q1 2017	% Change
SALES	402	473	18%
EBITDA	68	69	2%
NET INCOME	23	25	9%
EBITDA MARGIN	16,9%	14,7%	

** One off items excluded*

- Challenging market environment for Brisa continues to effect Q1 2017 as well.
- As limited growth in the markets is putting pressure in the local revenue stream; the Company put efforts into exports.
- Total export sales in units increased by 17% on the back of sales to Europe while the revenues increased by 44%.
- As 2016 ends, raw material prices were almost stable; however in Q1 rubber prices had an increasing trend, which affected margins negatively despite the increase in the top line.
- On top of limited operational Performance; non-capacity investment expenses and higher interest rates have led to limited profitability as well.

FX Position

	MILLION EURO	
CONSOLIDATED NET FX POSITION (excl. Bank) M€	DEC 31, 2016	MAR 31, 2017
ENERGY*	-271	-160
INDUSTRIALS	-25	-7
CEMENT	-8	5
RETAIL	3	7
INSURANCE	6	4
HOLDING & OTHER	167	244
TOTAL CONSOLIDATED FX POSITION AFFECTING PL	**-128**	**92**

*Capitalized borrowings of Energy segment amounting to 29 MEUR and the other FX assets/liabilities that do not create FX gain/loss are excluded

Holding Only Cash Position is 1.656 MTL

APPENDIX-CONSOLIDATED FINANCIALS

Balance Sheet (000 TL)

	31.03.2017	31.12.2016
ASSETS		
Current Assets	**155.098.515**	**150.779.370**
Cash and Cash Equivalents	9.965.614	12.596.627
Financial Assets	7.606.024	3.835.458
- Held for Trading	66.144	63.921
- Available for Sale	3.771.398	3.050.872
- Held to Maturity	3.758.099	684.900
- Time Deposits	10.383	35.765
Trade Receivables	1.516.382	1.440.602
Receivables from Finance Sector Operations	91.195.598	87.848.505
Reserve Deposits with the Central Bank of the Republic of Turkey	31.515.427	33.171.783
Other Receivables	1.757.094	1.138.432
Derivative Financial Instruments	7.594.877	7.662.697
Inventories	2.236.063	1.995.221
Prepaid Expenses	689.582	486.716
Current Tax Assets	4.463	4.678
Other Current Assets	979.567	576.871
	155.060.691	**150.757.590**
Assets Classified As Held for Sale	37.824	21.780
Non-current Assets	**162.286.979**	**157.488.469**
Financial Assets	49.445.759	49.063.092
- Available for Sale	34.795.549	31.771.008
- Held to Maturity	14.650.210	17.292.084
- Time Deposits	-	-
Trade Receivables	123.299	110.032
Receivables From Finance Sector Operations	97.228.223	92.734.698
Other Receivables	893.900	884.996
Derivative Financial Instruments	945.881	807.874
Investments Accounted Through Equity Method	5.757.910	6.101.005
Investment Property	278.807	278.476
Property, Plant and Equipment	5.076.637	4.964.509
Intangible Assets	1.682.647	1.687.584
- Goodwill	1.014.815	1.014.815
- Other Non Current Assets	667.832	672.769
Prepaid Expenses	117.019	129.067
Deferred Tax Assets	638.421	635.401
Other Non Current Assets	98.476	91.735
Total Assets	**317.385.494**	**308.267.839**

LIABILITIES		
Short Term Liabilities	**224.597.471**	**213.371.296**
Financial Liabilities	12.495.841	8.838.741
Current Portion of Long-Term Financial Liabilities	14.368.545	13.620.874
Trade Payables	2.380.838	2.490.488
Payables from Finance Sector Operations	181.527.267	176.618.716
Short Term Employee Benefits	105.310	63.177
Other Payables	5.256.003	4.725.183
Derivative Financial Instruments	4.944.615	4.617.826
Deferred Income	176.677	149.461
Income Taxes Payable	587.629	347.607
Short Term Provisions	591.856	699.107
- Short Term Provisions for Employee Benefits	249.233	287.751
- Other Short Term Provisions	342.623	411.356
Other Short Term Liabilities	2.150.527	1.188.398
	224.585.108	**213.359.578**
Liabilities Classified As Held for Sale	12.363	11.718
Long Term Liabilities	**46.825.659**	**50.089.200**
Financial Liabilities	26.338.759	26.458.459
Trade Payables	-	29
Payables from Finance Sector Operations	18.918.980	22.096.811
Other Payables	832.333	829.968
Derivative Financial Instruments	98.064	98.991
Deferred Income	134.461	120.273
Long Term Provisions	334.457	327.449
- Long Term Provisions for Employee Benefits	330.135	323.210
- Other Long Term Provisions	4.322	4.239
Deferred Tax Liabilities	143.764	139.150
Other Long Term Liabilities	24.841	18.070
EQUITY	**45.962.364**	**44.807.343**
Equity Attributable to the Parent	**23.633.826**	**23.146.297**
Share Capital	2.040.404	2.040.404
Adjustment to Share Capital	3.426.761	3.426.761
Share Premium	22.237	22.237
Adjustments to Share Capital due to Cross Ownership(-)	(190.470)	(190.470)
Accumulated Other Comprehensive Income or Loss That Will Not Be Reclassified to Profit or Loss	(58.747)	(59.814)
- Actuarial Gains/Losses	(58.747)	(59.814)
Accumulated Other Comprehensive Income or Loss That Will Be Reclassified to Profit or Loss	(21.794)	(268.550)
- Currency Translation Reserve	553.221	499.438
- Hedge Reserve	(362.608)	(323.312)
- Revaluation Reserve	(212.407)	(444.676)
Restricted Reserves	1.027.117	929.750
Retained Earnings	16.718.916	14.585.848
Net Income for the Period	669.402	2.660.131
Non-controlling Interests	**22.328.538**	**21.661.046**
TOTAL EQUITY AND LIABILITIES	**317.385.494**	**308.267.839**

Income Statement (000 TL)

	31.03.2017	31.03.2016
CONTINUING OPERATIONS		
Sales (net)	2.951.759	2.996.566
Cost of Sales (-)	(2.306.822)	(2.347.428)
Gross Profit From Non-Financial Operations	**644.937**	**649.138**
Interest, Premium, Commission and Other Income	6.148.268	5.317.053
Interest, Premium, Commission and Other Expense (-)	(3.159.441)	(2.902.676)
Gross Profit From Financial Operations	**2.988.827**	**2.414.377**
GROSS PROFIT	**3.633.764**	**3.063.515**
General Administrative Expenses (-)	(1.251.838)	(1.226.819)
Marketing, Selling and Distribution Expenses (-)	(408.130)	(452.202)
Research and Development Expenses (-)	(1.508)	(1.501)
Income From Other Operating Activities	272.230	175.869
Expense From Other Operating Activities (-)	(163.886)	(146.946)
Interest in Income of Investments Accounted Through Equity Method	(46.141)	196.702
OPERATING PROFIT	**2.034.491**	**1.608.618**
Income From Investment Activities	27.668	5.335
Expense From Investment Activities (-)	(397)	(1.725)
OPERATING PROFIT BEFORE FINANCIAL INCOME / (EXPENSES)	**2.061.762**	**1.612.228**
Financial Income	55.815	14.762
Financial Expenses (-)	(147.121)	(65.369)
NET INCOME BEFORE TAX FROM CONTINUING OPERATIONS	**1.970.456**	**1.561.621**
Tax Income / (Expense) from Continuing Operations		
Current Income Tax Expense	(470.615)	(297.541)
Deferred Income Tax Benefit / Charge	72.869	23.668
NET INCOME FOR THE YEAR FROM CONTINUING OPERATIONS	**1.572.710**	**1.287.748**
DISCONTINUED OPERATIONS		
Net Income After Tax From Discontinued Operations	-	(3.426)
NET INCOME FOR THE YEAR	**1.572.710**	**1.284.322**
ALLOCATION OF NET INCOME		
- Non-controlling Interests	903.308	643.808
- Equity Holders of the Parent	669.402	640.514
Earnings per share		
- thousands of ordinary shares (TL)	3,27	3,14
Earnings per share from continuing operations		
- thousands of ordinary shares (TL)	3,27	3,16

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