

LOGO YAZILIM SANAYİ VE TİCARET A.Ş.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2016
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

(ORIGINALLY ISSUED IN TURKISH)

**CONVENIENCE TRANSLATION OF CONSOLIDATED FINANCIAL
STATEMENTS ORIGINALLY ISSUED IN TURKISH**

LOGO YAZILIM SANAYİ VE TİCARET A.Ş.

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2016**

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CONVENIENCE TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

LOGO YAZILIM SANAYİ VE TİCARET A.Ş.

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated.)

	Notes	Audited 31 December 2016	Audited 31 December 2015
ASSETS			
Current asset		139.523.661	124.544.398
Cash and cash equivalents	5	43.507.923	51.529.036
Financial investments	6	279.986	-
Trade receivables		92.906.476	71.945.027
- Due from related parties	28	-	8.032
- Due from third parties	9	92.906.476	71.936.995
Other receivables		147.362	10.164
- Other receivables from third parties	10	147.362	10.164
Inventories	11	322.138	310.553
Prepaid expenses	17	1.946.104	449.905
Other current assets		413.672	299.713
Non-current assets		188.013.329	77.801.400
Other receivables		3.081.146	1.114.561
- Other receivables from related parties	28	2.920.534	950.000
- Other receivables from third parties	10	160.612	164.561
Financial investments	6	130.653	130.653
Investments accounted for using the equity method	7	737.533	-
Property, plant and equipment	12	18.977.934	15.488.784
Intangible assets		161.722.764	58.759.039
- Goodwill	14	75.386.762	7.478.652
- Other intangible assets	13	86.336.002	51.280.387
Prepaid expense	17	1.786.750	35.727
Deferred tax assets	26	1.208.136	2.272.636
Other non-current assets		368.413	-
Total assets		327.536.990	202.345.798

These consolidated financial statements have been approved by Board of Directors on 14 February 2017 and signed on its behalf by Buğra Koyuncu, Chief Executive Officer and Gülnur Anlaş, Chief Financial Officer.

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

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STATEMENTS ORIGINALLY ISSUED IN TURKISH**

LOGO YAZILIM SANAYİ VE TİCARET A.Ş.

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated.)

	Notes	Audited 31 December 2016	Audited 31 December 2015
LIABILITIES			
Short-term liabilities		148.823.733	83.490.361
Short-term borrowings	8	56.798.022	993.182
Short-term portion of long-term borrowings	8	6.298.768	1.092.524
Trade payables		16.493.822	10.027.920
- <i>Trade payables to third parties</i>	9	16.493.822	10.027.920
Employee benefit payables	16	6.457.090	1.252.651
Other payables		7.198.360	6.468.494
- <i>Other payables to third parties</i>	10	7.198.360	6.468.494
Deferred revenue	17	40.749.291	53.876.841
Short-term provisions		11.609.615	9.056.999
- <i>Short-term provisions for employee benefits</i>	16	11.609.615	9.056.999
Current income tax liabilities	26	1.818.901	398.889
Other current liabilities		1.399.864	322.861
Long-term liabilities		14.555.392	8.555.573
Long-term borrowings	8	3.605.982	313.019
Other payables		2.741.721	3.736.690
- <i>Other payables to third parties</i>	10	2.741.721	3.736.690
Long-term provisions		6.315.332	4.107.271
- <i>Provisions for employment termination benefits</i>	16	6.315.332	4.107.271
Deferred tax liabilities	26	1.892.357	398.593
EQUITY			
Equity attributable to equity holders of the parent		160.802.613	108.545.294
Paid-in share capital	18	25.000.000	25.000.000
Adjustment to share capital	18	2.991.336	2.991.336
Restricted reserves	18	6.993.951	6.993.951
Treasury shares (-)	18	(4.632.563)	(4.632.563)
Other comprehensive income and expense that will not to be reclassified to profit or loss		(1.663.527)	(1.681.596)
- <i>Actuarial gain/(loss) on employment termination benefits</i>		(1.663.527)	(1.681.596)
Other comprehensive income and expense that will to be reclassified to profit or loss		6.899.780	-
- <i>Currency translation difference</i>		6.899.780	-
Retained earnings		79.874.166	39.979.376
Net income for the period		45.339.470	39.894.790
Non-controlling interests		3.355.252	1.754.570
Total equity		164.157.865	110.299.864
Total liabilities		327.536.990	202.345.798

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

CONVENIENCE TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

LOGO YAZILIM SANAYİ VE TİCARET A.Ş.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated.)

PROFIT OR LOSS	Notes	Audited 31 December 2016	Audited 31 December 2015
Revenue	20	190.374.106	128.777.388
Cost of sales (-)	20	(4.756.358)	(3.254.820)
Gross profit		185.617.748	125.522.568
General administrative expenses (-)	21	(18.920.847)	(13.530.205)
Marketing expenses (-)	21	(38.314.128)	(34.685.456)
Research and development expenses (-)	21	(59.368.135)	(36.847.268)
Other operating income	22	3.531.905	2.994.570
Other operating expenses (-)	22	(21.476.474)	(3.591.600)
Operating profit		51.070.069	39.862.609
Income from investing activities	23	291.293	288.705
Share of losses of investments accounted for by the equity method	7	(267.981)	-
Operating profit before finance income/(expenses)		51.093.381	40.151.314
Finance income	24	3.976.529	2.692.993
Finance costs (-)	25	(3.831.620)	(2.856.320)
Profit before tax		51.238.290	39.987.987
Tax income/(expenses)			
Taxes on income	26	(3.780.773)	(560.664)
Deferred tax income/(expense)	26	(517.365)	790.079
Net profit for the year		46.940.152	40.217.402
Net profit attributable to:			
Non-controlling interests		1.600.682	322.612
Equity holders of the parent		45.339.470	39.894.790
		46.940.152	40.217.402
Earnings per share	27	18,14	15,96

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

**CONVENIENCE TRANSLATION OF CONSOLIDATED FINANCIAL
STATEMENTS ORIGINALLY ISSUED IN TURKISH**

LOGO YAZILIM SANAYİ VE TİCARET A.Ş.

**CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015**

(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated.)

OTHER COMPREHENSIVE INCOME	Notes	Audited 31 December 2016	Audited 31 December 2015
Profit for the year		46.940.152	40.217.402
Other comprehensive income and expense that will be reclassified to profit or loss		6.236.321	-
Currency translation differences		6.236.321	-
Other comprehensive income and expense that will not be reclassified to profit or loss		18.069	(859.842)
Actuarial gain/(loss) on employment terminatin benefits	16	19.640	(935.955)
Tax effect	26	(1.571)	76.113
Other comprehensive income/(expense)		6.254.390	(859.842)
Total comprehensive income		53.194.542	39.357.560
Other comprehensive income attributable to:			
Non-controlling interest		1.600.682	322.612
Equity holders of the parent		51.593.860	39.034.948
		53.194.542	39.357.560

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

CONVENIENCE TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

LOGO YAZILIM SANAYİ VE TİCARET A.Ş.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated.)

	Paid-in share capital	Adjustments to share capital	Treasury shares	Restricted reserves	Other comprehensive income not to be reclassified under profit and loss Actuarial gain/(loss) on termination benefits	Other comprehensive income to be reclassified under profit and loss Currency translation difference	Retained earnings	Net profit for the year	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balances at 1 January 2016	25.000.000	2.991.336	(2.649.415)	3.960.394	(821.754)	-	30.109.530	27.552.406	86.142.497	1.431.958	87.574.455
Transfer to retained earnings	-	-	-	3.033.557	-	-	24.518.849	(27.552.406)	-	-	-
Dividends paid	-	-	-	-	-	-	(14.649.003)	-	(14.649.003)	-	(14.649.003)
Treasury shares (*)	-	-	(1.983.148)	-	-	-	-	-	(1.983.148)	-	(1.983.148)
Net income for the period	-	-	-	-	-	-	-	39.894.790	39.894.790	322.612	40.217.402
Other comprehensive loss	-	-	-	-	(859.842)	-	-	-	(859.842)	-	(859.842)
Balances at 31 December 2016	25.000.000	2.991.336	(4.632.563)	6.993.951	(1.681.596)	-	39.979.376	39.894.790	108.545.294	1.754.570	110.299.864
Transfers	-	-	-	-	-	-	39.894.790	(39.894.790)	-	-	-
Acquisition or disposal of subsidiaries (**)	-	-	-	-	-	663.459	-	-	663.459	-	663.459
Net income for the period	-	-	-	-	-	-	-	45.339.470	45.339.470	1.600.682	46.940.152
Other comprehensive income	-	-	-	-	18.069	6.236.321	-	-	6.254.390	-	6.254.390
Balances at 31 December 2016	25.000.000	2.991.336	(4.632.563)	6.993.951	(1.663.527)	6.899.780	79.874.166	45.339.470	160.802.613	3.355.252	164.157.865

(*) Note 18.

(**) Note 4.

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

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LOGO YAZILIM SANAYİ VE TİCARET A.Ş.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015**

(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated.)

	Notes	31 December 2016	31 December 2015
A. Cash flows from operating activities		49.556.558	65.454.432
Profit for the year		46.940.152	40.217.402
Adjustments to reconcile profit for the year		12.737.360	40.569.214
Depreciation and amortization adjustments	12, 13	17.095.609	13.246.368
Provision for employment termination benefits	16	3.523.596	4.193.540
Interest expense	25	691.069	1.349.764
Interest income	24	(2.387.574)	(1.037.909)
Undistributed profits of joint ventures	7	267.981	-
Provision for doubtful receivables	9	1.982.619	99.493
Other adjustments to reconcile profit or loss		(12.734.078)	23.067.290
Gain on sale of property and equipment	12	-	(119.917)
Tax expense/(income)	26	4.298.138	(229.415)
Changes in net working capital		(7.696.720)	(13.941.641)
(Increase)/decrease in inventories		(11.585)	206.096
Decrease in trade receivables		819.909	5.490.573
Increase in trade payables		6.465.902	2.904.252
Decrease in other current and non-current liabilities		(21.592.885)	(22.714.823)
Decrease in other current and non-current assets		6.621.939	172.261
Cash flows from operating activities		51.980.792	66.844.975
Taxes paid	26	(2.360.761)	(35.700)
Employment termination benefits paid	16	(63.473)	(1.354.843)
B. Cash flows from investing activities		(113.816.652)	(24.467.390)
Purchases of property, plant and equipment and intangible assets	12, 13	(26.027.637)	(19.111.648)
Acquisition of subsidiary	4	(87.038.836)	(5.475.659)
Proceeds from sale of property, plant and equipment and intangible assets		255.335	119.917
Capital injections to joint ventures	7	(1.005.514)	-
C. Cash flows from financing activities		55.198.675	(38.097.569)
Repayments of borrowings		(5.764.470)	(20.801.096)
Proceeds from borrowings		59.266.640	-
Purchase of treasury shares		-	(1.983.148)
Interest paid		(691.069)	(1.702.231)
Interest received		2.387.574	1.037.909
Dividend paid		-	(14.649.003)
Net (decrease)/increase in cash and cash equivalent before currency translation differences (A+B+C)		(9.061.419)	2.889.473
D. Effects of currency translation differences on cash and cash equivalents.		1.040.306	-
Net (decrease)/increase in cash and cash equivalents (A+B+C+D)		(8.021.113)	2.889.473
E. Cash and cash equivalents at beginning of the period	5	51.529.036	48.639.563
Cash and cash equivalents at end of the period (A+B+C+D+E)	5	43.507.923	51.529.036

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

CONVENIENCE TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

LOGO YAZILIM SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 1 - ORGANIZATION AND NATURE OPERATIONS

Logo Yazılım Sanayi ve Ticaret Anonim Şirketi (“Logo Yazılım” or the “Company”) was established in 1986 and became a corporation on 30 September 1999. The Company is domiciled in Turkey and operates under the Turkish Commercial Code.

The main activity of the Company is production, development, processing, multiplication and distribution to all physical and electronic environment of operating system, application software, databases, software increasing productivity, multimedia software products and all types of similar software processed inside all types of computer hardware and to carry out all the services such as technical support, training and technical service activities.

As of 31 December 2016, the average number of personnel of the Group is 697 (31 December 2015: 506).

The address of the registered office is as follows:

Şahabettin Bilgisu Caddesi, No:609
Gebze Organize Sanayi Bölgesi
Gebze, Kocaeli

As of 31 December 2016, main shareholders are Logo Teknoloji ve Yatırım A.Ş. and Mediterra Capital Partners LLP. They jointly control the Company. The shareholding structure of the Company is disclosed in Note 18.

The nature of businesses of subsidiaries and joint ventures of Logo Yazılım (together referred to as the “Group”) are as follows:

Subsidiaries	Country of incorporation	Nature of business
Logo Elektronik Ticaret Hizmetleri A.Ş. (“e-Logo”)	Turkey	Development and marketing of computer software
Logo Business Software GmbH (“Logo GmbH”)	Germany	Development and marketing of computer software
Logo Business Solutions FZ-LLC (“Logo FFC-LLC”)	United Arab Emirates	Software marketing
Logo Software Investment S.A. (“Logo Investment”)	Romania	Investment
Total Soft S.A. (“Totalsoft”)	Romania	Development and marketing of computer software
Logo Infosoft Business Technology Private Limited (“Logo Infosoft”)(*)	India	Development and marketing of computer software
Joint venture	Country of incorporation	Nature of business
FIGO Ticari Bilgi ve Uygulama Platformu A.Ş. (“FIGO”)	Türkiye	Development and marketing of computer software

(*) Although incorporation of Logo Infosoft was completed as of 8 December 2016, Logo Infosoft has no trading activities as of 31 December 2016. The Company owns 66,6% shares of Logo Infosoft.

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LOGO YAZILIM SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 1 - ORGANIZATION AND NATURE OPERATIONS (Continued)

The Company has founded Logo Investment in Romania at 19 August 2016. The Company owns 100% shares of Logo Investment.

Upon share purchase agreement signed at 2 September 2016, Logo Investment has purchased 100% shares of Totalsoft (Note 4).

The Company was signed an agreement with F.I.T Information Systems Services Industry and Trade Inc. at 29 July 2016 to incorporate FIGO Ticari Bilgi ve Uygulama Platformu A.Ş. (“FIGO”). The Company participates 50% shares of FIGO. FIGO, provides access to value-added services like risk assessments, insurance, finance and collection that is predicted to facilitate their business operations through Commercial Knowledge Platform.

The Company has purchased 100% shares of Vardar Eğitim Hizm. Yazılım Danışmanlık ve San. Tic. A.Ş. (“Vardar”) through a share purchase agreement signed on 8 September 2015 (Note 4).

The Company has purchased 100% of Sempa shares through a share purchase agreement signed on 18 June 2015 (Notes 4).

The Company took over 50,1% of İntermat Bilişim A.Ş. (“İntermat”) shares on 5 January and the remaining 49,90% on 28 July 2015 regarding the share purchase and option agreement (Note 4).

Processes relating to the Group’s facilitated merger of its wholly owned subsidiaries Logobi Yazılım Sanayi ve Ticaret A.Ş, Coretech Bilgi Teknolojisi Hizmetleri A.Ş. and Netsis Yazılım Sanayi ve Ticaret A.Ş, to acquire their assets and liabilities in entirety, has been concluded and the merge has been officially registered to the Registry of Commerce as of 28 July 2015. Pursuant to the Capital Markets Board of Turkey (“CMB”) decision taken at their 17/853 numbered meeting on 3 July 2015, the Turkish Code of Commerce, Capital Markets Law, Corporate Tax Law and relevant provisions of the CMB “Mergers and Divisions Communication” numbered II-23.2 the announcement made regarding the facilitated merger process has been approved by the CMB.

Processes relating to the Group’s facilitated merger of its wholly owned subsidiaries Vardar, Sempa and İntermat acquiring their assets and liabilities in entirety, has been concluded and the merge has been officially registered to the Registry of Commerce as of 31 December 2015. Pursuant to the CMB decision taken at their 36/1656 numbered meeting on 28 December 2015, the Turkish Code of Commerce, Capital Markets Law, Corporate Tax Law and relevant provisions of the CMB “Mergers and Divisions Communication” numbered II-23.2 the announcement made regarding the facilitated merger process has been approved by the CMB.

The Company’s Board of Directors resolved on 22 April 2009 to liquidate Logo Business Solutions FZ-LLC due to the foreseen negative effects of the global crisis in 2009 on the Company's domestic and international sales and marketing activities and to execute international sales and marketing activities from the head office. As of 31 December 2016, the liquidation process has been substantially completed. The Company’s foreign sales and marketing activities are managed from its headquarter in Turkey.

CONVENIENCE TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

LOGO YAZILIM SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation

2.1.1 Financial reporting standards

The accompanying consolidated financial statements of the Group have been prepared in accordance with the Turkish Accounting Standards (“TAS”) promulgated by the Public Oversight Accounting and Auditing Standards Authority (“POA”) in compliance with the communiqué numbered II-14.1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (the Communiqué) announced by the CMB on June 13, 2013 which is published on Official Gazette numbered 28676. TAS consists of the Turkish Accounting Standards, Turkish Financial Reporting Standards and related supplements and interpretations (“TAS/IFRS”). TAS/IFRS are updated in harmony with the changes and updates in International Financial Reporting Standards (“IFRS”) by the communiqués announced by the POA.

With the decision taken on March 17, 2005, CMB announced that, effective from January 1, 2005, the application of inflation accounting is no longer required for listed companies in Turkey. The Group’s consolidated financial statements have been prepared in accordance with this decision.

Consolidated financial statements have been prepared under the historical cost convention except for the financial assets presented at fair values and revaluations related to the differences between carrying value and fair value of tangible and intangible assets arising from business combinations.

2.1.2 Financial statements of subsidiaries operating in foreign countries

Financial statements of subsidiaries, operating in countries other than Turkey, are adjusted to TAS/IFRS for the purpose of fair presentation. Subsidiaries’ assets and liabilities are translated into Turkish Lira from the foreign exchange rate at the balance sheet date and income and expenses are translated into Turkish Lira at the average foreign exchange rate. Exchange differences arising from the translation of the opening net assets and differences between the average and balance sheet dates are included in the “currency translation difference” under the shareholders’ equity.

2.1.3 Basis of consolidation

The consolidated financial statements prepared in accordance with the principles of consolidated financial statements for the year ended 31 December 2016 include the the financial statements of Logo Yazılım and its subsidiaries. The table below sets out the subsidiaries of Logo Yazılım and ownership interests held by the Company at 31 December 2016 and 2015:

Subsidiaries	31 December 2016 (%)	31 December 2015 (%)
Logo GmbH	100,00	100,00
e-Logo	90,58	90,58
Totalsoft	100,00	-
Logo Investment	100,00	-
Logo Infosoft	66,66	-

CONVENIENCE TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

LOGO YAZILIM SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.1 Basis of presentation (Continued)

<u>Joint Venture</u>	<u>31 December 2016 (%)</u>	<u>31 December 2015 (%)</u>
FIGO	50,00	-

Subsidiaries

Consolidated financial statements are comprised the accounts of Logo Yazılım and its subsidiaries that are prepared consistently with principles stated in consolidated financial statements belong to year end at 31 December 2016:

- Have the authority on the investee company/asset
- Investment company/will be open to variable returns from assets or that it is entitled to this, and
- Ability to use its power that may have effect on the returns

The balance sheets, income statements and other comprehensive income statements of the subsidiaries that are consolidated with using full consolidation method. The registered value of the investment recorded in the assets of the Company and the amount from subsidiaries’ shareholder’s equity corresponded to Company’s share are settled net. The transactions and balances between the Company and subsidiaries are mutually eliminated under consolidation.

Joint venture

Joint venture is a joint initiative in which, the sides who have joint control in an arrangement, have rights related to net assets in this common arrangement. Joint control is the sharing of the control over an economic activity depends on the agreement. This control is supposed to exist if the decisions about the related activity can only be made by the unanimous vote of the sides who share the control.

The investments on joint ventures is recognized with using equity method as of the time after the investee turn into joint venture.

2.1.4 Presentation and functional currency

For the purpose of the consolidated financial statements, the results and financial position and cash flows of the Group are presented in thousands of Turkish Lira (“TRY”), which is the functional currency of Logo Yazılım.

Functional currency of Totalsoft and Logo Investment is Romanian Leu (“RON”). Financial information of each entity included in consolidation are measured using the currency of the primary economic environment in which these entities operate, normally under their local currencies. Assets and liabilities for each statement of financial position presented (including comparatives) are translated to TRY at exchange rates at the statement of financial position date. Income and expenses are translated to TRY at monthly average exchange rates. Foreign currency differences arising on translation are recognized in other comprehensive income as a separate component of equity.

CONVENIENCE TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

LOGO YAZILIM SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.2 Going concern

The consolidated financial statements including the accounts of the parent company and its subsidiary have been prepared assuming that the Group will continue as a going concern on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

2.3 Amendments to International Financial Reporting Standards

a. Standards, amendments and interpretations applicable as at 31 December 2016

- TFRS 14, “Regulatory deferral accounts”, effective from annual periods beginning on or after 1 January 2016. TFRS 14, “Regulatory deferral accounts” permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt TFRS. However, to enhance comparability with entities that already apply TFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.
- 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.
- TFRS 11, “Joint arrangements” on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.
- 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.
- 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.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.3 Amendments to International Financial Reporting Standards (Continued)

- 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.
- 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.
- 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 TASB initiative to improve presentation and disclosure in financial reports

b. Standards, amendments and interpretations effective after 1 January 2017

- 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 TASB’s Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.
- 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.
- TFRS 2, “Share based payments” on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in TFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.3 Amendments to International Financial Reporting Standards (Continued)

- 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.
- 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. The Group is assessing the impact of the accounting changes that will arise under TFRS 15; however, the changes are expected to have a material impact on the consolidated income statement and consolidated statement of financial position.
- TFRS 15, “Revenue from contracts with customers”, effective from annual periods beginning 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.
- 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.
- 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.
- TFRS 4, “Insurance contracts” regarding the implementation of TFRS 9, “Financial instruments”, effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
 - give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when TFRS 9 is applied before the new insurance contracts standard is issued; and
 - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying TFRS 9 until 2021. The entities that defer the application of TFRS 9 will continue to apply the existing financial instruments standard TAS 39.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.3 Amendments to International Financial Reporting Standards (Continued)

- 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.
- 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.
- 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 Group is assessing the impact of the accounting changes that will arise under TFRS 16; however, the changes are expected to have a material impact on the consolidated income statement and consolidated statement of financial position. The Group is assessing the impact of the accounting changes that will arise under TFRS 16; however, the changes are expected to have a material impact on the consolidated income statement and consolidated statement of financial position.

The Group will evaluate the effect of the aforementioned changes within its operations and apply changes starting from effective date. It is expected that the application of the standards and the interpretations except for the ones the impacts of which were disclosed above will not have a significant effect on the consolidated financial statements of the Group.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquirer. The consideration transferred is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners of the entity and the equity interests issued by the Group.

When the agreement with the seller includes a clause that the consideration transferred could be adjusted for future events, the acquisition-date fair value of this contingent consideration is included in the cost of the acquisition. All transaction costs incurred by the Group have been recognized in general administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

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

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

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the aggregate of the consideration transferred measured at fair value at the date of acquisition and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed at fair value in accordance with TFRS 3 on the date of acquisition.

In the event the amount paid in an acquisition is lower than the fair value of the acquired net assets and liabilities the difference is recognised as income.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Whenever the carrying amount exceeds the recoverable amount, an impairment loss is recognized in the consolidated income statement.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amounts of the net assets assigned to the cash-generating unit, an impairment loss is recognized. The impairment of goodwill cannot be cancelled. The Group tests the impairments of goodwill on the dates as of 31 December.

The profit and losses generated from the sale of a business include the goodwill on the sold business.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Gains or losses on disposals of property and equipment are included in the related income and expense accounts, as appropriate.

The initial cost of property and equipment comprises its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance expenses are charged to the statement of profit or loss during the period in which they are incurred.

These capitalized costs are depreciated and charged to statement of profit or loss over the useful life of the related assets. Depreciation is calculated on a straight line basis over the estimated useful life of the assets, which are as follows:

	<u>Useful lives</u>
Leasehold improvements related to building	5 - 49 year
Machinery and equipment	5 year
Motor vehicles	5 year
Furniture and fixtures	3 - 15 year

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

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Intangible assets

Intangible assets include acquired rights, development costs, software and technology, customer relationships and other identifiable rights acquired in business combinations. Intangible assets are carried at cost less accumulated amortization. These are accounted by cost of acquisition and are subjected to straight-line depreciation method with their useful lives starting from the date of acquisition.

	<u>Useful lives</u>
Development costs	5 - 15year
Technology developed	5 - 10 year
Customer relations	8 - 20 year
Agreement for restriction of competition	3 - 4 year
Other intangible assets	3 - 5 year

Intangible assets acquired in business combinations are accounted for over their fair values at the acquisition date. Where an indication of impairment exists, the carrying amount of any intangible assets is assessed and written down immediately to its recoverable amount.

Research and development costs

Research is defined as the original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. The expenditure on research is recognized as an expense when it is incurred.

Development is defined as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use and an intangible asset arising from development is recognized when the following are demonstrated:

- a) The technical feasibility of completing the intangible asset so that it will be available for use or sale,
- b) Its intention to complete the intangible asset and use or sell it,
- c) Its ability to use or sell the intangible asset,
- d) How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset,
- e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset,
- f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Development costs comprise salaries, wages and related costs of the staff working directly in development activities and other directly attributable costs. The government grants related development costs are deducted from the carrying value of associated development costs.

Impairment of assets

All assets are reviewed for impairment losses including property, plant and equipment and intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset’s net selling price and value in use. Impairment losses are recognized in the statement of income.

Impairment losses on assets can be reversed, to the extent of previously recorded impairment losses, in cases where increases in the recoverable value of the asset can be associated with events that occur subsequent to the period when the impairment loss was recorded.

Leases

The Group as lessee

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

Financial leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the statement of profit or loss.

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

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Government incentives

Logo Yazılım benefits from research and development ("R&D") grants within the scope of the Communiqué No: 98/10 of The Scientific and Technological Research Council of Turkey ("TÜBİTAK") and Money Credit and Coordination Board related to R&D grants for its research and development projects given that such projects satisfy specific criteria with respect to the evaluation of TÜBİTAK Technology Monitoring and Evaluation Board.

The government grants are recognized when there is reasonable assurance that Logo Yazılım will comply with the conditions attaching to them and the grants will be received.

The government grants are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Accordingly, government grants are when the related costs which they are intended to compensate were incurred. Similarly, grants related to depreciable assets are recognized as income over the periods and in the proportions in which depreciation on those assets is charged.

Gains arising from incentives for investment and research and development activities together with government grants are recognized when there is a reasonable assurance for the necessary conditions to be fulfilled and incentive to be acquired by the Group. Vested government grants related with expense or capitalization realized in previous accounting periods, are recognized in statements of profit or loss when collectible.

Financial instruments

Financial assets consist of cash and cash equivalents, trade receivables, financial assets, other receivables, derivative financial assets (if any) and receivable from related parties. Financial liabilities consist of bank borrowings, trade payables, due to related parties, derivative financial liabilities (if any), and other payables.

Financial assets and financial liabilities are recognized on the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

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

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

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits at banks and highly liquid investments and credit card receivables with maturity periods of less than three months.

Trading securities

Trading securities are recognized initially at cost including transaction costs incurred and subsequently measured at their fair values. Fair value gains and losses are recognized in profit or loss.

Available-for-sale financial assets

Investments intended to be held for an indefinite period of time, and which may be sold in response to needs for liquidity or changes in interest rates are classified as available-for-sale. These are included in non-current assets unless management has the expressed intention of holding the investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. The appropriate classification of investments is determined at the time of the purchase and re-evaluated by management on a regular basis.

All investment securities are initially recognized at cost. Transaction costs are included in the initial measurement of debt securities. Available-for-sale debt and equity investment securities are subsequently re-measured at fair value if their fair values can be reliably measured.

Other investments in which the Group has interest below 20% 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.

Trade receivables and impairment provision

Trade receivables that are created by the Group by way of providing goods or services directly to a debtor are carried at amortized cost. Short term receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant.

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, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Trade and other payables

Trade and other payables are initially measured at fair value. None interest rate bearing short term payables are measured at original invoice amount unless the effect of imputing interest is significant.

Borrowings

Interest-bearing financial borrowings are initially measured at the fair value of the consideration received, less directly attributable costs and are subsequently measured at amortized cost, using the effective interest rate method. Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset which requires substantial period of time to get ready for its intended use or sale shall be capitalized over the cost of the asset. Other borrowing costs shall be recognized as an expense in the period it incurs.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a company of similar financial assets) is derecognized where the rights to receive cash flows from the asset have expired, the Group retains the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a pass-through’ arrangement or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Related parties

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

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

For the purpose of these consolidated financial statements, shareholders, key management personnel, associated entities controlled by key management personnel and Board of Directors members, in each case together with their families and companies controlled or affiliated with them are considered and referred to as related parties. As a result of ordinary business operations, the Company may have business relations with the related parties.

Income taxes

Income tax expense comprises of current and deferred taxes. Income tax expense is recognized in the statement of profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current income tax is based on taxable profit for the year. Taxable profit differs from “profit before tax” as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Current tax is calculated using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Interest and penalties assessed on income tax deficiencies are presented based on their nature.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Revenue

The Group mainly generates revenue from sale of off-the-shelf softwares, sale of Logo Enterprise Membership, sale of retail cloud solutions (“SaaS”) membership, after-sales services revenue development of customized softwares and version upgrade package sales.

Off-the-shelf software sales - licence model

Revenues on off-the-shelf software sales are recognized on an accrual basis at the time deliveries or acceptances are made, the amount of the revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group, at the fair value of consideration received or receivable. Net sales represent the invoiced value less sales returns and discounts. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized as interest income on a time proportion basis that takes into account the effective yield on the asset.

On the off-the-shelf software sales, Logo Yazılım charge its customers a one-time fee and the customers are entitled to use the current release and version indefinitely. Accordingly, the Company does not have obligation following the point of sale.

Off-the-shelf software sales - pay as you go model

In the sales model where the licence rights are not transferred to customers, but usage right of the package programme is made available for a limited period of time, the revenue are accounted for on accrual basis.

e-Logo Private Integrator service sales

Companies issuing e-invoice can exchange electronic invoice via data processing system of a private integrator having technical capability rather than using their own data processing system infrastructure. e-Logo, which has a permission of private integration from Turkish Revenue Administration, provides opportunity to its users to realize their electronic invoice exchanges with its capacity of 130.000.000 invoices processes a day and thanks to a swift and secure system working 7/24 actively. Companies getting e-Logo private Integrator Service manage their approval processes on web. Private Integrator Service is carried out as credit sales. Revenue recognition is made according to rates of credit usage.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Logo Enterprise Membership ("LEM") sales and version upgrade package sales

Logo Enterprise Membership is an insurance package that provides free ownership for all the charged version updates which protect enterprises against all the legal amendments and which includes new features that will contribute new values to the products throughout the year. Enterprises which buy LEM obtain the basic maintenance and support services necessary for high performance functioning of Enterprise Resource Planning, besides receiving all the legal changes and charged version changes free of charge. LEM sales are recognized on an accrual basis over the contract period. The Group started LEM sales in August 2007. The Group applies to give the LEM as a free product with the main software in first sale of license. The Group's management mentioned that collection of the sales transaction was reflected to the main software product and LEM products was sold free. Since the free of charge LEM products given the first year are given along with the currently up-to-date software, they do not bring significant updates for the user and their commercial value is lower compared to the LEM products provided in the subsequent years. The fee is charged by the Group for the renewal of LEM agreements.

SaaS subscription income

SaaS subscription income is allocated to customers on a monthly basis. Income is invoiced and recognised as part of a periodic invoicing process and the source of income is accounted for as soon as the service is rendered.

Post delivery customer support

The revenue from post delivery customer support are recognized on the accrual basis based on the terms of the agreements. The post delivery customer support services are mainly provided by the business partners.

Development of customized softwares

The revenue from development of customized softwares are recognized by reference to the stage of completion of the contract activity at the balance sheet date.

Other revenues

Other revenues earned by the Group are recognized on the following basis:

Royalty and rental income - on an accrual basis,

Interest income - on an effective interests basis,

Dividend income - when the Company's right to receive dividend is established

Provisions

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

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Provision for vendor premiums

The Group set annual targets for its distributors and distribute premiums at the end of the year according to these targets. Premiums are recognized in the period that they are realized and accounted for profit and loss when they accrued.

Contingent assets and liabilities

Possible assets or obligations that arise 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 are not included in financial statements and treated as contingent assets or liabilities.

Contingent liabilities are disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. If an outflow of resources has become probable, contingent liabilities are recognised in the financial statements. Contingent assets are not recognised in financial statements but disclosed in the notes to the financial statements where an inflow of economic benefits is probable.

Employee benefits

Retirement pay liability

Employment termination benefits, as required by the Turkish Labour Law, represent the estimated present value of the total reserve of the future probable obligation of the Company arising in case of the retirement of the employees. According to Turkish Labour Law and other laws applicable in Turkey, the Company is obliged to pay employment termination benefit to employees in cases of termination of employment without due cause, call for military service, retirement or death upon the completion of a minimum one year service. The provision which is allocated by using the defined benefit pension’s current value is calculated by using the estimated liability method. All actuarial profits and losses are recognized in the other comprehensive income.

Provision for personnel bonus

Personnel bonus provisions comprises of the benefits provided by the Company according to the performance measures of the personnel. Personnel bonus is accounted for profit and loss on an accrual basis.

Treasury shares

The Company’s own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group’s own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them. Share options exercised during the reporting period are satisfied with treasury shares.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Statement of cash flows

The Group prepares consolidated statement of cash flows as an integral part of its financial statements to enable financial statement analysis about the change in its net assets, financial structure and the ability to direct cash flow amounts and timing according to evolving conditions. Cash flows during the period are classified and reported by operating, investing and financing activities in the cash flow statements.

Cash flows from operating activities represent the cash flows generated from the Group’s activities.

Cash flows related to investing activities represent the cash flows that are used in or provided from the investing activities of the Group (property and equipment, intangible assets and financial investments).

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

Segment reporting

The Group’s operations are carried out in a single business line. There are two geographical segments which include the data used by management to make decisions on performance evaluation and source distribution. The Group’s geographical segments cover operations in Turkey and Romania. These segments are managed separately since different economic conditions affect them. Their risks and yields are different based on their geographical positions. The Group’s management adopted a policy of examining geographical segment results in the interim consolidated financial statements prepared in line with TFRS while evaluating the performance of segments. Net profit for the year is used to measure performance as management believes that such information is the most relevant indicator in evaluating the results of the geographical segments.

Geographical segments are reported in a manner consistent with the reporting provided to the Chief Executive Officer and board of directors of the Group (“Chief Operating Decision-Maker”). The Group’s Chief Operating Decision-Maker is responsible for allocating resources and assessing performance of the operating segments. Adjusted earning before interest, tax, depreciation and amortization (“EBITDA”) is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Adjusted EBITDA definition includes revenue, direct cost of revenues excluding depreciation and amortization accounted for operating expenses (except other income and expenses).

Adjusted EBITDA is not a financial measure defined by TAS/TFRS as a measurement of financial performance and may not be comparable to other similarly-titled indicators used by other companies.

For a geographical segment to be identified as a reportable segment, its revenue, including both sales to external customers and intersegment sales or transfers, should be 10% or more of the combined revenue, internal and external, of all geographical segments; its profit or loss should be 10% or more of the combined profit or loss or its assets should be 10% or more of the combined assets of all geographical segments.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Geographical segments that do not meet any of the quantitative thresholds may be considered as reportable, and separately disclosed, if the management believes that information about the segment would be useful to users of the interim consolidated financial statements.

Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is equal to basic EPS because the Group does not have any convertible notes or share options granted to employees.

In Turkey, companies are allowed to raise their share capital by distributing bonus shares to shareholders from retained earnings. In computing earnings per share, such bonus share distributions are treated as issued shares. Accordingly, the retrospective effect for such share distributions is taken into consideration in determining the weighted-average number of shares outstanding used in this calculation.

2.5 Significant accounting estimates and assumptions

Preparation of consolidated financial statements requires the usage of estimations and assumptions which may affect the reported amounts of assets and liabilities as of the balance sheet date, disclosure of contingent assets and liabilities and reported amounts of income and expenses during the financial period. The accounting assessments, forecasts and assumptions are reviewed continuously considering the past experiences, other factors and the reasonable expectations about the future events under current conditions. Although the estimations and assumptions are based on the best estimates of the management’s existing incidents and operations, they may differ from the actual results. The estimates and assumptions that can lead to significant adjustments on the carrying value of the assets and liabilities are as follows:

Provision for doubtful receivables

Provision for doubtful receivables is an estimated amount that management believes to reflect for possible future losses on existing receivables that have collection risk due to current economic conditions. During the impairment test for the receivables, the debtors, other than related parties and key customers are assessed with their prior year performances, their credit risk in the current market, and their individual performances after the balance sheet date up to the issuing date of the financial statements and furthermore, the renegotiation conditions with these debtors are considered.

Useful lives of intangible assets

In accordance with the accounting policy described in Note 2.4, intangible assets are stated at historical cost less depreciation, net of any impairment charges. Depreciation on tangible assets is calculated using the straight-line method over their estimated useful lives. Useful lives depend on the best estimates of management and are reviewed in each financial period and corrected accordingly.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.5 Significant accounting estimates and assumptions (Continued)

In the light of new technological developments, the Group reassessed the useful lives of developed softwares observing global and sectoral trends. As a result of the reassessment, softwares useful lives are determined related to their categories as 5, 7 and 15 years that will be valid as of 1 January 2016. Change in useful lives results a decrease in the amortization expenses by TRY 1.576.381 for the year ended 31 December 2016.

Revenue recognition

The Group uses percentage of completion method in accounting of its software licence revenues and customized software revenues. Use of the percentage of completion method requires the Group to estimate the services performed to date as a proportion of total services to be performed.

Logo Enterprise Membership is an insurance package that provides free ownership for all the charged version updates which protect enterprises against all the legal amendments and which includes new features that will contribute new values to the products throughout the year. Since the free of charge LEM products given the first year are given along with the currently up-to-date software, they do not bring significant updates for the user and their commercial value is lower compared to the LEM products provided in the subsequent years. Thus, related sales amounts are recognized as revenue within the transaction year.

Research and development costs

Development is defined as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use and an intangible asset arising from development is recognized by the Group. Management determines the cost of employees to be capitalized taking into account time spent by each employee on research and development activities. The costs of employees relating to research are expensed as incurred.

Goodwill impairment test

Goodwill is subject to impairment test at least annually. The recoverable amounts of cash generating units are determined on value in use basis. The details of estimates and assumptions used are explained in Note 14.

2.6 Comparatives and adjustment of prior periods' financial statements

The consolidated financial statements of the Group include comparative financial information to enable the determination of the financial position and performance. The consolidated balance sheet of the Group at 31 December 2016 has been provided with the comparative financial information of 31 December 2015 and the consolidated statements of profit or loss, the consolidated statements other comprehensive income, changes in equity and cash flows for the period ended 31 December 2016 have been provided with the comparative financial information, for the period ended 31 December 2015.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.6 Comparatives and adjustment of prior periods’ financial statements (Continued)

In order to comply with the presentation of consolidated financial statements the current period when deemed necessary, comparative information is reclassified, and material differences are presented. Accordingly, the following reclassification was made;

- A reclassification is made amounting to TRY 950,000, between “Other receivables from third parties” and “Other receivables from related parties” on the consolidated balance sheet of the Group prepared as of 31 December 2015.
- A reclassification is made amounting to TRY 1.983.148 that arised from purchase of treasury shares which was presented in “cash flows from investing activities” in consolidated statements of cash flow as of 31 December 2015, reclassified and presented as “cash flows from financing activities”.

NOTE 3 - SEGMENT REPORTING

31 December 2016	Turkey	Romania	Segmental eliminations	Consolidated
Reportable segment assets	254.286.710	73.250.280	-	327.536.990
Goodwill	75.386.762	-	-	75.386.762
Reportable segment liabilities	86.799.234	76.579.891	-	163.379.125
Property and equipment	75.849.330	29.464.606	-	105.313.936

2016	Turkey	Romania	Segmental eliminations	Consolidated
Revenue	163.020.821	27.353.285	-	190.374.106
Cost of sales (-)	(2.646.150)	(2.110.208)	-	(4.756.358)
Operating expenses	(94.707.774)	(21.895.336)	-	(116.603.110)
Finance income	3.678.993	297.536	-	3.976.529
Finance costs	(2.260.274)	(1.571.346)	-	(3.831.620)
Depreciation and amortization	(15.313.474)	(1.782.135)	-	(17.095.609)
Share of profit or loss of investments accounted for using the equity method	(267.981)	-	-	(267.981)
Tax expense	(3.626.906)	(671.232)	-	(4.298.138)
Net profit for the year	46.596.982	343.170	-	46.940.152
Adjusted EBITDA	80.980.371	5.129.876	-	86.110.247
Purchase of property and equipment and intangible assets	24.648.968	1.378.669	-	26.027.637

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NOTE 3 - SEGMENT REPORTING (Continued)

Reconciliation between adjusted EBITDA and profit before tax is as follows:

2016	Consolidated
Adjusted EBITDA	86.110.247
Depreciation and amortization	(17.095.609)
Income from investing activities	291.293
Share of profit or loss of investments accounted for using the equity method	(267.981)
Other operating income	3.531.905
Other operating expenses	(21.476.474)
Finance income	3.976.529
Finance costs	(3.831.620)
Profit before tax	51.238.290

Since the Group started its operations in Romania during 2016, the segment reporting is not presented with comparative information.

NOTE 4 - BUSINESS COMBINATION

Acquisition of Totalsoft

The Group acquired 100% of Totalsoft shares for EUR 30.246.000 through Share Purchase Agreement signed on 2 September 2016. The acquisition process is completed after the purchase consideration has been paid in cash to the Totalsoft's previous shareholders.

The Group, with respect to aforementioned acquisition process, applied provisional acquisition accounting and accounted Intermat as a subsidiary in accordance with TFRS 3, “Business Combination”. Fair value of identifiable liabilities and identifiable assets owned as a result of aforementioned business combination as of acquisition date is determined with the valuation report.

The identifiable assets acquired and liabilities assumed were booked over their following values:

Total assets	52.153.136
Intangible assets - Development costs	15.174.676
Intangible assets - Customer relationships	5.938.034
Intangible asset - Advanced technology	2.613.900
Intangible asset - Other	196.210
Total liabilities	(36.471.916)
Fair value of net assets	39.604.040
Less: purchase consideration	101.432.073
Goodwill	61.828.033

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NOTE 4 - BUSINESS COMBINATION (Continued)

Identifiable assets determined based on the purchase price allocation of Totalsoft are development costs, customer relationships, advanced technology and other intangible assets amortized over the useful lives of 12, 10, 7 to 10, 2 to 4 years, respectively.

The goodwill calculated is recognized in financial statements of Logo Yazılım which is the ultimate controlling party of the Group. In accordance with TMS 21, "The effects of changes in foreign Exchange rates", goodwill arising from acquisition of foreign entities shall be accounted as a part of assets of foreign investments, thus the goodwill is accounted for using RON which is the functional currency of Totalsoft. As of acquisition date, goodwill was calculated as RON 83.517.538.

Detail of cash outflows due to purchase is as follows:

Purchase price - cash paid in 2016	101.432.073
Cash and cash equivalents - acquired	14.393.237
Cash outflow due to purchase, net	87.038.836

Intermat acquisition

The Company has acquired 50,1% of Intermat shares for TRY 2,000,000 through Share Purchase and Option agreement signed on 5 January 2015. It is adjudicated with the Share Transfer and Option Contract concluded on the same date that the Company has the right to take over the remaining 49,9% shares in 12 months following the date of transfer at a price of not less than TRY 1,500,000 and more than 3,500,000 TRY and Intermat has the right to sell to the Company with same terms. 49,9% of Intermat shares were transferred to the Company on 28 July 2015 and a cost at an amount of 268,000 TRY was paid during this transfer and shall net off from the additional payment amount which will determined as 50% of turnover amount which will be realized until the end of 2017.

Purchase price - cash	2.000.000
Purchase price - cash	268.000
Purchase price - cash	814.969
Purchase price - future payments (*)	1.492.429
Total purchase price	4.575.398

(*) Future payment amounts estimated over possible turnover amounts of Intermat until 2017 have been discounted to date and the amount of future payments is determined. In accordance with Share Transfer and Option Contract, the Group made an additional payment amounting to TRY 814.969 as of 31 December 2016.

The Group, with respect to aforementioned acquisition process, applied provisional acquisition accounting and accounted Intermat as a subsidiary in accordance with TFRS 3 "Business Combination". Fair value of identifiable liabilities and identifiable assets owned as a result of aforementioned business combination as of acquisition date is determined with the draft valuation report.

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NOTE 4 - BUSINESS COMBINATION (Continued)

The identifiable assets acquired and liabilities assumed were booked over their following values

Total assets	539.268
Intangible assets - advanced technology	3.502.958
Intangible assets - non-compete agreement	499.151
Total liabilities	(303.041)

Fair value of net assets	4.238.336
Less: purchase consideration	4.575.398

Goodwill **337.062**

Identifiable assets such as advanced technology and non-compete agreement which were determined as a result of purchase price allocation study of Intermat are amortized over 7 years and 3 years respectively.

Detail of cash outflows due to purchase is as follows:

Purchase price - cash paid in 2015	2.268.000
Cash and cash equivalents - acquired	11.296

Cash outflow due to purchase, net **2.256.704**

Sempa acquisition

The Company has acquired 100% of Sempa shares for TRY 3,000,000 through a Share Purchase Agreement signed on 18 June 2015 and has become Sempa’s sole shareholder. Full purchase price was paid in advance. The Agreement entered into force as of 18 June 2015. TRY 856,631 that was paid in scope of the acquisition in the measurement period was added to purchase price

Within the framework of the Agreement signed on 18 June 2015; 50% of the positive difference between Sempa’s sales revenue to be realized in 2015 sales revenue amounting to TRY 2,017,938 (“Base Performance Fee”) will be paid to Sempa’s previous shareholders as a “Performance Fee” which will not exceed TRY 500,000.

Purchase price - cash	3.856.631
Purchase price - future payments (*)	241.000

Total purchase price **4.097.631**

(*) As of 31 December 2016, the Group has paid whole amount of future payments.

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NOTE 4 - BUSINESS COMBINATION (Continued)

The Group, with respect to aforementioned acquisition process, applied provisional acquisition accounting and accounted Sempa as a subsidiary in accordance with TFRS 3 "Business Combination". Fair value of identifiable liabilities and identifiable assets owned as a result of aforementioned business combination as of acquisition date is determined with the draft valuation report.

The identifiable assets acquired and liabilities assumed were booked over their following values:

Total assets	1.601.189
Intangible assets - advanced technology	1.378.000
Intangible assets - customer relations	303.000
Intangible assets - non-compete agreement	267.000
Total liabilities	(354.558)

Fair value of net assets	3.194.631
Less: purchase consideration	4.097.631

Goodwill **903.000**

Identifiable assets such as advanced technology, customer relations and non-compete agreement, which are determined as a result of purchase price allocation study of Sempa, are amortized over 7 years, 8 years and 3 years respectively.

Detail of cash outflows due to purchase is as follows:

Purchase price - cash paid in 2015	3.856.631
Cash and cash equivalents - acquired	1.240.069

Cash outflow due to purchase, net **2.616.562**

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NOTE 4 - BUSINESS COMBINATION (Continued)

Vardar acquisition

The Company has acquired 100% of Vardar shares for 604,794 TRY through a Share Purchase Agreement signed on 8 September 2015. A performance payment at a total amount of TRY 2,000,000 shall be made in scope of this Agreement consisting of TRY 1,000,000, occurring following the determination of completion of the Vardar’s products improvement effectively and become in a position to be sold in sales network of Logo and TRY 1,000,000 which occurs after the sales amount of Vardar’s products exceeds TRY 1,000,000 plus VAT in sales network of Logo.

Purchase price - cash	604.794
Purchase price – cash	180.000
Purchase price - future payments (*)	1.249.292
Total purchase price	2.034.086

(*) Performance payments which shall be made for Vardar have been discounted to date considering that the estimated dates in which the related conditions will be ensured, and the amount of future payments is determined. In accordance with Share Transfer and Option Contract, the Group made additional payments amounting to TRY 180,000 as of 31 December 2016.

The Group, with respect to aforementioned acquisition process, applied provisional acquisition accounting and accounted Vardar as a subsidiary in accordance with TFRS 3 “Business Combination”. Fair value of identifiable liabilities and identifiable assets owned as a result of aforementioned business combination as of acquisition date is determined with the draft valuation report.

The identifiable assets acquired and liabilities assumed were booked over their following:

Total Assets	1.084.068
Intangible assets - advanced technology	1.130.198
Intangible assets - non-compete agreement	41.570
Total liabilities	(568.088)
Fair value of net assets	1.687.748
Less: purchase consideration	2.034.086
Goodwill	346.338

Identifiable assets such as advanced technology and non-compete agreement which are determined as a result of purchase price distribution study of Vardar, are amortized over 7 years and 3 years respectively.

Detail of cash outflows due to purchase is as follows:

Purchase price - cash paid in 2015	604.794
Cash and cash equivalents - acquired	2.401
Cash outflow due to purchase, net	602.393

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NOTE 5 - CASH AND CASH EQUIVALENTS

Details of cash and cash equivalents as of 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016	31 December 2015
Cash	21.013	15.700
Banks		
- Demand deposits - TRY	1.097.542	797.117
- Demand deposits - foreign currency	15.011.551	810.892
- Time deposits - TRY	260.000	18.113.439
- Time deposits - foreign currency	2.639.400	5.011.271
Credit card receivables	24.478.417	26.780.617
	43.507.923	51.529.036

As of 31 December 2016, the weighted average effective annual interest rates for TRY time deposits are between 6,00% and 12,50% (31 December 2015: 11,00% and 13,75%).

Cash and cash equivalents included in the consolidated statements of cash flows for the years ended 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015	31 December 2014
Cash and cash equivalents	43.507.923	51.529.036	48.639.563
	43.507.923	51.529.036	48.639.563

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NOTE 6 - FINANCIAL INVESTMENTS

Trading securities:

The analysis of financial assets at fair value through profit and loss at December 31, 2016 and 2015 is as follows:

	31 December 2016	31 December 2015
Mutual funds		
- Liquid funds	279.986	-

Available-for-sale financial assets:

The analysis of non-current financial assets at 31 December 2016 and 2015 is as follows:

	31 December 2016		31 December 2015	
	Share (%)	TRY	Share (%)	TRY
İnterpro Yayıncılık Araştırma ve Organizasyon Hizmetleri A.Ş. (“İnterpro”)	2.00	80.653	2.00	80.653
Dokuz Eylül Teknoloji Geliştirme Bölgesi A.Ş. (“Dokuz Eylül”)	0.67	50.000	0.67	50.000
		130.653		130.653

İnterpro and Dokuz Eylül are assessed as available-for-sale financial asset as of 31 December 2016 and 31 December 2015. Since they do not have any quoted market price in active market, their fair value can not be measured reliably. They are not material to the consolidated financial statements, thus they are carried at cost in the consolidated financial statements.

NOTE 7 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Movements of investments accounted for using the equity method for the year is as follows:

	2016	2015
As of 1 January	-	-
Capital increases in joint venture	1.005.514	-
Share of profit/(loss)	(267.981)	-
As of 31 December	737.533	-

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NOTE 7 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

Balance sheet summary

Since FIGO has started to its operations in 2016, the summary of financial information is not presented with comparatives.

The financial information summary of investment accounted for using the equity method is as follows:

31 December 2016	FIGO
Cash and cash equivalents	704.534
Other current assets	110.344
Other non-current assets	136.177

Total assets **951.055**

Other short-term liabilities 71.849

Total liabilities **71.849**

Summary income statement information

2016	FIGO
Income	5.006
Expenses (-)	(540.968)

Net loss for the year **(535.962)**

The Group's ownership rate 50%
Group's share (267.981)

Share of losses from investments accounted for using the equity method **(267.981)**

NOTE 8 - BORROWINGS

Details of borrowings as of 31 December 2016 and 31 December 2015 is as follows:

Short-term borrowings:	31 December 2016	31 December 2015
Short-term bank loans	56.639.008	782.893
Credit cards	159.014	210.289
	56.798.022	993.182

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NOTE 8 – BORROWINGS (Continued)

Current portion of long-term borrowings:

Financial leases	473.426	-
Current portion of long-term bank borrowings	5.825.342	1.092.524
	6.298.768	1.092.524

Total short-term bank borrowings	63.096.790	2.085.706
---	-------------------	------------------

Long-term bank borrowings: 31 December 2016 31 December 2015

Long-term bank loans	2.948.375	313.019
Financial leases	657.607	-

Total long-term borrowings	3.605.982	313.019
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	31 December 2016		
	Weighted average annual interest rate (%)	Original amount	TRY equivalent
Short-term borrowings:			
Bank loans - EUR (*) - unsecured	2,05	13.072.000	48.638.807
Bank loans- TRY - unsecured	12,40	8.000.201	8.000.201
Credit cards payables- TRY	-	159.014	159.014
			56.798.022

Current portion of long-term borrowings:

Bank loans- EUR - secured	Euribor+2,25	1.498.499	5.512.323
Financial leases – EUR	-	127.236	473.426
Bank loans - TRY	13,68	313.019	313.019

6.298.768

Long-term borrowings:

Bank borrowings - EUR -secured	Euribor+2,25	801.501	2.948.375
Financial leases- EUR	-	178.767	657.607

3.605.982

Total borrowings			66.702.772
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(*) On 16 January 2017, as a result of the new loan agreement with the banks, short term bank loan has been refinanced by a long term loan.

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NOTE 8 - BORROWINGS (Countinued)

	31 December 2015		
	Weighted average annual interest rate (%)	Original amount	TRY equivalent
Short-term bank borrowings :			
Bank loans - TRY - unsecured	-	782.893	782.893
Credit cards	-	210.289	210.289
			993.182
Current portion of long-term bank borrowings:			
Bank loans - TRY - unsecured	% 10,32 - % 13,68	1.092.524	1.092.524
			1.092.524
Total short-term bank borrowings			2.085.706
Long-term bank borrowings:			
Bank loans – TRY - unsecured	% 10,32 - % 13,68	313.019	313.019
Total borrowings			3.491.249

The redemption schedules of long-term borrowings at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	Carrying amount	Fair value	2016	2015
To be paid within 1-2 years	3.251.042	313.019		
To be paid within 2-5 years	354.940	-		
	3.605.982	313.019		
	2016	2015	2016	2015
Bank borrowings	65.412.725	2.188.436	66.082.184	2.210.833
	65.412.725	2.188.436	66.082.184	2.210.833

Interest rate and currency risk of the Group are explained in Note 29.

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NOTE 9 - TRADE RECEIVABLES AND PAYABLES

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

Short-term trade receivables:	31 December 2016	31 December 2015
Trade receivables	87.589.858	40.329.386
Credit card receivables	25.623.742	36.054.297
Cheques and notes receivables	2.850.196	4.101.042
Income accruals	69.451	646.936
Less: provision for doubtful receivables	(21.095.832)	(6.451.544)
Less: unearned finance income arising from credit sales	(2.130.939)	(2.743.122)
	92.906.476	71.936.995

As of 31 December 2016 the average turnover of the trade receivables is 117 days (31 December 2015: 146 days), excluding the average credit cards receivables turnover day is 72 days (31 December 2015: 89 days), the discount rate applied to the receivables is 8.82% (31 December 2015: 11.75%).

As of 31 December 2016, trade receivables of TRY 16.575.792 (31 December 2015: TRY 3,454,145) were past due but not impaired. The aging analysis of these trade receivables is as follows:

	31 December 2016	31 December 2015
Up to 1 month	1.169.448	1.985.998
1-3 months	596.012	530.271
More than 3 months (*)	14.810.332	937.876
	16.575.792	3.454.145

Amount of risk covered by guarantees	-	604.263
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(*) TRY 13.004.274 of trade receivables matured more than 3 months is comprised of trade receivables of Totalsoft. Group managed its receivables in accordance with credit risk management policies that is explained in Note 29.

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NOTE 9 - TRADE RECEIVABLES AND PAYABLES (Continued)

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

	2016	2015
As of 1 January	6.451.544	6.352.051
Provision for the year	2.126.774	122.304
Releases	(144.155)	(22.811)
Acquisition of subsidiary	11.528.450	-
Foreign currency translation difference	1.133.219	-
As of 31 December	21.095.832	6.451.544

Trade payables to third parties:	31 December 2016	31 December 2015
Trade payables	16.493.822	10.027.920

As of 31 December 2016, the average debt payment period is 75 days (31 December 2015: 64 days).

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NOTE 9 - TRADE RECEIVABLES AND PAYABLES (Continued)

The table below shows the maximum exposure of the Group to credit risk as of 31 December 2016 and 31 December 2015:

31 December 2016	Trade receivables		Other receivables		Cash at bank
	Related party	Other	Related party	Other	
The maximum of credit risk exposure at the reporting date	-	92.906.476	2.920.534	307.974-	43.486.910
- Amount of risk covered by guarantees	-	659.127	-	-	-
Net carrying value of not past due and not impaired financial assets	-	76.330.684	2.920.534	307.974	43.486.910
Net carrying value of past due but not impaired financial assets	-	16.575.792	-	-	-
- Amount of risk covered by guarantees	-	-	-	-	-
Net carrying value of impaired assets	-	-	-	-	-
- Past due (gross carrying value)	-	21.095.832	-	-	-
- Provision for impairment (-)	-	(21.095.832)	-	-	-
- Amount of risk covered by guarantees	-	-	-	-	-

The guarantees which cover the credit risk include guarantee cheques, mortgages and letter of guarantees.

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NOTE 9 - TRADE RECEIVABLES AND PAYABLES (Continued)

31 December 2015	Trade receivables		Other receivables		Cash at bank
	Related party	Other	Related party	Other	
The maximum of credit risk exposure at the reporting date	8.032	71.936.995	950.000	174.725	51.513.336
- Amount of risk covered by guarantees	-	604.263	-	-	-
Net carrying value of not past due and not impaired financial assets	8.032	68.482.850	950.000	174.725	51.513.336
Net carrying value of past due but not impaired financial assets	-	3.454.145	-	-	-
- Amount of risk covered by guarantees	-	604.263	-	-	-
Net carrying value of impaired assets	-	-	-	-	-
- Past due (gross carrying value)	-	6.451.544	-	-	-
- Provision for impairment (-)	-	(6.451.544)	-	-	-
- Amount of risk covered by guarantees	-	-	-	-	-

The guarantees which cover the credit risk include guarantee cheques, mortgages and letter of guarantees.

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NOTE 10 - OTHER RECEIVABLES AND PAYABLES

Other short-term receivables from third parties:	31 December 2016	31 December 2015
Deposits and guarantees given	147.362	10.164
	147.362	10.164

Other long-term receivables from third parties:	31 December 2016	31 December 2015
Other long-term receivables	160.612	164.561

Short-term other payables to third parties:	31 December 2016	31 December 2015
Taxes payable	6.865.594	5.496.868
Short term payables regarding Sempa acquisition (Note 4)	-	241.000
Other	332.766	730.626
	7.198.360	6.468.494

Other long-term payables to third parties:	31 December 2016	31 December 2015
Long term payables regarding Intermat acquisition (Note 4)	1.492.429	2.307.398
Long term payables regarding Vardar acquisition (Note 4)	1.249.292	1.429.292
	2.741.721	3.736.690

NOTE 11 - INVENTORIES

	31 December 2016	31 December 2015
Trade goods	237.051	127.072
Raw materials and equipments	79.004	160.730
Other	6.083	22.751
	322.138	310.553

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NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2016	Additions	Acquisition of subsidiary	Disposals	Currency translation differences	31 December 2016
Costs:						
Machinery and equipment	6.606.148	968.836	441.144	(3.655)	28.283	8.040.756
Motor vehicles	55.382	177.845	2.219.408	(80.681)	90.892	2.462.846
Furniture and fixtures	3.901.241	207.767	634.631	-	37.948	4.781.587
Leasehold improvements	19.985.276	580.107	49.411	-	4.143	20.618.937
	30.548.047	1.934.555	3.344.594	(84.336)	161.266	35.904.126
Accumulated depreciation:						
Machinery and equipment	5.360.844	673.608	-	(1.324)	429	6.033.557
Motor vehicles	52.026	265.729	-	(80.681)	7.334	244.408
Furniture and fixtures	3.218.764	328.572	-	-	2.378	3.549.714
Leasehold improvements	6.427.629	670.884	-	-	-	7.098.513
	15.059.263	1.938.793	-	(82.005)	10.141	16.926.192
Net book value	15.488.784					18.977.934

	1 January 2015	Additions	Acquisition of subsidiary	Disposal	30 December 2015
Costs:					
Machinery and equipment	5.866.902	753.871	-	(14.625)	6.606.148
Motor vehicles	244.598	-	-	(189.216)	55.382
Furniture and fixtures	3.619.890	260.066	73.732	(52.447)	3.901.241
Leasehold improvements	19.458.301	526.975	-	-	19.985.276
	29.189.691	1.540.912	73.732	(256.288)	30.548.047
Accumulated depreciation:					
Machinery and equipment	4.995.418	380.051	-	(14.625)	5.360.844
Motor vehicles	241.241	-	-	(189.216)	52.026
Furniture and fixtures	3.012.405	258.806	-	(52.447)	3.218.764
Leasehold improvements	5.867.088	560.541	-	-	6.427.629
	14.116.153	1.199.398	-	(256.288)	15.059.263
Net book value	15.073.538				15.488.784

The Group constructed its headquarter building on the land which has been leased from Gebze Organize Sanayi Bolgesi for a lease period of 49 years. The cost of this building is accounted under leasehold improvements. Monthly rent amount of the land is equal to USD 7.843 and the Group's non cancellable lease payments are, TRY 331.213 - within 1 year, TRY 1.324.852 - 1 to 5 years and TRY 6.546.219 - more than 5 years (31 December 2015: TRY 299.063 - within 1 year, TRY 1.196.252 - 1 to 5 years and TRY 6.209.857 - more than 5 years).

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NOTE 13 - INTANGIBLE ASSETS

	1 January 2016	Additions	Acquisition of subsidiary	Disposals	Currency translation differences	31 December 2016
Costs:						
Development costs	79.862.344	23.378.148	15.174.676	(253.004)	1.813.658	119.975.822
Advanced technology	12.460.183	-	2.613.900	-	184.834	15.258.917
Customer relations	11.852.175	-	5.938.034	-	483.937	18.274.146
Non-compete agreement	2.747.778	-	-	-	-	2.747.778
Other intangible assets	6.186.579	714.934	196.210	-	19.295	7.117.018
	113.109.059	24.093.082	23.922.820	(253.004)	2.501.724	163.373.681
Accumulated Depreciation:						
Development costs	48.627.617	11.561.965	-	-	28.393	60.217.975
Advanced technology	3.066.467	1.478.005	-	-	11.061	4.555.533
Customer relations	3.312.463	1.538.606	-	-	11.111	4.862.180
Non-compete agreement	2.154.407	269.241	-	-	-	2.423.648
Other intangible assets	4.667.718	308.999	-	-	1.626	4.978.343
	61.828.672	15.156.816	-	-	52.191	77.037.679
Net book value	51.280.387					86.336.002

Additions amounting to TRY 21.744.408 to development costs for the period between 1 January - 31 December 2016 (2015: TRY 13.265.198 TRY) consists of staff costs.

TRY 16.402.673 (2015: TRY 12.799.540) TRY 281.507 (2015: TRY 173.744) and TRY 411,429 (2015: TRY 273,084) of the depreciation and amortization expenses for the year have been accounted for research and development expenses, marketing expenses and general administrative expenses, respectively.

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NOTE 13 - INTANGIBLE ASSETS (Continued)

	1 January 2015	Additions	Acquisition of subsidiary	30 December 2015
Costs:				
Development costs	62.864.589	16.992.155	5.600	79.862.344
Advanced technology	6.449.027	-	6.011.156	12.460.183
Customer relations	11.549.175	-	303.000	11.852.175
Non-compete agreement	1.940.057	-	807.721	2.747.778
Other intangible assets	4.707.710	578.581	900.288	6.186.579
	87.510.558	17.570.736	8.027.765	113.109.059
Accumulated depreciation:				
Development costs	39.969.734	8.657.883	-	48.627.617
Advanced technology	1.656.068	1.410.399	-	3.066.467
Customer relations	2.328.723	983.740	-	3.312.463
Non-compete agreement	1.405.835	748.572	-	2.154.407
Other intangible assets	4.421.342	246.376	-	4.667.718
	49.781.702	12.046.970	-	61.828.672
Net book value	37.728.856			51.280.387

NOTE 14 - GOODWILL

	31 December 2016	31 December 2015
Totalsoft	67.908.110	-
Netsis	5.892.252	5.892.252
Sempa	903.000	903.000
Vardar	346.338	346.338
Intermat	337.062	337.062
	75.386.762	7.478.652

The movement of goodwill for the years ended 31 December 2016 and 2015 is as follows;

	2016	2015
As of 1 January	7.478.652	5.892.252
Acquisition of subsidiary (*)	61.828.033	1.586.400
Currency translation difference	6.080.077	-
As of 31 December	75.386.762	7.478.652

(*) Note 4.

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NOTE 14 - GOODWILL (Continued)

Goodwill is subject to impairment test every year. The recoverable amounts of cash generating units are determined on value in use basis.

Value in use is determined by discounting the expected future cash flows to be generated by the cash-generating unit. The below key assumptions are used in the calculation of the value in use as of 31 December 2016:

Impairment test is not applied to the goodwill arise from Totalsoft acquisition as of 31 December 2016 due to acquisition process was completed at 2 September 2016 and no event occurred that might cause impairment and valuation report for acquisition was obtained from an independent firm.

The impairment test of goodwill arise from Netsis acquisition is applied over the cash flows end as of 31 December 2016 and on-going value

Cash flows for further periods (perpetuity) were extrapolated using a constant growth rate of 5% which does not exceed the estimated average growth rate of economy of the country.

Weighted average cost of capital rate of 18% is used as after tax discount rate in order to calculate the recoverable amount of the unit.

After-tax rate was adjusted considering the tax cash outflows and other future tax related cash flows and differences between the cost of the assets and their tax bases.

Sensitivity

Recoverable value of cash generating unit is 63% above of goodwill included book value of related cash generating unit. In the calculation of the present value of future cash flows, estimations on earnings before interest tax depreciation amortization ("EBITDA"), long term growth rate and discount rates are taken into account.

Long term growth rate

Originally, the long term growth rate is assumed to be 6%. In case of the rate has been assumed to be 5%, the recoverable amount would be 49% higher than the goodwill's book value and therefore no impairment provision is accounted for goodwill.

Discount rate

Originally, the discount rate is assumed to be 18%. In case of the rate has been assumed to be 19%, the recoverable amount would be 45% higher than the goodwill's book value and therefore no impairment provision is accounted for goodwill.

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NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES

Guarantees received:

	Original currency	31 December 2016		31 December 2015	
		Original amount	TRY equivalent	Original amount	TRY equivalent
Guarantee notes	TRY	515.531	515.531	604.263	604.263
	USD	34.950	122.996	-	-
Mortgages	TRY	60.000	60.000	-	-
			698.527		604.263

As of 31 December 2016 and 31 December 2015, guarantee/pledge/mortgage ("GPM") given by the Company on behalf of its legal entity are as follows:

GPM given by the Company:

	31 December 2016			31 December 2015		
	EUR	USD	TRY	EUR	USD	TRY
A. Total amount of Guarantees provided by the Company on behalf of itself	-	556.660	1.015.620	-	240.104	7.463.800
B. Total amount of Guarantees provided on behalf of the associates accounted under full consolidation method	67.299.900	-	-	-	-	-
C. Provided on behalf of third parties in order to maintain operating activities (to secure third party payables)	-	-	-	-	-	-
D. Other Guarantees given	-	-	-	-	-	-
(i) Total amount of Guarantees given on behalf of the parent Company	-	-	-	-	-	-
(ii) Total amount of Guarantees provided on behalf of the associates which are not in the scope of B and C	-	-	-	-	-	-
(iii) Total amount of Guarantees provided on behalf of third parties which are not in the scope of C	-	-	-	-	-	-
	67.299.900	556.660	1.015.620	-	240.104	7.463.800

The lawsuits filed against the Group total TRY 4.328.940 The Group's management does not expect any cash outflow regarding these lawsuits and accordingly, it has not booked any provision in these consolidated financial statements.

The Company has re-issued its corporate tax declaration with reservations for 31 December 2015 and made a payment amounting to TRY 1.081.742. The Company had pursued all legal procedures available including a settlement against the tax authorities and filed a lawsuit for cancellation of related payment. The management does not expect any liability as a result of this process.

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NOTE 16 - EMPLOYEE BENEFITS

Short - term payables for employee benefits:	31 December 2016	31 December 2015
Taxes, funds and social security payables	3.804.409	1.123.352
Due to personel	2.652.681	129.299
	6.457.090	1.252.651

Short - term provisions for employment benefits:	31 December 2016	31 December 2015
Provision for performance premium of personnel	11.609.615	9.056.999

Long - term provisions for employment benefits:	31 December 2016	31 December 2015
Provision for employment termination benefits	3.281.749	2.651.362
Provision for unused vacation liability	3.033.583	1.455.909
	6.315.332	4.107.271

The movement of provision for unused vacation liability for the periods ended 31 December 2016 and 2015 is as follow:

	2016	2015
As of 1 January	1.455.909	1.320.896
Increase for the period	257.480	122.612
Acquisition of subsidiaries (*)	1.201.992	12.401
Currency translation difference	118.202	-
As of 31 December	3.033.583	1.455.909

Under the Turkish Labor Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). The amount payable consists of one month's salary limited to a maximum of TRY 4.297,21 for each year of service at 31 December 2016 (31 December 2015: TRY 3.828,37).

Employment termination benefit liability is not funded and there is no legal funding requirement.

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 gain/(loss) is accounted under the "Funds for actuarial gain/(loss) on employee termination benefits":

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NOTE 16 - EMPLOYEE BENEFITS (Continued)

	31 December 2016	31 December 2015
Discount rate (%)	4,00	4,60
Turnover rate to estimate the probability of retirement (%)	92,00	92,00

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. Since the Group calculates the reserve for employment termination benefits every nine months the maximum amount of TRY 4.426,16 which is effective from 1 January 2017 (1 January 2016: TRY : 4.092,53) has been taken into consideration in the calculations.

The movement in the provision for employment termination benefits during the periods ended 31 December 2016 and 31 December 2015 were as follows:

	2016	2015
As of 1 January	2.651.362	2.547.062
Service cost	359.006	306.688
Interest cost	354.494	216.500
Actuarial income/(loss)	(19.640)	935.955
Paid/accrued during the period	(63.473)	(1.354.843)
As of 31 December	3.281.749	2.651.362

NOTE 17 - PREPAID EXPENSES AND DEFERRED REVENUE

Short - term prepaid expenses:	31 December 2016	31 December 2015
Prepaid expenses	1.946.104	184.496
Advances given	-	265.409
	1.946.104	449.905

Long - term prepaid expenses:	31 December 2016	31 December 2015
Advances given	1.786.750	35.727
	1.786.750	35.727

Short - term deferred revenues:	31 December 2016	31 December 2015
Deferred revenue	39.322.403	52.056.481
Advances received	1.426.888	1.820.360
	40.749.291	53.876.841

Deferred revenue mainly relates to LEM sales revenue, pay as you go sales, after-sales services, Netsis licence revenues and version upgrade package sales, customized software sales and Tübitak incentives billed but not earned.

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NOTE 17 - PREPAID EXPENSES AND DEFERRED REVENUE (Continued)

The details of deferred revenues at 31 December 2016 and 31 December 2015 as follows:

	31 December 2016	31 December 2015
LEM sales	21.763.927	21.875.322
Pay as you go sales	13.226.576	25.047.506
Deferred revenue from continuing projects	3.893.029	1.701.452
After-sales services revenue	438.871	285.180
Other sales revenue	-	3.147.021
	39.322.403	52.056.481

NOTE 18 - EQUITY

The Company's authorized and paid-in share capital consists of 2,500,000,000 (31 December 2015: 2,500,000,000) shares with a nominal value of Kr 1 each. The shareholding structure of the Company as of 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	Share (%)	31 December 2015	Share (%)
Logo Teknoloji ve Yatırım A.Ş. (*) (***)	8.391.013	33,56	9.275.000	37,10
Mediterra Capital Partners I. LP (**) (***)	1.279.781	5,12	9.275.000	37,10
Halka açık kısım (***)	15.329.206	61,32	6.450.000	25,80
	25.000.000	100,00	25.000.000	100,00
Adjustment to share capital	2.991.336		2.991.336	
Total paid-in share capital	27.991.336		27.991.336	

(*) Legal name of Logo Yatırım Holding A.Ş. has been changed to Logo Teknoloji ve Yatırım A.Ş. in 2016.

(**) Consist of EAS S.A.R.L 4,96% and other.

(***) As of 31 October 2016, after sales of shares to the qualified corporate investors the rates has been changed as Logo Teknoloji 33,56%, Mediterra Capital 5,12% and publicly traded 61.32%. Logo Yazılım's 2,77% treasury stock is included in publicly traded part.

The shares representing capital are categorized as group A and B. There are privileges given to group A shares such as election of minimum of more than half of the members of the Board of Directors of the parent, chairman of the Board of Directors and auditors. Adjustment to share capital represents the restatement effect of cash contributions to share capital.

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

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NOTE 18 - EQUITY (Continued)

In accordance with the CMB regulations effective until 1 January 2008, the inflation adjustment differences arising at the initial application of inflation accounting which are recorded under "accumulated losses" could be netted off from the profit to be distributed based on CMB profit distribution regulations. In addition, the aforementioned amount recorded under "accumulated losses" could be netted off with net income for the period, if any, undistributed prior period profits, and inflation adjustment differences of extraordinary reserves, legal reserves and capital, respectively.

In addition, in accordance with the CMB regulations effective until 1 January 2008, "Capital, Share Premiums, Legal Reserves, Special Reserves and Extraordinary Reserves" were recorded at their statutory carrying amounts and the inflation adjustment differences related to such accounts were recorded under "inflation adjustment differences" at the initial application of inflation accounting. "Equity inflation adjustment differences" could have been utilised only in issuing bonus shares and offsetting accumulated losses, carrying amount of extraordinary reserves could have been utilised in issuing bonus shares, cash dividend distribution and offsetting accumulated losses.

In accordance with the Communiqué No:XI-29 and related announcements of CMB, effective from 1 January 2008, "Share capital", "Restricted Reserves" and "Share Premiums" shall be carried at their statutory amounts. The valuation differences arising due to implementing the communiqué (such as inflation adjustment differences) shall be disclosed as follows:

- if the difference is arising due to the inflation adjustment of "Paid-in Capital" and not yet been transferred to capital should be classified under the "Inflation Adjustment To Share Capital";
- if the difference is due to the inflation adjustment of "Restricted Reserves" and "Share Premium" and the amount has not been utilised in dividend distribution or capital increase yet, it shall be classified under "Retained Earnings",

Other equity items shall be carried at the amounts calculated based on TAS/IFRS.

Capital adjustment differences have no other use other than being transferred to share capital.

Treasury share

Based on the Board of Directors decision dated 26 June 2012, regarding taking back maximum 62.500.000 share certificates (each having TRY 0.01 nominal value, constituting 2,5% of 2.500.000.000 paid in share capital) within lower price limit of TRY 0 and upper price limit of TRY 3,5 in order to decrease price fluctuations in the Company's share certificates traded in Istanbul Stock Exchange ("ISE") (now called as Borsa Istanbul ("BIST")) and evaluate current market conditions, the Company took back 171.000 share certificates traded in ISE between 4 July 2012 and 5 November 2012. The mentioned share certificates were accounted as treasury shares under equities.

Based on the Board of Directors decision dated 19 April 2013, regarding taking back maximum 100.000.000 share certificates (each having TRY 0.01 nominal value, constituting 4 % of 2.500.000.000 paid in share capital) within lower price limit of TRY 0 and upper price limit of TRY 5,5 in order to decrease price fluctuations in the Company's share certificates traded in BIST and evaluate current market conditions, the Company took back 967.778 share certificates traded in BIST between 25 April 2013 and 21 June 2013.

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NOTE 18 - EQUITY (Continued)

Based on the Board of Directors decision dated 26 June 2013, regarding taking back maximum 100.000.000 share certificates (each having TRY 0.01 nominal value, constituting 4% of 2.500.000.000 paid in share capital) within lower price limit of TRY 0 and upper price limit of TRY 5,5 in order to decrease price fluctuations in the Company's share certificates traded in BIST and evaluate current market conditions, the Company took back 471.528 share certificates traded in BIST between 10 July 2013 and 26 September 2013.

Based on the Board of Directors decision dated 3 October 2013, regarding taking back maximum 100.000.000 share certificates within lower price limit of TRY 0 and upper price limit of TRY 5,5 in order to decrease price fluctuations in the Company's share certificates traded in BIST and evaluate current market conditions, the Company took back 272.189 share certificates traded in BIST between 30 October 2013 and 30 June 2013.

In accordance with Capital Markets Board's ("CMB") decision dated 10 August 2011 and numbered 26/767, the Company has repurchased 1,610,306 numbers of shares in accordance with three different "Share Repurchase Programs" which were in agenda of the Board of Directors' meetings dated 26 June 2012, 19 April 2013, and 26 June 2013. The repurchased shares constitute 6,44% of the Company's share capital as of 26 September 2013 which was the end date of the 3rd program. The Company has sold a portion of these repurchased shares having TRY 1.237.500 nominal value and constituting 4,95% of the Company's share capital to Murat Ihlamur in exchange for TRY 5 for each TRY 1 nominal value share amounting to a total of TRY 6.187.000. The sales transaction is realized in the Wholesale Market of Borsa İstanbul A.Ş. (BİAŞ) on 10 October 2013. Gain from this transaction amounted to TRY 485.890 recognized under shareholders' equity.

The Company's repurchased shares in accordance with Share Repurchase Programs having TRY 60.000 nominal value and constituting 0,24% of the Company's share capital have been sold to Teknoloji Yatırım A.Ş. on 26 December 2013 in exchange for each TRY 5 for each TRY 1 nominal value share amounting to a total of TRY 300.000. Gain from this transaction amounted to TRY 37.023 is recognized under shareholders equity.

Logo Yatırım Holding A.Ş and EAS Solutions S.a.r.l's joint application for a voluntary takeover bid of a portion of Logo Yazılım Sanayi ve Ticaret A.Ş.'s Group B shares in circulation amounting to TRY 5.696.372 has been approved through Capital Markets Board article numbered 29833736-110.05.01-502 issued on 11 March 2014. Voluntary bid price has been determined as TRY 0,06 for each Group B share with TRY 0,01 nominal value (Nominal value of TRY 1 traded on the Istanbul Stock Exchange corresponding to TRY 6,00 for every 100 share units.)

Through the voluntary bid process occurring between the dates of 14 March 2014 – 27 March 2014, Logo Yatırım Holding A.Ş. and EAS Solutions S.a.r.l have purchased 132.285 units of shares for TRY 793.710.

Based on the Board of Directors decision dated 18 September 2015, regarding taking back within lower price limit of TRY 0 and upper price limit of TRY 30 in order to decrease price fluctuations in the Company's share certificates traded in BIST and evaluate current market conditions, the Company took back 108,136 share, amounted TRY 1,983,148 certificates traded in BIST on 28 September 2015.

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NOTE 18 - EQUITY (Continued)

Dividend distribution

Listed companies distribute dividend in accordance with the Communiqué No. II-19.1 issued by the CMB which is effective from 1 February 2014.

Entities distribute dividends in accordance with their dividend payment policies settled in General Assembly in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on interim financial statements of the Company.

Companies should include at least the following in their profit distribution policies:

- a) Whether dividends will be distributed, and if distributed, the dividend distribution rate for shareholders and for others participating in the distribution.
- b) Payment type of dividend distribution.
- c) Time of dividend distribution; on condition that the distribution procedures to be started at the latest of the end of the annual period in which general assembly meeting was held in which the distribution was agreed upon.
- ç) Whether dividend advances will be distributed, and if distributed, the related principles.

In accordance with the Turkish Commercial Code (TCC), unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution policy of the company are set aside, no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

As a dividend distribution policy, the Company, in line with the ongoing regulations and its financial resources, along with its long-term corporate strategy, investment plans and financing policies and considering its profitability and cash position and provided it can be met from the profit in the statutory records intends to distribute up to 55% of the distributable profit calculated in accordance with Capital Market Regulations to its shareholders; dividend distribution may be realized in cash or by capital increase through bonus shares or partly in cash and partly through bonus shares. In the event that the dividend amount is less than 5% of the paid-in capital then such amount will not be distributed and will be retained within the company.

Dividend advance payments can be made in accordance with Turkish Commercial Code and CMB regulations provided that General Assembly authorizes the board of directors to pay dividend advance, limited to the related year, to shareholders in accordance to Articles of Incorporation. The Group aims to complete the dividend payment before the last working day of the respective year in which dividend distribution decision is held in the General Assembly and starts to payment at least as of the end of the accounting period when the General Assembly meeting is held.

The Company aims to complete the dividend payment until the last working day of the respective year that the General Assembly meeting held and starts to make dividend distribution until the end of respective period. Dividend payment can be made by installments in accordance with the decision held by General Assembly or Board of Directors (when authorized) in line with CMB regulations.

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NOTE 19 - EXPENSES BY NATURE

As of 31 December 2016 and 2015, expenses are disclosed by function and the details of the expenses are summarized in Note 21 and Note 22.

NOTE 20 - SALES AND COST OF SALES

	2016	2015
Revenue	166.634.986	128.647.325
Service revenue	23.773.353	1.062.011
SaaS service revenue	8.192.074	6.844.044
Sales returns	(6.112.638)	(5.258.593)
Sales discounts	(2.113.669)	(2.517.399)
Net sales	190.374.106	128.777.388
Cost of sales	(4.756.358)	(3.254.820)
Gross profit	185.617.748	125.522.568

Cost of sales

	2016	2015
Cost of transfer of financial rights	4.517.323	2.976.690
Cost of trade goods sold	239.035	278.130
Cost of sales	4.756.358	3.254.820

NOTE 21 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING EXPENSES, AND GENERAL ADMINISTRATIVE EXPENSES

Research and development expenses:

	2016	2015
Personnel	32.686.796	18.642.745
Depreciation and amortization	16.402.673	12.799.540
Consultancy	1.889.433	990.931
Motor vehicle	1.788.948	1.380.349
Outsourced benefits and services	1.136.356	911.559
Travel	936.842	531.814
Rent	829.773	406.972
Other	3.697.314	1.183.358
	59.368.135	36.847.268

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**NOTE 21 - NOTE 21 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING
EXPENSES, AND GENERAL ADMINISTRATIVE EXPENSES (Continued)**

Marketing expenses:

	2016	2015
Personnel	17.184.814	12.252.544
Advertising and selling	15.090.255	18.788.813
Consultancy	1.720.462	1.028.201
Motor vehicle	1.109.028	911.542
Outsourced benefits and services	743.677	450.620
Travel	444.628	315.080
Rent	443.319	358.188
Depreciation and amortization	281.507	173.744
Other	1.296.438	406.724
	38.314.128	34.685.456

General administrative expenses:

	2016	2015
Personnel	11.416.255	9.092.368
Consultancy	3.852.648	2.060.485
Travel	592.543	102.811
Motor vehicle	471.319	583.986
Depreciation and amortization	411.429	273.084
Outsourced benefits and services	241.775	381.039
Rent	230.535	50.460
Other	1.704.343	985.972
	18.920.847	13.530.205

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NOTE 22 - OTHER OPERATING INCOME/EXPENSES

Other operating income

	2016	2015
Rediscount income	1.623.380	414.525
Foreign exchange gains (*)	1.156.131	1.070.230
Overdue interest income	392.614	628.775
Tubitak incentive income	-	219.986
Other	359.780	661.054
	3.531.905	2.994.570

(*) Arising from the difference between foreign exchange differences of trade receivables and payables.

Other operating expenses

	2016	2015
Provision expense	1.383.490	388.919
Rediscount expenses	712.696	1.625.221
Foreign exchange losses (*)	509.507	486.044
Other (**)	18.870.781	1.091.416
	21.476.474	3.591.600

(*) Arising from the difference between foreign exchange differences of trade receivables and

(**) Mainly consists of the expenses incurred related to the share sales to qualified corporate investors completed as of 31 October 2016.

NOTE 23 - INCOME FROM INVESTING ACTIVITIES

	2016	2015
Gain on sale of securities	291.293	168.788
Gain on sale of property and equipment	-	119.917
	291.293	288.705

NOTE 24 - FINANCIAL INCOME

	2016	2015
Interest income	2.387.574	1.037.909
Foreign exchange gains	1.588.955	1.655.084
	3.976.529	2.692.993

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NOTE 25 - FINANCE COSTS

	2016	2015
Foreign exchange losses	1.943.329	704.191
Interest expense	691.069	1.349.764
Credit card commissions	688.264	501.782
Interest expense on provision for employment termination benefits	344.583	212.215
Other	164.375	88.368
	3.831.620	2.856.320

NOTE 26 - TAX ASSETS AND LIABILITIES

Deferred taxes

The Group recognizes deferred tax assets and liabilities based upon the temporary differences between financial statements as reported in accordance with TFRS and its tax base of statutory financial statements. These differences usually result in the recognition of revenue and expense items in different periods for TFRS and statutory tax purposes.

Turkish tax legislation does not permit a parent company to file a consolidated tax return. Therefore, tax assets and liabilities, as reflected in the consolidated financial statements, have been calculated on a separate-entity basis.

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NOTE 26 - TAX ASSETS AND LIABILITIES (Continued)

The composition of cumulative temporary differences and the related deferred income tax assets and liabilities in respect of items for which deferred tax has been provided at 31 December 2016 and 31 December 2015 using the enacted tax rates, is as follows:

	Total temporary differences		Deferred tax assets/(liabilities)	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Deferred income tax assets:				
Expense accruals	6.614.136	6.996.235	1.322.827	1.399.247
Provision for doubtful receivables	2.233.823	1.907.335	446.765	381.467
Remeasurement of trade receivables and payables	2.109.079	3.285.230	421.816	657.046
Provision for employee termination benefits	1.564.278	1.339.430	312.856	232.971
Deferred income	686.372	2.395.500	137.274	479.100
			2.641.538	3.149.831
Deferred income tax liabilities:				
Difference between the tax base and carrying value of property, equipment and intangible assets	(16.335.323)	(4.800.650)	(2.998.513)	(960.129)
Other	(1.578.290)	(1.578.290)	(327.246)	(315.659)
			(3.325.759)	(1.275.788)
Deferred income tax (liabilities)/assets, net			(684.221)	1.874.043

The analysis for deferred tax assets and liabilities are as follow;

Deferred tax assets	2016	2015
To be recovered less than 12 months	2.328.682	2.916.860
To be recovered more than 12 months	312.856	232.971
	2.641.538	3.149.831
Deferred tax liabilities		
To be recovered less than 12 months	(3.325.759)	(1.275.788)
	(3.325.759)	(1.275.788)
Deferred income tax (liabilities)/assets, net	(684.221)	1.874.043

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NOTE 26 - TAX ASSETS AND LIABILITIES (Continued)

Movement of deferred tax assets/(liabilities) for the years ending 31 December 2016 and 2015 is as follows:

	2016	2015
As of 1 January	1.874.043	1.323.510
Acquisition of subsidiary	(1.907.054)	(315.659)
Accounted under profit or loss	(517.365)	790.079
Currency translation difference	(132.274)	-
Accounted under other comprehensive income	(1.571)	76.113
As of 31 December	(684.221)	1.874.043

Corporate tax

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

Turkish Corporate Tax Law has been amended by Law No. 5520 dated 13 June 2006. Most of the articles of this new Law No. 5520 have come into force effective from 1 January 2006. The corporate tax rate for 2016 is 20% (2015: 20%). The corporate tax rate is 16% in Romania (2015: 16%).

Corporation tax rate is applicable on the total income of the companies after adjusting for certain disallowable expenses, income tax exemptions (participation exemption etc.) and income tax deductions (for example research and development expenses deduction). No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or 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 via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income. Advance tax is payable by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government. In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 25th of the fourth month following the close of the financial year to which they relate.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 25th of the fourth month following the close of the financial year to which they relate.

Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

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NOTE 26 - TAX ASSETS AND LIABILITIES (Continued)

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

There are many exemptions in Corporate Tax Law regarding corporations. Those related to the Company are explained below:

In accordance with Tax Law No: 5035 item 44, that amends "Technology Development Regions Law" No: 4691, corporate and income taxpayers operating in technology development regions are exempt from corporate and income tax until 31 December 2023.

The investment allowance, which has been applied for many years and calculated as 40% of property plant and equipment acquisitions exceeding a certain amount, was annulled with the Law No, 5479 dated 30 March 2006, However, in accordance with the temporary Law No, 69 added to the Income Tax Law, corporate and income taxpayers can offset the investment allowance amounts present as of 31 December 2005, which could not be offset against taxable income in 2005 and:

- a) In accordance with the investment certificates prepared for applications made before 24 April 2003, investments to be made after 1 January 2006 in the scope of the certificate regarding the investments that began in the scope of additional articles 1, 2, 3, 4, 5 and 6 of Income Tax Law No: 193 before it was repealed with the Law No, 4842 dated 9 April 2003 and,
- b) investment allowance amounts to be calculated in accordance with legislation effective at 31 December 2005 related to investments which exhibit a technical and economic and integrity and which were started prior to 1 January 2006 in the scope of Income Tax Law 193 repealed 19th article, only against the income related to the years 2006, 2007 and 2008, in accordance with the legislation at 31 December 2005 (including provisions related to tax rates).

The Constitutional Court abolished the provisions of Temporary Article 69 of the Income Tax Law regarding the time limitation to the investment allowance in its meeting held on 15 October 2009, and published the minutes of the relevant meeting on its website in October 2009. The decision of the Constitutional Court on the cancellation of the time limitation for investment allowance for the years 2006, 2007 and 2008 came into force with its promulgation in the Official Gazette, dated 8 January 2010, and thereby the time limitation regarding investment allowance was removed. The Company has used TRY 481.000 of total deferred investment allowance amounting to TRY 1.405.908 that can be offsetted in the future.

	2016	2015
Current income tax expense	3.780.773	560.664
Prepaid taxes and funds (-)	(1.961.872)	(161.775)
Current income tax liabilities	1.818.901	398.889

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NOTE 26 - TAX ASSETS AND LIABILITIES (Continued)

	2016	2015
Current income tax expense	(3.780.773)	(560.664)
Deferred tax expenses	(517.365)	790.079
Current income tax (expense)/income	(4.298.138)	229.415
Income tax reconciliation:	2016	2015
Profit before tax	51.238.290	39.987.987
Tax calculated at enacted tax rate in Turkey (20%)	(10.247.658)	(7.997.597)
Non-deductible expenses	(4.190.238)	(410.375)
Income not subject to tax	10.180.334	8.637.387
Tax rate difference (*)	(40.576)	-
Income tax (expense)/income	(4.298.138)	229.415

(*) The applicable tax rate in Romania is 16% as of 31 December 2016 (2015: %16).

NOTE 27 - EARNINGS/LOSS PER SHARE

The earnings per 1,000 shares with nominal value of Kr 1 amounted to TRY 18,14 for the year ended 31 December 2016 (2015: TRY 15,96).

	2016	2015
Net income attributable to equity holders of the parent	45.339.470	39.894.790
Average number of shares for the period	2.500.000.000	2.500.000.000
Earnings per share	18,14	15,96

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NOTE 28 - RELATED PARTY DISCLOSURES

a) Due from related parties at 31 December 2016 and 31 December 2015:

Short-term trade receivables from related parties:

	31 December 2016	31 December 2015
Logo Siber Güvenlik ve Ağ Tek. A.Ş ("Logo Siber")	-	8.032

Long-term other receivables from related parties:

	31 December 2016	31 December 2015
Receivables from other shareholders	1.970.534	-
Receivables from shareholders (*)	950.000	950.000
	2.920.534	950.000

(*) Related balance consists of advances given for the purchases of e-Logo shares.

b) Sales to related parties, services given to related parties and financial income from related parties during the periods ended 31 December 2016 and 2015:

Services given to related parties

	2016	2015
Logo Siber	212.736	165.829
Logo Teknoloji ve Yatırım A.Ş.	27.888	4.345
	240.624	170.174

c) Services purchased from related parties and other transactions with related parties during the periods ended 31 December 2016 and 2015:

Services purchase from related parties

	2016	2015
Logo Teknoloji ve Yatırım A.Ş.	344.738	796
	344.738	796

d) Remuneration of the executive management:

	2016	2015
Paid wages and premiums (*)	20.138.586	5.288.549

(*) Expenses described in Note 22 are included.

The remuneration of executive management (executive management includes general manager and general manager assistants) for the years ended 31 December 2016 and 2015 comprise short-term employment benefits including salary, bonuses resulted from continuous high performance of the Company and other short-term benefits. There have been no post-employment benefits, other long-term employment benefits, other termination benefits and share-based payments in the years ended 31 December 2016 and 2015.

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NOTE 29 - NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

26.1 Financial Risk Management

Credit Risk

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. These risks are managed by limiting aggregate risk from any individual counterparty and obtaining sufficient collateral where necessary

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business the Company aims at maintaining flexibility in funding by keeping committed credit lines available. The Company management holds adequate cash and credit commitment that will meet the need cash for recent future in order to manage its liquidity risk. In this context, the Company has credit limit from banks amounting to over TRY 100.000.000 that can be utilized whenever needed.

31 December 2016						
Non-derivative financial instruments	Carrying value	Contractual cash outflow (I+II+III+IV)	Up to 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	More than 5 year Non- (IV)
Borrowings	66.702.772	66.971.526	54.692.259	8.673.285	3.605.982	-
Trade payables						
- Trade payables to third parties	16.493.822	16.493.822	16.493.822	-	-	-
Due to personnel	6.457.090	6.457.090	6.457.090	-	-	-
Other payables						
- Other payables to third parties	2.741.721	2.741.721	2.741.721	-	-	-
Total liabilities	92.395.405	92.664.159	80.384.892	8.673.285	3.605.982	-

31 December 2015						
Non-derivative financial instruments	Carrying value	Contractual cash outflow (I+II+III+IV)	Up to 3 month (I)	Between 3-12 month (II)	Between 1-5 year (III)	More than 5 year Non- (IV)
Borrowings	2.398.725	2.595.871	1.311.327	954.431	330.113	-
Ticari borçlar						
- Trade payables to third parties	10.027.920	10.027.920	10.027.920	-	-	-
Due to personnel	1.252.651	1.252.651	1.252.651	-	-	-
Other payables						
- Other payables to third parties	3.736.690	3.736.690	3.736.690	-	-	-
Total liabilities	17.415.986	17.613.132	16.328.588	954.431	330.113	-

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NOTE 29 - NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Interest rate risk

The Company is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

The Company's interest rate sensitive financial instruments are as follows:

	31 December 2016	31 December 2015
<u>Financial instruments with fixed interest rate</u>		
Financial assets		
- Financial assets at fair value through profit or loss	2.899.400	23.124.710
Financial liabilities	66.702.771	2.398.725
<u>Financial instruments with float interest rate</u>		
Financial liabilities	8.460.698	-

Financial assets designated as fair value through profit or loss consists of fixed interest rate TRY and foreign currency denominated time deposits with maturity less than three months and liquid funds.

Funding risk

The ability to fund the existing and prospective debt requirements is managed as necessary by obtaining adequate committed funding lines from high quality lenders.

Foreign Currency Position

The Group is exposed to foreign exchange risk arising from the ownership of foreign currency denominated assets and liabilities with sales or purchase commitments. The policy of the Group is to compare every foreign currency type for the probable sales or purchases in the future.

The Group's assets and liabilities denominated in foreign currencies at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
USD	3,5192	2,9076
EUR	3,7099	3,1776

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

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NOTE 29 - NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

		Foreign currency position as of 31 December 2016			
		TRY equivalent	USD	Euro	Other
1.	Trade receivables	13.580.357	1.512.511	2.225.809	-
2a.	Monetary financial assets, (cash, and banks accounts included)	16.822.199	961.152	3.622.524	518
2b.	Non-monetary financial assets	-	-	-	-
3.	Other	-	-	-	-
4.	Current assets (1+2+3)	30.402.556	2.473.663	5.848.333	518
5.	Trade receivables	-	-	-	-
6a.	Monetary financial assets	-	-	-	-
6b.	Non-monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	Non-current assets (5+6+7)	-	-	-	-
9.	Total assets (4+8)	30.402.556	2.473.663	5.848.333	518
10.	Trade payables	(1.076.878)	(117.426)	(178.881)	-
11.	Financial liabilities	(54.617.944)	-	(14.772.969)	-
12a.	Other monetary liabilities	-	-	-	-
12b.	Other non-monetary liabilities	-	-	-	-
13.	Non-current liabilities (10+11+12)	(55.694.822)	(117.426)	(14.951.850)	-
14.	Trade payables	-	-	-	-
15.	Financial liabilities	(3.605.981)	-	(979.600)	-
16a.	Other monetary liabilities	-	-	-	-
16b.	Other non-monetary liabilities	-	-	-	-
17.	Non-current liabilities (14+15+16)	(3.605.981)	-	(979.600)	-
18.	Total liabilities (13+17)	(59.300.803)	(117.426)	(15.931.450)	-
19.	Net asset/liability position of off-balance sheet derivative financial instruments (19a - 19b)	-	-	-	-
19a.	Off-balance sheet foreign currency derivative financial assets	-	-	-	-
19b.	Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-
20.	Net foreign assets/(liability) position (9-18+19)	(28.898.247)	2.356.237	(10.083.117)	518
21.	Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	(28.898.247)	2.356.237	(10.083.117)	518
22.	Fair value of derivative instruments used in foreign currency hedge	-	-	-	-
23.	Export	(13.644.984)	-	-	-
24.	Import	-	-	-	-

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NOTE 29 - NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

		Foreign currency position as of 31 December 2015			
		TRY equivalent	USD	Euro	Other
1.	Trade receivables	2.494.560	745.646	102.757	-
2a.	Monetary financial assets, (cash, and banks accounts included))	5.827.645	1.609.955	360.638	272
2b.	Non-monetary financial assets	-	-	-	-
3.	Other	2.205	-	694	-
4.	Current assets (1+2+3)	8.324.410	2.355.601	464.089	272
5.	Trade receivables	-	-	-	-
6a.	Monetary financial assets	-	-	-	-
6b.	Non-monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	Non-current assets (5+6+7)	-	-	-	-
9.	Total assets (4+8)	8.324.410	2.355.601	464.089	272
10.	Trade payables	(437.945)	(94.232)	(51.598)	-
11.	Financial liabilities	-	-	-	-
12a.	Other monetary liabilities	-	-	-	-
12b.	Other non-monetary liabilities	-	-	-	-
13.	Non-current liabilities (10+11+12)	(437.945)	(94.232)	(51.598)	-
14.	Trade payables	-	-	-	-
15.	Financial liabilities	-	-	-	-
16a.	Other monetary liabilities	-	-	-	-
16b.	Other non-monetary liabilities	-	-	-	-
17.	Non-current liabilities (14+15+16)	-	-	-	-
18.	Total liabilities (13+17)	(437.945)	(94.232)	(51.598)	-
19.	Net asset/liability position of off-balance sheet derivative financial instruments (19a - 19b)	-	-	-	-
19a.	Off-balance sheet foreign currency derivative financial assets	-	-	-	-
19b.	Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-
20.	Net foreign assets/(liability) position (9-18+19)	7.886.465	2.261.369	412.491	272
21.	Net foreign currency asset/(liability) position of monetary items (=1+2a+5+6a-10-11-12a-14-15-16a)	7.886.465	2.261.369	412.491	272
22.	Fair value of derivative instruments used in foreign currency hedge	-	-	-	-
23.	Export	(4.737.111)	-	-	-
24.	Import	-	-	-	-

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NOTE 29 - NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

The following table shows the Group's sensitivity to a 10% change in USD and EUR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items at the end of the period and presents effect of 10% change in foreign currency rates. The positive amount indicates increase in profit/loss before tax or equity.

Foreign currency sensitivity

	31 December 2016			
	Profit/(loss)		Equity	
	Foreign currency appreciation	Foreign currency depreciation	Foreign currency appreciation	Foreign currency depreciation
Change of USD against TRY by 10%				
1- USD net assets/liabilities	235.624	(235.624)	-	-
2- Hedged portion from USD risks (-)	-	-	-	-
3- USD net effect (1+2)	235.624	(235.624)	-	-
Change of EUR against TRY by 10%				
4- EUR net assets/liabilities	(1.008.312)	1.008.312	-	-
5- Hedged portion from EUR risks (-)	-	-	-	-
6- EUR net effect (4+5)	(1.008.312)	1.008.312	-	-
Change of other currencies against TRY by 10%				
7- Other currencies net assets/liabilities	52	(52)	-	-
8- Hedged portion from other currency risks (-)	-	-	-	-
9- Other currencies net effect (7+8)	52	(52)	-	-
Total (3+6+9)	(772.636)	772.636	-	-

	31 December 2015			
	Profit/(loss)		Equity	
	Foreign currency appreciation	Foreign currency depreciation	Foreign currency appreciation	Foreign currency depreciation
Change of USD against TRY by 10%				
1- USD net assets/liabilities	226.137	(226.137)	-	-
2- Hedged portion from USD risks (-)	-	-	-	-
3- USD net effect (1+2)	226.137	(226.137)	-	-
Change of EUR against TRY by 10%				
4- EUR net assets/liabilities	41.249	(41.249)	-	-
5- Hedged portion from EUR risks (-)	-	-	-	-
6- EUR net effect (4+5)	41.249	(41.249)	-	-
Change of other currencies against TRY by 10%				
7- Other currencies net assets/liabilities	27	(27)	-	-
8- Hedged portion from other currency risks (-)	-	-	-	-
9- Other currencies net effect (7+8)	27	(27)	-	-
Total (3+6+9)	267.413	(267.413)	-	-

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NOTE 29 - NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may pay out dividends, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings, accounts payable and due to related parties, as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

	31 December 2016	31 December 2015
Total payables	83.196.594	12.426.645
Less: Cash and cash equivalents	(43.507.923)	(51.529.036)
Net Debt	39.688.671	(39.102.391)
Total equity	160.802.613	108.545.294
Total capital	200.491.284	69.442.903
Debt/equity ratio %	20	(56)

NOTE 30 - FINANCIAL INSTRUMENTS

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

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

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NOTE 30 - FINANCIAL INSTRUMENTS (Continued)

The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practicable to estimate fair value.

Monetary assets

The fair value of the foreign currency denominated amounts, which are translated by using the exchange rates prevailing at period-end, is considered to approximate their fair value.

The fair values of certain financial assets carried at cost including cash and due from banks, deposits with banks and other financial assets are considered to approximate their respective carrying values due to their short-term nature.

The trade receivables are carried at amortized cost using the effective yield method less provision for doubtful receivables, and hence are considered to approximate their fair values.

Monetary liabilities

The fair value of short-term funds borrowed and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

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

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

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

Level 3: Valuation techniques does not contains observable market inputs

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

Financial assets held at fair value through profit or loss:	Level 1	Level 2	Level 3
Financial investments	279.986	-	-

Fair value hierarchy table as at 31 December 2015 is as follows:

Financial assets held at fair value through profit or loss:	Level 1	Level 2	Level 3
Financial investments	-	-	-
