

AYGAZ A.Ş.
1 January – 30 June 2017
INTERIM REPORT

AYGAZ



**CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITOR'S REVIEW REPORT ON SEMI-ANNUAL REPORT
ORIGINALLY ISSUED IN TURKISH**

To the Board of Directors of Aygaz Anonim Şirketi

Introduction

1. We have been assigned to the review whether the financial information in the semi-annual report of Aygaz Anonim Şirketi (the "Company") and its subsidiaries ("collectively referred as the "Group") prepared as at 30 June 2017 is consistent with the reviewed interim condensed consolidated financial information. Management is responsible for the preparation of the semi-annual report. Our responsibility is to express a conclusion on whether the financial information provided in the semi-annual report is consistent with the reviewed interim condensed consolidated financial statements and other explanatory notes on which we have expressed our conclusion dated 3 August 2017.

Scope of review

2. We conducted our review in accordance with the Standard on Review Engagements ("SRE") 2410 "Review on Interim Financial Information Performed by the Independent Auditor of the Entity". Our review includes the assessment as to whether the financial information included in the semi-annual report is consistent with the reviewed interim condensed consolidated financial statements and other explanatory notes. A review is substantially less in scope than an audit conducted in accordance with Independent Auditing Standards, the objective of which is to express an opinion on the financial statements. Consequently, a review on the semi-annual financial information does not provide assurance that the audit firm will be aware of all significant matters which would have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

3. Based on our review, nothing has come to our attention that causes us to conclude that the accompanying financial information included in the semi-annual report is not consistent, in all material respects, with the condensed consolidated interim financial information and the information presented in the explanatory notes to the condensed consolidated interim financial statements.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Ediz Günsel, SMMM
Partner

Istanbul, 3 August 2017

BUSINESS AREA

The main activity of the Company is purchasing liquefied petroleum gas (LPG) from domestic refineries and overseas market, stocking, filling and delivery to retailers for distribution to customers as cylinder, autogas and bulk gas. Aygaz has a facility that produces cylinders, valves, small bulk gas tanks, pressure regulators and similar items besides five marine terminals, six filling plants and nine distribution centers operated by the most modern technology which comply with international standards. As of the end of June, Aygaz Group serve to customers with 2,223 cylinder dealers and 1,705 autogas stations.

Production and distribution of LPG-powered devices are also included in the activities as well as manufacture, purchase, sales and after sales of LPG cylinders, LPG tanks, LPG stoves and other supplementary materials which support the Company's main business and which are necessary equipment for the end-user.

The company is registered to Istanbul Trade Registry with number 80651 (Mersis No: 0-1190-0510-2700141) and contact information of its headquarters and branches appear on its website, www.aygaz.com.tr.

CAPITAL AND SHAREHOLDING STRUCTURE

The issued capital of our company is 300.000.000 TL and the recent increase transaction was registered with the Capital Markets Board's decision dated 6 June 2008 and was published in the Turkish Trade Registry Gazette on June 19, 2008.

Company's		
Issued capital	:	300,000,000.00 TL
Upper limit of registered capital	:	500,000,000.00 TL

The shareholding structure as of June 30, 2017

	TL	%
Koç Holding A.Ş.	122,053,514.26	40.68
Temel Ticaret ve Yatırım A.Ş.	17,324,090.53	5.77
Koç Family	14,264,964.78	4.76
Liquid Petroleum Gas Dev. Co.	73,545,660.24	24.52
Free Float*	72,811,770.18	24.27
Total	300,000,000.00	100.00

* The free floating shares in the amount of TL 2,725,041.31 (ratio to capital 0.91%) belong to Hilal Madeni Eşya Ticaret Sanayi ve Yatırım A.Ş., of which LPGDC is a 100% shareholder.

BOARD OF DIRECTORS

Division of duties among the Board of Directors which are elected in the Ordinary General Assembly dated March 29, 2017 are determined by the Board Resolution dated March 31, 2017 as below;

AYGAZ A.Ş. 1 January – 30 June 2017 INTERIM REPORT

Rahmi M.Koç	Chairman of the Board of Directors
Ömer M. Koç	Deputy Chairman of the Board of Directors
Alexandre F.J. Picciotto	Member
Dr.Bülent Bulgurlu	Member
Levent Çakıroğlu	Member
Yağız Eyüboğlu	Member
Ayşe Canan Ediboğlu	Independent Member
Mansur Özgün	Independent Member
Tunç Uluğ	Independent Member

Executive Committee

Rahmi M.Koç	Chairman
Ömer M. Koç	Member
Ali Y. Koç	Member
Alexandre F.J. Picciotto	Member
Bülent Bulgurlu	Member

Audit Committee

Tunç Uluğ	Chairman
Mansur Özgün	Member

Corporate Governance Committee

Mansur Özgün	Chairman
Yağız Eyüboğlu	Member
Ferda Erginoğlu	Member

Risk Management Committee

Ayşe Canan Ediboğlu	Chairman
Bülent Bulgurlu	Member

EXECUTIVE MANAGEMENT

Gökhan Tezel	General Manager
Ferda Erginoğlu	Assistant General Manager (Finance)
Ali Kızılkaya	Assistant General Manager (Technical Affairs and Investments)
Fikret Coşar	Assistant General Manager (Sales)
Nurettin Demirtaş	Director (Affiliates and Accounting)
Ramazan Pulat Oktay	Director (Production)
Özgür Asena Yıldırım	Director (Cylinder Gas Sales)
Kenan Denizhan Ege	Director (Autogas Sales)
Ercüment Polat	Director (Marketing)
Ayşe Abamor Bilgin	Director (Logistics)

Detailed profiles of the Board of Directors and Executive Managers and the principles of the Committees which are established by the Board of Directors are available at the website of Aygaz. (www.aygaz.com.tr)

SUBSIDIARIES and AFFILIATES

The details of the subsidiaries and affiliates included in the consolidation are as below:

<u>Subsidiaries</u>	<u>Place of incorporation and Operation</u>	<u>Principal Activity</u>
Anadoluhisarı Tankercilik A.Ş.	Turkey	Shipping
Kandilli Tankercilik A.Ş.	Turkey	Shipping
Kuleli Tankercilik A.Ş.	Turkey	Shipping
Kuzguncuk Tankercilik A.Ş.	Turkey	Shipping
Akpa Day. Tük. Lpg ve Akar. Ürün. Paz. A.Ş.	Turkey	Marketing
Aygaz Doğal Gaz Toptan Satış A.Ş.	Turkey	Natural gas
Aygaz Doğal Gaz İletim A.Ş.	Turkey	Natural gas
ADG Enerji Yatırımları A.Ş.	Turkey	Natural gas

<u>Investments in associates and Joint ventures</u>	<u>Place of incorporation and Operation</u>	<u>Principal Activity</u>
Enerji Yatırımları A.Ş.	Turkey	Energy
Entek Elektrik Üretimi A.Ş.	Turkey	Electricity
Opet Aygaz Gayrimenkul A.Ş.	Turkey	Real Estate

In July 2010, the Company has restructured its shipping operations under new legal entities, and established Anadoluhisarı Tankercilik A.Ş. (“Anadolu Hisarı”), Kandilli Tankercilik A.Ş. (“Kandilli”), Kuleli Tankercilik A.Ş. (“Kuleli”) and Kuzguncuk Tankercilik A.Ş. (“Kuzguncuk”) with an effective ownership interest of 100%. The main activities of these companies are to purchase, build or rent vessels and to operate them in domestic and/or overseas transportation of crude oil, petroleum products, liquid petroleum gas, natural gas and solid, liquid and liquefied products.

Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş. (“Akpa”) reached to its current structure with the merger of four subsidiaries of Koç Holding Energy Group at the end of 2001. Before the merger, four companies were operating separately from each other in Bursa, Eskişehir, Ankara and Antalya. At the time of merger the company name was Bursa Gaz ve Ticaret A.Ş, later it was changed to “Akpa Dayanıklı Tüketim Lpg ve Akaryakıt Ürünleri Pazarlama Anonim Şirketi” with the decision of Ordinary General Meeting held on March 17, 2005. Akpa is mainly engaged in sales of cylinders through dealers, retail and wholesale of LPG, fuel and lubricants through autogas stations and sale of durable goods. As of the end of July 2016, Akpa terminated its durable goods sales.

Main activity of Aygaz Doğal Gaz Toptan Satış A.Ş. and Aygaz Doğal Gaz İletim A.Ş. (together “Aygaz Doğal Gaz”) is to purchase natural gas from domestic and/or overseas suppliers, selling natural gas to domestic and/or overseas customers and make related arrangements for the modulation, storing of natural gas and building necessary facilities. Aygaz finalized the share and takeover transactions of the shares which is equivalent to the 0.85% of total shares of Aygaz Doğal Gaz Toptan Satış A.Ş with the nominal value of TL 280 thousand for TL 2,548 thousand in cash and the shares which is equivalent to the 0.41% of total shares of Aygaz Doğal Gaz İletim A.Ş with the nominal value of TL 37 thousand for TL 40 thousand in cash on January 25, 2017.

AYGAZ A.Ş. 1 January – 30 June 2017 INTERIM REPORT

Main activity of ADG Enerji is to produce natural gas in domestic and/or overseas markets, purchase natural gas from domestic and/or overseas suppliers, selling natural gas in domestic and/or overseas customers and make related investments to storing, transportation and distribution of natural gas and building necessary facilities.

Aygaz A.Ş. has purchased 100% ownership interest of Enram Su ve Çevre Yatırımları A.Ş. as a result of share assignment agreement dated March 14, 2014. Enram Su ve Çevre Yatırımları A.Ş. has decided to change its trade name as ADG Enerji Yatırımları A.Ş. ("ADG Enerji") and to increase share capital from TL 3.600 thousand to TL 25.000 thousand in its Extraordinary General Meeting held on March 20, 2014. For the increased share amount of TL 21.400 thousand, the Company has paid TL 5.350 thousand in cash on March 20, 2014 and the remaining part amounting to TL 16.050 thousand is paid on February 11, 2016. The company raised capital from TL 25.000 thousand to TL 26.100 thousand at the Ordinary General Assembly held on February 24, 2016, changing the article number 6 titled Capital. The increased amount of TL 1.100 thousand was paid by Aygaz on March 2, 2016.

In December 2005, Enerji Yatırımları A.Ş. ("EYAŞ") was established to acquire 51% block shares of Türkiye Petrol Rafinerileri A.Ş. ("TÜPRAŞ"), to participate in Tüpraş's management and its operational decisions as well as to establish and operate in oil refinery related sectors in Turkey.

Entek Elektrik Üretimi A.Ş. ("Entek"), the electricity producer company of Koç Group, owns a total installed capacity of 219 MW. Natural gas cycle plant in Kocaeli accounts for 157 MW and three hydroelectric production plants (two in Karaman and one in Samsun) account for 62 MW of this capacity. Besides Entek's power plants, Entek has 50% share on imported coal plant project with a total of 625 MW power.

Opet Aygaz Gayrimenkul A.Ş. was established on September 20, 2013 as a joint venture with 50% equal shares by the Company and Opet Petrolcülük A.Ş., which is the Company's business partner, operating in distribution of fuel products. Its main activity is to establish, purchase, operate and rent fuel and LPG stations. In the Extraordinary General Assembly that was carried out on June 22, 2017, it was decided to increase the capital from TL 150.000 thousand to TL 250.000 thousand. Aygaz A.Ş. is to guarantee in cash TL 50.000 thousand of the increased amount of TL 100.000 thousand being free of collusion, of which TL 12.500 thousand was paid in cash on June 28, 2017, and the payment of the remainder of TL 37.500 thousand is decided to be made on the designated payment plan within 24 months.

LEGAL AND ECONOMIC DEVELOPMENTS IN LPG MARKET

Energy Market Regulatory Authority (EMRA) published the cumulative sector report as of May 2017. According to the report, Turkey's total sales amounted to 1,556,382 tons decreasing by 2.3% compared to the same period last year. (Jan-May 2016: 1,592,338 tons)

MARKET-SALES-PRODUCTION

As of the end of June 2017, Aygaz continued its leading position in the market and total LPG sales reached 1 million 46 thousand tons, 3,946 million TL consolidated revenue was obtained.

LPG exports and transit sales constitute a significant portion of our company's overseas sales revenue and have reached to 246 thousand tons and 110 million USD revenue was

AYGAZ A.Ş. 1 January – 30 June 2017 INTERIM REPORT

obtained for the first six months of 2017. (2016/ 6 months: 149 thousand tons - 50 million USD)

Cylinder, small bulk gas tanks, valves, pressure regulators and similar items used in LPG sales, distribution and consumption are produced within our company. The first six months of the 2017 with device exports, 6.1 million USD foreign exchange entry was gained.

INVESTMENTS

Under the investment plan for 2017, total amount of investments regarding renovation of cylinders used in the LPG delivery, modernization and renovation of the facilities has reached 66.5 million TL in six months period.

RESEARCH AND DEVELOPMENT ACTIVITIES

In the first six months of 2017, total 1.3 million TL was spent for research and development activities.

EMPLOYEES

For the first six months of 2017, average number of employees working under Aygaz Group was 1,388. (For the first six months of 2016: 1,412)

The Collective Labor Agreement between the Turkish Metal Union and our workers at the Aygaz Gebze Plant was signed on December 15, 2014 for the 01.09.2014 – 31.08.2017 period.

The Collective Labor Agreement between the Seafarers' Union of Turkey and seamen working on vessels is signed on June 15, 2017 for the 01.01.2017 – 31.12.2018 period.

Provisions for seniority pay and leave obligations as of 30 June 2017, totaled 38,583 thousand TL.

LEGAL DISCLOSURES

Lawsuits and Sanctions

There are no administrative or legal sanctions imposed on the company and the members of its management bodies that may affect the financial situation and activities of the company as a result of any lawsuit against the company or its practices in violation of any legal provision.

Public Audits and Special Audits

In addition to the corporation's internal auditing; the Ministry of Finance, the Ministry of Customs and Trade and other regulatory and supervisory organizations requested various documents and information ordinary and limited audits were executed.

In the scope of the administrative process associated with the EMRA product audits executed at four of our facilities in 2013, an administrative decision taken including license revocation, administrative fine and sequestration and the storage licenses of a total of four of our facilities had been canceled accordingly. Following our company's application to renew the licenses all of them have been reinstated in a short period. Relevant lawsuit processes are currently ongoing to cancel the administrative fines decisions taken by EMRA following the audits. Due to the same audits, our company has been made a party to four sequestration lawsuits filed by the EMRA; and all of the cases resulted in favor of Aygaz.

AYGAZ A.Ş. 1 January – 30 June 2017 INTERIM REPORT

Through the notification informing us that the Competition Board made a decision dated 05.08.2015, numbered 15-33/477-M to open an investigation toward our company concerning whether there has been a violation of Article 4 of the Law No. 4054 on the Protection of Competition through the setting of resale prices of Aygaz dealers, and our company was asked to defend.

At the end of the ongoing investigation process, through Competition Board's notification we received on November 21, 2016, we have been informed that the Board made a decision on November 16, 2016 which is open to judicial review, stating the fact that Aygaz did not violate the Article 4 of the Law No. 4054, and thus, it was decided that there would be no necessity to implement an administrative fine as per the 16th Article of the same law; and the related justified decision was communicated to our Company on May 2, 2017.

KEY FINANCIAL INDICATORS

As of 30 June 2017, some basic indicators as compared to prior periods are as follows.

	<u>1 January – 30 June 2017</u>	<u>1 January – 30 June 2016</u>
Gross Profit Margin	8%	12%
Operating Profit Margin	3%	5%
Net Profit Margin	8%	5%

	<u>30 June 2017</u>	<u>31 December 2016</u>
Current Ratio	1.11	1.35
Net Fin. Liability/Equity	20%	2%

GENERAL ASSEMBLY

Agenda for the Ordinary General Assembly Meeting which is held on March 29, 2017 and the list of attendants were published at the website, www.aygaz.com.tr. Details of the main items on the agenda were:

Board of Directors

Board of Directors has been elected as Mustafa Rahmi Koç, Mehmet Ömer Koç, Alexandre François Julien Picciotto, Dr. Bülent Bulgurlu, Levent Çakıroğlu, Yağız Eyüboğlu and independent members has been elected as Ayşe Canan Ediboğlu, Mansur Özgün and Tunç Uluğ.

Dividend Payment and Profit Distribution

The total assets of the Company in the Consolidated Balance Sheet is 4,314,350,000.00 TL and it earned 415,670,000.00 TL consolidated net profit after tax and 302,530,934.57 TL net profit according to the TPL records from its activities in 2016,

It has been resolved not to set aside 5% general legal contingency reserve required to be set aside under article 519 of the Turkish Commercial Code as the amount of general legal contingency reserve in TPL records has already reached to 20% of the capital as of 31.12.2016.

It is figured out that 415,670,000.00 TL distributable profit for the period was earned in compliance with the Capital Market Law and the regulations of the Capital Market Board; 423,708,408.27 TL resulting from the addition of 8,038,408.27 TL donation made to foundations and associations within the year in such amount is the first dividend and TPL

AYGAZ A.Ş. 1 January – 30 June 2017 INTERIM REPORT

records indicate 1,053,871,932.42 TL total distributable profit, 302,530,934.57 TL of which is the current profit of the year.

By taking the opinion of Executive Committee into account, appropriate with investment and financing policies as stated in our Company's Profit Distribution Policy and taking into consideration the cash flow conditions, as demonstrated in the dividend table calculated in accordance with CMB Declarations, it has been resolved:

- To pay 211,854,204.14- TL to the shareholders as the first dividend;
- To pay 238,145,795.86- TL in total to the shareholders as the second dividend 160,315,795.87 TL of which shall be afforded from the profit of the current year and 77,830,000.00 TL of which shall be afforded from accumulated earnings;
- 43,500,000.00- TL shall be set aside as the II General Legal Contingency reserve.

Total sum of the first and second dividends to be paid to the shareholders amounting to 450,000,000.00 TL shall be fully paid in cash.

It has been resolved that 276,391,758.70 TL of the total 450,000,000.00 TL dividend payable to the shareholders shall be afforded from the earnings of the current year and the balance 173,608,241.30 TL shall be afforded from extraordinary reserves and 26,139,175.87 TL of the 43,500,000.00 TL secondary legal reserve shall be afforded from the earnings of the current year and the balance 17,360,824.13 TL shall be afforded from extraordinary reserves.

- A gross/net cash dividend at the rate of 150.0% and amount of 1.5000 TL for the share with a nominal value of 1 TL shall be paid to fully obligated corporations and our limited taxpayer shareholders who earn dividend through an office in Turkey or a permanent representative,
- To our other shareholders shall be paid 150.0% and gross amount of 1.50 TL and net 127.5% and net amount 1.2750TL for the share with a nominal value of 1 TL

and payment of dividends to begin on April 5, 2017.

Donations and Supports:

Purpose of the social relief, 8,038,408.27 TL donation to foundations and associations that have been submitted to the shareholders. It was decided by the General Assembly that the maximum amount for donations to be 11,500,000 TL in 2017.

Dividend Policy:

Our Company's dividend policy is disclosed as below in Corporate Governance Principles Compliance Report and company website.

"The Company distributes profit in accordance with the provisions of the Turkish Commercial Code, the Regulations on Capital Markets, Tax Laws and other related laws and regulations, and within the framework of the pertinent article of the Company's Articles of Association. In line with Corporate Governance Principles, a balanced and consistent policy is adopted as regards the interests of both shareholders and the Company.

In principle, as long as related regulations and financial resources allow, taking into consideration our long-term company strategies, investment and financing policies, profitability and cash position, and provided it can be covered from the legally registered

AYGAZ A.Ş. 1 January – 30 June 2017 INTERIM REPORT

profit for the fiscal year, a minimum 50% of the distributable profit calculated in accordance with Capital Markets Regulations is distributed as cash and/or bonus shares.

Distribution of profit is aimed at being paid out at the latest within one month subsequent to the General Meeting of Shareholders; the date of distribution is resolved at the General Meeting. In the event the General Meeting of Shareholders passes a resolution or authorization is granted, the Board of Directors may take a decision for the distribution of profits on an installments basis in line with Capital Markets Regulations.

According to the Articles of Association of the Company, the Board of Directors may distribute an advance on dividends, provided it has been authorized to do so by the General Assembly and there is compliance with Capital Markets Regulations.”

NATURE AND AMOUNT OF ISSUED CAPITAL MARKET INSTRUMENTS

In order to meet the financing needs of the company, on February 16, 2015, our Board of Directors decided to issue debt instruments with a total nominal value up to TL 300.000.000 with maturity not exceeding 3 years by way of selling to qualified investors and/or private placement; its sale will be done one or several times domestically excluding public offering.

In line with this decision, our application was approved by the Capital Markets Board, with decision numbered 7/313 and dated 13.03.2015. Within the framework of TL 300,000,000 nominal value of issuance ceiling, the following transactions were completed:

- * Sale of TL 100,000,000 nominal value of bonds 728-day maturity, fixed interest, 182-days coupon payment and principal payment at maturity was completed on 18.03.2015. (Principal redemption of 100,000,000 TL was completed on 16.03.2017.)
 - * Sale of TL 60,000,000 nominal value of bonds 1092-day maturity, floating interest, 91-days coupon payment and principal payment at maturity was completed on 30.03.2015.
 - * Sale of TL 75,000,000 nominal value of bonds 728-day maturity, fixed interest, 182-days coupon payment and principal payment at maturity was completed on 28.01.2016.
- The issuances were managed by Yapı Kredi Yatırım Menkul Değerler A.Ş.

Developments on issuances;

- The second coupon payment of 5,130,000 TL of the private sector fixed-rate bond with a nominal amount of 100,000,000 TL with ISIN code TRSAYGZ31719 was completed on 17.03.2016.
- The fourth coupon payment of 1,817,999.99 TL of the private sector bond with a nominal amount of 60,000,000 TL with ISIN code TRSAYGZ31818 was completed and coupon rate for the fifth coupon payment to be made on 27.06.2016 was determined as 2.83%.
- The fifth coupon payment of 1,697,999.99 TL of the private sector bond with a nominal amount of 60,000,000 TL ISIN code TRSAYGZ31818 was completed on 27.06.2016 and the coupon rate for the sixth coupon payment's interest on 26.09.2016 was determined as 2.59%.
- The first coupon payment of 4,747,500 TL of the private sector fixed-rate bond with a nominal amount of 75,000,000 TL with ISIN code TRSAYGZ11810 was completed on 29.07.2016.
- The third coupon payment of 5,160,000 TL of the private sector fixed-rate bond with a nominal amount of 100,000,000 TL with ISIN code TRSAYGZ31719 was completed on 16.09.2016.

AYGAZ A.Ş. 1 January – 30 June 2017 INTERIM REPORT

- The sixth coupon payment of 1,553,999.99 TL of the private sector bond with a nominal amount of 60,000,000 TL ISIN code TRSAYGZ31818 was completed on 26.09.2016 and the coupon rate for the seventh coupon payment's interest on 26.12.2016 was determined as 2.52%.
- The seventh coupon payment of 1,512,000.00 TL of the private sector bond with a nominal amount of 60 million TL that was issued by our Company with ISIN code TRSAYGZ31818 was completed on 26.12.2016 and the eighth coupon's interest rate is determined as 2.93%.
- The second coupon payment of 4,747,500.00 TL of the private sector bond with a nominal amount of 75 million TL that was issued by our Company with ISIN code TRSAYGZ11810 was completed on 27.01.2017.
- Principal redemption of 100,000,000 TL and the fourth coupon payment of 5,100,000 TL of the private sector bond that was issued by our Company with ISIN code TRSAYGZ31719 was completed on 16.03.2017.
- The eighth coupon payment of 1,758,000.00 TL of the private sector bond with a nominal amount of 60 million TL that was issued by our Company with ISIN code TRSAYGZ31818 was completed on 27.03.2017 and the ninth coupon's interest rate is determined as 3.21%.
- The ninth coupon payment of 1,926,000.00 TL of the private sector bond with a nominal amount of 60 million TL that was issued by our Company with ISIN code TRSAYGZ31818 was completed on 28.06.2017 and the tenth coupon's interest rate is determined as 2.98%.
- The third coupon payment of 4,747,500.00 TL of the private sector bond with a nominal amount of 75 million TL that was issued by our Company with ISIN code TRSAYGZ11810 was completed on 28.07.2017.

As per our Board of Directors' resolution dated 14.02.2017; it is resolved to issue debt instruments with a total nominal value up to 200,000,000 TL (two hundred million Turkish Liras) with maturity not exceeding 3 years and that the sale of which will be done one or several times domestically by way of selling to qualified investors and/or private placement excluding public offering.

Accordingly, with reference to our application concerning the domestic sale of bonds with a total nominal value up to 200,000,000 TL, that was approved by the Capital Markets Board, with decision numbered 13/396 and dated 23.03.2017; the sale transaction of bonds with nominal value of 85,000,000 TL with 728 days term, 182 day fixed coupon payments was completed on 07.04.2017.

The issuance was managed by Yapı Kredi Yatırım Menkul Değerler A.Ş.

Credit Rating

Following the comparative analysis of the sector and examination of financial/operational risks carried by the Company, as well as its domestic market position by SAHA Corporate Governance and Credit Rating Services, AYGAZ received a long term rating of (TR) AAA and a short term rating of (TR) A1+ and outlook as stable on July 1, 2016. The same credit rating agency has confirmed our Company's credit ratings as (TR) AAA long-term and (TR) A1+ short-term and the outlook as stable on June 22, 2017.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE

Aygaz is aware of the benefit and importance of the Principles of Corporate Governance with regard to the capital markets and companies. In a world that is becoming more globalized, it is very important to comply with international standards, to create sustainable

AYGAZ A.Ş. 1 January – 30 June 2017 INTERIM REPORT

value for shareholders, to procure funds from foreign markets and to achieve consistent growth. In this regard, corporate governance makes a significant contribution to increasing the quality of management, reducing risks and managing them better, and increasing the reliability and image of the company in the financial and capital markets.

Aygaz fully complies with the principles that are compulsory as per the Corporate Governance Communiqué No: II-17.1 and adopted a majority of the non-compulsory principles. Although we strive to fully comply with the non-compulsory Corporate Governance Principles, due to difficulties associated with the implementation of some principles, the ongoing debate both on domestic and international platforms regarding the adoption of them, and the failure to overlap with the existing structure of the market and the company, full compliance has yet to be achieved. Work is underway on the principles that have not yet been put in practice, and we are planning to adopt them upon the completion of the administrative, legal, and technical infrastructure work that would contribute to our company's effective management. The comprehensive efforts undertaken within the framework of Corporate Governance Principles and the principles that have yet to be adopted under relevant sections, and the resulting conflicts of interest, if any, are explained below.

The effort put on the Corporate Governance field in 2016 have been carried out in compliance with the Capital Markets Law which includes the regulations of Capital Markets Board (CMB) regarding corporate governance principles, and the communiqués prepared based on this law. At the Ordinary General Assembly held in 2016, The Board of Directors and Board committees were formed in accordance with the regulations of Corporate Governance Communiqué. The Board committees effectively maintain their activities. A remuneration policy was determined for the Board of Directors and senior managers and submitted to the information of shareholders at the General Assembly. Through the information document prepared for the General Assembly, related information such as privileged shares, voting rights, organizational changes, background information on the nominees for Board membership, remuneration policy for the Board of Directors and senior managers, and all reports and information that must be drafted and disclosed with regard to related parties, disclosure of which is mandatory as per the principles, were submitted for the information of investors three weeks prior to the General Assembly meeting. The company website and annual report were also revised and the necessary changes were made towards full compliance with the principles.

Aygaz A.Ş. has demonstrated the importance it places on the principles of corporate governance and its determination on implementing these as a continuous and dynamic process by receiving Corporate Governance Rating scores and remaining in the Corporate Governance Index. Operating in Turkey under license from the Capital Markets Board (CMB) to conduct corporate governance rating activities, SAHA Corporate Governance and Credit Rating Services confirmed the corporate governance rating score of Aygaz on June 22, 2017 as 9.36, which was assigned as the same on the 1st of July 2016. Among the fields open to improvement, announcement of the company's donation policy, preparing a policy and setting a timetable to reach the target of at least 25% female board membership rate were stated. With its current corporate governance rating, Aygaz has been one of the companies to hold the highest corporate governance scores in Turkey as of its assignment date.

The sub-section ratings are confirmed as follows:

<u>Sub-sections</u>	<u>Weight</u>	<u>Rating</u>
Shareholders	0.25	95.34
Public Disclosure and Transparency	0.25	92.01
Stakeholders	0.15	98.79
Board of Directors	0.35	91.38
Total	1.00	93.64

Corporate Governance Rating Report can be accessed at our company website.

RISK MANAGEMENT

Risk management is applied in accordance with international standards and practices as well as throughout policies approved by the Board of Directors. Within the framework of corporate risk management, the risks are being managed by an integrated, systematic and proactive approach along with the risk assessment generalized through the company and updated with the processes. Financial, operational and legal risks surface due to the structure of the sector, and these risks are being prioritized according to their probabilities and possible impacts, and managed by effective risk monitoring.

Financial risks arising from uncertainties and fluctuations in currency, interest rates and commodity prices are identified and evaluated within this framework and related instruments are used to mitigate these risks. Currency risks originate from purchases in foreign currencies regarding business activities or the credits obtained in foreign currency for liquidity purposes. This risk is mitigated by the "natural hedge" that arises from reflecting exchange rate fluctuations to product sales prices, and the foreign exchange position exposed to currency risk after natural hedge is closely monitored and effectively managed. The risks are restricted and kept within targeted limits by forward or derivative transaction agreements when necessary. The interest rate risk shows its effects on rate sensitive assets and liabilities. The negative effects of interest rate risk is eliminated through having financial debts balanced in terms of fixed/variable interest rates and short term/long term maturity periods.

Liquidity risk is managed by closely monitoring existing and projected cash flows, and by ensuring maturity match between assets and liabilities. The company's policy is to manage long-term liabilities with fixed-interest rates and to hedge the potential interest rate risks through derivative instruments. Net working capital is closely monitored in order to preserve short term liquidity and sufficient level of cash and cash-like assets are kept against the potential capital market fluctuation.

Aygaz's receivables are spread across different industries and geographical regions through numerous dealers and customers due to its broad range of activities. Concentrating on a specific field or a customer is avoided. Continuously and closely monitoring its clients, Aygaz seeks to keep credit risk exposure arising from commercial receivables within approved limits. The company is careful to conduct business with counterparties with high credibility and to mitigate the existing risks with collaterals. The use of various payment systems also helps facilitating the collections and reducing the risks.

In terms of capital risk, the company's objective is to carry out business with the most efficient capital structure that minimizes the cost of capital while creating value for its shareholders. The most significant indicators in that perspective are the ratios of Net Financial Debt/EBITDA, Total Financial Debts/Equity, Current Ratio and Liquidity Ratio as well as maturity structure of Financial Debt and Net Working Capital. Having indicators within the required limits, Aygaz has the capital structure and debt capacity enabling it to conduct its business in a healthy manner. The Company's issued capital is 300 million TL is protected by main partnership capital that is 2,697 million TL as of June 30, 2017.

Legislative changes are monitored by the Legal Department and other related units. All required information in this area is provided to the staff; training and compliance activities are carried out in order to avoid legal risks.

The Board of Directors is informed via the reports submitted periodically to the Risk Management Committee. Operational, legal and strategic risks are evaluated by related

AYGAZ A.Ş. 1 January – 30 June 2017 INTERIM REPORT

units. The decisions taken by the executive management in this field are monitored by the Board of Directors through this committee. The Board of Directors receives also information about corporate risk management activities carried out within the scope of strategic planning and management processes through the executive management and the Risk Management Committee.

AYGAZ A.Ş.

www.aygaz.com.tr