Together to new horizons

AYGAZ ANNUAL REPORT 2017

"I live and prosper with my country. As long as democracy exists and thrives, so do we. We shall do our utmost to strengthen our economy. As our economy prospers, so will democracy and our standing in the world."

Vehbi Koç
Founder

Together to new horizons

Since the very beginning we have always been the leader and pioneered innovations, becoming the symbol of trust and quality.

We have made LPG, the source of clean energy, a part of homes and families. Aiming for more, we have transformed high performance autogas into a must-have for roads and drivers.

At homes and in the industry, we have made a difference with our eco friendly products. As a company with operations ranging from cylinder gas and autogas to natural gas and electricity, we have kept growing stronger. We have always embraced innovations in pursuit of “the best”.

We achieved this success together.
And we will keep on moving to new horizons together.

Report of the Board of Directors and Chairman's Message

Dear Shareholders,

Welcome to the 57th General Assembly Meeting of our company. On behalf of the Aygaz Board of Directors and myself, I would like to extend my warmest greetings and regards to all and wish for a productive meeting.

Last year, financial markets demonstrated a relatively moderate trend in line with global geopolitical and economic developments. IMF, usually cautious in its estimates, forecast that global economic growth could be as high as 3.7%.

The increase in investments that had long been faring weakly and the resurgence in international trade have fueled confidence in the economy and enabled acceleration in growth worldwide. This reflected quite positively both on the financial markets and the real sector in emerging markets.

Unlike previous years, the effects of environmental protection, climate change and global warming are more highlighted on the agenda. As an example, the economic loss caused by the hurricanes in the United States is estimated to have reached USD 200 billion.

The US economy, as the driver of global economy, is predicted to grow 2.5% while the positive developments in economic indicators are noteworthy. The policies that the Trump administration and the FED will implement are expected to have significant impact on this huge economy and the international markets associated with it.

European region, which has a significant place in our economic and political relations, has been in a positive economic phase, with increasing growth rate year on year. The post-election coalition negotiations in Germany, the leading economy of the region, remained on the agenda for a long while. On the other hand, uncertainty remains due to the ambiguous outcome of United Kingdom's ongoing Brexit negotiations.

The political developments in Europe and the elections, along with the European Central Bank's active policies, revived consumption and investment trends in the region, resulting in the highest growth rate of the last seven years. The recovery in the region's economy indirectly affected and supported our exports as a country.

In the Asia-Pacific region, a mild recovery in Japan was observed after a long period of recession. As the second largest player in global economy, China's high growth rate settled to a more reasonable yet stable and healthy trend. Similarly, outlook of emerging markets is mostly viewed as positive.

Evaluating the international trade and geopolitical developments, the economic and technological potential of the countries is determined by the level of their political powers. Therefore, encouraging and accelerating investments in technological development become critical. In our economy, higher than expected growth is achieved due to the incentives and support of our government in various fields. However, short-term implementations and positive results alone will not be sufficient for us and we will adopt policies to focus on technology-driven serial production. Therefore, offering attractive incentives as well as creating sustainable and safe environments gain prominence in making such long-term investments possible.

The LPG market, the main field of operation for our company, grew 39% globally with an increase of 83 million tons over the last decade according to the World LPG Association's 2017 data. Worldwide LPG consumption increased 6.5% year on year and reached 298 million tons according to the same source. LPG became the fastest growing resource in overall energy consumption after renewable energy.

Turkey is the second largest LPG market in Europe and eleventh in the world. A positive outlook is observed in autogas, which is one of our key operations. Turkey ranks second in worldwide autogas consumption with a vehicle park of 4.6 million, the world's largest fleet of LPG vehicles. Autogas is used in 38% of the vehicles in our country and continues to be the most preferred automobile fuel since 2011.

Aygaz, Koç Group's first company in the energy sector, closed 2017 with successful results. We are proud to be ranked first among the 94 companies in the LPG industry both in terms of sales and market share. According to EMRA's latest industry report, our company has a market share of 28%, with 41% in cylinder gas and 24% in autogas.

Our company completed 2017 successfully with valuable contributions of our affiliates and subsidiaries Aygaz Doğal Gaz, Anadoluhisarı Tankercilik, the direct LPG sales company Akpa, the electricity production, distribution and sales company Entek and Opet Aygaz Gayrimenkul that carries out station property investments. Our goal, as always, is to sustain our leadership in all business lines of Aygaz.

In addition to contributing to our national economy, we also continued our activities and implemented projects with social responsibility. Our successful efforts added value to a broad range of fields from environmental issues to gender equality, women's and children's health to sports and have been appreciated by our stakeholders and the community and considered worthy of meaningful awards. Furthermore, in the Turkey Customer's Voice survey, Aygaz was selected the brand with highest customer loyalty in both the cylinder gas and autogas segments for the second consecutive time.

Our company has achieved successful results for 56 years with our focus on sustainability, commitment to applying the right strategies and the contributions of our employees and completed 2017 by creating value for its business partners and our economy. We are determined to maintain and improve this performance even further in the coming years. I would like to express my gratitude to all our stakeholders, particularly our employees, dealers, suppliers, customers, labor unions, supply industry and shareholders for their trust in and loyalty to Aygaz.

Until next year, with warm regards,

Rahmi M. Koç
Chairman

General Manager's Message

Our continued leadership in the LPG industry is confirmed by successful operational and financial indicators.

Dear Shareholders,

Welcome to our General Assembly meeting. As the economy recorded higher than anticipated growth in 2017 both in Turkey and the world, the LPG industry also saw significant dynamism. Regulations including changes in SCT and VAT rates, national stock obligation and cylinder tracking were on the agenda of the industry. Furthermore, the rise in international supply prices and exchange rates led to an increase of up to 20% in end-user LPG prices, reaching the highest levels in recent years.

The cylinder gas and autogas markets, as two main segments of the LPG industry, presented different developments compared with recent years. The cylinder gas market, which sustained a horizontal trend for the last two years, showed some contraction toward the end of the year. On the autogas side, we saw a decline for the first time in the market that had been consistently growing for 15 years. I would like to emphasize that this is not a structural change but a reaction of demand suppressed by the price hikes. But, despite the difficult market conditions, our clear leadership in the LPG sector continued in 2017.

We continued to meet our customers' requests quickly and safely

As our efforts to provide better products and services continued, we aimed to create value for our country and all our stakeholders in 2017. In this respect, we are happy to note that we have completed last year with continued leadership in the LPG industry as confirmed by successful operational and financial indicators.

We continued to provide quality products and services to meet the demands of our customers with nearly 2,400 cylinder gas dealers and over 1,700 autogas stations across Turkey in 2017, with fast and safe delivery.

As of 2017 year-end, our consolidated turnover increased 25% year on year and amounted to TL 8.5 billion. The pressure of rising LPG prices on cylinder and autogas demand and less contribution from natural gas business resulted in an operating profit of TL 265 million. Meanwhile, our net profit rose 39% to TL 577 million with the increase of profit share from investments accounted under equity method. With 2.2 million tons, our total sales volume reached the highest level in Aygaz history.

According to the industry report of December by the Energy Market Regulatory Authority (EMRA), Aygaz maintained its leadership in 2017 with 28% market share in total Turkish LPG market and in two main sectors with 41% in cylinder gas and 24% in autogas. As Turkey's only publicly traded LPG company, Aygaz ranked 14th in Istanbul Chamber of Industry's most recent list of 500 largest industrial enterprises.

We continually improve our technological infrastructure

We aim to capture a higher market share in all segments where we operate with an integrated structure across all stages of the value chain, increase our profitability and maintain our leadership by creating value for our country and all our stakeholders.

We value the importance of our customers' requests and opinions to strengthen our leadership position and elevate customer satisfaction and we introduce implementations that exceed their expectations. We continue to invest in integrating innovations and digital technologies into our business processes to better serve millions of our customers. We adopt an innovative approach to make a difference in our products and services and aim to offer sustainable energy solutions with the steps we take toward digitalization and efficiency in all our processes.

The digitalization journey that we have embarked on in line with the "Digital Transformation" program launched by the Koç Group involves technological innovations, investments, software or system improvements and adaptation processes. The Cylinder Tracking Project, which we spread across all Aygaz plants starting in 2017 with the aim of monitoring and recording the journey of a cylinder from the filling plant to delivery to end user, is an example of these efforts. Once all phases are completed, we will be able to track the movement of our cylinders from the plant to the dealer and the customer, creating new opportunities to offer our customers even safer and higher quality service.

Like the previous years, our achievements were recognized with several awards in 2017. In the 2017 Lovemarks survey conducted by MediaCat and IPSOS to identify the most loved brands in Turkey, we were voted "Turkey's most popular cylinder gas brand". Aygaz was also named the brand with highest customer loyalty in the cylinder gas and autogas segments for the second consecutive year in the Turkey Customer's Voice survey conducted by KalDer (Quality Association of Turkey). We added new awards to our roster of accolades with our communication activities.

Aygaz Dörtyol Terminal was awarded at the 2017 Environment Friendly Plant Awards organized by the Turkish Healthy Cities Association, which carries out activities in line with World Health Organization's efforts toward better and healthier urban living conditions, confirming our commitment to environmental sensitivity.

Our subsidiaries and affiliates play an important role in our success

The subsidiaries and affiliates that are a part of the Aygaz family also play an important role in our success. Aygaz Doğal Gaz achieved a turnover of TL 1 billion TL in 2017 with a sales volume of 1.4 billion cubic meters.

Anadoluhisarı Tankercilik, a leading LPG maritime transport company in Turkey, carried almost one third of Aygaz shipments by sea.

Akpa, another subsidiary of Aygaz, that directly sells LPG reached a total sales revenue of TL 406 million in 2017, increasing its cylinder gas sales by 12%.

Opet Aygaz Gayrimenkul, which assesses properties throughout Turkey where fuel and autogas stations can be built, continued its operations with 21 stations last year.

Our affiliate Entek supports the idea of a transparent and liberal market formation and continues its operations to increase its installed power by creating a balanced production portfolio, with priority on renewable energy investments. Accordingly, in September 2017 Entek submitted the highest offer for the Menzelet and Kılavuzlu Hydroelectric Power Plants (HEPP) tender that was announced by the Privatization Administration. The plan is to acquire these HEPPs by way of "Granting Operating Rights" for a period of 49 years and launch operations in 2018.

Our carboy water brand Pürsu that we started with the aim of creating additional benefits for our dealers made it to the top five in an industry where hundreds of players operate. In 2017, we sold 8.8 million carboys as we maintained our favorable market share.

We create permanent values for the benefit of the community

In addition to the leading role we maintain in our fields of operation, we also strive to add value to the community by implementing sustainable projects on social development to embrace people. In an environment where community's needs evolve every day, we carry out social responsibility projects with an insightful and forward-looking approach and we see noteworthy reflections of these efforts on different segments of the community. Supporting Women's Empowerment Project, contributing to the Diabetic Children Camp that is celebrating its 25th anniversary and our long-standing sponsorship of the Istanbul Theater Festival are among these activities that stood out last year. We will continue to invest in Turkey's future with a range of projects from health, culture and the arts to history and sports.

We also have high targets for 2018, which we predict will be a challenging year. We will strive to exceed our customers' expectations by further improving our high service quality and continue to work toward creating value for all our stakeholders with the support of our employees, business partners and over 4,000 cylinder gas and autogas dealers serving across Turkey.

I would like to thank our customers, dealers, employees, suppliers and all our stakeholders for always trusting us on our 56-year long success journey.

Sincerely,

Gökhan Tezel
General Manager

Aygaz in Figures

4.1 million tons
Annual consumption in the Turkish LPG market

178 thousand m^3
The largest LPG storage capacity in Turkey

335 thousand tons
Cylinder gas sales in 2017

2,359
Cylinder gas dealers

1,710
Autogas stations

1,029 thousand tons
Export and wholesale volume in 2017

28,800 m^3
Total LPG transportation capacity of the Beykoz, Beylerbeyi and Kuzguncuk ships

4.6 million
Autogas-powered vehicles in Turkey

29%
Sea transportation by own fleet

2,154,000 tons

A new record for Aygaz in total LPG sales

759 thousand tons

2017 autogas sales

20%

Return on equity

48

Patents as industry leader in R&D

1,319

Employees

4.8 billion TL

2017 yearend market value

41

average training hours per person in 2017

9.36

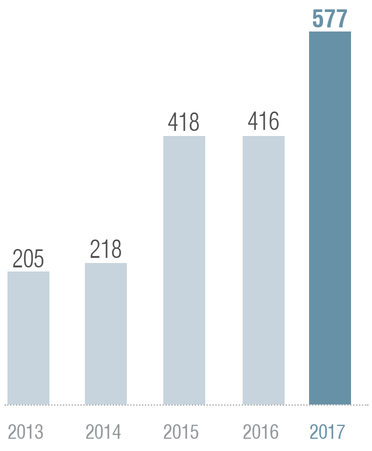
Corporate Governance Rating Score in 2017

8.8 million units

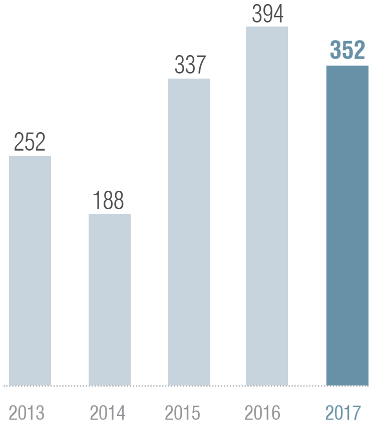
Pürsu annual carboy water sales

Financial and Operational Outlook

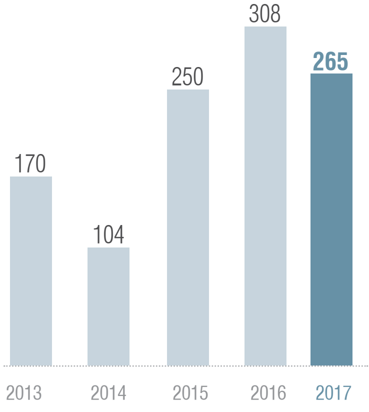
NET PROFIT (TL M)



EBITDA (TL M)



OPERATING PROFIT (TL M)

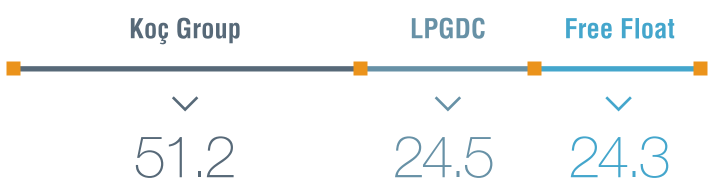


SUMMARY FINANCIAL INDICATORS

(TL M)

	2017	2016	2015	2014	2013	2017-2016 Change
Sales revenues	8,469	6,749	6,420	7,061	6,005	25%
Gross profit	741	787	677	527	571	-6%
Operating profit	265	308	250	104	170	-14%
Pre-tax profit	621	469	458	237	237	32%
Net profit	577	416	418	218	205	39%
EBITDA	352	394	337	188	252	-11%
Gross profit margin	9%	12%	11%	7%	10%	-3
Operating profit margin	3%	5%	4%	1%	3%	-2
Net profit margin	7%	6%	7%	3%	3%	1
EBITDA margin	4%	6%	5%	3%	4%	-2
Current assets	1,588	1,277	1,025	713	867	24%
Fixed assets	3,379	2,954	2,891	2,699	2,321	14%
Total assets	4,966	4,231	3,916	3,412	3,188	17%
Shor term liabilities	1,279	924	847	715	667	38%
Long term liabilities	764	566	459	338	278	35%
Shareholders' equity	2,923	2,742	2,611	2,359	2,244	7%
Total equity and liabilities	4,966	4,231	3,916	3,412	3,188	17%
Return on equity (ROE)	20%	15%	16%	9%	9%	5
Net debt/equity ratio	13%	2%	10%	9%	3%	11
Current ratio	1.24	1.38	1.21	1.00	1.30	-0.14

CAPITAL STRUCTURE (%)

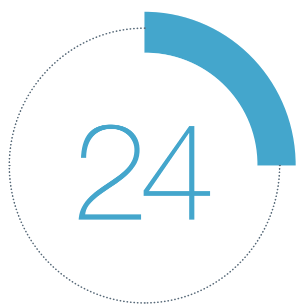


MARKET SHARES (%)

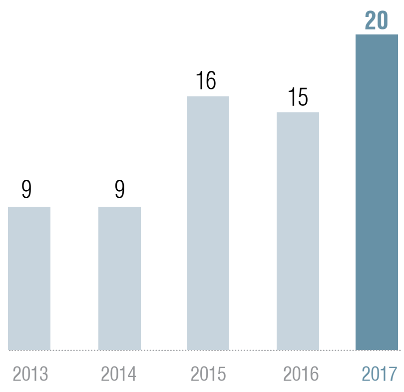
LPG
Market Share

Cylinder Gas
Market Share

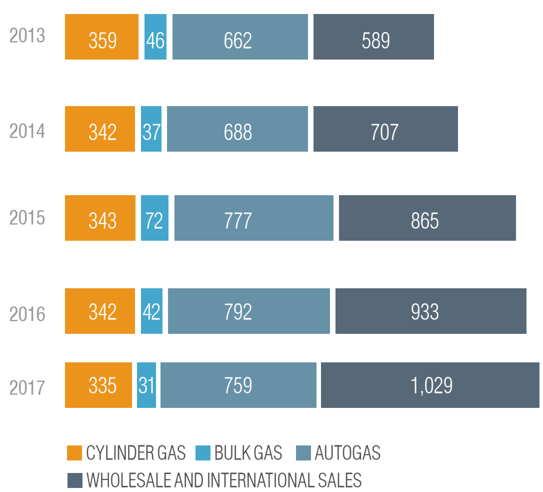
Autogas
Market Share



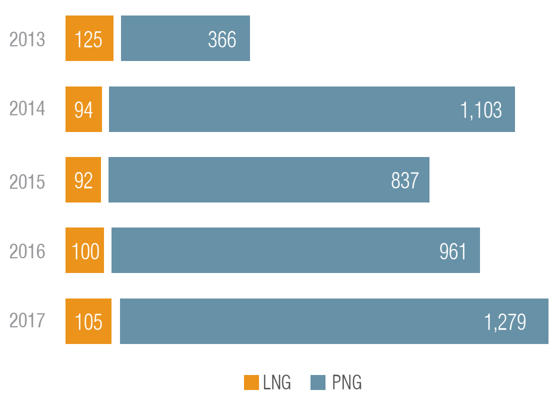
RETURN ON EQUITY (ROE) (%)



LPG SALES VOLUME BY SEGMENTS (000 TONS)



NATURAL GAS SALES VOLUME (mcm)



Subsidiaries and Affiliates

AYGAZ DOĞAL GAZ

PARTICIPATION RATE 100%

Aygaz Doğal Gaz was founded in 2004 with the vision of becoming a diversified player in the natural gas market. Delivering the natural gas procured domestically to its customers via a pipeline, the company also transports and sells liquefied natural gas (LNG) by purpose-built vehicles to businesses without access to the pipeline.

ANADOLUHİSARI TANKERCİLİK

PARTICIPATION RATE 100%

Carrying out LPG marine transportation since 1967, Aygaz transferred the management of its ships to a subsidiary, Anadoluhisarı Tankercilik in 2010. The company currently has at its disposal three specifically equipped, full pressure ships. The 12-year old fleet's total transportation capacity is currently 28,800 m^3. In 2017, Anadoluhisarı Tankercilik accounted for 29% of sea transportation for the operations of Aygaz.

AKPA

PARTICIPATION RATE 100%

Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş., a wholly owned subsidiary of Aygaz, carries out direct cylinder gas and carboy water sales as well as fuel trade. Operating in the marketing sector for nearly half a century and today one of Turkey's leading sales and marketing companies in its segment, Akpa has recently expanded its cylinder gas sales service area significantly. Focusing on direct sales aimed at households and workplaces in its sales strategy, the company has increased its sales 10% year on year.

ADG ENERJİ YATIRIMLARI

PARTICIPATION RATE 100%

ADG Enerji Yatırımları was established to operate in the field of natural gas production and trade in Turkey and abroad. The company's operations include storing natural gas in any form underground, above ground or on the sea, transporting and distributing as well as changing the state of natural gas. The company also invests in plants, storage yards, pipelines, marine vessels and land vehicles to carry out such activities.

ENTEK

PARTICIPATION RATE 50%

Entek, the electricity production company within Koç Group, operates natural gas and hydroelectric power plants. With six 87-MW hydroelectric power plants (HEPPs) located in Karaman, Samsun and Mersin and a natural gas cycle plant of 157 MW in Kocaeli, Entek currently operates with total 244 MW of installed capacity. In September 2017, Entek submitted the highest bid to the Privatization Administration and was granted operating rights of the 178 MW Menzelet and Kılavuzlu HEPPs for 49 years. Menzelet Kılavuzlu Elektrik Üretimi A.Ş., wholly owned by Entek, will start operating the plants in 2018.

OPET AYGAZ GAYRİMENKUL

PARTICIPATION RATE 50%

Opet Aygaz Gayrimenkul A.Ş. was founded in 2013 as an equal partnership between Aygaz A.Ş. and Opet Petrolcülük A.Ş. to invest in properties that can be operated as fuel or autogas stations at various locations across Turkey. The company operates or leases these properties and owns 21 stations as of 2017 yearend.

EYAŞ

PARTICIPATION RATE 20%

Enerji Yatırımları A.Ş. (EYAŞ) was founded in 2005 to acquire 51% of the shares of Tüpraş, Turkey's largest industrial corporation, from the Privatization Administration. Aygaz holds a 20% stake in Enerji Yatırımları A.Ş. As the only producer in the refinery industry in Turkey, Tüpraş operates in the fields of refining, distribution, oil and petroleum products and marine transport. With an annual crude oil processing capacity of 28.1 million tons, Tüpraş is the seventh largest refinery company in Europe.


307
305
303
AYGAZ
Mogaz Lipetgaz
TEHLİKELİ VE YANICI MADDE
SİGARA İÇİLMEZ
ATEŞLE YAKLAŞMA

VISION

To be the leading company providing energy solutions in Turkey and other potential markets, particularly in LPG and natural gas

MISSION

To offer the best products and services in all fields of operation and particularly in LPG by prioritizing high quality and safety standards with work principles that align with corporate values of the Koç Group and always respecting the community and the environment

STRATEGIC PRIORITIES

Sustain its market leadership in LPG by:

- Investing in the future with the responsibility of being the industry's highly reputable, reliable and consumer-oriented brand,
- Prioritizing high safety standards and product quality,
- Developing innovative products and services with solutions that place innovation and digitalization at the core.

Ensure sustainable growth to move its current position forward by:

- Following and seizing opportunities for mergers, acquisitions and investments at home and abroad,
- Improving efficiency in all processes from sourcing to selling LPG,
- Aiming to create value for all stakeholders.

2017: Leadership, Innovation and Success

OHS-themed play "We Won't Get Hurt", February

56th Ordinary General Assembly Meeting, March

Golden MIXX Award / "Search Engine" category, April

JANUARY

- With the Cylinder Gas Tracking Project, Aygaz started to record the journey of the cylinders from the filling plant up until delivery to consumers.
- Aygaz Investor Relations attended the dbAccess CEEMEA Investor Conference organized by Deutsche Bank in London.

FEBRUARY

- Aygaz participated in the 2017 Asia Summit organized by the World LPG Association (WLPGA) in New Delhi with the theme "Life Changing LPG".
- Adopting the principle of spreading the Occupational Health and Safety (OHS) culture among all its employees with the goal of zero accidents, Aygaz staged an OHS-themed play titled "Bize Bir Şey Olmaz Abi" (We Won't Get Hurt) at all plants and facilities.
- Aygaz organized the 2nd Corporate Entrepreneurship Workshop from February 27 to March 3 with the aim of exploring insightful and creative business ideas based on customer expectations and needs.
- Continuing the "Evde Şef Başına" (Chef Alone at Home) project launched in 2016 on digital platforms to promote Aygaz brand to wider audiences and young people in particular, the second series titled "Chef Şefik & Apprentice Yaman" was released.

MARCH

- A digital communication campaign titled "The Road to Earning Goes Through Autogas", telling the savings offered by Aygaz Autogas with humor, was launched.
- Aygaz, as the only publicly traded company in the Turkish LPG industry, hosted an Analysts Meeting on March 22 to inform participants about its activities.
- Aygaz Sailing Team won the Spring Trophy organized by the BAU International Sailing Club among 10 boats competing in the IRC3 class.
- Aygaz held its 56th Ordinary General Assembly Meeting on March 29.
- Aygaz was named the brand with highest customer loyalty in the cylinder gas and autogas segments in the Turkey Customer's Voice survey conducted by KalDer (Quality Association of Turkey) in partnership with Ipsos.
- Aygaz participated in the Petroleum Fair on March 30 - April 2 with a booth shared with Koç Energy Group companies Tüpraş and Opet.

APRIL

- A regional dealers meeting was held in İzmir with the participation of approximately 300 Aygaz dealers from the Mediterranean and Aegean regions to share information about business results and targets.
- The Aygaz Conversion Club convened in Antalya with 130 conversion specialists operating in the Mediterranean Region.
- Aygaz won the Golden MIXX in the "Search Engine" category at the Marketing and Interactive Excellence (MIXX) Awards on April 13 for its digital work within the scope of the autogas ad campaign titled "Turkey Takes to the Roads with Aygaz".

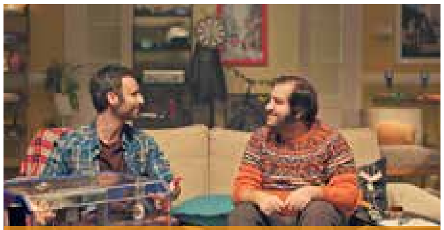
MAY

- The LPG Maintenance Days event, organized since 2001 with the aim of further enhancing customer satisfaction, launched for the summer season.

JUNE

- On June 15, Anadoluhisarı Tankercilik signed a Collective Labor Agreement with the Turkish Seamen's Union for the period from January 1, 2017 to December 31, 2018.
- AÇEV organized an Understanding Workshop for Aygaz employees to promote gender equality in professional life and discuss in detail the challenges encountered cases in business.

"Bee Hive" co-working space, July



"Aygaz on Road Trip" commercial, August

Lovemark in the Cylinder Gas category, November

JULY

- Beylerbeyi, the vessel that joined the Aygaz fleet in 2011, sailed to the port city of Yeosu in South Korea on a 30-day journey, making it the longest route traveled in Aygaz history.
- Aygaz re-launched its website www.aygaz.com.tr in a user-friendly format displaying Aygaz products in detailed pages containing innovative interactive components, videos and infographics.
- Within the scope of the Digital Transformation Program and innovation activities, "Arı Kovanı" (Bee Hive), a new generation co-working space that reflects an innovative and creative perspective was opened.
- Aygaz Conversion Club Project won second prize in the "Developers of Collaboration" category at the Most Successful Koç Employees Awards Ceremony on July 27th.
- Diabetic Children's Camp, which Aygaz has supported for many years, was organized for the 25th time with the participation of nearly 100 diabetic children aged 9-18 years from different provinces of Turkey.

AUGUST

- Aygaz launched an animated commercial emphasizing that it is the most preferred autogas brand on road trips.

SEPTEMBER

- The first Business Results Sharing Meeting to review the consolidated results and targets of the Aygaz Group took place on September 25 in Istanbul with the participation of employees from Head Office and Aygaz facilities in the region.

OCTOBER

- Aygaz earned the Authorized Economic Operator (AEO) certification, an international status that facilitates customs transactions and provides privileges, becoming the first in the Turkish LPG industry.
- Aygaz won the "Golden Cylinder" for its social responsibility projects at the Natural Gas, Electricity, Fuel and LPG Industry Excellence Awards during the 8th Turkey Energy Summit, which brings together the energy sector.
- At the 29th Crystal Apple Advertising Awards, Aygaz Otogaz won Silver Apple in the "Film-Television and Cinema" category with its commercial titled "Everyone's Way Goes Through Aygaz", and Bronze Apple in the "Radio" category with the project "Show Radio's Way Goes Through Also Aygaz".
- The second of the Business Results Sharing Meetings was held in Ankara with the participation of employees from the regions.

NOVEMBER

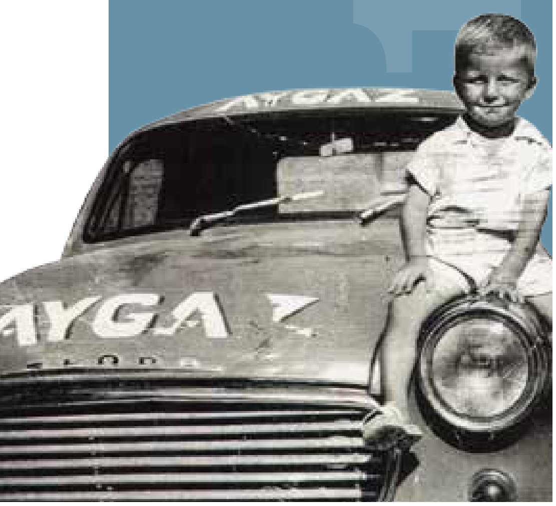
- In the 2017 Lovemarks survey conducted by MediaCat and IPSOS to identify the brands most loved in Turkey, Aygaz was voted "Turkey's most popular cylinder gas brand".
- Aygaz, as the cosponsor of Istanbul Theater Festival organized by Istanbul Foundation for Culture and Arts on November 12-26, also sponsored a student project to bring more number of young people to the theater.
- Aygaz Dörtyol Terminal was awarded at the 2017 Environment Friendly Plant Awards, the third edition organized by the Turkish Healthy Cities Association to promote better and healthier living conditions.
- Aygaz continued its support of the "16 Days of Activism against Gender-Based Violence" campaign organized by UN Women this year.

DECEMBER

- Aygaz Online Sales System, which is a first in the industry in terms of online purchases by credit card, was launched, offering consumers the opportunity to order cylinder gas products, regulators, hoses and Pürsu water products over the Internet.
- Aygaz Investor Relations attended the Emerging Europe Investor Conference organized by Wood & Co. in Prague.

Corporate History

1961 - 2016



1961
- Aygaz starts operating under the registered title Gazsan Likit Gaz Ticaret and Sanayi A.Ş.

1962
- Yarımca Filling Plant built next to İzmit İpraş Refinery, LPG filling and distribution operations launched.
- Dealership network established.

1963
- Registered title changed from Gazsan to Aygaz A.Ş.
- “TL 40 in cash, TL 40 in installments”, the first Aygaz ad campaign launched.

1965
- First publicity campaign, french fries cooked using Aygaz cylinder gas on a delivery truck and given out to passersby.

1967
- Ambarlı Filling Plant built.
- M/T Aygaz, Turkey’s first LPG vessel sets sail.

1970
- Five filling plants in operation with the addition of Aliağa Filling Plant.
- Aygaz starts selling chemicals.

1976
- All Aygaz management units consolidated at the new head office building in Zincirlikuyu, İstanbul.

1982
- The “blue seal lid”, a symbol of Aygaz’s safety for cylinders, is introduced.

1984
- The first Aygaz mobile heater using cylinder gas is produced.

1985
- Transit LPG trade agreement signed with Iraqi state oil company SOMO.

1988
- Modernization of Aygaz dealers begins to better serve customers.

1989
- Aygaz designs “Gavdem Machine”, the first LPG equipment to change valves without gas transfer.

1993
- 12kg tall cylinders for homes and 25kg commercial cylinders available on the market.
- Another first in marketing, with urban delivery trucks playing the Aygaz jingle on the streets.
- Installation of Aygaz Central Energy System in homes starts.
- All Mobil Oil Gaz A.Ş. shares acquired, and business rebranded as Mogaz.

1995
- Aygaz Hotline launched to inform consumers about Aygaz products and services.
- Occupational Health and Safety Management System implemented.
- Use of Computerized Customer Code System starts at dealerships.

1996
- Guaranteed seal cap introduced for cylinder gas.

1997
- The “Aygaz 24” and Automatic Tank Ordering Systems launched.

1998
- Aygaz renews corporate image and identity. New logo introduced with the first zeppelin of Turkey.
- Aygaz enters the autogas market.
- Framework agreement signed with Opet.
- New social responsibility campaign, “Aygaz Warns about Accidents at Home” launched.

1999
- Aygaz becomes the first company in LPG industry to qualify for ISO 9002 Certification.
- Aygaz starts using Electronic Gas Control Detector, another first for Turkey.
- Aygaz Patio Heater introduced to the market.
- With the propane industrial cylinder, Aygaz pioneers the propane era in the industry.

2000
- Aygaz named the “Most Successful LPG Company" at the Petroleum Turkey ’99 Achievement Awards.

2001
- With Aygaz A.Ş. and Gaz Aletleri A.Ş. (Gazal) merging under the brand Aygaz, all operations from production to sales united in a single organization.
- Turkish consumers are offered Turkey’s first autogas brand in European standards: OTOAYGAZ LPG1, designed specifically for automobiles.

2002
- “The Cautious Child”, a corporate responsibility project for raising awareness against accidents is launched.

2004

- Aygaz Euro LPG offered to consumers.

2005

- Aygaz set apart in cylinder gas safety with the launch of hologram cap application as another "first" in the LPG industry.

2006

- Aygaz ranks first for four consecutive quarters in Turkey Customer Satisfaction Index (TMME) conducted by KalDer (Quality Association of Turkey).
- For the first time in Turkey, Aygaz offers cylinder gas consumers the option to pay on delivery in installments or win loyalty points by credit card.

2007

- A special forklift tank is produced for forklifts used extensively in factories and industrial plants.
- As part of the "Moonlight: Aygaz brings the Light of Health" project, vaccination rooms of 81 family health clinics in 81 provinces renovated.

2008

- Aygaz wins third prize in the Management category at the EU Environment Awards.
- Aygaz ranks among the top five financially transparent companies in Turkey according to a report by Sabancı University and Standard & Poor's.
- According to GfK Turkey's "Best Brands" study, Aygaz named best brand in the LPG industry and among the four best brands in Turkey.

2009

- Aygaz increases its stake in the Koç Statoil Gas to 98% and renames the company Aygaz Doğal Gaz.
- Aygaz Euro LPG+, Turkey's first autogas with additives, introduced to the market.
- Corporate website www.aygaz.com.tr wins grand prize at the Interactive Media Awards competition.

2010

- Corporate Governance Rating score of Aygaz announced as 8.46.
- The social responsibility campaign "What Will the Weather Be Tomorrow?" launched against climate change.
- Aygaz wins the grand prize in 'Performance Management' category at Turkey Personnel Management Association's (PERYÖN) "2010 Human Management Awards".

2011

- Aygaz celebrates its 50th anniversary with a series of events participated by employees, dealers and industry representatives.
- Aygaz receives 14 national and international awards in total.
- Aygaz once again breaks ground in LPG industry by qualifying for ISO 10002 certification, recognized worldwide as the symbol of a company's excellence in resolving customer requests.

2012

- Aygaz named the "Most Admired Company" in the LPG industry in Capital Magazine's Survey of the Most Admired Companies in Turkey.
- For the second consecutive year, Aygaz is deemed worthy of the "Company to Adopt Consumer Satisfaction Principle" award at the 15th Annual Consumer Awards by the Turkish Ministry of Customs and Trade.

2013

- The merger of Mogaz with Aygaz completed with registration finalized by the İstanbul Registry of Commerce.
- Aygaz becomes the first company to earn a "Customer-Friendly Brand and Customer-Friendly Enterprise" certificate, a brand recognition launched by the Turkish Standards Institute.
- Opet Aygaz Gayrimenkul A.Ş. is established as a 50-50 partnership between Aygaz A.Ş. and Opet Petrolcülük A.Ş.

2014

- According 2013 Turkey Customer Satisfaction Index (TMME), a survey conducted by KalDer, Aygaz, Mogaz and Lipetgaz named the most admired brands, winning the Silver Statuette in the cylinder gas category. With this award, Aygaz is voted first by consumers for the fifth time since 2005.
- At the Turkey Energy Summit, Aygaz Doğal Gaz wins the Golden Valve Award, and Aygaz the Golden Barrel Award.

2015

- Knightsbridge (Beykoz), a vessel with 11,000-m^3 capacity built in Japan in 2009, joins the Aygaz fleet.
- Aygaz becomes a signatory of GAN (Global Apprenticeship Network), established to find solutions for youth unemployment.
- Aygaz, with the Aliağa Filling Plant, awarded at the Environment Friendly Plant Awards by the Turkish Healthy Cities Association as part of World Health Organization's Healthy Cities Movement.
- Aygaz comes together with more than 275 members of the Conversion Club to strengthen its relations with autogas conversion companies.
- For the first time in its history, Aygaz's sales volume surpasses two million tons.
- Following world trends and innovations for LPG supplies closely, Aygaz becomes first company to import shale gas based LPG from the US into Turkey.

2016

- Serving the LPG industry since 1961, Aygaz celebrates its 55th anniversary in 2016.
- Highest sales volume in Aygaz history achieved with 2.1 million tons.
- Aythink, a platform of ideas launched with the slogan "İnnovation Starts with You!" as part of innovation management, opens.
- Aygaz becomes a signatory of Women's Empowerment Principles, the result of a collaboration between the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) and the United Nations Global Compact (UNGC).
- Aygaz joins the Business Against Domestic Violence (BADV) Project established in cooperation with Sabancı University Corporate Governance Forum and TÜSİAD and becomes the first among 17 companies to issue a Policy against Domestic Violence in the Workplace.
- Aygaz wins the Honor Ribbon at the European Business Awards.
- Aygaz named the brand with highest customer loyalty in the cylinder gas and autogas segments in the Turkey Customer's Voice survey conducted by KalDer in partnership with Ipsos.
- As part of its R&D activities, Aygaz develops a new sulphur-free LPG odorant (Greenodor) for a more sustainable and cleaner environment.
- Aygaz General Manager Gökhan Tezel elected Chair of Market Development Committee within the new structuring of World LPG Association (WLPGA).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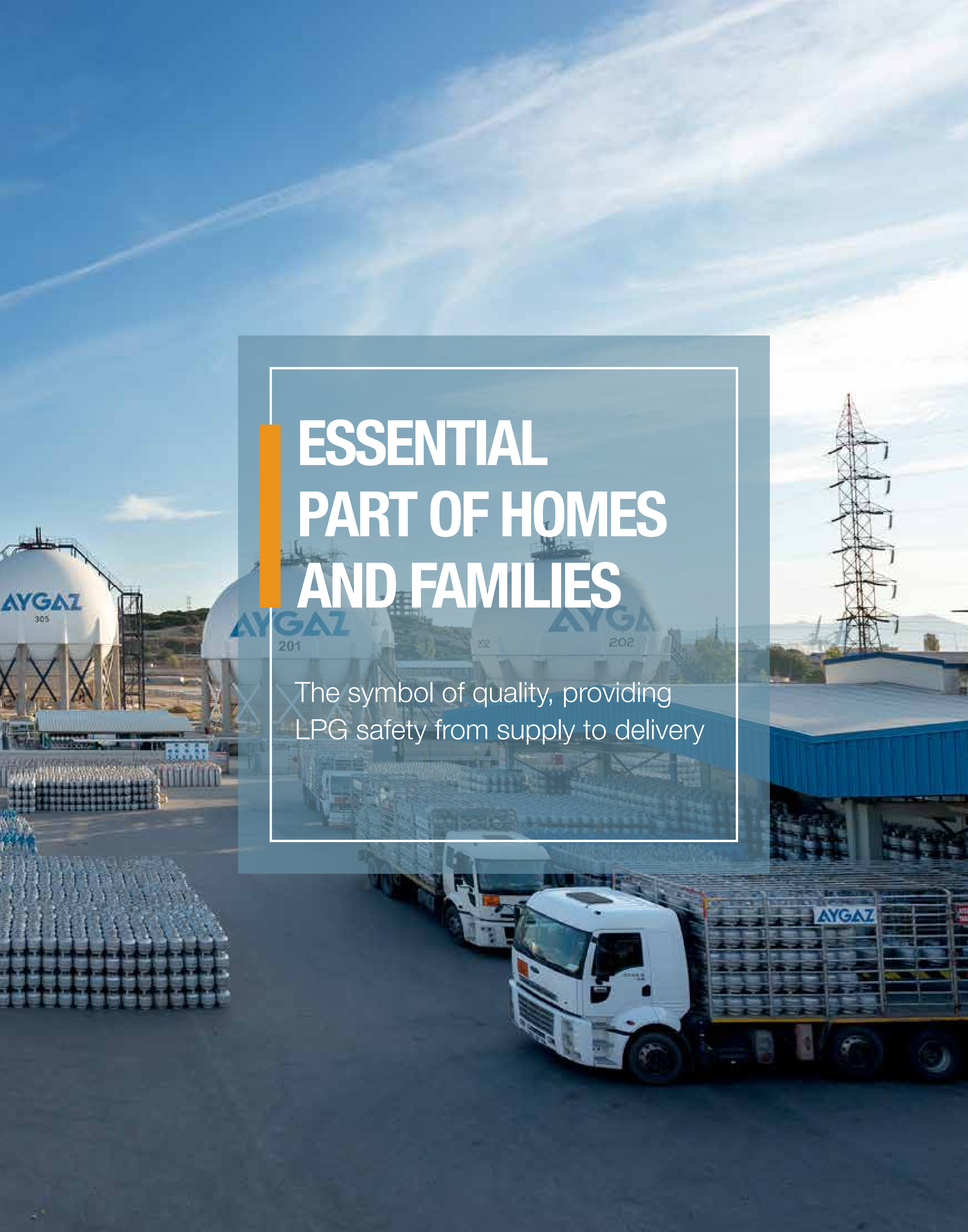
ESSENTIAL PART OF HOMES AND FAMILIES

The symbol of quality, providing LPG safety from supply to delivery



2017 OVERVIEW

LPG Industry in Turkey and Worldwide

LPG, with efficiency and environmentally friendly properties, is the fuel of choice for millions of consumers across the world.

World autogas consumption increased by 1.2% in 2016 and reached 26.7 million tons. In the same period, the number of autogas vehicles increased by 1.4% on a global scale, reaching 26.8 million.

LPG, with efficiency and environmentally friendly properties, is the fastest growing energy of the last decade after renewable energy and expected to maintain its current position of importance among energy sources in the future.

Global LPG consumption grew by 39%

According to the 2017 report of the World LPG Association (WLPGA), global LPG consumption grew by 39% over the last decade, corresponding to a volume increase of 83 million tons. Based on the data from the same report, global LPG consumption reached 298 million tons with an annual increase of 6.5% in 2016. According to ongoing calculations, LPG consumption in 2017 is estimated to increase by 2-4%, reaching 305-201 million tons. By 2027, the consumption is expected to reach 358 million tons with an increase of 1.7%. In terms of global LPG consumption, China ranks first with 47.6 million tons, followed by the United States of America (USA) and India. These three countries account for 37% of total consumption.

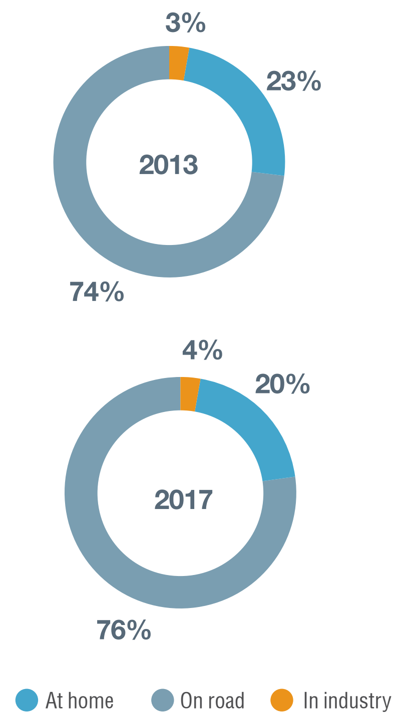
According to the WLPGA report, petrochemical industry recorded the biggest growth globally with a 14% growth rate whereas the residential consumption still has the biggest share with a 44% share in the global LPG market. The first three countries in residential LPG consumption are China, India and the USA. The LPG used by these countries constitutes 45% of total residential consumption.

Autogas consumption reached 26.7 million tons

Autogas, with 9% share in global consumption in 2016, ranks fourth after residential, petrochemical and industrial consumption. Autogas consumption has increased by 1.1%, rising up to 26.7 million tons. In the same period, the number of autogas vehicles increased by 1.4% on a global scale and reached 26.8 million.

The three countries with the highest consumption of autogas in the past year are South Korea, Turkey and Russia, respectively. These countries accounted for 36% of total autogas consumption.

Areas of LPG use and consumption shares in Turkey



LPG appeals to a high potential consumer segment with its rich reserves, easy processing and transportability.

Potential consumers

1.5
billion

1.5 billion potential consumers
LPG, an easily processed and transportable energy source, also has rich reserves. Preferred by hundreds of millions of consumers across the world, LPG is a sustainable energy source with approximately 1.5 billion potential consumers.

Studies indicate that LPG has lower greenhouse gas emission values compared with other energy sources. The adoption of environmentally friendly approaches and policies to prevent climate change in the world also present opportunities for the development and expansion of LPG, an environmentally friendly energy source.

Leaders of LPG production: USA, China and Saudi Arabia
According to the WLPGA report published in 2017, global LPG production increased by 5.8% year on year. In 2016, production surpassed 300 million tons for the first time, reaching 306 million tons. The USA, China, Saudi Arabia, Russia and India have maintained positions among the top five producers, accounting for 52% of total production with 62% coming from natural gas sources and 38% from refinery sources.

The USA, which has introduced shale gas resources, became an exporter when it was previously an LPG importer. In 2016, global LPG exports amounted to 116 million tons with the USA accounting for 26% of exports with 30 million tons.

In 2016, approximately 46 new vessels started transporting LPG parallel to the growth in exports by sea around the world, increasing the global number of vessels transporting LPG to 1,430 and

the capacity to 30 million cubic meters. With the rise in oil prices, following the rapid drop in 2016, LPG prices rose 28% in 2017. LPG, which was priced at USD 421 per ton in January 2017, closed December at USD 539 per ton. In 2017, cylinder gas and autogas prices in the Turkish LPG market showed an average increase of 20% per annum.

Europe's second largest LPG market: Turkey

Turkish LPG market is positioned at eleventh * in the world and as the second largest in Europe. The LPG's share in global energy consumption is 2.6% while this figure is 3.5% in Turkey.

In 2017, 23% of the total LPG demand in the Turkish market was supplied by domestic production and 77% by imports. Algeria, Norway and USA are the top three suppliers.

The contraction trend in the cylinder gas market, observed since 2004 had lately been disrupted for reasons including the spreading of natural gas infrastructure nearly completed, the demand created by the immigrant population and the decline in supply prices. In 2017, with LPG prices increasing year on year and the new natural gas expansion policies, the market contracted 1%.

Turkish autogas market has the world's largest LPG car park with 4.6 million vehicles. Autogas, the fuel of choice in 38% of vehicles in Turkey, continues to be the most preferred automobile fuel since 2011. The market, which has grown steadily from 2003 to date, has contracted 1% for the first time in 2017 due to the significant impact of the price increases.

Turkish LPG market, based on use for energy purposes is positioned at eleventh* in the world and as the second largest in Europe.

** According to use as an energy source (except petrochemical and refinery)*

2017 OVERVIEW

Aygaz in 2017

Aygaz, closely following and implementing the latest technological developments, aims to make the most effective use of the possibilities presented by digital technologies with the Digital Transformation Program.

As the first Koç Group company in the energy sector, Aygaz maintains its leadership in all its segments since its foundation in 1961. Aygaz is an integrated LPG company that carries out all processes such as the procurement, storage, filling and sale of LPG, as well as production and sales of pressurized containers and LPG equipment. With an effective dealer organization, customer proximity, service speed and quality, Aygaz has become a generic brand for LPG users for more than half a century.

Turkey's first and only publicly traded LPG company

According to Istanbul Chamber of Industry's (ISO) 500 Largest Industrial Enterprises in Turkey list of 2016, Aygaz ranks 14th, proudly bearing the title of being the first and only publicly traded LPG company. Aygaz has grown with an established business culture since the very beginning and adopted a pioneering role in the industry.

Aygaz carries out its activities using state-of-the-art technological infrastructure for distribution of LPG and production of LPG cylinders, tanks, valves and regulators, selling its products both in the domestic and export markets. Aygaz is also engaged in the transportation of LPG by sea through its own vessel fleet operating companies.

Aygaz aims to surpass its current position in all fields of operation with efficiency and sustainable growth.

Industry leader

Aygaz had another successful period last year both in operational and financial terms. According to the Energy Market Regulatory Agency (EMRA) data, Aygaz maintained its industry leadership in the market where 94 companies operate. As of 2017 yearend, the overall market share of Aygaz is 28%, with 41% in the cylinder gas segment and 24% in autogas.

Total cylinder gas, bulk and autogas sales of Aygaz in 2017 amounted to 1,125 thousand tons. This figure, including wholesale, export and transit sales, reached the highest level in Aygaz history with 2,154 thousand tons. As 2017 yearend, Aygaz has achieved TL 8.5 billion in consolidated turnover and of which TL 1 billion is from exports and transit sales.

Aygaz, as Turkey's first and only publicly traded LPG company, ranks 14th among Turkey's Top 500 Large Industrial Enterprises in Istanbul Chamber of Industry’s 2016 lists.

Digital transformation roadmap

Aygaz closely follows and implements the latest technological developments and continues with its Digital Transformation Program. The Digital Transformation activities in 2017 included 14 major projects, 10 technology projects, 21 communication and training activities. Comprehensive training programs offered to employees aimed to improve their digital skills.

In implementing the Digital Transformation Program, the focus is on mobility, data analysis and artificial intelligence and the aim is to make the most effective use of the opportunities that digital technologies provide. For this purpose, a digital transformation roadmap is applied successfully.

Within the scope of digital transformation efforts, Aygaz Express (AES) customer and order tracking application is updated to make better use of the benefits of developing technologies. The AES 2.0 application will enable big data analytics and processing capabilities and feature a more user-friendly interface on smart devices. The development activities are slated for completion in 2018 and will be followed by wider implementation.

Furthermore, www.aygaz.com.tr website has been re-launched in 2017 to respond instantly to ever-changing consumer needs and dynamics in the digital world.

Novelties in LPG procurement continue

As a difference that sets the company apart from other LPG companies in Turkey, Aygaz benefits from a broad range of origins and suppliers, contributing significantly toward ensuring seamless LPG operations.

Aygaz, with its strong infrastructure and high sales volume, is one of the few companies that can discharge the largest LPG vessels, so-called VLGC, in Turkey and the Mediterranean alone and at a single port. The exports and wholesale sales of Aygaz, which procures a significant portion of the LPG for Turkey, have exceeded 1 million tons for the first time in 2017.

Superior service quality with extensive distribution network

According to the results of independent customer satisfaction surveys conducted in 2017, Aygaz has been named the brand with highest customer satisfaction in the industry both in the cylinder and autogas segments as in previous years.

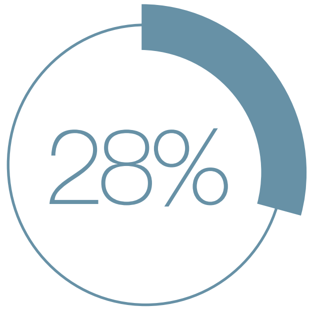
Aygaz adopts a business culture that places the consumer at the core of its activities, constantly improving product and service quality by anticipating their needs. The extensive distribution network plays an important role in the superior service quality of Aygaz. With nearly 2,400 cylinder gas dealers and over 1,700 autogas stations across Turkey as of 2017 yearend, Aygaz meets the demands of customers quickly and safely.

With this strong distribution and service network, 60 thousand Aygaz cylinders enter homes every day and more than one million vehicles run on Aygaz Otogaz.

Technology touch for LPG supply

Aygaz, running Turkey's largest logistics operations, utilizes economies of scale as part of logistics optimization efforts. The company organizes the number of vehicles, capacities and distribution network by volume and distribution of

LPG market share



Turkish LPG market

Cylinder gas customers **7.5** million

Autogas vehicles **4.6** million

Bulk gas customers **8** thousand

Aygaz meets the demands of its customers quickly and safely, with its widespread distribution network and superior service quality through its dealers and service stations across Turkey.

Aygaz domestic sales* total

1,125 thousand tons

*(Cylinder gas, autogas and bulk gas)

sales. With over 200 autogas tankers, Aygaz boasts Turkey's largest LPG truck fleet.

The company uses the Station Inventory Management and Routing System, developed to plan the LPG supply operation of more than 1,700 autogas stations. The purpose of this project as part of digitalization of business operations and data analytics is to manage the distribution network through person-independent optimum routes by creating accurate order requests and to reduce the costs. The aim is to increase both efficiency and dealer satisfaction via the utilization of an optimal supply plan.

50 years of LPG transport by sea

Aygaz actively operates in maritime as well as land transportation. The company, which started transporting LPG by sea in 1967, has passed 50 years in maritime transportation and assigned the management of its LPG carriers to its subsidiary Anadoluhisarı Tankercilik A.Ş. in 2001. The fleet currently has a total capacity of 28,800 cubic meters with three specially equipped, full-pressure carriers with an average age of 12.

Anadoluhisarı Tankercilik accounted for 29% of Aygaz's maritime procurement transportation activities in 2017.

Turkey's largest LPG storage capacity

Aygaz, which strives to deliver its products to consumers with the highest quality service system in the country, operates five marine terminals equipped with the most advanced technologies in international standards. Additionally, there are six filling plants, nine distribution centers, and a pressurized container and accessory manufacturing plant. With total 178.4 thousand cubic meters, Aygaz has Turkey's largest LPG storage capacity.

The LPG stored in Aygaz plants is filled into the cylinders automatically and prepared for distribution after a series of safety tests. Each Aygaz cylinder undergoes “Valve Gasket Integrity” and “Overfilling and Gas Leakage” inspections. The cylinders are delivered to consumers after being issued a “Cylinder Information Card” and sealed with a “Hologram Lid” to show that it is fully filled and quality certified.

Innovative solutions

The Cylinder Tracking Project, launched in 2015 to ensure that the cylinders are tracked from the plants to the dealers and all the way to the customers, has been spread across the country in 2017. The Data Matrix Barcode Scanning System has been installed in all the plants and the data matrix barcodes developed for this purpose are placed on the cylinders.

As a result, the cylinders' movements between the plant and the dealer are now monitored. Aygaz continues to work on licensing this system for which the company holds intellectual property rights to other players of the LPG industry.

Products with international certification

All Aygaz products have ISO 9001 Quality, ISO 14001 Environment and OHSAS 18001 Occupational Health and Safety, ISO 50001 Energy, ISO 10002 Customer Complaint Management certificates. The CE and PI marking certificates, certifying free circulation permit in EU countries, Customer Friendly Organization and Customer Friendly Brand certifications by the Turkish Standards Institute (TSI) are also held for Aygaz products.

Industry 4.0 journey

Aygaz manufactures its products such as cylinders, valves, regulators, bulk gas and autogas tanks at the Gebze plant operating on 52 thousand square meters of open area and 25 thousand square meters of indoor space. The Gebze plant, with quality, environment, occupational health and safety and energy management system certificates continued its operations in 2017 by extending robotic applications in the cylinder factory on the Industry 4.0 journey. A total of 13 robots including six newly installed robots are now used in production. Furthermore, smart camera systems have improved tracking capabilities for pressurized containers.

Environment friendly practices

The domestic cylinder deep drawing press and reheating furnace have been upgraded through a process involving the latest technologies. Natural gas consumption has reduced by an average of 30% per product with to the new generation recuperative burners and the reheating furnace with fully automatic temperature control. With the new system installed to enable compressors to benefit from waste heat, the cooling tower was deactivated and the amount of water used in the plant was reduced by 18%. Furthermore, by using waste heat in different processes, natural gas savings of 3% have been achieved, contributing to the environment with efficient use of resources.

Pressurized container exports

Despite the instability in target markets and fluctuations in exchange rates and commodity prices, pressurized containers have been sold to nine new LPG distribution companies abroad. In 2017, Aygaz generated a foreign currency inflow of USD 22.5 million with exports to 14 countries in Europe, the Middle East and Africa.

Aygaz's subsidiary Anadoluhisarı Tankercilik accounted for 29% of Aygaz's maritime procurement and transportation activities in 2017, including charters and ad hoc transports by its own fleet.

Exports of pressurized containers

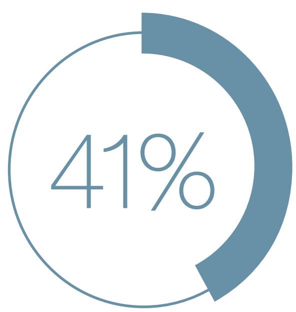
$22.5 million

Cylinder Gas

As the leading company of its sector, Aygaz launches innovative applications with its know-how and strong technological infrastructure.

In 2017 Aygaz sold 335 thousand tons cylinder gas, becoming the industry leader according to Energy Market Regulatory Authority's report.

Cylinder gas market share



Aygaz, being the generic brand of cylinder gas in Turkey, has maintained its pioneering and leading position in the market since its foundation. Powered by established corporate culture, qualified workforce, superior service approach and widespread and effective dealer network across Turkey, Aygaz creates value by implementing innovative applications.

Aygaz operates in the cylinder gas market, serving customers with Aygaz and Mogaz brands, 2,359 cylinder gas dealers and over 6,000 employees at its dealers.

Pioneer and leader of cylinder gas market

According to EMRA's (Energy Market Regulatory Authority) December industry report, the domestic cylinder gas market shrank by 1% while Aygaz maintained its leadership with 41% market share.

Industry leading applications

With its know-how and strong technological infrastructure, Aygaz, as the leader and pioneer of the industry, has created a new order channel for customers and launched Aygaz Online Sales Site.

This application, which is a first in the industry, enables customers to place orders and make their payments via Aygaz website and mobile application. With the user-friendly system, customers can submit orders with one click after their first order. In addition to cylinder gas products, the online sales system also offers cylinder connection equipment and devices such as regulators and LPG hoses as well as Pürsu carboy water.

Efforts to further improve Aygaz Express, the digital customer and order tracking system of Aygaz, continued in 2017 with the aim of maximizing widespread use. The system upgraded as Aygaz Express 2.0

Cylinder gas dealers

2,359

aims to provide more information and tools to improve the dealership management processes, offers personalized services and deals by creating high quality customer data and contributes to the sales and customer satisfaction goals of the company.

Trainings for dealers and customers

Training is one of the corner stones of the way of doing business for Aygaz. For this purpose, the Aygaz Training Truck travels all around Turkey, providing service and safety trainings for dealers and dealership employees. The trainings aim to instill the corporate culture, vision and values of Aygaz in dealers and dealership employees and are intended to standardize quality of service across Turkey.

Aygaz also organizes trainings aimed at raising the awareness of customers about safe cylinder gas usage. Information on brand communication and corporate social responsibility projects are also shared during the trainings that teach proper use of devices such as regulators and LPG hoses.

Successful communication activities in digital channels

Aygaz closely follows the changing media consumption habits and supports conventional communication activities that strengthen brand perception on national and local levels with the use of all digital and especially social media. In 2017, successful activities have been launched to strengthen the emotional connection with the young target group. The video series “Chef Şefik & Apprentice Yaman”, created for the digital platforms was received with great interest. The image building activity “Chef Alone at Home”, a project launched in 2016 continued in 2017 for this purpose.

Campaigns creating a difference

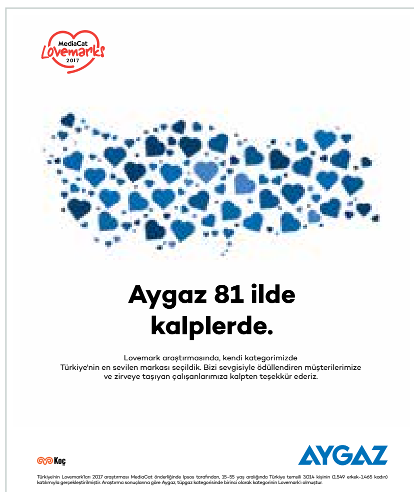
Campaigns conceived together with business partners from different sectors have run throughout the year. The bank and local supermarket campaigns prepared by considering both national and local needs and preferences of customers have been welcomed and appreciated by customers as well as dealers. In this manner, the brand image and service quality of Aygaz was supported, contributing to the realization of company targets.

Success recognized with awards

For the second consecutive year, Aygaz was named the brand with highest customer loyalty in the cylinder gas and autogas segments in the Turkey Customer’s Voice survey conducted by KalDer (Quality Association of Turkey) in partnership with Ipsos. In the 2017 Lovemarks survey conducted to identify the brands most loved in Turkey, Aygaz was voted “Turkey's most popular cylinder gas brand”.

Aygaz also participated in the Brand Week Istanbul 2017 event in November and offered different experiences to the visitors for three days, making the best use of promoting its dynamic and innovative activities to its customers.

Aygaz operates in the cylinder gas market, serving customers with Aygaz and Mogaz brands, 2,359 cylinder gas dealers and over 6,000 employees at its dealers.




AYGAZ
AYGAZ
2524
23
1965

VITAL COMPANION OF DRIVERS ON THE ROAD

The trademark of high performance in Turkey's most preferred automobile fuel, autogas

Autogas

Aygaz is the leader of autogas segment and offers solutions beyond consumer expectations.

Autogas market share

The awareness about autogas, an environmentally friendly and economic fuel, is growing by the day among consumers. Aygaz, serving with over 1,700 autogas stations in Turkey, the world's second largest market, has the most extensive distribution network of autogas in the country. With 759,000 tons of sales volume and 24% market share in 2017, Aygaz is hands down the leader of the autogas segment.

In addition to partnering with Opet under Aygaz Otogaz brand, Aygaz also continues to grow in different distribution channels across the country with the Mogaz Otogaz and Lipetgaz Otogaz brands. Advancements in the technologies used in conversion systems have a positive impact on the consumers' perception of performance and safety. The consumer segment keeps expanding steadily, with the upper-segment automobile owners turning to autogas in the recent years.

Aygaz has concentrated its efforts on further increasing its competitive strength in the industry. For this purpose, it has focused on developing proactive marketing strategies, offering solutions that exceed consumer expectations and expanding the distribution network.

Monitoring consumer preferences

Communication campaigns for Aygaz Otogaz and Mogaz Otogaz brands have been launched at different times of the year with the aim of strengthening brand perception and loyalty to guide consumer preferences. In communication strategies, the superiority of products and high fuel performance are emphasized.

The company monitors the changes in consumer preferences through regular market research. The communication activities are shaped around the messages that LPG is the most widely used fuel in Turkey and Aygaz Otogaz is the most preferred brand. These activities emphasize the brand's leading, economic, widespread and environmentally friendly characteristics. Considering the successful results, the campaign titled “Turkey Takes to the Roads with Aygaz” has continued. In the summer months when road traffic and fuel consumption is higher, the TV commercial “Turkey Takes Road Trips with Aygaz” was run on TV channels, reaching a high number of viewers in 2017.

Autogas stations

1,710

For the Mogaz Otogaz brand, long-term sponsorship activities have been carried out throughout the year to increase brand awareness. The communication activities were conceived on the ideas of "value for money" and "fuel savings" and the theme "Never Ending Energy" was emphasized.

Sports marketing

Communication activities within the scope of sports marketing continued in 2017. Aygaz, with its Mogaz brand, has been the title sponsor of Beşiktaş men's handball team, one of the most successful clubs in its field in Turkey since 2014.

Communication activities aimed at sporting events also continue with on-screen and field advertisements running during Turkey's most watched football and basketball matches.

In addition to TV commercials, advertisements shown on digital billboards in the stadiums of the teams playing in the Turkish Football Super Leagues also contribute to season-long visibility.

Communication awards

The successful communications of Aygaz have also been recognized with awards in 2017. At the 29th Crystal Apple Advertisement Awards organized by the Advertisers Association to award the most creative works of the industry, Aygaz with its Aygaz Otogaz brand won Silver Apple in the "Film-Television and Cinema" category and Bronze Apple in the "Radio" category.

Region-specific communication through campaigns

For Aygaz Otogaz, 2017 was a year when local campaign communications in response to consumer expectations also stood out along with nationwide campaign communications. Campaigns and communication activities were carried out in cities prioritized across Turkey and the most watched TV channels and most listened radio channels as well outdoor were used in each province. Furthermore, campaigns were organized in cooperation with prominent local chain supermarkets in certain regions.

On the other hand, the activities of Aygaz Conversion Club, which aims to contribute to the development of the autogas conversion sector, strengthen the perception of the autogas product and increase its consumption, continued extensively in 2017. The website www.otogazla.com, which brings together Aygaz Conversion Club members and consumers who own LPG vehicles or want to convert theirs into LPG, was visited by over 225 thousand consumers.

Turkey, the world's second largest autogas market

Turkey is one of the most important players in global LPG consumption with 12% market share. With the largest autogas market in Europe, Turkey ranks second in the world behind South Korea. The LPG consumption in Turkey has reached 3.1 million tons in 2017 as Aygaz continues to lead with 24% market share.

Globally, Turkey has the largest LPG vehicle park and over 10 thousand autogas stations serve approximately 4.6 million autogas vehicles. LPG vehicles account for 38% of the total car park, equivalent to 17% of the global LPG car park, which is nearly 27 million according to WLPGA's latest data.

Bulk Gas

Aygaz, which supplies bulk gas for nearly 3,000 customers, sold over 31 thousand tons last year.

Bulk gas is based on the principle that LPG is transported by tanker trucks and stored in the tanks of consumers. Bulk gas is used for heating, hot water and cooking needs in homes and for production as well as heating in commercial and industrial enterprises. Aygaz, serving a customer portfolio of nearly 3,000 in the bulk gas segment, sold over 31 thousand tons as of 2017 yearend. With this sales volume, bulk gas takes around 3% share in Aygaz's total domestic LPG sales.

Pürsu

Pürsu has become one of the leading brands of packaged water industry in a short time with its strong distribution network, high quality service approach and commitment to health and hygiene.

In 2011, Aygaz started selling bottled water to use its distribution network more efficiently and offer a new line of business for dealers. The water obtained from three sources, Uludağ, Nazilli and Sapanca, is delivered to consumers under the Pürsu brand. The distribution of Pürsu is carried out by 450 dealers in 36 provinces. In the bottled water industry with more than 300 brands, Pürsu ranks among the top five brands. In 2017, the market share of the previous year was maintained and 8.8 million carboys were sold.


ENERJİMİZİ
SİZDEN
ALIYORUZ
AYGAZ

SUBSIDIARIES

Aygaz Doğal Gaz

Aygaz Doğal Gaz reached a sales volume of 1.4 billion cubic meters and TL 1 billion in turnover in 2017.

Aygaz Doğal Gaz, founded in 2004 with the vision of becoming a diversified player in the growing natural gas market in Turkey, delivers the natural gas that it procures domestically to its customers via pipelines. The company also transports and sells liquefied natural gas (LNG). Aygaz Doğal Gaz reached a sales volume of 1.4 billion cubic meters and TL 1 billion in turnover in 2017.

Seamless and quality service

Operating in the procurement market excluding Boru Hatları ile Petrol Taşıma Anonim Şirketi (BOTAŞ), Aygaz Doğal Gaz offers quality natural gas to this market, which has reached 11 billion cubic meters, through transmission and distribution lines seamlessly, economically and reliably.

Aygaz Doğal Gaz launched the piped gas operations in 2010 and successfully increased its sales volume by broadening its customer portfolio through various procurement agreements. Aiming at increasing domestic sales through imports,

Aygaz Doğal Gaz closely monitors the developments in global LNG markets, market dynamics and opportunities.

Prominent player in the bulk LNG market

The LNG market in Turkey has a size of approximately 550 million cubic meters and plays an important role in the asphalt, food and tourism industries. The LNG procured from BOTAŞ Marmara Ereğlisi and Egegaz Aliağa LNG terminals is distributed all around Turkey by special LNG trailers. LNG is stored in tanks on the premises of customers and delivered to consumers in locations without access to pipelines. Aygaz Doğal Gaz continues to strengthen its market presence by closely monitoring the developments and new business opportunities in the bulk LNG market.

Natural gas consumption will continue to rise

Natural gas, which has gained widespread usage especially in the last two decades, is particularly preferred in homes and industrial facilities. Natural gas consumption in Turkey has reached 52 billion cubic meters in 2017. In the Turkish market, which relies heavily on imports, natural gas production meets approximately 1% of the total domestic demand.

The procurement of natural gas in Turkey is carried out by nine companies with BOTAŞ in the lead. In 2017, the private sector met approximately 20% of the domestic demand. Continued government subsidies applied on domestic natural gas price and increases in exchange rates cause the domestic market price to remain low compared to international LNG prices. Therefore, the private sector did not import LNG from the pipelines in 2017 and the needed LNG was imported by BOTAŞ alone.

Anadoluhisarı Tankercilik

50 years of LPG transports by sea

Aygaz is actively engaged in maritime as well as land transport. Conducting marine transport operations since 1967, Aygaz transferred the management of its ships to its subsidiary Anadoluhisarı Tankercilik in 2010. The fleet currently consists of three specifically equipped and fully pressurized ships with a total capacity of 28,800 cubic meters and an average age of 12 years.

Anadoluhisarı Tankercilik accounted for 29% of Aygaz's maritime procurement and transportation activities in 2017, including charters and ad hoc transports by its own fleet. The company has also chartered its vessels for long-distance voyages to such destinations as South Korea and America. Beylerbeyi sailed the longest route in Aygaz history.

Kuleli, made in 1996 in Japan and the oldest vessel in the company fleet, was sold on October 11, 2017. Anadoluhisarı Tankercilik, as the holder of quality (ISO 9001:2015), safety (ISM Code), security (ISPS Code), environment (ISO 14001:2015) and occupational health and safety (OHSAS18001:2007) management system certifications, has been implementing the Tanker Management Self-Assessment Model in its fleet since 2008. The company successfully completes the audits regularly conducted by major oil suppliers as well as other inspections required by applicable regulations (class, flag state, port state, insurance, etc.). The company has also obtained CDI (Chemical Distribution Institute) approval for vessels Beylerbeyi and Beykoz to benefit from chartering opportunities.

Anadoluhisarı Tankercilik signed a Collective Labor Agreement with the Turkish Seamen's Union on June 15, 2017 for the period from January 1, 2017 to December 31, 2018 covering the seafaring employees.

Akpa

Akpa, operating for nearly half a century, is one of Turkey’s leading organizations in the fields of direct sales cylinder gas and carboy water and fuel trade.

Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş., with a history of nearly half a century, is one of Turkey’s leading sales and marketing organizations in the fields of direct cylinder gas and carboy water sales and fuel trade. The company has recorded TL 406 million in turnover in 2017.

In 2017, Akpa increased its cylinder gas sales 12% year on year and continued to expand its service area in recent years, focusing on direct sales to households and workplaces. In addition to wholesale of fuel products to corporations in the field of fuel trade, Akpa provides retail services for to individual customers through its own stations.

Akpa also sells carboy water to businesses, cylinder gas dealers and retail customers. The company has sold 2.4 million Pürsu-branded carboys in 2017.

AFFILIATES

Entek

Entek aims to increase its installed capacity by building a balanced production portfolio with renewable energy investments.

Entek, the electricity production company of Koç Group, currently operates with total 244 MW of installed capacity with six 87-MW hydroelectric power plants (HEPPs) located in Karaman, Samsun and Mersin and a natural gas cycle plant of 157 MW in Kocaeli.

Entek considers the buyer market situation created as the asset prices have reached reasonable levels in recent years as an opportunity to grow in the electricity market. In September 2017, Entek submitted the highest bid to the Privatization Administration and was granted operating rights of the 178 MW Menzelet and Kılavuzlu HEPPs for 49 years. Menzelet Kılavuzlu Elektrik Üretimi A.Ş., wholly owned by Entek, will start operating these plants in 2018.

Furthermore, Entek has 100% stake in electricity wholesale company Eltek, %50 in Ayas import coal-fired power plant with installed capacity of 625 MW and 0.05% in Enerji Piyasaları İşletme A.Ş. (EPİAŞ), established to run the Energy Exchange.

Eltek procures electricity form these companies and offers it at affordable prices to Koç Group companies as well as consumers outside the group.

Eltek, with long years of experience and knowhow in the electricity market, is one of the prominent companies in the field of wholesale energy trading in the bilateral agreements market.

Entek prioritizes renewable energy investments, paying special attention to the diversity of production sources with the aim of becoming a leading power generation company in terms of capacity. Entek plans to continue asset acquisitions to reach a balanced production portfolio structure and increase its market share.

Opet Aygaz Gayrimenkul

Opet Aygaz Gayrimenkul A.Ş., with 21 stations countrywide, reinforces the market presence of Aygaz.

Opet Aygaz Gayrimenkul A.Ş. was founded in 2013 to invest in properties that can be operated as fuel or autogas stations at various locations across Turkey. The company, an equal partnership between Aygaz A.Ş. and Opet Petrolcülük A.Ş., operates or leases these properties and owns 21 stations as of 2017 yearend.

Aygaz aims at further strengthening its presence in the market with its stake in Opet Aygaz Gayrimenkul A.Ş. and increasing the competitiveness of its autogas brands.

Enerji Yatırımları

Enerji Yatırımları A.Ş. (EYAŞ) was founded in 2005 to acquire 51% of the shares of Tüpraş, Turkey's largest industrial corporation, from the Privatization Administration. Aygaz holds a 20% stake in Enerji Yatırımları A.Ş. As the only producer in the refinery industry in Turkey, Tüpraş operates in the fields of refining, distribution, oil and petroleum products and maritime transport. With an annual crude oil processing capacity of 28.1 million tons, Tüpraş is the seventh largest refinery company in Europe.

Human Resources

Aygaz maintains its leadership with a participating, dynamic and skilled workforce.

Employees

1,319

Office employees	702
Field employees	617

Employee ratio by undergraduate and graduate degrees

Employees in total	40%
Office employees	76%

Aygaz believes that the most important resource behind its success and leadership is its employees. The human resources policy of Aygaz is built on the words of its founder Vehbi Koç "Our human resources are our most important asset." Aygaz manages its human resources within the frame of this policy based on transparency, participation and the benefits of all stakeholders.

Skilled workforce

As of 2017 yearend, the total employment of Aygaz is 1,319 people, with 702 office employees and 617 field employees. At Aygaz, 12% of employees are female and 88% are male. The average age of employees is 38 while seniority average is nine years. The ratio of female managers has risen up to 16% in the last five years. Among all employees, 40% have undergraduate and graduate level education. This ratio reaches 76% in office employees.

Employee loyalty and efficiency

Aygaz combines international norms and macro trends with human resources strategies with the aim of becoming a pioneer and attaining an exemplary position in the business world by creating a creative, skilled and highly motivated workforce composed of the best in the industry.

Aygaz highly values its employees and has been conducting surveys since 1996 to measure employee satisfaction and loyalty. The company creates action plans to improve business processes according to the findings of these surveys and employee opinions communicated through all channels.

Innovative and contemporary human resources policies

At Aygaz, the selection and placement process is carried out in an integrated manner by adopting the Koç Group's employer brand concept with the aim of attracting individuals with the suitable knowledge, skills and competencies to a qualified and sustainable human resource. Candidates are evaluated with skill-based interviews, case studies, presentations, English level tests, professional personality inventories and reference checks. Individuals that align with the corporate culture of Aygaz and the Koç Group are selected with the "right candidates for the right position" approach.

With the inclusion of technology in human resources processes, the orientation program has been digitized in 2017, aiming for the employees to start with an interactive, competent and immersive experience.

Aygaz also provides mentorship to support employees' career and development plans in line with Koç Group policies. In 2017, 26 employees have benefited from the mentoring program provided by mid-level executives with experience at various levels.

Performance management based on objective criteria

In addition to a competent and established corporate culture, another successful practice at Aygaz is the performance management system. Using the performance management system, company targets are spread across all employees, success of employees in achieving their targets is measured and competencies are assessed to create future plans for personal development.

Performances of the employees are monitored with target cards and evaluated according to objective criteria. The objective of the performance management system is to award sustainable values instead of short-term returns.

Training for personal and professional development

Aygaz places its human resources systems and practices with a global vision among its corporate objectives, aiming for continuous training and development of employees. With the help of a competency assessment system, employees are able to plan their development with feedback from their managers and coworkers. The aim of this assessment system is to develop the employees with planned feedback interviews and to determine the need for training and development planning processes.

In addition to function-based technical training, Aygaz also offers training opportunities for personal development. One of the topics Aygaz prioritizes is the development of employees' foreign language skills. In this context, all employees who wish to improve themselves are provided English language education in classroom and one-to-one lessons.

Furthermore, Aygaz has implemented AygazLEAD modular training programs to improve the leadership skills of managers. Employees with management potential are developed with the help of leadership programs such as "Lider Sensin" (You are the Leader) and "Yenibirlider Derneği" (A New Leader Association"). Aygaz also offers the opportunity to attend the Koç University Executive MBA and Technical MBA programs every year. The "Development on the Field" Program, launched with the objective of training sales leaders as specialists in their fields, aims to further improve the sales skills of Aygaz Group's field managers, to make a difference in dealer management and to increase Aygaz's market share.

With investments made toward the development of employees, average training time per person increased by 22% year on year and amounted to 41 hours in 2017.

Effective internal communication culture

Aygaz Human Resources aims to ensure that different generations work in harmony under the same roof, create a seamless and productive working environment and build an internal communication culture with cooperation and solidarity as the common denominator.

The activities carried out for this purpose include business results sharing meetings, region and plant visits, service award ceremonies, sports festival, picnics, strategic plan meeting, BizBize talks and health month events. Communication activities are shared with the regions and plants through live broadcasts.

Aygaz provides improvement opportunities based on the results of the surveys conducted to measure employee loyalty and satisfaction. The findings of surveys are evaluated at workshops attended by managers and employees and action plans are prepared for sustaining strengths and improving development areas.

Key human resources policies at Aygaz

- Equal opportunity for all
- Right person for the right job
- Equal pay for equal work
- Achievement-based promotion
- Timely recognition and appreciation
- Sustainable and efficient work success
- Effective internal communication
- Sensitivity for the community


AYGAZ

POWER SOURCE WITH ENDLESS ENERGY

The guarantee of efficiency providing powerful solutions to businesses with LPG, the clean energy source

Quality, Environment, Occupational Health and Safety

Aygaz carries out its operations focusing on quality, environment and occupational health and safety in all business processes while safeguarding the wellbeing of all its stakeholders.

Aygaz values the importance of product and service quality and customer satisfaction, and also carries out activities focused on sustainability and environmental sensitivity. To achieve this balance, management systems have been integrated. With extensive work on occupational health and safety, environmentally sensitive business processes, innovation and the value attached to intellectual property rights, the company continues to further strengthen its leading position in industry.

Integrated management systems

Aygaz continues to work on improving and expanding the scope of its Total Quality Management approach, which was adopted in early 1990s. The Integrated Management Systems Policy was finalized in 2016 in line with the changes in management system standards. The Integrated Management Systems of Aygaz ensure that all systems regarding quality, environment, occupational health and safety, customer complaints, energy and information security are managed in an integrated manner under one roof.

All Aygaz employees are required to implement the Integrated Management Systems Policy. The handbook, created to provide information and guidance, is kept up to date and made available for all at www.aygaz.com.tr. In 2017, the number of internal auditors within the scope of Integrated Management Systems was increased and trainings were updated. In internal audits, 75 business units were inspected by 61 internal auditors.

Compliance with relevant systems has been verified through management systems regarding quality, environment, occupational health and safety, energy, customer complaints and internal and external audits have been conducted as part of the Customer Friendly Organization and Customer Friendly Brand approach and necessary improvements have been made. In addition to improvement efforts, support has been extended to Koç Group companies by offering benchmarks to improve their management systems. All locations are audited twice a year within the scope of the Transportable Pressurized Equipment Directive (TPED) and Pressurized Containers Regulation (PED) to ensure the continuity of CE and PI marking on products. Within the scope of the Authorized Economic Operator Status, system continuity is assured through ISO 27001 Information Security Management System inspections at the Head Office, Gebze Plant, Ambarlı, Aliağa, Dörtyol, Samsun and Yarımca Terminals.

In 2017, meetings have been held to assess whether ISO 27001 Information Security Management System and Integrated Management Systems are carried out in accordance with their objectives and their effectiveness and alignment with strategic goals have been evaluated.

Occupational health and safety activities

Aygaz operates at 12 locations including the Head Office, Gebze Operations and Plants, all holding OHSAS 18001 Occupational Health and Safety Management System Certification.

In 2017, Aygaz continued to serve as secretary at the Koç Holding Occupational Health and Safety Coordination Board and provided effective participation in its activities. Furthermore, Occupational Health and Safety Platform meetings were held periodically for all business lines as activities in cooperation with other organizations in the industry continued.

Communication activities were carried out in 2017 to raise awareness among Aygaz employees at the filling and production plants about occupational health and safety and to strengthen the foundations of this corporate culture. Ergonomics training was provided for office employees. In 2017, 25 employees were trained in “First Level Fire” and 22 employees in “Working at Heights”. Occupational safety specialists and workplace physicians at all facilities also provide occupational health and safety trainings and monthly fire and emergency drills are held regularly.

Environmentally sensitive business processes

Efficient use of natural resources and protection of the environment is a strategic priority for Aygaz, which manages all business processes with sustainability awareness. Aygaz aims to contribute positively to the urban air quality with its environmentally sensitive product portfolio. Aygaz operates at 12 locations including the Head Office, Gebze Operations and Plants, all holding Environmental Management System Certificates.

A total of 250 LED lighting fixtures were replaced at terminal offices, filling plants and cylinder distribution centers, saving 237 thousand kWh of energy per year, thus achieving approximately 118 tons of reduction in CO_2 emissions. At the Samsun plant, the garden irrigation system was converted into drip irrigation, resulting in total annual savings of 400 tons. At the Gebze plant, the impact of the savings projects in 2017 was 360 thousand kWh of electricity and 1.22M kWh of natural gas. In 2017, a total of 126 TEP energy was

Aygaz's goal in all business processes is to ensure customer satisfaction.

Business units inspected by 61 internal auditors

75

Aygaz carries out various activities for building consciousness to further raise awareness of the environment.

Environmental trainings

497

man*hours

saved and CO_2 emissions were reduced by 390 tons.

Various activities to build consciousness were also carried out at Aygaz in 2017 to further raise environmental awareness. One of these is the "Geleceğe Mektuplar" (Letters to the Future) project, which aims to draw attention to the United Nations Sustainable Development Goals within the scope of Earth Day and involves Aygaz Group employees and their children to write about their predictions of the world in 2030. Furthermore, a photography competition titled "Değişen İklim ve Biz" (Changing Climate and Us) was organized for Aygaz Group employees to draw attention to climate change and raise awareness of this issue. In March, the company participated in the Earth Hour campaign organized by World Wildlife Fund (WWF) World Time by dimming the lights of the head office building.

At the 2017 Management Review Meeting (YGG), 102 seedlings were donated to the TEMA Foundation to neutralize the carbon emissions that the participants generated to be present at the meeting. Aiming to promote environmental sensitivity and raise awareness, a total of 497 man*hours of environmental training was provided at Aygaz facilities. A Security Management System has been installed at all Aygaz locations within the scope of the Regulation on the Prevention of Major Accidents and Reducing Their Impact and inspected during internal audits.

The efforts of Aygaz to protect the environment have been awarded by Turkish Healthy Cities Association (SKP). Aygaz Dörtyol Terminal was awarded at the 2017 Environment Friendly Plant Awards, the third edition organized by the Association. Operating in more than

100 cities in 31 countries in Europe, the Healthy Cities Association aims to create better living and healthier environmental conditions in cities, ensure sustainable development and build sustainable cities as part of the World Health Organization global program.

In 2002, Aygaz became the first company in Turkey to publish a sustainability report and since then continued to regularly share its sustainability performance with stakeholders. Starting in 2008, the report is updated every other year in line with the Global Reporting Initiative (GRI) principles. Aygaz fulfils all responsibilities in terms of working conditions, human rights and transparent corporate governance within the framework of the Global Compact signed by Koç Holding and strives to minimize the environmental impact of its production, services and products. Aygaz carries out the activities in this regard by implementing policies integrated into its management philosophy. This is also included in the Koç Group Sustainability Report.

Tracking intellectual property rights

Protection and tracking of intellectual property rights as part of business processes is particularly important to Aygaz. The company manages an intellectual property portfolio, which expands by the year with its trademarks and patents registered in domestic and international markets or at the application stage. Since its establishment, Aygaz has been allocating resources for trademarks, patents, industrial designs, works and Internet domain name protection and tracking. At Aygaz, the intellectual property management process aims to support both the in-house creative talents in light of intellectual property strategies and also to protect all aspects of R&D, marketing and operational activities. The patent portfolio is periodically reviewed and commercial valuation of the patents is carried out.

Integrated Management Systems Policy

Aygaz carries out all activities in its fields of operation and LPG in particular in accordance with the Objectives and Principles of the Koç Group and adopts the following as its main policies:

- Being a pioneering and innovative company in the industry,
- Upholding ethical values,
- Seizing strategic growth opportunities,
- Working in compliance with regulations and standards,
- Ensuring that work processes are managed efficiently and developed continuously,
- Prioritizing customer perception, sustainable customer satisfaction and loyalty and offering applicable solutions for customer complaints,
- Ensuring and improving optimal stakeholder satisfaction in accordance with corporate governance principles,
- Maintaining the successful level of employee loyalty and satisfaction,
- Carrying out activities to support innovation and climate change strategies,
- Working with respect toward the community and the environment, creating a healthy and safe work environment and developing preventive approaches against possible occupational diseases and injuries,
- Giving priority to energy efficiency in plants, building design and procurement processes,
- Preventing pollution, reducing waste and ensuring that waste is disposed of with recycling as a priority,
- Considering possible environmental effects and occupational health and safety risks during actualization of investments,
- Informing the community regarding its operations.

All employees at Aygaz A.Ş. are responsible for implementing, developing and ensuring the required resources for the principles of the Integrated Management Systems Policy.

Corporate innovation culture

As the most innovative company in its industry, Aygaz supports the creativity and entrepreneurship of its employees within the scope of innovation processes. In this context, an Innovation Management Process has been launched to transform every idea that will create value for stakeholder by considering the opinions of employees.

Along with vision, mission, strategy and innovative areas, this process includes all stages from collecting ideas to systematically implementing them. Aygaz has identified innovation areas such as servicing, digitalization, big data, artificial intelligence, synergy, expanding the market and sharing economy as strategic topics of the future.

With the Aythink Idea Collecting Platform, which was launched in 2016, a structure was created to shape the innovative direction of the corporate culture toward the future. With the In-house Entrepreneurship Activity organized three times, 646 ideas submitted to Aythink were evaluated and project teams were created from the owners of selected ideas. Project teams that learned the "Lean New Venture" method transformed their ideas into a business model using the "Business Method Canvas". Project teams that identified the problems by contacting the customers tested the solution prototypes they developed with the customers again. In the past two years, 22 innovation projects have been undertaken and 12 have received investment to move on to the pilot stage. Four of these projects will be implemented.

In addition to the Aythink platform, Design Thinking workshops have been organized by bringing together all stakeholders in the identified areas to create value as a whole within the company. Workshops were attended by dealers, customers and company employees. At the end of this activity, 253 business ideas emerged and business models were created.

As in every process, measurement is also important in innovation. Therefore, a survey is conducted every other year to determine how much innovation is internalized within the organization and to measure the "innovation and entrepreneurial climate".

With the concept of "Aklınla Bin Yaşa" (Good Thinking) where a question about the innovative corporate culture is asked every month, employees are encouraged to think about the concept of innovation. Furthermore, the project team members' project management skills are improved through immersive activities while the new generation co-working space created within the company and called "Arı Kovanı" (Beehive) offers an opportunity to experience co-working.

Acting on the fact that internationally successful companies achieve innovation not just with internal resources but also by working in tandem with all stakeholders, the idea collection platform is planned to spread across the Aygaz ecosystem. This will enable getting ideas from all stakeholders and creating value. One of the goals is to collaborate with the start-ups in the ecosystem. For this purpose, the company participates in a Digital Industry 2.0 competition organized by an international company to seize opportunities for business collaborations with start-ups.

Research & Development

Leading the industry in R&D with 48 national and international patents to its name, Aygaz filed applications for new patents in 2017.

Aygaz follows the latest technological developments in the international arena closely and carries out R&D activities to develop new technologies. Aygaz further strengthened its innovative and pioneering position in the industry in 2017.

Aygaz reflects its innovation-focused philosophy on all R&D activities and concentrates on three key areas: new product development, machine and process development and alternative fuels. Leading the industry in R&D with 48 national and international patents to its name, Aygaz filed applications with international patent offices for two new patents in 2017.

Aygaz benefits from R&D incentives granted by the Scientific and Technological Research Council of Turkey (TÜBİTAK) Technology and Innovation Funding Programs Directorate (TEYDEB) and conducts some of its projects in cooperation with universities and Teknokent companies. In 2017, Aygaz carried out two projects that received R&D incentive support in this context.

“Distillation of Olefins in LPG” project in cooperation with Tüpraş and SAN-TEZ project titled “Production of Aerosol Grade LPG from Standard LPG” in collaboration with İstanbul Technical University continued in 2017.

Tracking cylinders along the journey from the plants to dealers and customers is of critical importance. The Cylinder Tracking Project that Aygaz launched in 2015 at the Işıkkent Filling Plant was spread across the country in 2017. The data matrix barcode scanning systems developed for this purpose were installed in all plants enabling the movement of cylinders between the plant and the dealer to be tracked. The Company currently works toward licensing these systems with intellectual property owned by Aygaz for other players of the LPG industry.

Greenodor, the sulphur-free LPG odorizer that Aygaz developed with the R&D funding of TÜBİTAK TEYDEB enhances LPG’s environmentally friendly properties. With international patent and trademark rights owned by Aygaz, Greenodor’s pilot applications in the field have already started.

As part of the first pilot phase of the Arinna Project, which was initiated as an innovation project to generate electricity from solar power on the roofs, the installation of Solar Power System (SPS) on the roof of Aygaz Gebze Plant’s office building was completed and the SPS was activated. The total 75 kW power plant, consisting of three different solar panel technologies (monocrystalline, polycrystalline and thin film solar panels), each with 25 kW capacity, will be used to generate clean and renewable electricity from solar power and reduce the plant’s energy costs. The solar power plant will also make it possible to reach the optimal solar energy solution for the rooftops in the region by comparing different solar power technologies under the same conditions.

R&D focus areas

- New product
- Machine and process development
- Alternative fuels

Social Responsibility

Aygaz supports projects that provide direct benefit to the environment and community to add value to life and inspire for a better future.

Since the very beginning, Aygaz has always been a pioneer and leader of progress and development in all the industries in which it operates as well as social issues. Aiming to maintain this position and to better meet the requirements of the community, Aygaz values the demands and views of its stakeholders and strives to implement projects that will exceed their expectations. The social responsibility projects that Aygaz carries out in line the philosophy of its founder Vehbi Koç, “We exist as long as our state and country exists,” aim to contribute to Turkey's social development. Aygaz fulfills its responsibilities toward the community and the environment in harmony with all its stakeholders, pioneering and leading projects that respect the heritage and invest in the future in a wide range of areas including the environment, education, culture and arts, health and sports.

CULTURE AND ARTS

Aygaz Library

The Aygaz Library Project, conceived by Aygaz to bring together the cultural and historic heritage of its geography with writing and imparting them onto future generations, has become a wealth of reference in the culture and arts world for arts enthusiasts, scholars and university students. Launched in 1996, the Aygaz Library currently features 15 books on various topics including the following: Nemrut – The Mountain of the Gods (Tanrılar Dağı Nemrut), The Photographers of Constantinople (Dersaadetin Fotoğrafçıları), The Treasures of Troia (Troia Hazineleri), The Beginning of the Second Constitutional Era (II. Meşrutiyetin İlk Yılı), Dynasty and Camera - Portraits From The Ottoman Court (Hanedan ve Kamera), and Kat'ı - Cut Paper Works and Artists in the Ottoman World (Kat'ı: Osmanlı Dünyasında Kağıt Oyma Sanatı ve Sanatçıları). In 2017, Your Excellency’s Obedient Servant, a book featuring a selection of hand-written letters by some of the leading figures that made their mark on the course of history was added to the Library.

Publishing Ottoman era diplomatic documents in book form

One of the many cultural activities Aygaz engages in is the History of Ottoman Diplomacy Project. A large part of this project entails collecting and publishing documents and supplementary information from the Ottoman archives. With six more books published in 2017, the total number of published works now stands at 60.

Sagalassos Ancient City excavations

Excavations at the Sagalassos Ancient City, located at the foothills of the Taurus Mountains, with the first settlement dating back to 4200 BC, have been supported by Aygaz since 2005. During the restoration works carried out in 2017, the agora floor covering an area of approximately 3,500 square meters was prioritized. Many of the blocks of the agora floor, which were enlarged during the reign of Emperor Augustus and covered with limestone blocks, were discovered in their original places as a result of the excavations.

The restoration work carried out in the Upper Agora aims to present Sagalassos in a more articulate and comprehensible manner and ensure the most effective protection for monuments in this area. Once restoration is completed, the Upper Agora will transform into a museum for visitors to admire and will tell an almost millennium-long story of the city center and host various arts events.

Ancient City and Castle of Van and Tumulus excavations

The excavations that started in 2010 at the Van Castle Tumulus with the permission of the Ministry of Culture and Tourism, Directorate General of Cultural Assets and Museums and the support of Aygaz on behalf of Istanbul University have continued since 2012 at three sites spanning an area of 95 hectares that includes the Ancient City and Castle of Van and Tumulus.

The significant archaeological data obtained in recent years contribute to the understanding of the chronology of the region. In particular, the architectural and small find groups belonging to Post Urartu/ Late Iron Age have led to reinterpretation of the archaeological stratification in the region. In 2017, important data concerning the Urartu and the Early Bronze Age were obtained in the tumulus area. Some of the findings indicate that permanent settlement in the Van Lake Basin date back to the 4th millennium BC. Evaluated together with surrounding settlements, Urartu architecture has presented complex functioning.

İstanbul Theater Festival sponsorship

Aygaz has been supporting the theater for many years. As the co-sponsor of the Istanbul Theater Festival, which presents various international plays to the Turkish audience, Aygaz has continued its support since 2004 and sponsored 21st edition in 2017. This year, Aygaz also sponsored a student project within the scope of the festival and introduced young people to the theater, leading young generations to see examples of modern theater.

The Istanbul Theater Festival, held every other year by the Istanbul Foundation for Culture and Arts (İKSV) since 2002, will be held annually from this year onward to unite universal works of art with the audiences in Turkey.

ENVIRONMENT

What will the weather be like tomorrow?

The project titled “What will the weather be like tomorrow?”, launched in 2010 in collaboration with the Regional Environmental Center (REC), continued with the support of the Ministry of Environment and Forestry.

Educational programs are being offered at the Rahmi M. Koç Museum since 2012. The Climate Change Awareness Workshop hosted in the museum’s “Discovery Globe” was attended by 13,170 students from 304 schools in 2017.

HEALTH

Diabetic Children's Camp celebrating 25 years

Aygaz has always been closely interest in public health issues and supported the Diabetic Children’s Camp organized by the Child and Adolescent Diabetics Association. The 25th camp was organized in Kocaeli in August with the participation of approximately 100 diabetic children. This camp, supported by Aygaz since 2004, is one of Turkey’s first health camps dedicated solely to children and aims to teach diabetic children to become self-sufficient while having fun and making new friends. Having hosted nearly 2,500 children in its 25-year long history, the Diabetic Children’s Camp is a great example for other health camps.

SPORTS

Supporting sports with Mogaz brand

Along with culture, arts, and health, sports is another social field that Aygaz supports. Since 2013, Aygaz with its Mogaz brand has sponsored the Beşiktaş (BJK) Handball Team. With this sponsorship by a private sector company as a first in the handball discipline, the team has come to be known as Beşiktaş Mogaz Handball, proudly representing Turkey in the European Handball Federation (EHF) Champions League.

FOR MY COUNTRY

Women’s Empowerment Project

While working on the project “I Support Gender Equality for My Country”, Aygaz decided to focus on violence against women as one of the biggest obstacles to gender equality in response to the question “what more and what else can be done” and continued in that direction.

In 2017, a label showing the Domestic Violence help line of the Turkish Federation of Women’s Associations, with Aygaz as corporate sponsor, was placed in all autogas stations for an entire month and social media communications were carried out simultaneously. The objective of this project was to communicate the help line number to more people and raise awareness about violence against women.

On November 25, 2017, International Day for the Elimination of Violence against Women, Aygaz continued to support the 16 Days of Activism against Gender-Based Violence Campaign that UN Women organizes every year. In this context, Aygaz Head Office building was covered in orange with the theme “Say No to Violence Against Women”. Beşiktaş Mogaz Men's Handball Team, which Aygaz supports with the Mogaz brand, opened all the matches played during this period with an orange banner showing “Say No to Violence Against Women”. As part of the BizBize talks, an internal communication activity carried out within the company, Sunay Akın talked “On Women”.

PIONEERING SPIRIT TO DRIVE INNOVATION

Leading change with innovative perspective on the path to the future

Risk Management and Internal Control

The objective of effective corporate risk management through a holistic approach is to manage risks and benefit from opportunities by developing common perspectives and strategies.

Aygaz aims to maximize the value created for shareholders by managing its strategic and financial goals in line with its corporate risk taking profile. Processes that include finding solutions, identifying, prioritizing and reducing or eliminating potential risks, assessing the possible impacts in case of occurrence of such risks and leveraging the possible opportunities, are determined with systematic targets and policies.

Risk management is applied in accordance with international standards and practices as well as policies approved and strategic targets set by the Board of Directors, taking into consideration feedback from departments and Executive Committee in particular. Given the financial, operational and legal risks encountered due to the nature of the industry, risks are managed -within the framework of corporate risk management- with an integrated, systematic and proactive approach along with risk assessments spread across the company and updated with the processes. With effective risk monitoring, these risks are prioritized according to their probabilities and possible impact.

Managing risks

Financial risks arising from uncertainties and fluctuations in foreign exchange, interest rates and commodity prices are identified and evaluated and when necessary, relevant instruments are used to mitigate risks. Foreign exchange risks originate from purchases in foreign currencies regarding business activities or loans utilized in foreign currency for liquidity purposes. This risk is mitigated by the "natural hedge" that is created by reflecting exchange rate fluctuations on 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 are eliminated balancing financial debts in terms of fixed/variable interest rates and short term/long term maturities.

Liquidity risk is managed by closely monitoring existing and projected cash flows and ensuring maturity match between assets and liabilities. Net working capital is closely monitored to preserve short-term liquidity and sufficient level of cash and cash-like assets are kept against potential capital market fluctuations. Average due dates of receivables and inventory days are kept as short as possible, minimizing the need for working capital and mitigating liquidity risks. 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.

Given its broad range of activities, Aygaz's receivables are spread across different industries and geographical regions through numerous dealers and customers. Concentrating on a specific field or a customer is avoided. Commercial receivables are monitored closely with regular reporting and assessments, taking care to keep customer credit risk exposure arising from commercial receivables within approved limits. The company acts diligently to conduct business with counterparties with high credibility and to mitigate the existing risks with collaterals.

Collaterals (letters of credit and guarantee performance bonds, pledges, credit insurance, etc.) are held to mitigate collection risks and risks are checked on transaction basis. Payments are received via banking systems. 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 considered for this purpose 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. With all these indicators within the required limits, Aygaz A.Ş. has the capital structure and debt capacity to conduct its business in a healthy manner. The Board of Directors is informed through the reports prepared by the management and presented to the Risk Management Committee periodically. Operational, legal and strategic risks are evaluated by related units and the decisions made by the executive management are monitored by the Board of Directors through this committee. The Board of Directors also receives 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.

For protection against any losses that may arise due to operational or other risks, various insurances are in place including the coverages for subsidiaries. All transferable risks are delegated to third parties with insurance policies.

Regulatory changes are monitored by all related units primarily and in particular by the Legal Department. Necessary information is provided and training and compliance activities are carried out to avoid legal risks.

Activities of the Risk Management Committee

Risk Management Committee has been established with the aim of ensuring compliance with article 378 of the Turkish Commercial Code No. 6102 and Corporate Governance Communiqué of the Capital Markets Board (CMB) and effective functioning of the Board committees and carries out activities for early detection and effective management of risks that may jeopardize the company's existence, development and continuity, taking necessary measures against these risks and managing risks. The committee is chaired by independent Board Member Ayşe Canan Ediboğlu, appointed by the Board of Directors' decision dated March 31, 2017 and the other member of the committee is Board Member Dr. Bülent Bulgurlu.

The committee, which convened seven times in 2017, assesses the risk management process at Aygaz and the principles and data of risk reporting, evaluates the periodical reports prepared within this scope and offers recommendations regarding the necessary measures to be taken against the points that do not comply with the limits defined within the risk management system. The reports and committee assessments are presented to the Board of Directors.

Internal Control System and Internal Audit

An Internal Control System is in place to provide sufficient assurance regarding the efficiency of operations and the financial reporting system's compliance with regulations. Internal Control System refers to all controls such as standard definitions included in financial transactions, reports and workflows, job descriptions, authorization system, policies and written processes.

The Internal Control System is regularly assessed and audited by the Internal Audit Department, which performs its duties under the supervision of the General Manager. The mission of the Internal Audit Department is to present risk-based recommendations and predictions with objective assurance, thereby protecting and enhancing corporate value.

The Internal Audit Department conducts effective and regular internal controls to ensure the integrity, consistency, reliability, timeliness and security of the information provided by the accounting and financial reporting system.

The department also analyzes processes, reviews the results of the audit activities conducted for issues considered risky, addresses the complaints and other issues communicated to the company through various channels, and reports its findings to the executive management.

Investor Relations

Investor relations at Aygaz ground on principles of equality, transparency, accountability and responsibility.

Aygaz investor relations activities are carried out with a corporate approach at international standards. The ultimate goal of the Investor Relations Department's activities is to increase shareholder value. The most important responsibility of the department is to present accurate and easily comprehensible, unclassified information to shareholders, public and stakeholders in line with the company's disclosure policy in a timely and accessible manner. Communication of such information is based on the principles of fairness, transparency, accountability and responsibility.

Investor relations activities

Investor Relations Department aims at increasing company value for existing shareholders and also attracting new and potential investors by promoting the company. For this purpose, the department attended two conferences in 2017, one in London and one in Prague. Furthermore one-to-one meetings were held with nearly 70 investors visiting the Aygaz Head Office or participating in teleconference sessions.

The analysts and corporate investors following the company met with Aygaz Senior Management at the Analyst Meeting organized in March at the Head Office to evaluate the important agenda items of the previous year and discuss the company's current vision and targets.

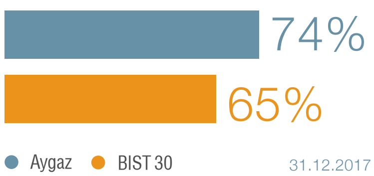
The number of brokers that follow Aygaz and publish regular reports was 18 in 2017. In almost all of their reports, these brokers have stated their expectations about the share value of Aygaz as parallel to or higher than the BIST 100 Index.

In 2017, Investor Relations department answered various inquiries coming from the investors and analysts via telephone and email as well as informing them during financial reporting periods. Shareholders generally inquire information about

Share Information

BIST Code	: AYGAZ
Bloomberg Code	: AYGAZ.TI
Reuters Code	: AYGAZ.IS
IPO Date	: 13.01.1988
Free Float Rate	: 24.3%

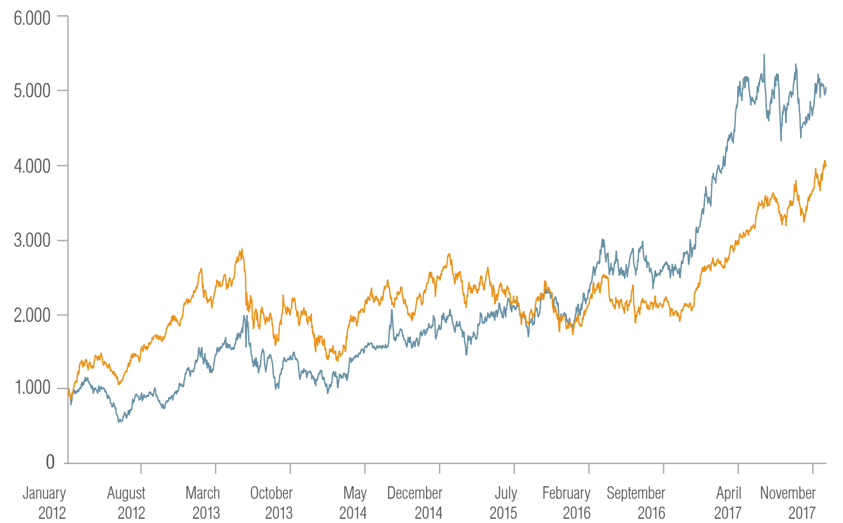
Foreign Share in Free Float (%)



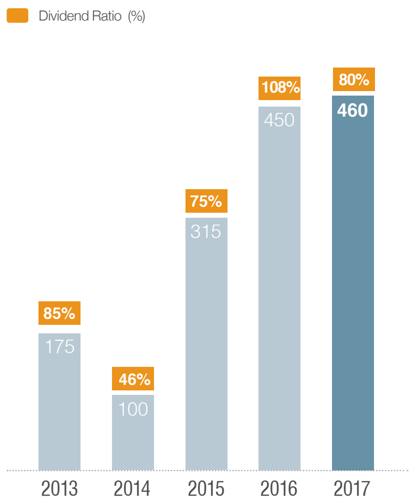
Corporate Governance Rating Score

Shareholders	: 9.53
Stakeholders	: 9.88
Public disclosure and transparency	: 9.20
Board of Directors	: 9.14
Total	**: 9.36**

SHARE PERFORMANCE (TL M)



TOTAL DIVIDEND (TL M)



Aygaz's sales volume, market shares, profitability, share value, investments, turnover, subsidiaries, dividend payments and future targets. Over 100 inquiries were received in 2017 and responded in written, verbal or electronic form.

Company presentations are always kept up-to-date. Earnings Release report is published after the financial results are announced. Other information documents are available at www.aygaz.com.tr website under the Investor Relations section. The corporate website was redesigned and launched in 2017 to respond to the ever-changing needs in the digital world and the Investor Relations section was improved with easier accessibility and the addition of new tools.

The Corporate Governance Rating Score of Aygaz was determined as 9.36 in 2016 by Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri and reconfirmed as 9.36 on June 22, 2017.

Share performance

Global stock markets saw historic high levels in 2017 with positive growth dynamics, strong business results and a high liquidity environment. In this setting of high risk appetite, Borsa Istanbul completed a record year with the impact of positive global and domestic dynamics while BIST-100 was among the top 5 indexes that generated highest returns in the world both in US dollars and local currencies. After closing 2016 at 78,139 points, the BIST 100 index delivered its best performance of the last five years and closed 2017 at 115,333 points, an all-time high. The Aygaz share price saw lowest TL 10.25 and highest TL 17.04, increasing 48% in 2017 in parallel to BIST 100. In the same period, the return of the BIST 30 index was 49%. The company's market value is TL 4.8 billion (USD 1.3 billion) as of December 31, 2017.

Dividend distribution

Aygaz aims to create high shareholder value and follows a consistent dividend policy that balances both the company's and the shareholders' interests. With TL 460 million as dividend from 2017 profit to be submitted to the General Assembly for approval, the dividend distribution ratio is 80% and the total dividend of the last five years has reached TL 1.5 billion.

Aygaz Creates Shareholder Value Through

- LPG: Main field of activity with sustainable **operational margins**
- **Regular** dividend distribution
- Investor relations and corporate governance practices **in international standards**

- Corporate Governance Principles Compliance Report
- Legal Disclosures
- Board of Directors
- Executive Management
- Agenda of the Annual General Assembly
- Proposal of the Board of Directors for Profit Distribution
- Statements of Independence of the Independent Board Members
- Profit Distribution Policy
- Remuneration Policy for the Board of Directors and Senior Management
- Auditors' Report on Annual Report

Corporate Governance Principles Compliance Report

SECTION I - Corporate Governance Principles Compliance Declaration

Aygaz is aware of the benefits and importance of Corporate Governance Principles in terms of capital markets and companies. Compliance with international standards, creating sustainable shareholder value, funding from foreign markets and achievement of consistent growth are very important in today's increasingly global world. In this context, corporate governance is contributing significantly toward improving management quality, reducing and better managing risks and increasing the company's reliability and reputation in financial and capital markets.

Aygaz fully complies with mandatory principles of the Corporate Governance Communiqué No: II-17.1 and has adopted a majority of the non-mandatory principles. Although the company aims to fully comply with the non-mandatory Corporate Governance Principles, full compliance has not yet been achieved due to difficulties regarding implementation of some principles, the current debate both on domestic and international platforms toward their adoption and some principles failing to align with the existing structure of the market and the company. The principles that have not been implemented yet are being worked on and the plan is to adopt them upon the completion of the administrative, legal and technical infrastructure work that would contribute to the 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 Corporate Governance practices in 2017 have been carried out in compliance with the Capital Markets Law that includes the regulations of Capital Markets Board (CMB) regarding corporate governance principles and the communiqués pursuant to this law. At the 2017 Ordinary General Assembly, the Board of Directors and Board committees were formed in accordance with the provisions of the Corporate Governance Communiqué. The Board committees effectively perform their activities. A remuneration policy has been determined for the Board of Directors and senior executives and presented to the shareholders at the General Assembly. Through the information document prepared for the General Assembly, related information such as privileged shares, voting rights, organizational changes, résumés of the nominees for Board membership, remuneration policy for the Board of Directors and senior executives and all reports and information that must be drafted and disclosed about related parties as mandated by the principles were made available for investors three weeks prior to the General Assembly meeting. The corporate website and annual report were also reviewed and necessary changes were made toward full compliance with the principles. Necessary work will be carried out by considering legislative developments and implementations for full compliance with the principles in the upcoming period.

Regarding the non-mandatory Corporate Governance Principles of the Communiqué, those lacking full compliance are listed below and additional explanation can be found in relevant sections. Aygaz has not experienced any conflicts of interest due to not fully complying with the said principles.

- Regarding principle no 1.5.2, minority rights are not granted for shareholders holding less than one-twentieth of the share capital according to the Articles of Association and rights are granted pursuant to general legislative provisions.
- Regarding principle no 4.3.9, a target ratio and time has not yet been determined for the number of female members in the Board of Directors and relevant assessment on this topic is currently ongoing. Detailed information on this topic is provided in section 5.1.
- Regarding principle no 4.4.7, as descripted in section 5.1 below, Board Members are not restricted from taking on any other duties outside the company.
- Regarding principle no 4.5.5, the assignments of committees are appointed in line with applicable regulations, considering the expertise and experiences of the Board Members. Some Board Members are assigned for multiple committees, supporting communication among different committees on related matters and increasing collaboration possibilities.
- Regarding principle no 4.6.5, payments made to Board Members and executives with administrative responsibilities are documented at the Ordinary General Assembly and in the notes to the consolidated financial statements and disclosed to the public in line with the general practices.

Aygaz A.Ş. demonstrates the importance of complying with corporate governance principles and its commitment to implementing them 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 Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. has confirmed the corporate governance rating score of Aygaz on June 22, 2017 as 9.36. Among the areas open to improvement, forming and disclosing the company's donation policy, setting a target ratio and time for achieving a rate of at least 25% for female board membership and preparing a policy for this purpose have been listed among areas for improvement. With its current corporate governance rating, Aygaz has been one of the companies to hold the highest corporate governance scores in Turkey as of the rating date.

Corporate Governance Rating Score is determined under four main categories weighted by different degrees within the framework of the CMB resolution regarding the issue. The announcement made via Public Disclosure Platform (PDP) about the insurance to protect the company against possible damages that can arise from Board Members' faults during their activities within the activity report content, as well as the in-house written document prepared for setting written rules for operation principles of the Board of Directors meetings are among the recent improvements Aygaz has made and they have contributed to an increase in the scores received, particularly in "Stakeholders" and "Board of Directors" categories.

Necessary work will be carried out by considering regulatory developments and implementations for increasing compliance with the principles in the upcoming period. With the established corporate identity, Aygaz has accelerated the steps taken for this purpose, its management structure and processes have been also been shaped in compliance with these regulations.

"Corporate Governance Compliance Reports" have been prepared and published on the company's corporate web site (www.aygaz.com.tr) and within annual reports since the General Assembly meeting of 2005. We hereby present our Corporate Governance Report, which has been prepared this year in the format set out by the Capital Markets Board Resolution no. 2/35 dated January 27, 2014.

Corporate Governance Committee

Mansur Özgün Committee Chairman	Yağız Eyüboğlu Committee Member	Ferda Erginoğlu Committee Member

SECTION II – Shareholders

2.1. Investor Relations Department

At Aygaz, Investor Relations Department's duties set out by article 11 of the Corporate Governance Communiqué are carried out by the Finance Manager under the supervision of Ferda Erginoğlu, Assistant General Manager - Finance. The department consisting of Şebnem Yücel and Selin Sanver, with Capital Market Activities Advance Level and Corporate Governance Rating Specialist Licenses can be reached by email at yatirimciiliskileri@aygaz.com.tr or investorrelations@aygaz.com.tr or by phone at +90 212 354 15 15 / extensions 1510-1659 for information requests.

The main responsibilities of Investor Relations Department are:
• To maintain regular relations with shareholders within the scope of the disclosure policy and to ensure updated and reliable access to information about the company,
• To ensure that shareholders' rights are exercised and to answer shareholders' inquiries,
• To update communication tools such as corporate website, annual report, investor presentations and earnings releases, etc. in a manner that shareholders have complete and quick access,
• To respond to investors' information requests via various communication tools such as face-to-face meetings, investor conferences, road shows, teleconferences, telephone, email, fax and statements/announcements to increase company value,
• To provide two-way information flow between shareholders and the company's senior management and Board of Directors,
• To maintain accurate, reliable and up-to-date shareholder records based on the records of the Central Registry Agency (CRA),
• To implement and monitor Corporate Governance Principles and ensure that the company operations are carried out in compliance and represent the corporate entity of the company before the relevant ministries, Capital Markets Board (CMB), Borsa Istanbul (BIST), Istanbul Settlement and Custody Bank Inc. (Takasbank), Central Registry Agency (CRA) and other relevant institutions and organizations and provide these institutions with required reports and information,
• To submit necessary disclosures to Borsa Istanbul (BIST) via the Public Disclosure Platform,
• To hold the General Assembly of Shareholders meetings and to keep records of Board of Directors and Committee meetings.

Shareholders generally request information and make inquiries on the profitability, share value, investments, turnover, subsidiaries, and dividend payments of Aygaz as well as the withholding tax on dividends. More than 100 information requests were received in 2017 and responded verbally, electronically and in writing. Furthermore, two investor conferences were attended abroad in 2017, one in the UK and one in Czech Republic and nearly 70 meetings were held with domestic and foreign corporate investors and brokerage house analysts. Presentations prepared for this purpose are available for all investors on the corporate website.

The report including all of the activities carried out throughout the year was submitted to Corporate Governance Committee and Board of Directors on February 26, 2018.

2.2. Exercise of Shareholders' Right to Obtain Information

The "Investor Relations" section on the corporate website is continuously updated to offer shareholders easier usability and access to more information. The corporate website at www.aygaz.com.tr has been re-launched in 2017 to respond to continually changing needs in the digital age, making it easier to access the contents of the investor relations page with the addition of new tools.

All information except those qualifying as trade secrets are shared with shareholders and no discrimination is made among shareholders regarding the exercise of the right to obtain and inspect information. All the inquiries submitted to the Investor Relations Unit other than the ones classified as confidential information and trade secrets are responded verbally by phone or in writing after conferring with the highest-ranking official on the relevant issue. As explained under section 3.1 of this report, the corporate website provides all relevant information and explanations that may affect the exercise of shareholders' rights.

Even though the Articles of Association do not contain any provision for an individual the right to request a private auditor, pursuant to Article 438 of the Turkish Commercial Code every shareholder may request the General Assembly that certain events not included in the agenda are clarified through a special audit if doing so is necessary for exercising shareholders' rights and the right to obtain information or inspection has been previously exercised. Shareholders have not put in such request to date. Furthermore, the company's operations are periodically audited by an Independent Auditor appointed by the General Assembly.

2.3. General Assembly Meetings

The Ordinary General Assembly meeting, where the activities for 2016 during the reporting period were reviewed and released was held open to public on March 29, 2017 at the head office of the company in Büyükdere Caddesi, No: 145/1 Zincirlikuyu, Şişli, Istanbul with a shareholder attendance rate of 85 percent. Six members of the Board of Directors, auditors and senior executives have attended the General Assembly meeting. Individual shareholders and members of the press were also present in the meeting. The venue of the General Assembly, its agenda and a sample power of attorney were announced to the public 21 days prior to the meeting via Turkish Trade Registry Gazette (TTRG) and material disclosures made via the Public Disclosure Platform (PDP).

The 2016 annual report, auditor's report, independent audit report, financial statements and notes, profit distribution proposal of the Board of Directors, General Assembly information document and annexes were made available for shareholders to review at the company head office and on the corporate website 21 days prior to the General Assembly meeting. The profit distribution proposal was announced via the Public Disclosure Platform (PDP). Shareholders have not made any requests with regard to the agenda.

The questions that shareholders directed during the General Assembly were answered by members of the Board of Directors and senior management. The annual Ordinary General Assemblies authorize Chairman and members of the Board of Directors to conduct businesses in the same field as the Company personally or on behalf of others and to become partners of such companies and carry out other transactions pursuant to articles 395 and 396 of the Turkish Commercial Code. Within the framework of this authority, Board members are allowed to take on other duties outside the company without any limitations.

At the Ordinary General Assembly meeting in 2017, information was provided regarding the donations and grants paid in 2016 as a separate agenda item and the donation limit for 2017 was set as TL 11,500,000 while no changes were made in the company's existing donation practices.

Some shareholders with management control, members of the Board of Directors, executives with administrative responsibilities, their spouses and blood relatives to the second degree and in laws carry out administrative duties as members of Board of Directors in some other Koç Group companies including the ones that operate in similar field. In 2017, there has been no transaction that required disclosure pursuant to Article 1.3.6 of the Corporate Governance Communiqué.

The minutes of the General Assembly are registered and announced in Turkish Trade Registry Gazette (TTRG) and made available for shareholders to review both at the company Head Office and on the corporate website. General Assembly meetings are held open to public including media and stakeholders without the right to speak and this provision is stipulated in Article 14 of the Articles of Association.

2.4. Voting Rights and Minority Rights

Privileged voting rights are not granted to shareholders of the company. There is no other company with reciprocal shareholding with Aygaz. Minority rights are represented at the General Assembly directly or by proxy. There is no provision on the cumulative voting method within the Company's Articles of Association. Minority rights are not granted for shareholders holding less than one-twentieth of the share capital according to the Articles of Association and rights are granted pursuant to general legislative provisions.

2.5. Dividend Rights

There are no privileges regarding the sharing of company profits. Profit distribution is made in accordance with and at the intervals stipulated by applicable legislation. The aim is to set out and announce a profit distribution policy considering the interests of both the shareholders and the company in compliance with Corporate Governance Principles. The profit distribution policy currently in effect was revised at the company's Board of Directors meeting on March 5, 2014 and took its present form as follows:

"The Company distributes profit in accordance with the provisions of the Turkish Commercial Code, Capital Markets Regulations, Tax Laws and other applicable laws and regulations, and within the scope of the relevant provisions of the company's Articles of Association. In line with Corporate Governance Principles, a balanced and consistent policy is adopted considering the interests of both shareholders and the company.

In principle, to the extent allowed by relevant regulations and financial resources, taking into consideration our long-term company strategies, investment and financing policies, profitability and cash position, and as long as it can be covered by the legally posted profit for the fiscal year, minimum 50% of the distributable profit calculated in accordance with Capital Markets regulations is distributed as cash and/or bonus shares.

Profit distribution is aimed to take place within one month following to the General Assembly Meeting at the latest and the General Assembly decides on such date. The General Assembly itself or if authorized, the Board of Directors may resolve to distribute profit share in installments in line with Capital Markets Regulations.

According to the Articles of Association of the company, the Board of Directors may distribute an advance on profit share if authorized by the General Assembly and in compliance with Capital Markets Regulations."

Pursuant to Corporate Governance Principles, Profit Distribution Policy published on the corporate website and in the annual report was presented to shareholders at the General Assembly meeting on March 29, 2017. The company paid in cash a gross total dividend of TL 450 million in 2017.

2.6. Transfer of Shares

Article 8 of the Articles of Association, titled "Transfer of Shares" stipulates that only the individuals registered in the share book considering the records of the Central Registry Agency will be considered and treated as holders of shares or holders of rights of usufruct on shares. Transfer of the company's publicly traded registered shares are governed by and subject to the applicable regulations of the Capital Markets Board.

SECTION III – Public Disclosure and Transparency

3.1. Corporate Website and Content

The Company's corporate website www.aygaz.com.tr is available in Turkish and English. As explained in detail in the company Disclosure Policy, the Investor Relations section includes main headings such as stock information, financial statements, material disclosures, shareholding structure and subsidiaries, trade registry information, general assembly meeting agendas and minutes, list of attendants and meeting records, proxy vote form, profit distribution policy, information policy, Board of Directors, Corporate Governance, news and announcements, presentations, frequently asked questions and "contact us" as well as numerous sets of documents and information under these that must be featured on the website pursuant to Corporate Governance Principles and other legislation. Changes to such information or the legislation are reflected on the website simultaneously.

3.2. Annual Report

The company's Annual Report is prepared in a manner to include all information stipulated by the Corporate Governance Principle 2.2 and its subparagraphs, in sufficient detail to ensure that the public can reach complete and accurate information regarding the company's activities and in compliance with relevant legislation.

SECTION IV - Stakeholders

4.1. Informing Stakeholders

Company stakeholders are informed regularly on matters that concern them. Company employees are informed at internal communication meetings. Field employees at the Aygaz Gebze Plant and seamen working on vessels are members of trade unions organized in related lines of work. These workers are informed through union representatives. Regional or general dealer meetings are held every year. During the meetings in 2017, dealers were informed about the company's activities and their requests and suggestions were received. Individual and group meetings are held with the suppliers where a mutual exchange of information takes place.

On the other hand, comprehensive communication activities are also carried out through the company's corporate website, newsletters, technical publications, and the company magazine, "Aygaz Dünyası". Designed to strengthen the communication with dealers, The Dealer Portal also continues to be used effectively.

Stakeholders can use the links and reporting line on our company's corporate website and intranet to report any infringements of legislations and ethically inappropriate activities to the Company Management or Internal Audit Department to be duly submitted to the Audit Committee.

4.2. Stakeholder Participation in Management

In the stakeholder meetings, attendees find the opportunity to express their requests and suggestions, which are then taken into consideration by the management. Furthermore, the Individual Suggestion System and email pools established within the company provide an opportunity to submit new ideas and owners of the ideas that are implemented are rewarded. Suggestions can be submitted through the company's corporate website and intranet.

4.3. Human Resources Policy

The human resources (HR) policy of Aygaz, carried out in line with the Koç Group employer brand approach, is also based on the "Our most valuable asset is our human resources" philosophy of our founder Vehbi Koç. Believing that the quality of its products and services begins with its employees, the Human Resources Policy of Aygaz includes the participation, transparency and all other business processes that consider the benefit of all stakeholders.

The Aygaz vision for human resources is to provide its employees the opportunity to develop, foster an environment of cooperation and solidarity, ensure employee engagement in line with the goals of the Koç Group and effectively manage efficiency.

The human resources mission of Aygaz is to build a workforce of creative, qualified and highly motivated employees who are the best of the industry by combining international norms and macro trends with Human Resources strategies with the aim of becoming a leading and exemplary organization in the business world.

Human Resources Management Principles:
- Prioritizing employee motivation and company loyalty
- Offering individual approach and solutions in HR practices
- Developing flexible HR systems with solutions that can rapidly adapt to changing business conditions
- Training and development planning to provide employees with personal, professional, leadership and foreign language improvement possibilities
- Preparing and monitoring succession plans systematically as part of organizational improvement and providing development opportunities
- Planning workforce
- Providing fair compensation and rewards
- Informing individuals with feedback on their job performance through target-based performance system
- Hiring and appointing right people for the right positions
- Honoring employees committed to success with open recognition and respecting their personal rights when offering criticism
- Planning and promoting social and cultural activities
- Providing timely information and introducing processes

In addition to union representatives in the workplace designated in accordance with the Collective Labor Agreement, Terminal Directors, Regional Directors, Plant Managers and/or Financial Affairs Managers working in all the regions are responsible for facilitating communication and coordination between employees and the Human Resources Department. No discrimination complaints were filed by the employees.

Aygaz Group has a Performance Management System in place for all employees. As an objective and balanced system, it forms a part of the competent and established corporate culture and has become a best practice. The performance management system aims to communicate the company targets to all employees, measure the success of employees in realizing their goals and plan their future development by assessing their competencies. Performance is monitored with target cards and assessed according to objective criteria. The purpose of the performance management system is to reward the creation of sustainable values rather than of short-term return. As a demonstration of how the company values its employees, Aygaz has been conducting employee satisfaction and loyalty surveys since 1996. With these studies, employees' commitment is evaluated and the study results as well as employees' opinions communicated via various channels are taken into consideration to create action plans.

A Collective Group Labor Agreement has been signed between the Turkish Employers Association of Metal Industries (MESS), the employers union in the metal industries of which the company is a member, and the Turkish Metal Union on January 30, 2018 for the period from September 1, 2017 to August 31, 2019 covering the workers at the Gebze plant. A Collective Labor Agreement was signed on June 15, 2017 with the Turkish Seafarer's Union for the period from January 1, 2017 to December 31, 2018 covering the seafaring employees.

In accordance with the Collective Labor Agreement, no representatives other than designated union representatives have been assigned within the company to maintain relations with the employees. Relations with the union are carried out by the Human Resources Department.

4.4. Code of Ethics and Social Responsibility

Aygaz has always been an exemplary company with its integrity, reputation, reliability, ethical conduct and its culture of compliance with laws and regulation throughout its over half a century long history.

In performing their duties, employees of Aygaz, a Koç Group company, are obligated to comply with the “Koç Group Goals and Principles”. Committed to Koç Group’s ethical principles, Aygaz:

- Respects individuals’ respectability, privacy and employee rights.
- Respects and does not discriminate people’s differences such as race, ethnicity, faith, gender, social class, nationality, age and physical disability.
- Provides all employees with equal opportunity in personal development and career regardless of their origin and faith as part of its employee commitments.
- Enforces mechanisms of work discipline procedures in cases of human rights violations.
- Respects the traditions, culture and history of each and every community in which it operates.
- Respects the union rights of its employees.

Aiming to ensure that ethical values are extended to all employees with the same effectiveness and passed onto the next generations, Aygaz published its “Code of Ethics and Implementation Principles” in written form in 2010.

An Ethics Committee has been established to better evaluate any violations and ensure alignment of practices. The Ethics Committee is composed of the General Manager, relevant Assistant General Manager, Human Resources Manager and Legal Counsel.

The “Code of Ethics and Implementation Principles” were published as a booklet and sent to all permanent staff, who were then requested to read it and sign the Document of Declaration and Undertaking on the last page to be included in their respective personnel files. Newly recruited personnel are also informed of these principles and declare and undertake that they would adhere to the Code.

Aygaz has announced its environmental policy principles in the annual report and corporate website. The social responsibility projects in which the company takes part as well as the efforts undertaken in this field are further explained in the relevant sections of the Annual Report.

SECTION V – Board of Directors

5.1. Composition and Election of the Board of Directors

The Aygaz Board of Directors is composed of nine members in total with one Chairman, one Vice Chairman and seven members, three of which are independent. As of 2017, the Board of Directors has one female member. All members of the Board of Directors were elected in the General Assembly on March 29, 2017 to serve until the Ordinary General Assembly Meeting to be held to review the financial results for 2017. Résumés of the Board members and the General Manager are included in the annual report.

The table below provides brief information about the non-executive members of the Board in accordance with CMB’s Corporate Governance Principles.

Board Member Name Surname	Independence Status	Duties on the Board and Committees	Duties Outside the Company
Rahmi M. Koç	Non-independent	Chairman of the Board and Executive Committee	Koç Holding A.Ş. Honorary President and Board Member in Koç Group Companies
Ömer M. Koç	Non-independent	Vice Chairman of the Board and Member of Executive Committee	Chairman of the Board of Directors in Koç Holding A.Ş. and Board Member in Koç Group Companies
Alexandre F. J. Picciotto	Non-independent	Board Member and Executive Committee Member	Orfim General Manager and Board Member in various companies
Dr. Bülent Bulgurlu	Non-independent	Board Member, Member of Executive Committee, Member of Risk Management Committee	Board Member in Koç Holding A.Ş. and Koç Group Companies
Levent Çakıroğlu	Non-independent	Board Member	Koç Holding A.Ş. CEO, Board Member in Koç Holding A.Ş. and Koç Group Companies
Yağız Eyüboğlu	Non-independent	Board Member and Member of Corporate Governance Committee	Koç Holding A.Ş. Energy Group President and Board Member in Koç Group Companies
Ayşe Canan Ediboğlu	Independent	Board Member, Chairwoman of Risk Management Committee	ING Bank Türkiye Board Member
Tunç Uluğ	Independent	Board Member, Chairman of Audit Committee	Arçelik A.Ş. Independent Board Member
Mansur Özgün	Independent	Board Member, Chairman of Corporate Governance Committee, Member of Audit Committee	Tat Konserve A.Ş. Independent Board Member

The duties of the Chairman and the General Manager are performed by different persons. While Board members are expected to dedicate the time required for the affairs of the company, there are no limitations imposed on them about assuming other duties outside the company. Limitation in this context is not needed particularly due to independent members' significant contributions to Board of Directors with their respective professional and industrial experiences. The résumés of the members and the duties they assume outside the company are presented to the shareholders prior to General Assembly.

At Aygaz, Corporate Governance Committee carries out the duties of the Nomination Committee. In 2017, three independent candidates were nominated and they all submitted their statements of independence to the Corporate Governance Committee. The Corporate Governance Committee and the Board of Directors evaluated the declarations and résumés of Independent Board Members during their respective meetings on January 24, 2017 and determined that all met the criteria specified in Corporate Governance Principles and it was decided that all should be nominated as independent member candidates. As of 2017 operating period no situations that would eliminate independence arose.

Ensuring diversity on the Board of Directors in terms of knowledge, experience and perspective contributes positively to operations of the company and increases the efficiency of the Board's activities. In this context, having female members is a means of achieving representation on the Board of Directors and Aygaz continues to work on determining a target ratio for female members on the Board. Currently, there is one female member on the Board of nine directors.

5.2. Operating Principles of the Board of Directors

The agenda of the Board of Directors is determined according to the company's needs upon evaluation of activities. The General Manager and the Assistant General Manager in charge of finance inform and maintain communication with the Board of Directors. Convening as the company's activities require, the Board of Directors held three meetings in 2017 to address strategic issues and 19 resolutions in total were passed including those that fall under the scope of paragraph 4 of Article 390 of the Turkish Commercial Code.

Board members have no weighted voting privileges and/or negative veto power. During the reporting term, all resolutions were passed unanimously. Other than the powers vested in the General Assembly by the Turkish Commercial Code, the Board of Directors is authorized to make decisions related to the affairs of the company. Powers and responsibilities of Board members and managers are regulated by the circular of signature drafted according to the relevant provisions of the company's Articles of Association.

Board members do not carry out transactions with the company or take part in any competitor entities. As stated in section 2.3, some shareholders with management control, members of the Board of Directors, executives with administrative responsibilities, their spouses and blood relatives to the second degree and in laws serve as members of Board of Directors in some other Koç Group companies including the ones that operate in similar field. Board Members and Senior Executives of the company are covered by "executive responsibility insurance".

In overseeing the activities of the company, the Board of Directors assesses the possibility of conflict of interest and if any, considers the consequences of such conflict and makes necessary decisions to act in the company's best interest. The Board diligently follows related party transactions considering compliance with regulations as well as assessing possible misconduct risks.

5.3. Number, Composition and Independence of Committees within the Board

In 2017, all the Board Committees have fulfilled the responsibilities and duties that were expected of them pursuant to Corporate Governance Principles and operating principles of their own and convened in accordance with their work plans. The results of the meetings held throughout the year and information about the works of the committees were presented to the Board of Directors. The opinion of the Board of Directors in this respect is that the benefits expected of Board Committees' efforts are obtained.

The Audit Committee has been within the statutory period and performs the duties set out by the Capital Markets Board Communiqué. The committee audits and supervises the company's accounting system, disclosure of financial information to the public, independent audit and the functioning and efficiency of the internal control mechanism of the group. Selection of the independent audit firm, drafting of independent audit agreements, starting the independent audit process and works of the independent audit firm at all stages are carried out under the supervision of the Audit Committee. The Audit Committee convenes at least four times a year and more frequently when required as it must report in writing, along with its own assessments, to the Board of Directors on whether the annual and interim financial statements to be disclosed to the public comply with the accounting principles followed by the group and fully reflected the financial position of the company after conferring with the responsible executives of the group and independent auditors. The committee has convened four times in 2017. The responsibilities of the Audit Committee together with the company management are to execute both internal and external audit with due diligence and ensuring the compliance of records, operations and reporting with applicable laws, rules and regulations and with principles set out by CMB and IFRS. In 2017, independent Board member Tunç Uluğ was appointed as the Chairman of Audit Committee and Mansur Özgün as Committee Member.

Independent board member Mansur Özgün is the Chairman of the Corporate Governance Committee established to monitor the compliance of the company with Corporate Governance Principles and inspect the grounds for the principles yet to be implemented. Yağız Eyüboğlu was appointed as Committee Member. Pursuant to article 11 of CMB's Corporate Governance Communiqué (II-17.1), which entered into effect on January 3, 2014, Assistant General Manager, Finance was appointed Senior Executive Responsible for Investor Relations Department and Member of the Corporate Governance Committee. Accordingly, Ferda Erginoğlu, Assistant General Manager in charge of Finance, serves as Member of the Corporate Governance Committee. The duties of Remuneration and Nomination Committees are assumed by the Corporate Governance Committee, which convened four times during 2017.

The Risk Management Committee was established to provide the Board of Directors with suggestions and recommendations regarding the identification, assessment and calculation of the impact and likelihood of all strategic, operational, financial and miscellaneous risks that may affect the company. Further, managing in accordance with the corporate risk-taking profile, reporting and taking into consideration the decision making mechanisms of such risks as well as the creation and integration of effective internal control systems are also among the committee's purposes. In 2017, independent Board Member Ayşe Canan Ediboğlu was appointed as the Chairwoman and Dr. Bülent Bulgurlu as Member of the Risk Management Committee, which convened seven times in 2017.

The Board of Directors resolved on May 4, 2012 that the activities of the Investment and Business Development Committee, established on July 15, 2010 to generate ideas and strategies for the company, ensure coordination among relevant departments and accordingly determine the special areas within the company's field of operation, design and plan new projects and investments, as well as oversee the management of adopted strategies and projects, should be expanded in a way to provide the Board of Directors with support in all matters and renamed as the Executive Committee. The Executive Committee convenes as frequently as required by the activities of the company. In 2017, the Committee convened once a month, 12 times in total; Mustafa Rahmi Koç was the Chairman of the committee with Mehmet Ömer Koç, Yıldırım Ali Koç, Alexandre F.J. Picciotto and Dr. Bülent Bulgurlu serving as members.

As a principle, Board members do not have duties simultaneously in various committees. However, due to the structure of our Board of Directors, some Board members have duties in more than one committee. These members help facilitate communication among committees and increase cooperation possibilities.

5.4. Risk Management and Internal Control Mechanism

Healthy functioning of the internal control system and internal audit are the responsibilities of the Board of Directors and the efforts are coordinated by the General Manager, overseen by the committees created by the Board of Directors and necessary information is presented to the Board of Directors, thus ensuring that the efficiency of risk management systems are reviewed.

Reporting to General Manager and also to Audit Committee when necessary, the Internal Audit Department continues to work toward establishing a more effective internal control structure by analyzing company processes and reporting to senior management the issues that are considered risky.

Furthermore, an independent audit firm conducts periodic audits and results of these audits are reported to the Board of Directors. Corporate Risk Management (CRM) is carried out by a team formed with participation of various departments under the leadership of Assistant General Manager in charge of Finance and monitored by the Risk Management Committee. Detailed information about Risk Management activities is provided in the relevant sections of the Annual Report.

5.5. The Company's Strategic Goals

Along with the company's vision and mission, its strategic goals have also been determined and presented to all stakeholders through various channels. The annual targets that are determined and set out for the management of the company by the Board of Directors in accordance with these are communicated across all levels. Both the Board of Directors and relevant committees are periodically briefed regarding the realization of the given targets and developments.

The strategic goals of Aygaz are;
To sustain its market leadership in LPG by:
• Investing in the future with the responsibility of being the industry's highly reputable, reliable and consumer-oriented brand,
• Prioritizing high safety standards and product quality,
• Developing innovative products and services with solutions that place innovation and digitalization at the core.

To ensure sustainable growth to move its current position forward by:
• Following and seizing opportunities for mergers, acquisitions and investments at home and abroad,
• Improving efficiency in all processes from sourcing to selling LPG,
• Aiming to create value for all stakeholders.

5.6. Financial Benefits

The Company's Remuneration Policy for the members of the Board of Directors and Senior Executives, which includes all rights, benefits and wages provided for members of the Board of Directors and senior executives, was amended considering Corporate Governance Committee's proposal within the context of Capital Markets Board's Corporate Governance Communiqué II-17.1 dated January 3, 2014. The new policy was approved by the Ordinary General Assembly on March 31, 2014. Disclosed to public through the company's annual report and corporate web site and most recently approved by shareholders at the Ordinary General Assembly on March 29, 2017, this policy is also on the agenda Ordinary General Assembly that will be held on March 21, 2018 to review the 2017 activities to be presented to the shareholders of the company. The total payments made to Members of the Board of Directors and Senior Executives within the framework of the Remuneration Policy is assessed by the Corporate Governance Committee and the Board of Directors every year. The total payments made to the members of the Board of Directors and Senior Executives are disclosed to the public through financial statement notes in accordance with general practices. There are strictly no transactions that may lead to conflicts of interest such as loans, utilization of credit, provision of guarantees for the benefit of our board members or executives.

At the company's Ordinary General Assembly Meeting on March 29, 2017, a resolution was passed to pay a yearly gross honorarium of TL 324,000 (Three hundred twenty four thousand Turkish Lira) to each member of the Board of Directors. This amount will be paid in equal installments starting from the month following the general assembly.

Legal Disclosures

Commercial Title, Registry Number, Contact Information of the company's Head Office and Branches

The Company is registered at the Istanbul Trade Registry with number 80651 (Mersis No. 0-1190-0510-2700141) and contact information of its head office and branches are available at www.aygaz.com.tr.

Capital and Shareholding Structure

Issued capital of the company is TL 300,000,000, all of which has been pledged and paid in full. Issued capital is divided into 30,000,000,000 (thirty billion) registered shares at 1 Kr nominal value per share.

The shareholding structure as of December 31, 2017 is shown in the following table:

Name and Title of the Person or Company	Amount of Shares (TL)	Share Stake (%)	Voting Rights	Voting Rights Ratio (%)
Koç Group	**153,642,569.58**	**51.21**	**15,364,256,958**	**51.21**
Koç Holding A.Ş.	122,053,514.26	40.68	12,205,351,426	40.68
Temel Ticaret ve Yatırım A.Ş.*	17,324,090.53	5.77	1,732,409,053	5.77
Koç Family	14,264,964.78	4.76	1,426,496,478	4.76
Other	**146,357,430.42**	**48.79**	**14,635,743,042**	**48.79**
Liquid Petroleum Gas Development Company (LPGDC)	73,545,660.24	24.52	7,354,566,024	24.52
Free Floating**	72,811,770.18	24.27	7,281,177,018	24.27
Total	**300,000,000.00**	**100.00**	**30,000,000,000**	**100.00**

* The majority shares of Koç Holding A.Ş and Temel Ticaret ve Yatırım A.Ş. belong to the members of the Koç Family.

**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., which is wholly owned by LPGDC.

Distribution of Duties of Board Members and Changes

There have been no changes during the reporting period in the members of the Board of Directors who were elected to serve until the next Ordinary General Meeting of Shareholders on March 29, 2017. By the Board of Directors resolution of March 31, 2017, the Committees of the Board of Directors have been designated as follows:

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 (Chairwoman), Dr. Bülent Bulgurlu (Member)

Executive Committee: Mustafa Rahmi Koç (Chairman), Mehmet Ömer Koç (Member), Yıldırım Ali Koç (Member), Alexandre François Julien Picciotto (Member), Dr. Bülent Bulgurlu (Member)

The Board of Directors has reached 19 unanimous resolutions during 2017. It has been noted that all the committees worked efficiently throughout the year. Details about the work of the committees can be found in Article 5.3 of the Corporate Governance Principles Compliance Report and the working principles of the committees are available on the corporate website.

Lawsuits and Sanctions

There are no lawsuits against the company that may affect its financial position and activities and there are no administrative or legal sanctions imposed on the company or the members of its management in violation of any legal provision.

Public Audits and Special Audits

In addition to the company's internal audits, Ministry of Finance, Ministry of Customs and Trade and other regulatory and supervisory organizations have also requested various documents and information and ordinary and limited audits have been conducted.

Regarding the administrative process that was initiated by EMRA in association with the product audits conducted at four plants in 2013, administrative decisions including the revoking of licenses, administrative fines and sequestration were taken by EMRA; the storage licenses of four plants cancelled within this scope were reinstated in a short period upon the applications filed. Because of the administrative sanction decisions taken by EMRA after these audits, the Company has filed lawsuits for cancellation of administrative actions as well EMRA filing lawsuits for sequestration of which the relevant administrative processes and lawsuits are still ongoing. The four lawsuits filed by EMRA against the Company demanding sequestration have resulted in our favor.

Conflicts of Interest Between the Company and Providers of Services Including Investment Consultancy and Rating and Information about the Measures Taken by the Company to Avoid Such Conflicts of Interest

There has been no conflict of interest with providers of consultancy and rating services.

Related company report drafted as per Article 199 of the Turkish Commercial Code

Pursuant to Article 199 of the Turkish Commercial Code 6102, which entered into force on July 1, 2012, Aygaz A.Ş. Board of Directors is obligated to issue within the first quarter of the current year, a report on the relations of the company with its controlling shareholder and the subsidiaries of the controlling shareholder in the previous year and include the conclusion of such a report in its annual report. The necessary explanations regarding the transactions are included in note 31 of the financial statement.

The report dated February 26, 2018, prepared by Aygaz A.Ş. Board of Directors, states: "It has been concluded that, with respect to all the transactions of Aygaz A.Ş. with the controlling shareholder, ultimate controlling shareholder and the subsidiaries of the controlling shareholder in 2017, in each transaction a proper counter-gain was obtained according to the circumstances and conditions known by us when the transaction was carried out or the measure was taken or avoided and that there is no measure taken or avoided that can cause the company to incur any losses and that there is no transaction or measure that necessitates balancing within this framework."

Other Issues

In order to meet the financing needs that company activities require, the Board of Directors resolved on February 16, 2015 to issue debt instruments with a total nominal value up to TL 300,000,000 with maturity not exceeding three years by way of selling to qualified investors and/or private placement once or several times domestically without public offering.

In line with this decision, the application filed was approved by the Capital Markets Board with decision number 7/313 on March 13, 2015. Within the framework of TL 300,000,000 nominal value of issuance ceiling, the following transactions were completed:

- With 728-day maturity, fixed interest, 182-day coupon payment and principal payment at maturity, the selling of bonds with TL 100,000,000 nominal value was completed on March 18, 2015.
- With 1092-day maturity, variable interest, 91-day coupon payment and principal payment at maturity, the selling of bonds with TL 60,000,000 nominal value was completed on March 30, 2015.
- With 728-day maturity, fixed interest, 182-day coupon payment and principal payment at maturity, the selling of bonds with TL 75,000,000 nominal value was completed on January 28, 2016.
- Yapı Kredi Yatırım Menkul Değerler A.Ş. has acted as broker for the issued bonds. The mentioned bonds with 728-day maturity, fixed interest, 182-day coupon payment and principal payment at maturity, with nominal values TL 100,000,000 and TL 75,000,000 have matured on March 16, 2017 and January 26, 2018, respectively.

The Board of Directors resolved on February 14, 2017 to issue debt instruments with a total nominal value up to TL 200,000,000 with maturity not exceeding three years by way of selling to qualified investors and/or private placement once or several times domestically without public offering.

In line with this decision, the application filed was approved by the Capital Markets Board with decision number 13/396 on March 23, 2017. Within the framework of TL 200,000,000 nominal value of issuance ceiling, the following transactions were completed:

- With 728-day maturity, fixed interest, 6-month coupon payment and principal payment at maturity, the selling of bonds with TL 85,000,000 nominal value was completed on April 7, 2017, and exchange on April 11, 2017.
- With 728-day maturity, fixed interest, 6-month coupon payment and principal payment at maturity, the selling of bonds with TL 50,000,000 nominal value was completed on October 19, 2017, and exchange on October 20, 2017.

Yapı Kredi Yatırım Menkul Değerler A.Ş. has acted as broker for the two issued bonds.

- The first coupon payment of the bonds with TL 85,000,000 nominal value and code TRSAYGZ41916 ISIN was realized as TL 5,525,000 on October 10, 2017.

The Board of Directors, in accordance with the authority bestowed by Article 7 of the Company's Articles of Association, resolved on November 13, 2017 to issue debt instruments with a total nominal value up to TL 300,000,000 with maturity not exceeding the issuance limit by way of selling to qualified investors and/or private placement once or several times domestically without public offering. In line with this decision, the application filed was approved by the Capital Markets Board with decision number 43/1440 on November 27, 2017.

Within the scope of this issuance limit, as the result of the book building for bonds to be sold to qualified investors domestically without public offering (Code No. TRSAYGZ12024 ISIN) with 728-day maturity, fixed interest, 6-month coupon payment and principal payment on January 24, 2020, the issuance amount was finalized as 75,000,000 TL nominal value and the exchange was completed on January 26, 2018.

The Corporate Governance Rating score of our company has been confirmed as 93.64 (9.36) by SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. as of June 22, 2017. The material event disclosure on this issue was made on June 22, 2017. Following the decision to renew the existing corporate governance rating agreement between our company and SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş., which is officially authorized to conduct rating services in compliance with Capital Markets Board Corporate Governance Principles, a new agreement valid for two years was signed on February 23, 2018.

SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. has determined the (National) long-term credit rating score of our company as (TR) AAA, (National), and the short-term credit rating score as (TR) A1+ and its outlook as stable on June 22, 2017.

With the Board of Directors decision dated February 9, 2018 in consultation with the Audit Committee and in compliance with the guidelines set out by Turkish Commercial Code 6102 and Capital Markets Law 6362, PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. was selected to audit the financial statements of our company for the 2018 accounting period and to conduct other activities within the scope of relevant regulations under these laws, to be presented for approval of the General Assembly.

At the extraordinary general assembly meeting of our subsidiary Entek, in which we hold 49.62% of shares, it has been resolved to increase the company's capital from TL 538,500 thousand up to TL 950,000 thousand by a total of TL 411,500 thousand with TL 411,095 thousand to be paid in cash and TL 405 thousand to be covered by the internal resources.

Our Board of Directors resolved to participate in this capital increase by exercising our pre-emptive rights corresponding to TL 203,974 thousand and to pay the corresponding amount in cash by March 1, 2018. It was also resolved to exercise the pre-emptive rights of other shareholders that have not exercised their rights in time, together with Koç Holding A.Ş., other major shareholder of Entek, in accordance with our respective shareholdings.

Profit Distribution Policy and Dividends Paid During the Year

The Profit Distribution Policy for 2014 and subsequent years, as decided upon and revised by the Board of Directors with the resolution of March 3, 2014, has taken the following form and as such, has been included in the Corporate Governance Principles Compliance Report and the corporate website.

"The Company distributes profit in accordance with the provisions of the Turkish Commercial Code, Capital Markets Regulations, Tax Laws and other applicable laws and regulations, and within the scope of the relevant provisions of the company's Articles of Association. In line with Corporate Governance Principles, a balanced and consistent policy is adopted considering the interests of both shareholders and the company.

In principle, to the extent allowed by relevant regulations and financial resources, taking into consideration our long-term company strategies, investment and financing policies, profitability and cash position, and as long as it can be covered by the legally posted profit for the fiscal year, minimum 50% of the distributable profit calculated in accordance with Capital Markets regulations is distributed as cash and/or bonus shares.

Profit distribution is aimed to take place within one month following to the General Assembly Meeting at the latest and the General Assembly decides on such date. The General Assembly itself or if authorized, the Board of Directors may resolve to distribute profit share in installments in line with Capital Markets Regulations. According to the Articles of Association of the company, the Board of Directors may distribute an advance on profit share if authorized by the General Assembly and in compliance with Capital Markets Regulations."

Pursuant to General Assembly resolution on March 29, 2017, the company has paid in cash a gross total dividend of TL 450 million starting on April 5, 2017.

Amendments to the Articles of Association During the Reporting Period

In order to extend the validity period of the registered capital ceiling, Article 6 of the Company's Articles of Association has been amended according to Turkish Prime Ministry Capital Markets Board permission no. 29833736-110.03.02-E.1666 dated February 8, 2017 and the approval of Turkish Ministry of Customs and Trade, Directorate General of Domestic Trade dated February 13, 2017 and numbered 50035491-431.02.

Employee and Worker Movements and

Collective Labor Agreement Practices

A Collective Group Labor Agreement has been signed between the Turkish Employers Association of Metal Industries (MESS), the employers union in the metal industries of which the company is a member, and the Turkish Metal Union on January 30, 2018 for the period from September 1, 2017 to August 31, 2019 covering the workers at the Gebze plant.

A Collective Labor Agreement was signed on June 15, 2017 with the Turkish Seamen's Union for the period from January 1, 2017 to December 31, 2018 covering the seafaring employees. Our employees are regularly and periodically provided with social rights in accordance with the law. Provisions for seniority pay at the end of employment and leave obligations amounted to TL 38,455,000 (2016: TL 35,697,000).

Donations and Grants

At the Ordinary General Assembly Meeting held in 2017, information was provided as a separate agenda item about the donations and grants paid in 2016 and the donation limit for 2017 was set as TL 11,500,000. No change has been made in the ongoing donation practices. The donations made in 2017 amounted to TL 7,480,734.87.

Board of Directors

RAHMİ M. KOÇ

Chairman of
the Board of Directors

A graduate of Johns Hopkins University in Business Administration, Rahmi M. Koç joined Koç Group in 1958 at Otokoç. He became Chairman of the Management Committee in 1980 and was named Chairman of the Board of Directors of Koç Holding in 1984, a post he held until 2003 when he became the Honorary Chairman. He serves in numerous positions and institutions as Vice Chairman of the Board of Trustees of the Vehbi Koç Foundation, Honorary Chairman of the Board of Trustees of the Koç University, Founder and Chairman of the Board of the Rahmi M. Koç Museum and Cultural Foundation, Chairman of the Board of the Vehbi Koç Foundation American Hospital, Honorary Chairman and Founding Member of TURMEPA, the Turkish Marine and Environment Protection Association, Honorary President of the Advisory Board of the Turkish Industry and Business Association, Member of the Advisory Board of the Turkish Employers Association, Co-Chairman of the Business Advisory Council for South East Europe, Honorary Fellow of the Foreign Policy Association, Honorary Trustee of The Metropolitan Museum of Art and Founding Chairman of the Global Relations Forum. Mr. Koç has been awarded Honorary Doctorate degrees by Johns Hopkins University, Eskişehir Anadolu University, Izmir Ege University, Ankara Bilkent University, Ovidius University of Constanta and Aydın Adnan Menderes University. Rahmi M. Koç has been recognized with distinguished awards, medals and honors including “Outstanding Service Award” by the President of Turkish Republic, “Grosses Verdienst Kreutz” by the German Government, Order of High Merit of the Italian Republic, Order of Merit of the Austrian Government, (Honorary) Commander of the Most Excellent Order of the British Empire (CBE), “Officier dans l'Ordre National de la Legion D'Honneur” by the French Government and “Responsible Capitalism Lifetime Achievement Award” by the international affairs organization FIRST. Rahmi M. Koç, together with the Koç Family, has received the Hadrian Award granted by the World Monuments Fund, Carnegie Medal of Philanthropy and BNP Paribas Philanthropy Award. He has previously served as President of the International Chamber of Commerce, President of the Turkish Greek Business Council, member of the Allianz Aktiengesellschaft International Advisory Board, member of the JP Morgan International Council and member of the International Advisory Board of the US Council on Foreign Relations. He continues to serve as the Chairman of Aygaz A.Ş. since 1996.

ÖMER M. KOÇ

Vice Chairman of
the Board of Directors

Ömer M. Koç received his B.A. degree in Ancient Greek from Columbia University in 1985. He worked at Kofisa Trading for one year and went on to earn his MBA degree at Columbia University in 1989. After working at Ramerica International Inc., he joined Koç Group in 1990. He held various senior positions at Koç Holding including Finance Coordinator, Vice President and President of Energy Group. He became a member of Board of Directors in 2004 and Vice Chairman in May 2008. He has been serving as Chairman of Koç Holding since February 2016. Ömer M. Koç is also the Chairman of Turkish Educational Foundation Board of Trustees, Chairman of Koç University Board of Trustees, President of Geyre Foundation and Chairman of Yapı Kredi Kültür Sanat Yayıncılık Board of Directors and Tüpraş Board of Directors. Ömer M. Koç has served on the Aygaz A.Ş. Board of Directors as a member since 1996 and Vice Chairman since 2001.

ALEXANDRE F.J. PICCIOTTO

Member of
the Board of Directors

Alexandre Picciotto is one of the grandsons of Mr. Hillel Picciotto who established Aygaz in 1961 with Mr. Vehbi Koç. After graduating from Ecole Supérieure de Gestion (Paris) in 1990, he started his career in Orfim, the investment company of his family in Paris, France. He managed different subsidiaries operating in various fields including real estate and movie industry (1990-2003). In 2003, he was appointed General Manager at Liquid Petroleum Gas Development Company, the Picciotto family owned company, which is a shareholder of Aygaz. He was then appointed General Manager at Orfim in 2008. Mr. Picciotto is also member of the board of directors at various companies in both Turkey and France. He has been serving on the Aygaz Board of Directors since July 2012.

DR. BÜLENT BULGURLU

Member of
the Board of Directors

Bülent Bulgurlu graduated from Ankara Engineering and Architectural Faculty and earned his Ph.D. at the Norwegian University of Science and Technology (NTNU). He started his career in 1972 as a Construction Engineer at Elliot Strömme A/S in Oslo. Joining Garanti İnşaat in 1977 as Construction Engineer, Dr. Bulgurlu worked as Planning and Construction Manager, Site Coordination and Construction Manager, Assistant General Manager, General Manager and Executive Director at Garanti-Koza. He has worked at Koç Holding since 1996 as President of the Tourism and Services Group, President of the Tourism and Construction Group and President of the Consumer Durables and Construction Group. He served as CEO at Koç Holding from May 2007 to April 2010. He has been a Member of Koç Holding Board of Directors since May 2007. He is also a member of TÜSİAD and TURMEPA. He has served on the Aygaz Board of Directors since 2008.

LEVENT ÇAKIROĞLU

Member of the Board of Directors

Levent Çakıroğlu graduated from Ankara University, Faculty of Political Sciences, Department of Business Administration. He earned his Master's degree at the University of Illinois. Mr. Çakıroğlu began his professional career as an Auditor at the Ministry of Finance in 1988. He taught as a part-time instructor at Bilkent University and served as Vice President of the Financial Crimes Investigation Board at the Ministry of Finance (1997-1998). He joined Koç Holding in 1998 as Financial Coordinator. Subsequently, he served as General Manager of Koçtaş (2002-2007), General Manager of Migros (2007-2008), General Manager of Arçelik (2008-2015) and President of the Consumer Durables Group at Koç Holding (2010-2015). In February 2015, Mr. Çakıroğlu was appointed Deputy Chief Executive Officer of Koç Holding where he is the Chief Executive Officer since April 2015. He has been a member of Koç Holding Board of Directors since 2016 and served on the Aygaz Board of Directors since 2015.

YAĞIZ EYÜBOĞLU

Member of the Board of Directors

Yağız Eyüboğlu graduated from Boğaziçi University in 1991 with a BA degree in Economics. He went on to earn an MBA at Koç University in 1996. Mr. Eyüboğlu began his professional career as a Management Trainee at Arçelik in 1991. Starting in 1993, he worked at Koç Holding for more than 10 years as Auditor, Senior Internal Auditor, Assistant Financial Coordinator and Financial Coordinator, respectively. He served as CFO of Arçelik, CEO and Board Member of Beko Elektronik, Assistant to the President of the Foreign Trade and Tourism Group at Koç Holding and Human Resources Director at Koç Holding (2004-2009). He was the General Manager of Aygaz (2009-2015). In October 2015, he was appointed Deputy President of the Energy Group at Koç Holding and since April 2016 he has been serving as President of Energy Group. Mr. Eyüboğlu currently serves as a Board Member in several Koç Holding companies and sectoral nongovernmental organizations. He has been serving on the Aygaz Board of Directors since 2016.

AYŞE CANAN EDİBOĞLU

Member of the Board of Directors

Ayşe Canan Ediboğlu completed her high school education at Ancaster House School and her graduate studies at Southampton University (UK), obtaining a Master's degree in Financial Control and Management. Following her studies at the same school as a Research Assistant, she continued her professional career as Planning Manager at Shell in 1980. Assuming various responsibilities at Shell Turkey, she was appointed General Manager in 2002 and Country General Manager Turkey in 2006. She served as a Board Member at Shell-Turcas Petrol A.Ş. from 2006 to 2009. Ayşe Canan Ediboğlu has been serving on the Board of Directors of Aygaz since 2012.

TUNÇ ULUĞ

Member of the Board of Directors

Tunç Uluğ graduated from Robert College Engineering School and Columbia University (USA). He joined Koç Group in 1969, starting at Aygaz A.Ş. as Assistant General Manager. He was appointed General Manager at Tat A.Ş. in 1976 and at RAM A.Ş. in 1979. At Koç Holding, he served as Vice President of Energy and Trade Group (1981-1985) and as President of Foreign Trade Group (1991-1997). After serving as a Member of Yaşar Holding Board of Directors (1997-2000), Tunç Uluğ has been providing consultancy for various firms since 2001. Tunç Uluğ is a member of DEIK, TESEV and Turkish Swiss Chamber of Commerce. He has been serving on the Board of Directors of Aygaz since 2012.

MANSUR ÖZGÜN

Member of the Board of Directors

Mansur Özgün graduated from Ankara Economic and Commercial Sciences Academy. He started his career in 1958 at the Directorate General of Foundations and worked at the Ministry of Finance (1963-1971). He joined Koç Group in 1971 as Assistant Finance Manager at Koç Holding. He was appointed Assistant General Manager at Ormak A.Ş. (1974-1983). He served as Finance Coordinator at Koç Holding (1984-1999). After 1999, he worked as a chartered accountant. Mansur Özgün has been serving on the Aygaz Board of Directors since 2012.

Executive Management

GÖKHAN TEZEL
General Manager

Gökhan Tezel began his career in 1993 as a Finance Expert at Tofaş and became the Finance Manager in 1998. He served as the General Manager of Koç Fiat Credit Consumer Financing. Mr. Tezel was appointed General Manager of Aygaz on October 1, 2015 where he had previously served as Assistant General Manager (Finance) since 2009. Mr. Tezel also serves as President of LPG Assembly of the Union of Chambers and Commodity Exchanges of Turkey and Chair of the Market Development Committee of World LPG Association (WLPGA).

FERDA ERGİNOĞLU
Assistant General Manager (Finance)

Mr. Erginoğlu worked as a Mechanical Engineer at Ata İnşaat (1985-1986). He started working as an Assistant Financial Coordinator at Ram Dış Ticaret A.Ş. in 1990, where he served as Finance Group Manager (1996-2001) and as Assistant General Manager, Finance (2001-2002). Mr. Erginoğlu worked at Koç Bilgi Grubu A.Ş. as Director of the Financial Expertise Center (2002-2006) and served as Financial Coordinator at Koç Holding (2006-2015). On November 2, 2015, he was appointed Assistant General Manager (Finance) at Aygaz A.Ş.

ALİ KIZILKAYA
Assistant General Manager (Technical Affairs and Investments)

Ali Kızılkaya began his career in 1988 as a Training Engineer at Bilar A.Ş. After working as a Procurement Engineer at Istanbul Fruehauf A.Ş. (1992-1994) he joined Aygaz A.Ş. in 1996 where he served until 2002 as Bulk Gas Sales Supervisor for Marmara Region and as Purchasing Supervisor. He served as Operations Manager at Lipet A.Ş. (2002), Operations Manager at Mogaz A.Ş. (2004) and continued at Aygaz A.Ş. as Plant System Manager and Plants and Investments Manager, respectively. Mr. Kızılkaya was then appointed Aliağa Terminal Manager (2008). He has been serving as Assistant General Manager of Technical Affairs and Investments since 2010.

FİKRET COŞAR
Assistant General Manager (Sales)

Fikret Coşar began his career as a Sales Specialist at Çukurova Import and Export in 1988 and later joined Aygaz A. Ş. in 1991 to serve as Diyarbakır Cylinder LPG Sales Supervisor. Mr. Coşar was appointed Diyarbakır Sales Manager in 1998 and went on to serve as Trakya Cylinder LPG Assistant Sales Manager, Çukurova Sales Manager and Marmara Sales Manager, respectively (1999-2010). After 2010 he worked as General Manager at Akpa A.Ş., an Aygaz subsidiary. As of January 1, 2016, he became Assistant General Manager, Sales at Aygaz A.Ş.

AYŞE ABAMOR BİLGİN
Supply Chain Director

Ayşe Abamor Bilgin began her career in 1998 as a Management Trainee at Aygaz A.Ş. In 2005 she was appointed LPG Procurement Manager. Later she served as LPG Procurement and Trade Manager (2008-2011). Mrs. Bilgin has been serving as the Supply Chain Director since January 2012.

NURETTİN DEMİRTAŞ
Affiliates and Accounting Director

Nurettin Demirtaş began his career in 1986 at Doğuş Financial Consultancy and Accounting Office. After working in the Accounting Department at Tekor Plastik A.Ş. (1988), he joined the Koç Group in 1989 and worked at Aygaz A.Ş. as Accounting Specialist, General Accounting Department Administrator, Accounting Manager and Affiliates and Accounting Group Manager, respectively. In 2008, he was appointed Affiliates and Accounting Director.

RAMAZAN PULAT OKTAY
Production Director

Ramazan Pulat Oktay began his career as an Engineer and Construction Site Foreman at Disa in 1988. He joined the Koç Group in 1991. He served at Gazal A.Ş. until 2001 as a Project Engineer, Maintenance Engineer, Cylinder Production Method Process Specialist and Residential-Camp Cylinder Production Manager, respectively. In 2001, he continued in his position as Residential-Camp Cylinder Production Manager after the merger of Gazal A.Ş. and Aygaz A.Ş. In 2003, he was appointed Purchasing Manager. He has been serving as Production Director since 2008.

ÖZGÜR ASENA YILDIRIM
Cylinder Gas Sales Director

After beginning his career in 1988 as a Marine Mechanical Engineer at Türkiye Denizcilik İşletmeleri, Mr. Yıldırım went on to work as a Marine Mechanical Engineer at Soh Trans Denizcilik, followed by Göksel Denizcilik. In 1993, Mr. Yıldırım began working as an Operations Engineer at Aygaz A.Ş. and later he worked as Kırıkkale Plant Manager, Central Anatolian Bulk Gas Sales Manager, Çukurova Regional Sales Manager, Trakya Regional Sales Manager, Istanbul Regional Sales Manager and Marmara Regional Sales Manager, respectively. He has been serving as the Cylinder Gas Sales Director at Aygaz since 2010.

KENAN DENİZHAN EGE
Autogas Sales Director

After beginning his career as a Quality Assurance Supervisor at Mutlu Akü in 1993, Mr. Ege worked as a Direct Sales Representative at ELF/Selyak, Product Manager at Toprak Seramik, Regional Manager at ELF/Selyak and Regional Manager at FL/Selenia, respectively. In 2003, Mr. Ege began working as Marmara Sales Manager at Opet Petrolcülük A.Ş. and served as Sales Group Manager at Opet Petrolcülük A.Ş. He has been serving as Autogas Sales Director at Aygaz since 2010.

AHMET ERCÜMENT POLAT
Marketing Director

Ercüment Polat joined Aygaz in 1995 as a Sales Engineer and subsequently served as Regional Sales Supervisor and Autogas & Bulk LPG Regional Sales Manager. Mr. Polat joined Akpa, a subsidiary of Aygaz, in 2004 as Branch Manager and served as Company Manager (2008-2010). He is the Marketing Director of Aygaz since 2010.

As of January 26, 2018 following changes have taken place:

- *Directorate of Marketing has been restructured as Assistant General Directorate of Marketing and Innovation and Rıdvan Uçar has been appointed to this position.*
- *Following the retirement of Özgür Yıldırım, Ercüment Polat, who previously served as Marketing Director, has been appointed Cylinder Gas Sales Director.*
- *Pulat Oktay, who served as Production Director, has retired.*

Agenda of Aygaz Anonim Şirketi Ordinary General Assembly Meeting to review 2017 to be held on March 21, 2018

1. Opening and election of the Chairman to preside over the Meeting,
2. Presentation, deliberation and approval of the 2017 Annual Report prepared by the Board of Directors,
3. Presentation of the Independent Audit Report Summary for the 2017 accounting period,
4. Presentation, deliberation and approval of the Financial Statements for the 2017 accounting period,
5. Release of each member of the Board of Directors in relation to the activities of Company in 2017,
6. Acceptance, acceptance after amendment or refusal of the proposal of the Board of Directors in accordance with the Company's profit distribution policy regarding the distribution of the profits of 2017 and the distribution date,
7. Determining the number and term of the Members of the Board of Directors, electing in accordance with the determined number of members, selecting the Independent Members of the Board of Directors,
8. Presenting the Remuneration Policy for the Members of the Board of Directors and Senior Executives and the payments made within the scope of the policy in accordance with the Corporate Governance Principles to the Shareholders for approval,
9. Determining the annual gross salaries of the members of the Board of Directors,
10. Approval of the Independent Audit Firm selected by the Board of Directors in accordance with Turkish Commercial Code and Capital Markets Board regulations,
11. Informing the shareholders about the donations made by the Company in 2017 and determining an upper limit for donations to be made in 2018,
12. Informing the shareholders about the collaterals, pledges, mortgages and surety granted in favor of third parties and the income and benefits obtained in 2017 by the Company and subsidiaries in accordance with Capital Markets Board regulations,
13. Authorizing the shareholders with management control, members of the Board of Directors, executives with administrative responsibilities, their spouses and blood relatives to the second degree and in laws within the framework of the articles 395 and 396 of Turkish Commercial Code and informing shareholders about transactions performed in this context during 2017 pursuant to Capital Markets Board Corporate Governance Communiqué,
14. Wishes and opinions.

Proposal of the Board of Directors for Profit Distribution

Dear Shareholders,

Upon review of the Consolidated Financial Statements for the accounting period of January 1-December 31, 2017 and the Independent Audit Report issued by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. company,

it has been ascertained that total assets of the Company in the Consolidated Balance Sheet is TL 4,969,220,000.00 and that the parent company earned TL 577,019,000.00 in consolidated net profit after tax and TL 309,023,352.64 net profit according to the TPL records from its activities in 2017.

Accordingly, it has been resolved not to set aside 5% general legal contingency reserves for 2017 as required under article 519 of the Turkish Commercial Code since the amount of general legal contingency reserve in TPL records has already reached 20% of the capital as of 31.12.2017.

It has been established that in compliance with the Capital Market Law and Capital Markets Board regulations distributable profit for the period in the amount of TL 577,019,000.00 TL was earned; and that the amount of TL 584,499,734.87 resulting from the addition of TL 7,480,734.87 in donations made to foundations and associations within the year made up the basis for first dividend; and furthermore that TPL records indicate TL 703,041,790.07 as total distributable profit of which TL 309,023,352.64 is the profit of the reporting period.

By taking the views of the Executive Committee into account and considering the cash flow position in accordance with investment and financing policies set out in the Company's Profit Distribution Policy, the following have been resolved regarding the current year profit indicated in the dividend table calculated in accordance with CMB Communiqués:

- TL 292,249,867.44 to be paid to the shareholders as first dividend,
- TL 167,750,132.56 to be paid in total to the shareholders as the second dividend,
- TL 44,500,000.00 to be set aside as the II General Legal Contingency reserve

and the total amount of TL 460,000,000.00 as the sum of the first and second dividends payable to the shareholders to be fully paid in cash.

Upon the General Assembly's acceptance of the dividend distribution proposal detailed above, it has been resolved that TL 282,293,959.95 of the total TL 460,000,000.00 dividend payable to the shareholders will be paid out from retained earnings of the current year and the balance TL 177,706,043.05 from extraordinary reserves; TL 26,729,395.69 of the TL 44,500,000.00 in secondary legal reserves will be paid out from retained earnings of the current year and the balance 17,770,604.31 TL from extraordinary reserves; and the balance TL 72,519,000 in the financial statements issued on TAS/TFRS basis to be transferred to retained earnings;

- A gross/net cash dividend at the rate of 153.33333% and the amount of TL 1.533333 per share with a nominal value of TL 1 to be paid out to fully obligated corporations and our limited taxpayer shareholders who earn dividends through an office in Turkey or a permanent representative,
- A gross cash dividend at the rate of 153.33333% and the amount of TL 1.533333 per share with a nominal value of TL 1 and net 130.33333% and net amount of TL 1.3033333 to be paid out to other shareholders,

and dividend pay out to start on March 29, 2018. The proposal detailed above is presented for your approval.

Yours sincerely

Rahmi M. Koç

Chairman of the Board

Statements of Independence of the Independent Board Members

DECLARATION OF INDEPENDENCE JANUARY 16, 2018

Within the framework of the criteria determined in the Corporate Governance Communiqué No. II-17.1 announced at the Aygaz A.Ş (Company) Board of Directors, the Company Articles of Association, and the Capital Markets Board, I hereby declare that I am a candidate to serve as an "Independent Member," and in this context, I further declare that:

a) I have assumed no major duty or responsibility or been employed in a management position in the last five years or acquired more than 5% of capital or voting rights or privileged shares either by myself or with others and have established no major commercial relations of any significant kind with the Company, the partnerships that have management control of the Company, or the shareholders that have management control in the Company or are of major influence in the Company, neither with legal persons in which these shareholders have management control, and there is no relationship between the above-mentioned and myself, my spouse or my blood relatives or relatives by marriage to the second degree;

b) In the last five years, I have not been a partner (5% or more) or assumed major duties or responsibilities or been employed in a management position or as a member of the board of directors of any Company from or to which the Company purchases or sells or has assigned the purchasing or selling of services or products within the framework of signed agreements, particularly with auditing companies (tax auditing, legal auditing, internal auditing, included), rating or consultancy companies;

c) I have the necessary professional education, knowledge and experience to assume and execute the duties I am responsible for as an independent member of the board of directors;

d) Provided it is within the laws to which I must abide, I will not work full-time in public enterprises and organizations after being appointed member, save for my duties as university faculty member;

e) I am considered a resident of Turkey according to Income Tax Law (GVK) No. 193 dated December 31, 1960 and December 19, 1960;

f) I possess the strong ethical standards, professional reputation and experience that will allow me to freely make decisions and contribute positively to Company operations, maintain my impartiality in conflicts of interest between the Company and its shareholders, and consider the rights of stakeholders in the Company;

g) I will dedicate the time necessary to follow up on the workings of Company operations and fully perform the duties that I have assumed with regard to Company matters;

h) I have not performed the duties of member of the board of directors of the Company for more than six years within the last decade;

i) I have never before assumed the duty of independent member of the board of directors in the Company or in more than three of the companies in which management control belongs to the partners in which the Company has management control or in a total of more than five publicly-traded companies;

j) I have not been registered or announced in the name of the legal person that has been appointed as member of the Board of Directors.

Kutsan ÇELEBİCAN

DECLARATION OF INDEPENDENCE JANUARY 18, 2018

Within the framework of the criteria determined in the Corporate Governance Communiqué No. II-17.1 announced at the Aygaz A.Ş (Company) Board of Directors, the Company Articles of Association, and the Capital Markets Board, I hereby declare that I am a candidate to serve as an "Independent Member," and in this context, I further declare that:

a) I have assumed no major duty or responsibility or been employed in a management position in the last five years or acquired more than 5% of capital or voting rights or privileged shares either by myself or with others and have established no major commercial relations of any significant kind with the Company, the partnerships that have management control of the Company, or the shareholders that have management control in the Company or are of major influence in the Company, neither with legal persons in which these shareholders have management control, and there is no relationship between the above-mentioned and myself, my spouse or my blood relatives or relatives by marriage to the second degree;

b) In the last five years, I have not been a partner (5% or more) or assumed major duties or responsibilities or been employed in a management position or as a member of the board of directors of any Company from or to which the Company purchases or sells or has assigned the purchasing or selling of services or products within the framework of signed agreements, particularly with auditing companies (tax auditing, legal auditing, internal auditing, included), rating or consultancy companies;

c) I have the necessary professional education, knowledge and experience to assume and execute the duties I am responsible for as an independent member of the board of directors;

d) Provided it is within the laws to which I must abide, I will not work full-time in public enterprises and organizations after being appointed member, save for my duties as university faculty member;

e) I am considered a resident of Turkey according to Income Tax Law (GVK) No. 193 dated December 31, 1960 and December 19, 1960;

f) I possess the strong ethical standards, professional reputation and experience that will allow me to freely make decisions and contribute positively to Company operations, maintain my impartiality in conflicts of interest between the Company and its shareholders, and consider the rights of stakeholders in the Company;

g) I will dedicate the time necessary to follow up on the workings of Company operations and fully perform the duties that I have assumed with regard to Company matters;

h) I have not performed the duties of member of the board of directors of the Company for more than six years within the last decade;

i) I have never before assumed the duty of independent member of the board of directors in the Company or in more than three of the companies in which management control belongs to the partners in which the Company has management control or in a total of more than five publicly-traded companies;

j) I have not been registered or announced in the name of the legal person that has been appointed as member of the Board of Directors.

Ege CANSEN

DECLARATION OF INDEPENDENCE JANUARY 22, 2018

Within the framework of the criteria determined in the Corporate Governance Communiqué No. II-17.1 announced at the Aygaz A.Ş (Company) Board of Directors, the Company Articles of Association, and the Capital Markets Board, I hereby declare that I am a candidate to serve as an "Independent Member," and in this context, I further declare that:

a) I have assumed no major duty or responsibility or been employed in a management position in the last five years or acquired more than 5% of capital or voting rights or privileged shares either by myself or with others and have established no major commercial relations of any significant kind with the Company, the partnerships that have management control of the Company, or the shareholders that have management control in the Company or are of major influence in the Company, neither with legal persons in which these shareholders have management control, and there is no relationship between the above-mentioned and myself, my spouse or my blood relatives or relatives by marriage to the second degree;

b) In the last five years, I have not been a partner (5% or more) or assumed major duties or responsibilities or been employed in a management position or as a member of the board of directors of any Company from or to which the Company purchases or sells or has assigned the purchasing or selling of services or products within the framework of signed agreements, particularly with auditing companies (tax auditing, legal auditing, internal auditing, included), rating or consultancy companies;

c) I have the necessary professional education, knowledge and experience to assume and execute the duties I am responsible for as an independent member of the board of directors;

d) Provided it is within the laws to which I must abide, I will not work full-time in public enterprises and organizations after being appointed member, save for my duties as university faculty member;

e) I am considered a resident of Turkey according to Income Tax Law (GVK) No. 193 dated December 31, 1960 and December 19, 1960;

f) I possess the strong ethical standards, professional reputation and experience that will allow me to freely make decisions and contribute positively to Company operations, maintain my impartiality in conflicts of interest between the Company and its shareholders, and consider the rights of stakeholders in the Company;

g) I will dedicate the time necessary to follow up on the workings of Company operations and fully perform the duties that I have assumed with regard to Company matters;

h) I have not performed the duties of member of the board of directors of the Company for more than six years within the last decade;

i) I have never before assumed the duty of independent member of the board of directors in the Company or in more than three of the companies in which management control belongs to the partners in which the Company has management control or in a total of more than five publicly-traded companies;

j) I have not been registered or announced in the name of the legal person that has been appointed as member of the Board of Directors.

Şadan KAPTANOĞLU

Profit Distribution Policy

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 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.

Remuneration Policy for the Board of Directors and Senior Management

This policy document defines the remuneration system and practices adopted with regard to members of the board of directors and senior management who have assumed administrative responsibilities within the scope of CMB regulations.

A fixed remuneration is allocated to each of the members of the board of directors, as determined annually at the ordinary general meeting of shareholders. Executive directors on the board shall receive a payment within a determined policy for senior management, the details of which are specified below.

The president and members of the Executive Committee, which will support the company's Board of Directors in all matters related to the operations of the company, may be remunerated at the end of each year for their contributions, their participation in meetings and on the basis of the functions they serve, in an amount determined by the board of directors within the framework of the opinion set forth by the Corporate Governance Committee. If a payment has been made to the members of the Executive Committee during the year, this amount shall be set off at the end of the year from the determined amount.

The performance-based payment plans of the company may not be used in the remuneration of independent members of the board of directors. The remuneration of members of the board is allocated on the basis of the dates of their appointment to and withdrawal from the board and according to the length of the term served. Expenses incurred by members of the board of directors in the course of their contributions to the company (transportation, telephone, insurance costs) may be borne by the company.

The remuneration of Senior Executives however is based on a fixed and performance-based salary comprised of two components.
The fixed salaries of Senior Executives are determined in line with macroeconomic data related to the market, general salary policies in the market, the size of the company, as well as long term goals, the position of the individual officer, and international standards and legal requirements.

Premiums for Senior Executives are calculated according to the premium baseline, company performance and individual performance. Information on these criteria is summarized below:

- **Premium Baselines:** Premium Baselines are updated at the start of every year and may vary according to the size of the workload of the executive position. Premium baselines are updated in the light of senior executive premium policies in the market.
- **Company Performance:** Company performance is determined at the end of the period by measurement of the achievement of the financial and operational goals given to the company (market share, exports, foreign operations, productivity, etc.). Company goals are based on the important principles of sustaining company achievements and making improvements over previous years.
- **Individual Performance:** In determining individual performance, goals related to employees, customers, processes, technologies and long-term strategies are taken into consideration along with company goals. In measuring individual performance, parallel with company performance, long-term sustainable improvements are considered in addition to financial matters.

In the event a senior executive vacates his/her position in the company, severance indemnity may be paid on the basis of the term served in the position of senior executive, the contributions made to the company, the last goal achievement premium paid out before the date of leaving the company, and the salary and premiums paid out in the last year.

The total amounts paid out to Senior Management and Members of the Board of Directors according to the principles stated above are presented to the General Assembly for their information and/or approval in accordance with the law.

Convenience translation of a report originally issued in Turkish

Independent Auditor’s Report on the Board Of Directors’ Annual Report

To the General Assembly of Aygaz Anonim Şirketi

1. Opinion
We have audited the annual report of Aygaz Anonim Şirketi (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the January 1- December 31, 2017 period.

In our opinion, the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements regarding the Group’s position in the Board of Directors’ Annual Report are consistent and presented fairly, in all material respects, with the audited full set consolidated financial statements and with the information obtained in the course of independent audit.

2. Basis for Opinion
Our independent audit was conducted in accordance with the Independent Standards on Auditing that are part of the Turkish Standards on Auditing (the “TSA”) issued by the Public Oversight Accounting and Auditing Standards Authority (“POA”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities in the Audit of the Board of Directors’ Annual Report section of our report. We hereby declare that we are independent of the Group in accordance with the Ethical Rules for Independent Auditors (the “Ethical Rules”) and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3. Our Audit Opinion on the Full Set Consolidated Financial Statements
We expressed an unqualified opinion in the auditor’s report dated February 14, 2018 on the full set consolidated financial statements for the January 1- December 31, 2017 period.

4. Board of Director’s Responsibility for the Annual Report
The Group management’s responsibilities related to the annual report according to Articles 514 and 516 of Turkish Commercial Code (“TCC”) No. 6102 and Capital Markets Board’s (“CMB”) Communiqué Serial II, No:14.1, “Principles of Financial Reporting in Capital Markets” (the “Communiqué”) are as follows:

a) to prepare the annual report within the first three months following the balance sheet date and present it to the general assembly;

b) to prepare the annual report to reflect the Group’s operations in that year and the financial position in a true, complete, straightforward, fair and proper manner in all respects. In this report financial position is assessed in accordance with the financial statements. Also in the report, developments and possible risks which the Group may encounter are clearly indicated. The assessments of the Board of Directors in regards to these matters are also included in the report.

c) to include the matters below in the annual report:
   - events of particular importance that occurred in the Company after the operating year,
   - the Company’s research and development activities,
   - financial benefits such as salaries, bonuses, premiums and allowances, travel, accommodation and representation expenses, benefits in cash and in kind, insurance and similar guarantees paid to members of the Board of Directors and senior management.

When preparing the annual report, the Board of Directors considers secondary legislation arrangements enacted by the Ministry of Customs and Trade and other relevant institutions.

5. Independent Auditor’s Responsibility in the Audit of the Annual Report
Our aim is to express an opinion and issue a report comprising our opinion within the framework of TCC and Communiqué provisions regarding whether or not the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements in the annual report are consistent and presented fairly with the audited consolidated financial statements of the Group and with the information we obtained in the course of independent audit.

Our audit was conducted in accordance with the TSAs. These standards require that ethical requirements are complied with and that the independent audit is planned and performed in a way to obtain reasonable assurance of whether or not the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements in the annual report are consistent and presented fairly with the audited consolidated financial statements and with the information obtained in the course of audit.

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

Ediz Günsel, SMMM
Partner

İstanbul, February 26, 2018

AYGAZ ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2017

(Convenience translation of the independent auditors' report and consolidated financial statements originally issued in Turkish)

Independent Auditor's Report

To the Board of Directors of Aygaz Anonim Şirketi

A) Audit of the Consolidated Financial Statements

1- Opinion

We have audited the accompanying consolidated financial statements of Aygaz Anonim Şirketi (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements and a summary of significant accounting policies and consolidated financial statement notes.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Turkish Accounting Standards ("TAS").

2-Basis for Opinion

Our audit was conducted in accordance with the Standards on Independent Auditing (the "SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the "POA"). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We hereby declare that we are independent of the Group in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the consolidated financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3-Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. Key audit matters were addressed in the context of our independent audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

Key audit matters	*How the subject was handled during the audit*
Financial investments Aygaz A.Ş. has a 1,97% stake in Koç Finansal Hizmetler A.Ş. (KFS) and is accounted for at fair value, as available for sale financial asset, in the accompanying consolidated financial statements in accordance with TAS. As of December 31, 2017, KFS financial investment is recognized at fair value of TL 315.200 thousand in the accompanying consolidated financial statements and the related fair value study is performed by an independent expert company (Note 2.25 and Note 5). We focused on this matter in our audit due to the following reasons: - KFS financial investment carried at fair value is material to the consolidated financial statements and the related fair value study requires specialist involvement. - The fair value model includes current and future management estimates (ie. cost of equity-discount rate, growth rates and inflation expectations) where realization of such management estimates in the future includes inherent uncertainties.	- The expertise of the company, who carried out the valuation study, is assessed in accordance with SIA 500. - Valuation methods and technical data used are evaluated with the support of our specialists by conducting interviews with the representatives of the expert company and the Group management who carried out the related work. - The mathematical accuracy of the calculations used in the valuation models are tested. - Data from external sources, such as "market value" and "similar acquisitions", used in the valuation models are compared to the relevant independent data sources. - The reasonableness of the key management estimates used in the modeling (ie. cost of equity-discount rate, growth rates and inflation expectations) is evaluated with the support of our specialists. - Future revenue estimates used in modeling are compared with KFS's budget and long term strategic plans. - It is checked whether the fair value of KFS financial investment, in the Group's consolidated financial statements as at 31 December 2017, is within the recommended fair value range in the specialist valuation report or not. Based on the above procedures performed we had no material finding on the financial investments.

4- Other Matter

The consolidated financial statements of the Group as of December 31, 2016 and for the year then ended were audited by another audit firm, whose audit report dated February 13, 2017 expressed an unqualified opinion.

5- Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

6- Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Responsibilities of independent auditors in an independent audit are as follows:

Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an independent audit conducted in accordance with SIA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence. We also communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

B) Other Responsibilities Arising From Regulatory Requirements

1- No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from January 1 to December 31, 2017 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.

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

3- In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on February 14, 2018.

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

Ediz Günsel, SMMM
Partner

İstanbul, 14 February 2018

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AYGAZ ANONIM SIRKETI AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish)

Assets	Notes	Current period (Audited) December 31, 2017	Prior period (Audited) December 31, 2016
Current assets		**1.587.534**	1.276.787
Cash and cash equivalents	4	**593.172**	567.728
Trade receivables		**576.679**	474.653
-Trade receivables from related parties	*31*	***39.354***	*37.894*
-Trade receivables from third parties	*8*	***537.325***	*436.759*
Other receivables		**7.353**	5.770
-Other receivables from third parties	*9*	***7.353***	*5.770*
Derivative financial instruments	7	**9.097**	-
Inventories	11	**323.579**	183.243
Prepaid expenses	19	**64.577**	41.166
Assets related to current year tax		**2.701**	680
Other current assets	18	**10.376**	3.547
Non-current assets		**3.378.686**	2.953.986
Financial investments	5	**317.124**	257.928
Trade receivables		**8.441**	5.646
-Trade receivables from third parties	*8*	***8.441***	*5.646*
Other receivables		**81**	75
-Other receivables from third parties	*9*	***81***	*75*
Derivative financial instruments	7	**22.743**	22.742
Investments accounted under equity method	12	**2.273.331**	1.922.344
Property, plant and equipment	13	**677.927**	658.238
Intangible assets		**19.280**	19.119
-Other intangible assets	*14*	***19.280***	*19.119*
Prepaid expenses	19	**59.074**	67.195
Deferred tax asset	29	**685**	699
Total assets		**4.966.220**	4.230.773

The accompanying accounting policies and notes between the pages 89 and 157 form an integral part of these consolidated financial statements.

AYGAZ ANONIM SIRKETI AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish)

Liabilities	Notes	Current period (Audited) December 31, 2017	Prior period (Audited) December 31, 2016
Short term liabilities		**1.278.810**	923.686
Short-term financial borrowings	6	84.784	1.102
Current portion of long term financial borrowings	6	304.820	229.265
Trade payables		670.034	470.731
- Trade payables to related parties	*31*	*165.911*	*136.094*
- Trade payables to third parties	*8*	*504.123*	*334.637*
Liabilities for employee benefits	10	53.191	43.252
Other payables		1.577	1.323
- Other payables to related parties	*31*	*863*	*677*
- Other payables to third parties	*9*	*714*	*646*
Derivative financial instruments	7	214	-
Deferred income	20	2.483	2.487
Current income tax liabilities		2.076	5.105
Short-term provisions		45.455	31.059
-Other provisions	*17*	*45.455*	*31.059*
Other current liabilities	18	114.176	139.362
Long term liabilities		**764.347**	565.530
Long-term financial borrowings	6	583.666	400.143
Other payables		97.603	89.489
- Other payables to third parties	*9*	*97.603*	*89.489*
Long-term provisions		38.455	35.697
-Provisions for employee benefits	*16*	*38.455*	*35.697*
Deferred tax liabilities	29	44.623	40.201
Equity		**2.923.063**	2.741.557
Share capital	21	300.000	300.000
Adjustment to share capital	21	71.504	71.504
Adjustment to share capital due to cross-ownership (-)		(7.442)	(7.442)
Other comprehensive income or expenses not to be reclassified to profit or loss		716	(793)
Gains (losses) on the revaluation and/or reclassification		1.187	124
-Gains (losses) remeasurement from defined benefit plans		*1.187*	*124*
Share of other comprehensive income of investments accounted for using equity method that will not be reclassified to profit or loss		(471)	(917)
Other comprehensive income or expenses to be reclassified to profit or loss		99.893	44.327
Gains (losses) on the revaluation and/or reclassification		213.653	157.508
-Gains (losses) on the revaluation and/or reclassification of available-for-sale financial assets	*21*	*213.653*	*157.508*
Share of other comprehensive income of investments accounted for using equity method that will be reclassified to profit or loss		(113.760)	(113.181)
Restricted reserves	21	249.509	203.549
Retained earnings		1.631.864	1.713.648
Net profit for the period		577.019	415.670
Equity attributable to equity holders of the parent		**2.923.063**	2.740.463
Non-controlling interests	21	-	1.094
Total equity and liabilities		**4.966.220**	4.230.773

The accompanying accounting policies and notes between the pages 89 and 157 form an integral part of these consolidated financial statements.

AYGAZ ANONIM SIRKETI AND ITS SUBSIDIARIES

CONSOLIDATED PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish)

	Notes	(Audited) January 1- December 31, 2017	(Audited) January 1- December 31, 2016
Revenue	22	8.469.276	6.748.761
Cost of sales (-)	22	(7.728.139)	(5.962.215)
Gross profit		741.137	786.546
General administrative expenses (-)	23	(204.627)	(194.586)
Marketing, expenses (-)	23	(285.377)	(276.395)
Research and development expenses (-)	23	(3.652)	(4.585)
Other operating income	25	158.314	93.682
Other operating expenses (-)	25	(141.071)	(96.650)
Operating profit		264.724	308.012
Income from investment activities	26	22.235	1.279
Loss from investment activities (-)	26	(5.430)	(30)
Profit/losses from investments accounted under equity method	12	388.611	185.165
Operating profit before financial income (expense)		670.140	494.426
Financial income	27	89.728	91.463
Financial expense (-)	28	(139.105)	(117.071)
Profit from continuing operations before tax		620.763	468.818
Tax income (expense), continuing operations			
-Current tax expense for the period (-)	29	(42.517)	(50.902)
-Deferred tax income (expense)	29	(1.227)	(1.824)
Profit for the period		577.019	416.092
Distribution of profit for the period			
Non-controlling interest		-	422
Equity holders of the parent	21	577.019	415.670
Earnings per share (TL)	30	1,923397	1,385567
Diluted earnings per share (TL)	30	1,923397	1,385567
Other comprehensive income			
Not to be reclassified to profit or loss		1.509	(540)
Gains (losses) remeasurement on defined benefit plans		1.063	(94)
Share of other comprehensive income of investments accounted for using equity method that will not be reclassified to profit or loss		446	(446)
-Gains (losses) from remeasurement on defined benefit plans of investments using equity method		*446*	*(446)*
To be reclassified as profit or loss		*55.566*	*(72.121)*
Gains (losses) on the revaluation and/or reclassification of available-for-sale financial assets		59.100	(9.850)
- Gains (losses) on the revaluation of available-for-sale financial assets		*59.100*	*(9.850)*
Share of other comprehensive income of investments accounted for using equity method that will be classified to profit or loss		(579)	(62.764)
-Gains (losses) from cash flow hedging of investments using equity method		*(864)*	*(63.339)*
-Gains (losses) from translation of foreign currency of investments using equity method		*285*	*575*
Taxes relating to other comprehensive income to be reclassified to profit / loss		(2.955)	493
-Gains (losses) on the revaluation and/or reclassification of available-for-sale financial assets	*29*	*(2.955)*	*493*
Other comprehensive income/(expense) (after taxation)		57.075	(72.661)
Total comprehensive income		634.094	343.431
Distribution of total comprehensive income			
Non-controlling interest		-	422
Equity holders of the parent	21	634.094	343.009

The accompanying accounting policies and notes between the pages 89 and 157 form an integral part of these consolidated financial statements.

AYGAZ ANONIM SIRKETI AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish)

				Other comprehensive income or expenses not to be reclassified to profit or loss		Other comprehensive income or expenses to be reclassified to profit or loss		Accumulated profit					
	Share capital	Adjustment to share capital	Adjustment to share capital due to cross-ownership (-)	Gains (losses) on remeasure-ment of defined benefit plans	Share of other comprehensive income of investments accounted for using equity method that will not be reclassified to profit or loss	Share of other comprehensive income of investments accounted for using equity method that will be reclassified to profit or loss	Gains (losses) on the revaluation and/or reclassification of available-for-sale financial assets	Restricted reserves	Retained earnings	Net profit for the period	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Audited													
Balance as of January 1,2016	300.000	71.504	(7.442)	218	(471)	(50.417)	166.865	320.430	1.391.086	418.375	2.610.148	672	2.610.820
Effect of prior year period adjustments	-	-	-	-	-	-	-	-	102.306	-	102.306	-	102.306
Transfers	-	-	-	-	-	-	-	(116.881)	535.256	(418.375)	-	-	-
Total comprehensive income (loss)	-	-	-	(94)	(446)	(62.764)	(9.357)	-	-	415.670	343.009	422	343.431
Net income	-	-	-	-	-	-	-	-	-	*415.670*	*415.670*	*422*	*416.092*
Other comprehensive income (loss)	-	-	-	*(94)*	*(446)*	*(62.764)*	*(9.357)*	-	-	-	*(72.661)*	-	*(72.661)*
Dividend paid	-	-	-	-	-	-	-	-	(315.000)	-	(315.000)	-	(315.000)
Balance as of December 31, 2016	300.000	71.504	(7.442)	124	(917)	(113.181)	157.508	203.549	1.713.648	415.670	2.740.463	1.094	2.741.557
Audited													
Balance as of January 1, 2017	**300.000**	**71.504**	**(7.442)**	**124**	**(917)**	**(113.181)**	**157.508**	**203.549**	**1.713.648**	**415.670**	**2.740.463**	**1.094**	**2.741.557**
Transfers	-	-	-	-	-	-	-	**45.960**	**369.710**	**(415.670)**	-	-	-
Total comprehensive income (loss)	-	-	-	**1.063**	**446**	**(579)**	**56.145**	-	-	**577.019**	**634.094**	-	**634.094**
Net income	-	-	-	-	-	-	-	-	-	***577.019***	***577.019***	-	***577.019***
Other comprehensive income (loss)	-	-	-	***1.063***	***446***	***(579)***	***56.145***	-	-	-	***57.075***		***57.075***
Dividend paid (Note 21)	-	-	-	-	-	-	-	-	**(450.000)**	-	**(450.000)**	-	**(450.000)**
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	**(1.494)**	-	**(1.494)**	**(1.094)**	**(2.588)**
Balance as of December 31, 2017	**300.000**	**71.504**	**(7.442)**	**1.187**	**(471)**	**(113.760)**	**213.653**	**249.509**	**1.631.864**	**577.019**	**2.923.063**	-	**2.923.063**

The accompanying accounting policies and notes between the pages 89 and 157 form an integral part of these consolidated financial statements.

AYGAZ ANONIM SIRKETI AND ITS SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish)– see Note 2)

	Notes	Audited January 1- December 31, 2017	Audited January 1- December 31, 2016
Cash flows from operating activities		**251.238**	582.379
Net income from continuing operations		**577.019**	416.092
Adjustments related with the reconciliation of net profit (loss) for the period		**(196.561)**	37.258
-Adjustments for depreciation and amortization expenses	13,14	**87.520**	86.035
-Adjustments for impairment loss (reversal)		**1.263**	3.390
-Adjustments for provisions		**22.384**	21.422
-Adjustments for dividend (income) expense	26	**(296)**	(264)
-Adjustments for interest income	27	**(46.290)**	(33.501)
-Adjustments for interest expense	28	**98.488**	64.062
-Adjustments for unrealized foreign exchange differences		**9.408**	33.877
-Adjustments for fair value losses (gains) on derivative financial instruments		**(8.884)**	(4.563)
-Adjustments for undistributed profits of investments accounted under equity method	12	**(388.611)**	(185.165)
-Adjustments for tax (income) expenses	29	**43.744**	52.726
-Adjustments for losses (gains) on disposal of non-current assets	26	**(16.509)**	(985)
-Other adjustments for reconciliation of profit (loss)		**1.222**	224
Changes in working capital:		**(76.423)**	209.087
-Adjustments for decrease (increase) in trade receivables		**(106.908)**	6.476
-Adjustments for decrease (increase) in other operating receivables		**(8.418)**	101.086
-Adjustments for decrease (increase) in inventories		**(139.512)**	(65.715)
-Decrease (increase) in prepaid expenses		**(14.005)**	8.974
-Adjustments for increase (decrease) in trade payables		**199.303**	98.496
-Increase (decrease) in liabilities for employee benefits		**9.939**	16.400
-Adjustments for increase (decrease) in other operating payables		**(16.818)**	43.586
-Increase (decrease) in deferred income		**(4)**	(216)
Cash flows from operating activities		**304.035**	662.437
-Payments related to provisions for employee benefits	16	**(5.230)**	(4.671)
-Tax returns (payments)		**(47.567)**	(75.387)
Cash flows from investing activities		**(55.663)**	(3.109)
Cash outflows from the acquisition of additional subsidiary shares		**(2.588)**	-
Cash outflows from the acquisition of additional shares or participation in share capital increase of investment of associates or joint ventures		**(50.000)**	-
Cash inflows from the sale of property, plant and equipment and intangible assets		**20.822**	8.504
Cash outflows from the purchase of property, plant and equipment and intangible assets	13,14	**(111.684)**	(98.899)
Dividends received		**87.787**	87.286
Cash flows from financing activities		**(170.765)**	(300.179)
Proceeds from borrowings		**495.453**	247.412
Repayments of borrowings		**(176.148)**	(205.677)
Dividends paid		**(450.000)**	(315.000)
Interest paid		**(85.075)**	(60.518)
Interest received		**45.005**	33.604
Effect of exchange rate changes on cash and cash equivalents		**634**	-
Net increase (decrease) in cash and cash equivalents		**25.444**	279.091
Cash and cash equivalents at the beginning of the period	4	**567.728**	288.637
Cash and cash equivalents at the end of the period	4	**593.172**	567.728

The accompanying accounting policies and notes between the pages 89 and 157 form an integral part of these consolidated financial statements.

AYGAZ ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

1. ORGANIZATION AND OPERATIONS OF THE COMPANY

The main activity of Aygaz Anonim Şirketi (the "Company" or "Aygaz") is the purchase of liquid petroleum gas (LPG) in bulk from domestic refineries and the overseas market and delivery to retailers for distribution to customers. The Company manufactures LPG cylinders, LPG tanks, regulators and other supplementary materials which support the Company's main business and which are necessary equipment for the end-user. The Company is controlled by Koç Holding A.Ş. the parent company, Koç Family and the companies owned by Koç Family.

The Company is registered at the Capital Markets Board of Turkey ("CMB") and as of December 31, 2017, 24,27% of its shares have been quoted at Borsa Istanbul.

The address of the registered office of the Company is as follows:

Büyükdere Cad. No: 145/1 Aygaz Han, Zincirlikuyu, 34394 / İstanbul

The average number of personnel employed by categories in Aygaz and its subsidiaries (together with referred to as the "Group") in 2017 is 706 white-collar (2016: 703) and 683 blue-collar (2016: 720) totaling to 1.389 (2016:1.423).

Subsidiaries

The details of the Group's subsidiaries are as follows:

		Ownership interest (%)			
Subsidiaries	Place of incorporation and Operation	**December 31, 2017**	December 31, 2016	**Voting power right**	Principal activity
Anadoluhisarı	Turkey	**100%**	100%	**100%**	Shipping
Kandilli	Turkey	**100%**	100%	**100%**	Shipping
Kuleli	Turkey	**100%**	100%	**100%**	Shipping
Kuzguncuk	Turkey	**100%**	100%	**100%**	Shipping
Akpa	Turkey	**100%**	100%	**100%**	Marketing
Aygaz Doğal Gaz Toptan Satış A.Ş.	Turkey	**100%**	99,15%	**100%**	Natural gas
Aygaz Doğal Gaz İletim A.Ş.	Turkey	**100%**	99,59%	**100%**	Natural gas
ADG Enerji	Turkey	**100%**	100%	**100%**	Natural gas

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 name of company was Bursa Gaz ve Ticaret A.Ş, later it was changed to "Akpa Dayanıklı Tüketim Lpg ve Akaryakıt Ürünleri Pazarlama A.Ş." with the decision of Ordinary General Meeting held on March 17, 2005. Akpa is mainly engaged in sales of cylinders through either its own organisation or dealers, retail and wholesale of LPG, fuel and lubricants through autogas stations and sale of durable goods. As of end of July, 2016 Akpa terminated its durable goods sales activity.

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. On January 25, 2017 the Company has acquired 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 from non-controlling interest. As a result of this acquisition, the Company has 100% of shares of its subsidiaries.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

1. ORGANIZATION AND OPERATIONS OF THE COMPANY (CONTINUED)

Within 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. On October 13, 2017, the vessel named "Kuleli" which is used for the transportation of liquid fuel gas, with net book value of TL 589 thousand was sold for USD 3.500 thousand in cash by Kuleli Tankercilik A.Ş - the Company's subsidiary.

The Company 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 in cash on February 11, 2016. In its Ordinary General Meeting held on February 24, 2016 ADG Enerji has decided to increase its share capital from TL 25.000 thousand to TL 26.100 thousand with the amendment of related paragraph of Articles of Incorporation. On March 2, 2016 the company has paid TL 1.100 thousand in cash. 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.

Investments in associates

The details of the Group's associates are as follows:

		Ownership interest (%)			
Investments in associates	Place of incorporation and operation	**December 31, 2017**	December 31, 2016	**Voting power right**	Principal activity
Enerji Yatırımları A.Ş. ("EYAŞ")	Turkey	**20,00%**	20,00%	**20,00%**	Energy
Entek Elektrik Üretimi A.Ş. ("Entek")	Turkey	**49,62%**	49,62%	**49,62%**	Electricity

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 oil rafineries, make investments and operate in oil refinery related sectors in Turkey.

Entek Elektrik Üretimi A.Ş. ("Entek"), the electricity generation company of Koç Group, operates one natural gas cycling plant with capacity of 157 MW in Kocaeli and six hydroelectric power plants in Karaman, Samsun and Mersin with capacity of 87 MW in total reaching aggregate capacity of 244 MW.
Entek won tender for the privatization of Menzelet and Kılavuzlu hydropower plants with the capacity of 178 MW with the highest bid for the operating rights of them for 49 years in September 2017. The power plants will be operated by Menzelet Kılavuzlu Elektrik Üretimi A.Ş., a 100% owned subsidiary of Entek, in the first quarter of 2018.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

1. ORGANIZATION AND OPERATIONS OF THE COMPANY (CONTINUED)

Joint ventures

The details of the Group's joint ventures are as follows:

		Ownership interest (%)			
Joint venture	Place of incorporation and operation	**December 31, 2017**	December 31, 2016	**Voting power right**	Principal activity
Opet Aygaz Gayrimenkul A.Ş.	Turkey	**50,00%**	50,00%	**50,00%**	Real Estate

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.

Opet Aygaz Gayrimenkul A.Ş. has decided to increase share capital from TL 150.000 thousand to TL 250.000 thousand in its Extraordinary General Meeting held on June 22, 2017. For the increased share amount of TL 100.000 thousand, the Company has agreed to pay TL 50.000 thousand corresponding to its shares in cash and free from collusion. TL 12.500 thousand, TL 12.500 thousand and TL 25.000 thousand has been paid in cash on June 28, 2017, July 13, 2017 and August 28, 2017 respectively.

<u>Approval of consolidated financial statements</u>

The consolidated financial statements as of and for the year ended December 31, 2017 are approved in the Board of Directors meeting held on February 14, 2018. These consolidated financial statements will be finalized following their approval in the General Assembly.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Financial reporting standards

The consolidated financial statements of the Group have been prepared in accordance with the Turkish Accounting Standards/ Turkish Financial Reporting Standards, ("TAS/TFRS") and interpretations as adopted in line with international standards by the Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA") in line with the communiqué numbered II-14.1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") announced by the Capital Markets Board of Turkey ("CMB") on June 13, 2013 which is published on Official Gazette numbered 28676. TMS is consist of Turkish Accounting Standards, Turkish Financial Reporting Standards, annexes and comments on them.TAS/TFRS are updated in harmony with the changes and updates in International Financial and Accounting Standards ("IFRS") by the communiqués announced by the POA.

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

The Group's consolidated financial statements are presented in terms of Turkish Lira "TL" which is the functional and presentation currency of the Company and its subsidiaries.

The consolidated financial statements are prepared based on the historical cost conversion, except for the financial assets and liabilities which are expressed with their fair values.

2.2 Consolidation principles

(a) Consolidated financial statements incorporate the financial statements of the Company, its subsidiaries and affiliates and joint ventures, which have been prepared in accordance with guidelines defined in the items (b) to (h). The financial statements of the companies included in the consolidation have been prepared as of the date of the consolidated financial statements and are based on the statutory records with adjustments and reclassifications for the purpose of presentation in conformity TAS/TFRS promulgated by the POA as set out in the communiqué numbered II-14.1, and Group accounting and disclosure policies.

(b) Subsidiaries are the companies controlled by Aygaz when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

(c) Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. In case it is necessary, accounting policies are changed for subsidiaries in order to align with Group accounting policies.

Balance sheets and income statements of subsidiaries have been fully included into consolidation and the book values and equities of such subsidiaries which are owned by the Company, have been netted off. All inter-group transactions, balances, income and expenses are eliminated on consolidation. Book values of the shares owned by the Company and related dividends have been netted off from related equity and income statement accounts.

(d) Investments in associates have been accounted using the equity method. These are institutions in which the Company has a voting power between 20% and 50% or in which the Company has a significant influence even though it does not have a controlling power.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Unrealized gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. The Group ceases to account the associate using the equity method if it loses the significant influence or the net investment in the associate becomes nil, unless it has entered to a liability or a commitment. Subsequent to the date of the caesura of the significant influence, the investment is carried either at fair value when the fair value can be measured reliably, otherwise at cost.

(e) Financial assets, in which the Group has a total voting power of 20% or even though it has a voting power above 20% but does not have a significant influence, or which are immaterial for the consolidated financial statements, or such assets which are not traded in an organized market or whose fair values cannot be measured reliably, are presented with cost values, after deducting the impairment, if any.

Available for sale financial assets, in which the Group does not have a total voting power of 20% or does not have a significant influence and which have quoted market values in active markets and whose fair values can be reliably measured, are presented at fair values in the consolidated financial statements.

(f) The non-controlling share in the net assets and operating results of subsidiaries for the year are separately classified as non-controlling interest in the consolidated statements of financial position and consolidated statements of profit or loss.

(g) A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The investments in its associates and joint ventures are accounted for using the equity method.

(h) Under the equity method, the Group's investments in its associates and joint venture are initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associates or joint ventures is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the results of the operations of the Group's associates or joint ventures. Any change in other comprehensive income of those investees is presented as a part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit/loss of an associate or a joint venture' in the statement of profit or loss.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3 New and revised Turkey Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at 31 December 2017

Amendments to IAS 7, "Statement of cash flows"; on disclosure initiative effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's "Disclosure Initiative", which continues to explore how financial statement disclosure can be improved. The amendments had no significant effect on the financial position or performance of the Group.

Amendments IAS 12, "Income Taxes"; effective from annual periods beginning on or after 1 January 2017. The amendments clarify the requirements on recognition of deferred tax assets for unrealized losses and how to account for deferred tax assets related to debt instruments measured at fair value. The amendments had no significant effect on the financial position or performance of the Group.

Annual improvements 2014-2016;

IFRS 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. The amendments had no significant effect on the financial position or performance of the Group.

b) Standards, amendments and interpretations effective after 1 January 2018

IFRS 9, "Financial instruments"; effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit risk modelling that replaces the current incurred impairment loss model. The group concluded that in the preliminary assessments, the relevant standard would not have a significant effect on the consolidated financial position.

IFRS 15, "Revenue from contracts with customers"; effective from annual periods beginning on or after 1 January 2018. IFRS 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 revenue in financial statements globally. The group concluded that in the preliminary assessments, the relevant standard would not have a significant effect on the consolidated financial position.

Amendments to IFRS 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. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Amendments to IFRS 4, "Insurance contracts"; regarding the implementation of IFRS 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 recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when
  IFRS 9 is applied before the new insurance contracts standard is issued,
- give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.

The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

Amendments to IAS 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. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

Amendments to IFRS 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 IFRS 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. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

Annual improvements 2014-2016;

- IFRS 1, "First time adoption of IFRS"; This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 Transition provisions and IFRS 10 Investment entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.
- IAS 28, "Investments in associates and joint venture"; This amendment is about measuring an associate or joint venture at fair value and to be applied for annual periods beginning on or after 1 January 2018.

The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Amendments to IFRS 9, 'Financial instruments'; effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortized cost is modified without resulting in de-recognition, a gain or loss should be recognized immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39. The group concluded that in the preliminary assessments, the relevant standard would not have a significant effect on the consolidated financial position.

Amendments to IAS 28, 'Investments in associates and joint venture'; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that long-term interests in associate or joint venture which the equity method is not applied will be accounted by the companies in compliance with IFRS 9. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

IFRS 16, 'Leases'; effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize 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 IFRS 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 in the process of assessing the impact of the interpretation on financial position or performance of the Group.

IFRIC 23, 'Uncertainty over income tax treatments'; effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had previously clarified only IAS 12. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

IFRS 17, 'Insurance contracts'; effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

2.4 Comparative information and reclassifications on prior period financial statements

In order to enable determination of financial position and performance trends, the Group's consolidated financial statements for the current period are prepared by comparison with the prior period. As of December 31, 2017, the Group has presented its consolidated balance sheet as of December 31, 2017 compared with as of December 31, 2016 and its consolidated statement of profit or loss, other comprehensive income and changes in equity for the year ended December 31, 2017 compared with the financial statements for the year ended December 31, 2016.

Provision for Special Consumption Tax (SCT) on imported LPG amounting to TL 83.577 thousand were offset between "Inventories" and "Short term provisions" in the consolidated statement of financial position as at December 31, 2016. There is no impact of this reclassification on retained earnings and net income.

"Adjustments for provisions" presented under "Adjustments related with the reconciliation of net profit (loss) for the period" and "Adjustments for decrease (increase) in inventories" presented under "Changes in working capital" in the consolidated cash flow statement for the year ended December 31, 2016 were offset by TL 15.081 thousand.

Foreign exchange gains and losses arising from financial activities amounting to TL 196.780 thousand were offset in "Financial income and expenses" in the consolidated profit and loss statement for the year ended December 31, 2016. There is no impact of this reclassification on retained earnings and net income.

2.5 Offsetting

Financial assets and liabilities are offset and reported in the net amount when there is a legally enforceable right or when there is an intention to settle the assets and liabilities on a net basis or realize the assets and settle the liabilities simultaneously.

2.6 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, and other similar allowances.

Sale of goods:

Revenue from sale of goods is recognized when all the following conditions are satisfied:

- The Group has transferred all the significant risks and rewards of ownership of the goods and services to the buyer,
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold and services provided,
- The amount of revenue can be measured reliably,
- It is probable that the economic benefits associated with the transaction will flow to the entity, and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The accounting policy of Special Consumption Tax (SCT) on imported LPG which is required to be paid after the declaration made to the Republic of Turkey, Ministry of Finance is applied to be included in revenues and cost of goods sold (Gross profit and net income is not impacted by this record). For the year ended December 31, 2017, SCT on imported LPG included in revenues and the cost of goods sold is amounting to TL 2.284.740 thousand (January 1- December 31 2016: TL 2.239.144 thousand).

Rendering of services:

Revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the entity and when the revenue amount, the completion level of the transaction as of the reporting date and the cost required for the completion of the transaction can be measured reliably.

The assumptions for the reliability of revenue recognition after the agreement of third parties are as follows:

- Contractual rights of each parties under sanction according to the agreement,
- Service fee,
- Payment terms and conditions

Dividend and interest revenue:

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Dividend revenue from investments is recognized when the shareholders' rights to receive payment have been established.

2.7 Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is calculated with first in first out method for LPG and with weighted average method for other inventories. Cost of inventories include all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Conversion costs of inventories defines as costs directly related to production, such as direct labour costs. These expenses also include systematically distributed amounts from fixed and variable costs in factory overheads. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and estimated costs to make the sale.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.8 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Legal fees are included into costs. Depreciation of these assets begins when the assets are ready for their intended use.

With the exception of land and construction in progress, the costs of property, plant and equipment are subject to depreciation using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Economic useful lives of property, plant and equipment are as follows:

	Useful lives
Buildings	25-50 years
Land improvements	10-25 years
LPG Cylinders	10 years
Plant, machinery and equipment	3-25 years
Vessels	10-20 years
Vehicles	3-15 years
Furnitures and fixtures	3-50 years
Leasehold improvements	4-10 years

2.9 Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Trade rights and licenses

Acquired trade rights and licenses are shown at historical cost. Trade rights and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives in 4-15 years.

Computer software

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives in 3-5 years.

2.10 Impairment of assets

An impairment test is applied when the recovery for the book value of the redeemable assets is impossible. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Other borrowing costs are recorded directly to profit and loss statement when incurred.

2.12 Financial instruments

2.12.1 Financial assets

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification is made considering the purpose of acquisition of financial asset and its specifications, at the time of initial recording of the asset. Financial assets are reflected to the Group's balance sheet, in case of that the Group becomes a party to the related financial instruments.

Effective interest method

The effective interest method; is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate; is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income related with the financial assets, other than financial assets at FVTPL and AFS financial assets, is calculated by using the effective interest method.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Financial assets at FVTPL

Financial assets at fair value through profit or loss are; financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Available-for-sale financial assets

Quoted equity investments held by the Group that are traded in an active market are classified as being available- for-sale financial assets and are stated at fair value. The Group also has investments in unquoted equity investments that are not traded in an active market but are also classified as available-for-sale financial assets and stated at fair value. Similarly, investments in unquoted equity investments that are not traded in an active market but are also classified as available-for-sale financial assets and stated at cost since the fair value of these investments cannot be measured reliably. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the revaluation surplus of financial assets with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation surplus of financial assets is reclassified to profit or loss.

Dividends related to available-for-sale equity items are accounted in profit or loss statement, in case the Group has earned a right for dividends.

Loans and receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'receivables'. Receivables are measured at discounted cost using the effective interest method less any impairment.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted negatively. For loans and receivables, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

With the exception of available-for-sale equity instruments, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, credit card receivables from banks and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are not subject to a significant risk of changes in value.

2.12.2 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below. Financial liabilities are recognized in Group's balance sheet in case the Group is a party related to the liability.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL and revaluated at fair value at the balance sheet date in each reporting period. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Trade payables are recognized at fair value and subsequently measured at discounted cost using effective interest rate method.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.12.3 Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Group uses derivative financial instruments to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions.

These derivative instruments are recorded at fair value at the beginning of the contract and subsequently measured with its fair value. If the fair value is positive, derivatives are classified as financial asset or otherwise financial liability.

Such derivative instruments are generally accounted as trading derivative instruments in consolidated financial statements, because they do not have related specifications in terms of hedge accounting. The gains and losses related to the changes in fair values of such financial instruments are shown in the profit or loss statement.

Fair value differences of forward transactions, sourcing from trading contracts in scope of main activities of the Group, are recognized under other real operating income (expense) since they are in scope of main activities of the Group while exchange rate differences, sourcing from forward exchange and exchange of interest rate, are recognized under financing income (expense).

2.12.4 Recognition and de-recognition of financial instruments

All purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase or to sell the asset. These purchases or sales are purchases or sales generally require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset (or, where applicable a part of a financial asset or part of a group 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 (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets.

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 consolidated financial statements.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.13 Business combinations

Before January 1, 2010 business combinations carried out by the Group has accounted for using the acquisition method according to before revised TFRS 3 "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.

For each business combination, the Group elects whether it measures the non-controlling interest in the acquirer either at fair value or at the proportionate share of the acquirer's identifiable net assets.

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

Acquisition method requires allocation of the acquisition cost to the assets acquired and liabilities assumed at their fair values on the date of acquisition. 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.

Partial share sale and purchase transactions settled with minority shareholders

The Group evaluates the share transactions realized with non-controlling interests as transactions within the shareholders. Consequently, the difference between the purchase cost and the net asset purchased from other shareholders are accounted under shareholders' equity in "subsidiary share purchase transactions" whereas share sale transactions to parties other than parent company are accounted as "transactions with non-controlling interest".

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.14 Foreign currency transactions

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements. The functional currency of participations and subsidiaries that are included in the scope of consolidation is TL.

In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions.

At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the Central Bank of the Republic of Turkey (CBRT) rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on transactions entered in order to hedge certain foreign currency risk,
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in TL using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's "foreign currency translation difference". Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

2.15 Earnings per share

Earnings per share disclosed in the accompanying consolidated statement of income is determined by dividing net income by the weighted average number of shares in existence during the year concerned.

In Turkey, companies can raise their share capital by distributing "Free Shares" to shareholders from retained earnings. In computing earnings per share, such "free share" distributions are assessed as issued shares. Accordingly, the retrospective effect for those share distributions is taken into consideration in determining the weighted-average number of shares outstanding used in this computation.

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.16 Subsequent events

An explanation for any event between the balance sheet date and the publication date of the balance sheet, which has positive or negative effects on the Group (should any evidence come about events that were prior to the balance sheet date or should new events come about) they will be explained in the relevant footnote.

The Group restates its financial statements if subsequent events which require restatement arise.

2.17 Provisions, contingent liabilities, contingent assets

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 the consolidated financial statements and are disclosed as contingent assets or liabilities.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

2.18 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,
- (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) Entity and 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) (ii) 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).

In accordance with the purposes of consolidated financial statements, shareholders, important management personnel and members of Board of Directors, their families and companies controlled by them or depend upon them, the affiliates and partnerships and Koç Holding Group companies are accepted and presented as related parties.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.19 Segmental information

The Group management assumes three operating segments to evaluate performance and source utilization decisions. These segments are gas and petroleum products, electricity and other operations. These operating segments are managed separately as the risk and return of these segments are affected by different economic conditions and geographical locations. The Group Management believes that financial results prepared according to TFRS are the best approach to evaluate performance of these operating segments.

2.20 Taxation and deferred tax

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

Income tax expense represents the sum of the corporate tax and deferred tax.

Corporate tax

The corporate tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

The Company recognizes deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, to the extent that, and only to the extent that, it is probable that:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilized.

The Company recognizes deferred tax liability for all taxable temporary differences associated with investments in subsidiaries except to the extent that both of the following conditions are satisfied:

- the parent is able to control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.21 Employment benefits

Defined benefit plan:

Employment termination benefits, as required by the Turkish Labour Law and the laws applicable in the countries where the subsidiaries operate, represent the estimated present value of the total reserve of the future probable obligation of the Group arising in case of the retirement of the employees, termination of employment without due cause, be retired or death upon the completion of a minimum one year service. Provision which is allocated by using defined benefit pension's current value is calculated by using prescribed liability method. All actuarial profits and losses are recognized in consolidated statements of income. The provision made for present value of determined social relief is calculated by the prescribed liability method. All actuarial profits and losses are accounted in the shareholder's equity as other comprehensive income.

Defined contribution plan:

Group, has to compensate the Social Security Contribution of the employees. As long as this is compensated, there is no any other obligation for the Company. Social Security Contributions are classified as personnel expenses as of the accrual date.

2.22 Statement of cash flows

In statement of cash flow, cash flows are classified according to operating, investment and finance activities.

2.23 Share capital and dividends

Common shares are classified as equity. Dividends on common shares are recognized in retained earnings in the period in which they are approved and declared.

2.24 Research and development expenses

Research expenditure is recognized as an expense as incurred. Costs, except for listed below are classified as development expenditures and recognized as expense as incurred.

- If the cost related to the products can be defined and only if the cost can be measured reliably,
- If the technological feasibility can be measured,
- If the good will be sold or will be used within the company,
- If there's a potential market or can be proved that it is used within the company,
- If necessary technological, financial and other resources can be provided to complete the Project.

Other development expenditures are recognized as expense as incurred.

Development costs previously recognized as expense cannot be capitalized in a subsequent period. Development costs that have been capitalized are amortized from the commencement of the commercial production of the product on a straight-line basis. As of December 31, 2017, the Group has no capitalized research and development expenses (December 31, 2016: None).

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.25 Critical accounting estimates and assumptions

The critical accounting estimates and assumptions which have material impact on the consolidated financial statements are as follows:

a) Property, plant and equipment and intangible fixed assets are subject to depreciation according to their useful lives (Note 13, 14). Estimations of such useful lives are based on the expectations of Group management.

b) The Group Management uses market values for quoted equity items traded in active markets, while determining fair values of available-for-sale financial assets. For other available for sale financial assets, fair values are determined in line with generally accepted valuation principles using current economic data, trends in the market and expectations.

   Available-for-sale financial asset of the Group includes shares of Koç Finansal Hizmetler A.Ş. (KFS), an unlisted company and the majority shareholder of Yapı ve Kredi Bankası with 81,8%. Since the shares of Yapı ve Kredi Bankası are traded in Istanbul Stock Exchange, the fair value of shares of KFS are determined by using several valuation methods such as the existing market value of Yapı ve Kredi Bankası, dividend discount model, comparison method considering recent similar local or international acquisitions realized. In this valuation, the market value is weighted as 75%, the dividend discount model is 15% and the market model involving similar acquisitions is 10%. In the dividend discount model, 18% cost of equity-discount rate on Turkish Lira based (2016: 17.4%) and 5% of long-term growth rate (2016: 5%) were taken into consideration. The average result of the minimum and maximum values of the calculations made using these methods were recorded as the fair value (Note 5). In the sensitivity analyzes made, 1% of change in the both growth rates and discount rates, did not have a significant effect in the calculation of the fair value of KFS.

c) 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 periodic impairment test for the receivables, the debtors are assessed with their prior year performances and provision is accounted accordingly (Note 8).

d) In order to record allowances for litigations, the consequences of lost cases are evaluated with the Company lawyers and Company Management makes most accurate evaluations with the available data (Note 17).

e) Actuarial assumptions used on turnover ratio, discount rate and salary increase to calculate the employee benefit provision. Calculation details have been provided in related disclosure (Note 16).

f) There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and significant judgment is required in determining the provision for income taxes. The Group recognizes tax liabilities for anticipated tax issues based on estimates of whether additional taxes will be due and recognizes tax assets for the carry forward tax losses and unused investment tax credits to the extent that the realization of the related tax benefit through the future taxable profits is probable (Note 29). Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

3. SEGMENT INFORMATION

The segmental operations are specified according to the internal reports reviewed regularly by the authority entitled to making decision for the Group's operations.

The Group's decision making authority evaluates operations and results according to industrial segments for the purpose of making decisions for assigning resources to the segments and evaluating the segmental performances. The distribution of segmental operations with respect to industrial segments is as follows:

- Gas and petroleum products
- Electricity
- Other

The Group Management evaluates financial results and performance based of TFRS financial statements. Therefore, TFRS financial statements are the basis of segmental reporting. The Group evaluates the performance of its segments based on gross profit and operating profit.

As of December 31, 2017 and 2016, assets and liabilities according to industrial segments are as follows:

					December 31, 2017
	Gas and petroleum products	Electricity	Other	Consolidation adjustments	Total
Assets					
Current assets	1.451.293	-	145.145	(8.904)	1.587.534
Non-current assets	2.964.202	352.443	272.901	(210.860)	3.378.686
Total assets	4.415.495	352.443	418.046	(219.764)	4.966.220
Liabilities					
Short term liabilities	1.244.764	-	42.950	(8.904)	1.278.810
Long term liabilities	754.093	-	14.523	(4.269)	764.347
Equity	2.416.638	352.443	360.573	(206.591)	2.923.063
Total liabilities and equity	4.415.495	352.443	418.046	(219.764)	4.966.220
Investments accounted under equity method	1.787.658	352.443	133.230	-	2.273.331

					December 31, 2016
	Gas and petroleum products	Electricity	Other	Consolidation adjustments	Total
Assets					
Current assets	1.171.410	-	113.421	(8.044)	1.276.787
Non-current assets	2.645.740	345.289	242.238	(279.281)	2.953.986
Total assets	3.817.150	345.289	355.659	(287.325)	4.230.773
Liabilities					
Short term liabilities	901.892	-	29.838	(8.044)	923.686
Long term liabilities	557.835	-	14.429	(6.734)	565.530
Equity	2.357.423	345.289	311.392	(272.547)	2.741.557
Total liabilities and equity	3.817.150	345.289	355.659	(287.325)	4.230.773
Investments accounted under equity method	1.497.211	345.289	79.844	-	1.922.344

AYGAZ ANONIM SIRKETI AND ITS SUBSIDIARIES

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017 (CONTINUED)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

3. SEGMENT INFORMATION (CONTINUED)

As of December 31, 2017 and 2016, profit and loss statement according to industrial segments are as follows:

				January 1 - December 31, 2017	
	Gas and petroleum products	Electricity	Other	Consolidation adjustments	Total
Revenue	8.182.926	-	497.074	(210.724)	8.469.276
Cost of sales (-)	(7.517.598)	-	(422.009)	211.468	(7.728.139)
Gross profit	665.328	-	75.065	744	741.137
General administrative expenses (-)	(187.415)	-	(21.064)	3.852	(204.627)
Marketing expenses (-)	(268.750)	-	(16.627)	-	(285.377)
Research and development expenses (-)	(3.652)	-	-	-	(3.652)
Other operating income	151.578	-	11.120	(4.384)	158.314
Other operating expenses (-)	(135.454)	-	(6.245)	628	(141.071)
Operating profit	221.635	-	42.249	840	264.724
Income from investment activities	198.110	-	3.084	(178.959)	22.235
Loss from investment activities (-)	(5.430)	-	-	-	(5.430)
Profit/losses from investments accounted under equity method	378.111	7.114	3.386	-	388.611
Operating profit before financial income (expense)	792.426	7.114	48.719	(178.119)	670.140
Financial income	76.244	-	13.484	-	89.728
Financial expense (-)	(133.037)	-	(6.068)	-	(139.105)
Profit from continuing operations before tax	735.633	7.114	56.135	(178.119)	620.763
Tax income (expense), continuing operations					
Current tax expense for the period (-)	(38.511)	-	(4.006)	-	(42.517)
Deferred tax income (expense)	(1.224)	-	(3)	-	(1.227)
Profit for the period	695.898	7.114	52.126	(178.119)	577.019

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

3. SEGMENT INFORMATION (CONTINUED)

					January 1 - December 31, 2016
	Gas and petroleum products	Electricity	Other	Consolidation adjustments	Total
Revenue	6.487.577	-	427.537	(166.353)	6.748.761
Cost of sales (-)	(5.775.176)	-	(354.073)	167.034	(5.962.215)
Gross profit	712.401	-	73.464	681	786.546
General administrative expenses (-)	(173.841)	-	(24.279)	3.534	(194.586)
Marketing expenses (-)	(263.320)	-	(13.075)	-	(276.395)
Research and development expenses (-)	(4.585)	-	-	-	(4.585)
Other operating income	89.534	-	7.111	(2.963)	93.682
Other operating expenses (-)	(93.457)	-	(3.540)	347	(96.650)
Operating profit	266.732	-	39.681	1.599	308.012
Income from investment activities	130.798	-	645	(130.164)	1.279
Loss from investment activities (-)	(30)	-	-	-	(30)
Profit/losses from investments accounted under equity method	167.802	14.324	3.039	-	185.165
Operating profit before financial income (expense)	565.302	14.324	43.365	(128.565)	494.426
Financial income	79.493	-	11.970	-	91.463
Financial expense (-)	(114.380)	-	(2.691)	-	(117.071)
Profit from continuing operations before tax	530.415	14.324	52.644	(128.565)	468.818
Tax income (expense), continuing operations					
Current tax expense for the period (-)	(46.836)	-	(4.066)	-	(50.902)
Deferred tax income (expense)	(2.074)	-	250	-	(1.824)
Profit for the period	481.505	14.324	48.828	(128.565)	416.092

The depreciation and amortization expense for the industrial segmental assets as of December 31, 2017 and 2016 is as follows:

	January 1 - December 31, 2017	January 1 - December 31, 2016
Gas and petroleum products	**77.374**	75.670
Other	**10.146**	10.365
	87.520	86.035

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

3. SEGMENT INFORMATION (CONTINUED)

The investment expenditures for the industrial segmental assets as of December 31, 2017 and 2016 are as follows:

	January 1 - December 31, 2017	January 1 - December 31, 2016
Gas and petroleum products	**109.961**	95.635
Other	**1.723**	3.264
	111.684	98.899

4. CASH AND CASH EQUIVALENTS

	December 31, 2017	December 31, 2016
Cash on hand	**462**	358
Cash at banks	**546.687**	529.762
- Demand deposits	***21.984***	*15.675*
- Time deposits	***524.703***	*514.087*
Receivables from credit card transactions	**46.023**	37.608
Total cash and cash equivalents	**593.172**	567.728

As of December 31, 2017 the Group's TL time deposits amounting to TL 360.525 thousand with maturities of 4-46 days and interest rates of 14-14,85 %; USD time deposits amounting to USD 43.527 thousand (TL 164.178 thousand) with maturities of 4-5 days and interest rate of 3% (As of December 31, 2016 the Group's TL time deposits amounting to TL 342.271 thousand have maturities of 3-33 days and interest rates of 9,85-11,45%; USD time deposits amounting to USD 48.820 thousand (TL 171.816 thousand) have a maturity of 3 days and an interest rate of 2%).

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

5. FINANCIAL INVESTMENTS

The Group's long term financial assets identified as available-for-sale financial assets are as follows as of December 31, 2017 and 2016:

	December 31, 2017		December 31, 2016	
	Participation amount	Participation rate %	Participation amount	Participation rate %
Koç Finansal Hizmetler A.Ş. (*)	315.200	1,97	256.100	1,97
Ram Dış Ticaret A.Ş. (**)	875	2,50	774	2,50
Tanı Pazarlama ve İletişim Hizmetleri A.Ş. (***)	540	10,00	540	10,00
Tat Gıda Sanayi A.Ş. (**)	73	0,08	78	0,08
Other (***)	436	-	436	-
	317.124		257.928	

(*) Stated at fair value, the difference between the acquisition cost and fair value are accounted as valuation fund under equity net-off its deferred tax effect.
(**) Stated at fair value, increase in value is accounted as "profit from increase in value" under consolidated profit or loss.
(***) Stated at cost, since fair value could not be determined reliably.

6. FINANCIAL BORROWINGS

As of December 31, 2017 and 2016 the Group's short-term financial borrowings are as follows:

	December 31, 2017	December 31, 2016
TL-denominated short-term bank borrowings (*)	84.784	1.102
Total short-term bank borrowings	84.784	1.102
Short-term portion and interest accruals of TL-denominated long-term bank borrowings	100.414	103.499
Short-term portion and interest accruals of USD-denominated long-term bank borrowings	48.381	13.554
Short-term portion of long-term bond issued (**)	156.025	112.212
Total short-term portion of long-term financial borrowings	304.820	229.265

(*) As of December 31, 2017, the Group has interest free loan amounting to TL 10.453 thousand which was used for Custom expenses (December 31, 2016: TL 1.102 thousand). The Group has short term bank loans amounting to TL 50.000 thousand with the maturity of March 30, 2018, fixed interest rate of 12,50% (interest of loan has been paid in cash on August 3, 2017) and amounting to TL 24.331 thousand with the maturity of January 2, 2018, fixed interest rate of 14,60%.

(**) On March 30, 2015, January 28, 2016, April 11, 2017 and October 20, 2017 the Group has issued a floating rate bond with a nominal value of TL 60.000 thousand, with a maturity of 1.092 days and quarter-yearly coupon payments, a fixed rate bond with a nominal value of TL 75.000 thousand, with a maturity of 728 days and half-yearly coupon payments, a fixed rate bond with a nominal value of TL 85.000 thousand with a maturity of 728 days and half-yearly coupon payments, a fixed rate bond with a nominal value of TL 50.000 thousand with a maturity of 728 days and half-yearly coupon payments, respectively. As of December 31, 2017, net present value of the issued bonds are TL 278.077 thousand (TL 122.052 thousand of this amount is shown as long-term bond issued) and their effective interest rates are 13,51%, 13,09%, 13,46% and 14,45% respectively.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

6. FINANCIAL BORROWINGS (CONTINUED)

As of December 31, 2017, the details of short-term bank borrowings are as follows:

Currency	Effective interest rate per annum (%)	Original amount	TL amount
TL	-	10.453	10.453
TL	12,50-14,60	74.331	74.331
			84.784

As of December 31, 2016, the details of short-term bank borrowings are as follows:

Currency	Effective interest rate per annum (%)	Original amount	TL amount
TL	-	1.102	1.102
TL	-	1.102	1.102

As of December 31, 2017 and 2016 the Group's long-term financial borrowings are as follows:

	December 31, 2017	December 31, 2016
TL-denominated long-term bank borrowings	314.510	88.990
USD-denominated long-term bank borrowings	147.104	181.239
Total long-term bank borrowings	461.614	270.229
Long-term bonds issued	122.052	129.914
Total long-term bonds	122.052	129.914
Total long-term financial borrowings	583.666	400.143

As of December 31, 2017 the details of long-term bank borrowings are as follows:

Currency	Effective interest rate per annum (%)	Original amount	TL amount
TL	13,74-17,30	414.924	414.924
USD	4,26-4,33	51.827	195.485
Short-term portion of long-term loans and interest accruals			(148.795)
			461.614

As of December 31, 2016 the details of long-term bank borrowings are as follows:

Currency	Effective interest rate per annum (%)	Original amount	TL amount
TL	11,60-14,32	192.489	192.489
USD	3,40- 3,50	55.352	194.793
Short-term portion of long-term loans and interest accruals			(117.053)
			270.229

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

6. FINANCIAL BORROWINGS (CONTINUED)

As of December 31, 2017 and 2016 the Group's movements of financial borrowings are as follows:

	2017	2016
As of January, 1	**630.510**	551.354
Proceeds from new financial borrowings	**495.453**	247.412
Repayments of principals	**(176.148)**	(205.677)
Changes in interest accruals	**13.413**	3.544
Currency translation differences	**10.042**	33.877
As of December, 31	**973.270**	630.510

7. DERIVATIVE FINANCIAL INSTRUMENTS

As of December 31, 2017 and 2016, the Group's derivative financial instruments are as follows:

Short-term derivative financial instruments		**December 31, 2017**		December 31, 2016
	Contract amount	**Fair value assets (liabilities)**	Contract amount	Fair value assets (liabilities)
Forward transactions (*)	**60.941**	**(214)**	-	-
Foreign currency swap contracts (**)	**26.100**	**9.097**	-	-

Long-term derivative financial instruments		**December 31, 2017**		December 31, 2016
	Contract amount	**Fair value assets (liabilities)**	Contract amount	Fair value assets (liabilities)
Foreign currency swap contracts (**)	**65.250**	**22.743**	91.350	22.742

(*) As of December 31, 2017 the Group has entered into forward transaction with a maturity of 19 days and nominal value amounting to USD 16.000 thousand (As of December 31, 2016 the Group has no forward transaction).

(**) In June, 2016, the Group has realized swap transaction with a contract amounting to TL 91.350 thousand with 5 years maturity, half yearly interest payment and fixed interest rate of 13,415%, in return for USD 31.500 thousand with a floating interest rate of six-month USDLIBOR + 2,4%.

8. TRADE RECEIVABLES AND PAYABLES FROM THIRD PARTIES

The Group's trade receivables from third parties as of December 31, 2017 and 2016 are as follows:

Current trade receivables	**December 31, 2017**	December 31, 2016
Trade receivables	**517.416**	420.582
Notes receivables	**45.535**	39.844
Allowance for doubtful receivables (-)	**(25.626)**	(23.667)
Total current trade receivables	**537.325**	436.759

Non-current trade receivables	**December 31, 2017**	December 31, 2016
Notes receivable	**8.441**	5.646
Total non-current trade receivables	**8.441**	5.646

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

8. TRADE RECEIVABLES AND PAYABLES FROM THIRD PARTIES (CONTINUED)

Movement of allowance for doubtful receivables	January 1 - December 31, 2017	January 1 - December 31, 2016
Opening balance	23.667	20.713
Increases during the period	2.087	3.459
Collections	(128)	(436)
Provisions no longer required	-	(69)
Closing balance	25.626	23.667

Allowance for doubtful receivables has been raised per customer, based on the past experiences of the Company management.

Level and composition of risks of trade receivables are explained in note 32.

The Group's trade payables as of December 31, 2017 and 2016 are as follows:

Short-term trade payables	December 31, 2017	December 31, 2016
Trade payables	504.123	334.637
Total short-term trade payables	504.123	334.637

9. OTHER RECEIVABLES AND PAYABLES FROM THIRD PARTIES

The Group's other receivables from third parties as of December 31, 2017 and 2016 are as follows:

Other current receivables	December 31, 2017	December 31, 2016
Guarantees and deposits given	6.015	4.827
Other receivables	1.338	943
Total other current receivables	7.353	5.770

Other non-current receivables	December 31, 2017	December 31, 2016
Guarantees and deposits given	81	75
Total other non-current receivables	81	75

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

9. OTHER RECEIVABLES AND PAYABLES FROM THIRD PARTIES (CONTINUED)

As of December 31, 2017 and 2016, other payables to third parties of the Group are as follows:

Other short-term payables	**December 31, 2017**	December 31, 2016
Deposits and guarantees taken	**714**	646
Total other short-term payables	**714**	646

Other long-term payables	**December 31, 2017**	December 31, 2016
Cylinder deposits received	**97.603**	89.489
Total other long-term payables	**97.603**	89.489

10. LIABILITIES FOR EMPLOYEE BENEFITS

As of December 31, 2017 and 2016, liabilities for employee benefits of the Group are as follows:

Liabilities for employee benefits	**December 31, 2017**	December 31, 2016
Payables to personnel	**28.658**	22.545
Employee's income tax payable	**17.238**	14.899
Social security liabilities	**7.295**	5.808
Total liabilities for employee benefits	**53.191**	43.252

11. INVENTORIES

	December 31, 2017	December 31, 2016
Raw materials	**198.909**	108.116
Goods in transit	**107.218**	61.146
Trade goods	**4.968**	8.259
Finished goods	**9.931**	4.813
Work in process	**2.782**	1.962
Allowance for impairment on inventory	**(229)**	(1.053)
Total inventories	**323.579**	183.243

As of December 31, 2017, the inventories compromise of 119.858 tons of LPG (December 31, 2016: 102.232 tons).

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

11. INVENTORIES (CONTINUED)

Movement of allowance for impairment on inventory of the Group is as follows:

Movement of allowance for impairment on inventory	January 1 - December 31, 2017	January 1- December 31, 2016
Opening balance	1.053	1.053
Provision no longer required	(824)	-
Closing balance	229	1.053

12. EQUITY INVESTMENTS

The details of carrying values and consolidation rates subject to equity accounting of equity investments are as follows:

	December 31, 2017		December 31, 2016	
	Participation amount	Participation Rate	Participation amount	Participation Rate
EYAŞ	1.787.658	20,00%	1.497.211	20,00%
Entek	352.443	49,62%	345.289	49,62%
OAGM	133.230	50,00%	79.844	50,00%
	2.273.331		1.922.344	

The movement of equity investments is as follows:

	2017	2016
Opening balance on January 1	1.922.344	1.867.181
Shares of profit/(loss)	388.611	185.165
Shares of other comprehensive income/(loss)	(133)	(63.210)
Dividend income (*)	(87.491)	(87.022)
Participation in share capital increase of equity investment (**)	50.000	-
Effect of prior period adjustments	-	20.230
Closing balance on December 31	2.273.331	1.922.344

(*) EYAŞ dividend income.
(**) Capital increase of OAGM (Note 1).

Shares of profit (loss) of equity investments:

	January 1 - December 31, 2017	January 1 - December 31, 2016
EYAŞ	378.111	167.802
Entek	7.114	14.324
OAGM	3.386	3.039
	388.611	185.165

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

12. EQUITY INVESTMENTS (CONTINUED)

Shares of other comprehensive gains (losses) of equity investments:

	January 1 - December 31, 2017	January 1 - December 31, 2016
EYAŞ (*)	(173)	(63.300)
Entek	40	90
	(133)	(63.210)

(*) TÜPRAŞ, a subsidiary of EYAŞ, designated its investment loans amounting to USD 1.254.421 thousand (TL 4.731.551 thousand) (December 31, 2016 - USD 1.457.823 thousand (TL 5.130.371 thousand)) and derivative instruments amounting to USD 17.118 thousand (TL 64.567 thousand) (December 31, 2016: None) as hedging instrument against USD / TL spot exchange rate risk which is exposed due to highly probable estimated export revenue in USD and, in this context, applies accounting for cash flow hedge. Foreign exchange gains (losses) on investment loans are accounted under "Gains (losses) on hedging" under shareholders' equity until the cash flows of the related hedged item are realized. In addition, within the scope of investment loans of TÜPRAŞ there are interest rate swaps and cross currency interest rate swap transactions which are classified for hedging purposes.

Financial information on Enerji Yatırımları A.Ş., which is accounted in the Group's financial statements according to equity pick-up method is set out below:

Consolidated balance sheet	December 31, 2017	December 31, 2016
Total assets	43.150.924	35.881.268
Total liabilities	(28.128.926)	(23.398.299)
Non-controlling interest	(6.083.709)	(4.996.915)
Net assets	8.938.289	7.486.054
Group's ownership	20%	20%
Group's share in associates' net assets	1.787.658	1.497.211

Consolidated profit or loss statement	January 1 - December 31, 2017	January 1 - December 31, 2016
Revenue	53.948.110	34.854.851
Profit for the period	1.890.553	839.008
Group's share in associates' profit for the period	378.111	167.802

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

12. EQUITY INVESTMENTS (CONTINUED)

Financial information on Entek which is accounted in the Group's financial statements according to equity pick-up method is set out below:

Consolidated balance sheet	December 31, 2017	December 31, 2016
Total assets	987.124	885.681
Total liabilities	(276.840)	(189.815)
Net assets	710.284	695.866
Group's ownership	49,62%	49,62%
Group's share in associates' net assets	352.443	345.289

Consolidated profit or loss statement	January 1 - December 31, 2017	January 1 - December 31, 2016
Revenue	341.253	301.637
Loss for the period	14.336	28.867
Group's share in associates' profit for the period	7.114	14.324

Financial information on Opet Aygaz Gayrimenkul A.Ş., which is accounted in the Group's financial statements according to equity pick-up method is set out below:

Consolidated balance sheet	December 31, 2017	December 31, 2016
Total assets	505.645	397.675
Total liabilities	(239.185)	(237.987)
Net assets	266.460	159.688
Group's ownership	50%	50%
Group's share in associates' net assets	133.230	79.844

Consolidated profit or loss statement	January 1 - December 31, 2017	January 1 - December 31, 2016
Revenue	22.142	18.930
Profit for the period	6.772	6.077
Group's share in associates' profit for the period	3.386	3.039

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements	Buildings	Plant, machinery, equipment and LPG cylinders	Vehicles and vessels	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
Acquisition cost									
Opening balance as of January 1, 2017	16.204	144.540	72.569	1.644.688	260.059	64.085	26.907	16.793	2.245.845
Additions	-	-	-	320	1.153	623	567	109.021	111.684
Transfers (*)	-	16.396	2.944	74.960	3.640	13.157	50	(115.711)	(4.564)
Disposals	(198)	(829)	(56)	(28.145)	(39.145)	(3.380)	(811)	-	(72.564)
Ending balance as of December 31, 2017	16.006	160.107	75.457	1.691.823	225.707	74.485	26.713	10.103	2.280.401
Accumulated depreciation									
Opening balance as of January 1, 2017	-	60.258	51.115	1.285.082	120.725	45.246	25.181	-	1.587.607
Charge of the period	-	5.492	1.961	53.021	14.879	6.852	912	-	83.117
Disposals	-	(753)	(56)	(24.828)	(38.512)	(3.585)	(516)	-	(68.250)
Ending balance as of December 31, 2017	-	64.997	53.020	1.313.275	97.092	48.513	25.577	-	1.602.474
Net book value as of December 31, 2017	16.006	95.110	22.437	378.548	128.615	25.972	1.136	10.103	677.927

(*) TL 4.564 thousand under "Construction in progress" under the account property, plant and equipment has been classified to intangible fixed assets.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land	Land improvements	Buildings	Plant, machinery, equipment and LPG cylinders	Vehicles and vessels	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
Acquisition cost									
Opening balance as of January 1, 2016	16.204	135.114	70.872	1.607.299	251.221	58.489	25.745	17.584	2.182.528
Additions	-	-	-	947	2.494	850	287	94.213	98.791
Transfers (*)	-	12.040	1.754	60.606	8.305	8.620	978	(94.301)	(1.998)
Disposals	-	(2.614)	(57)	(24.164)	(1.961)	(3.874)	(103)	(703)	(33.476)
Ending balance as of December 31, 2016	16.204	144.540	72.569	1.644.688	260.059	64.085	26.907	16.793	2.245.845
Accumulated depreciation									
Opening balance as of January 1, 2016	-	56.107	49.215	1.251.791	106.878	43.475	24.390	-	1.531.856
Charge of the period	-	5.054	1.951	53.646	15.292	4.940	825	-	81.708
Disposals	-	(903)	(51)	(20.355)	(1.445)	(3.169)	(34)	-	(25.957)
Ending balance as of December 31, 2016	-	60.258	51.115	1.285.082	120.725	45.246	25.181	-	1.587.607
Net book value as of December 31, 2016	16.204	84.282	21.454	359.606	139.334	18.839	1.726	16.793	658.238

(*) TL 1.998 thousand under "Construction in progress" under the account property, plant and equipment has been classified to intangible fixed assets..

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As of December 31, 2017 and 2016, the details of depreciation expenses are as follows:

	January 1 - December 31, 2017	January 1 - December 31, 2016
Cost of sales and services rendered	69.246	69.071
General and administrative expenses	8.039	5.979
Selling, marketing and distribution expenses	3.219	4.558
Capitalized on cylinders	2.613	2.100
	83.117	81.708

14. INTANGIBLE ASSETS

	Rights	Total
Acquisition costs		
Opening balance as of January 1, 2017	56.623	56.623
Additions	-	-
Transfers (*)	4.564	4.564
Ending balance as of December 31, 2017	61.187	61.187
Accumulated amortization		
Opening balance as of January 1, 2017	37.504	37.504
Charge for the period	4.403	4.403
Ending balance as of December 31, 2017	41.907	41.907
Carrying value as of December 31, 2017	19.280	19.280

(*) TL 4.564 thousand under "Construction in progress" under the account property, plant and equipment has been classified to intangible fixed assets.

	Rights	Total
Acquisition costs		
Opening balance as of January 1, 2016	54.517	54.517
Additions	108	108
Transfers (*)	1.998	1.998
Ending balance as of December 31, 2016	56.623	56.623
Accumulated amortization		
Opening balance as of January 1, 2016	33.177	33.177
Charge for the period	4.327	4.327
Ending balance as of December 31, 2016	37.504	37.504
Carrying value as of December 31, 2016	19.119	19.119

(*) TL 1.998 thousand under "Construction in progress" under the account property, plant and equipment has been classified to intangible fixed assets.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

14. INTANGIBLE ASSETS (CONTINUED)

As of December 31, 2017 and 2016, the details of amortization expenses of intangible assets are as follows:

	January 1 - December 31, 2017	January 1 - December 31, 2016
General and administrative expenses	4.403	4.327
	4.403	4.327

15. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Guarantees given as of December 31, 2017 and 2016 are as follows:

Guarantees given	December 31, 2017	December 31, 2016
Letter of guarantees given for gas purchase	818.621	796.138
Other letter of guarantees given	36.854	37.602
Total guarantees given	855.475	833.740

The liability for environmental pollution:

According to the effective environmental laws, the Group is responsible for the environmental pollution it causes as a result of its operational activities without seeking a reason of fault. The Group may be fined with indemnity if the Group causes an environmental pollution. There is no case opened for environmental pollution against the Group, accordingly the Group does not have liability related with the environmental pollution cases as of the consolidated balance sheet date.

National inventory liability:

The national petroleum stock is obtained through the liability of the refinery, liquid fuel and LPG distribution licensees to keep minimum 20 times of the average supplied daily product amount at their own storage or licensed storage facilities whether as a whole or separately according to their status.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

15. CONTINGENT ASSETS AND CONTINGENT LIABILITIES (CONTINUED)

The details of the Company's and its subsidiaries' guarantees given or contingent liabilities on the behalf of each other, related parties, parent company or third parties within the context of business operations or other purposes are as follows:

	December 31, 2017					December 31, 2016				
	TL Equivalent of Euro	TL Equivalent of USD	TL Equivalent of Other	TL	Total TL	TL Equivalent of Euro	TL Equivalent of USD	TL Equivalent of Other	TL	Total TL
A. CPMBs given on behalf of the Company's legal personality	51.680	7.295	-	647.544	706.519	45.459	6.489	-	647.263	699.211
B. CPMBs given in favor of subsidiaries included in full consolidation (*)	-	95.576	-	53.380	148.956	-	51.006	-	83.523	134.529
C. CPMBs given by the Company for the liabilities of 3rd parties in order to run ordinary course of business	-	-	-	-	-	-	-	-	-	-
D. Other CPMBs										
i. CPMBs given in favor of parent company	-	-	-	-	-	-	-	-	-	-
ii. CPMBs given in favor of companies not in the scope of B and C above	-	-	-	-	-	-	-	-	-	-
iii. CPMBs given in favor of third party companies not in the scope of C above	-	-	-	-	-	-	-	-	-	-
Total amount of CPMBs	51.680	102.871	-	700.924	855.475	45.459	57.495	-	730.786	833.740

(*) As of December 31, 2017 total amount of commission accrued for guarantees given or contingent liabilities except 'A. CPMBs given on behalf of the Company's legal personality' is TL 633 thousand (December 31, 2016: TL 571 thousand).

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

16. LONG-TERM PROVISION FOR EMPLOYEE BENEFITS

Details of long-term provisions for employee benefits as of December 31, 2017 and 2016 are as follows:

Long term provision for employee benefits	**December 31, 2017**	December 31, 2016
Retirement pay provision	**30.351**	28.282
Vacation pay liabilities	**8.104**	7.415
Total long-term provision for employee benefits	**38.455**	35.697

Retirement pay provision:

Under the Turkish Legislations, 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, is called up for military service, dies or who retires after completing 25 years of service and reaches the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of full TL 4.732,48 (December 31, 2016: TL 4.297,21) for each year of service at December 31, 2017.

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

In accordance with Turkish Labour Code, employment termination benefit is the present value of the total estimated provision for the liabilities of the personnel who may retire in the future. The provision made for present value of determined social relief is calculated by the prescribed liability method. All actuarial profits and losses are accounted in the other comprehensive income statement.

TFRS require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. The Group makes a calculation for the employment termination benefit by applying the prescribed liability method, by the experiences and by considering the personnel who become eligible for pension. This provision is calculated by expecting the present value of the future liability which will be paid for the retired personnel.

Accordingly, the following actuarial assumptions were used in the calculation of the total provision.

	2017	2016
Net discount rate (%)	**4,95**	4,50
Turnover rate related to the probability of retirement (%)	**94,02-97,39**	94,21-97,88

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.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

16. LONG-TERM PROVISION FOR EMPLOYEE BENEFITS (CONTINUED)

The movement of retirement pay provision for the period ended December 31, 2017 and 2016 is as follows:

	2017	2016
Opening balance at January 1	**28.282**	24.469
Increases during the period	**8.616**	8.367
Actuarial (gain) loss	**(1.317)**	117
Payments during the period	**(5.230)**	(4.671)
Closing balance at December 31	**30.351**	28.282

17. OTHER SHORT-TERM PROVISIONS

Other short-term provisions	**December 31, 2017**	December 31, 2016
Provision for other operating expenses	**23.057**	9.963
Provision for lawsuit	**7.714**	5.102
Provision for selling and marketing expenses	**5.451**	4.926
Provision for EMRA contribution	**5.100**	3.422
Provision for warranty expenses	**4.133**	7.646
Total other short-term provisions	**45.455**	31.059

Movement of provision for other operating expenses	**January 1- December 31, 2017**	January 1- December 31, 2016
Opening balance	**9.963**	3.537
Payments during the period	**(2.121)**	(151)
Provision no longer required	**-**	(3.184)
Increases during the period	**15.215**	9.761
Closing balance	**23.057**	9.963

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

18. OTHER CURRENT ASSETS AND LIABILITIES

Other current assets	**December 31, 2017**	December 31, 2016
Deferred VAT	**5.668**	146
Fuel used in shipping operations	**2.625**	2.071
Income accrual	**646**	416
Other current assets	**1.437**	914
Total other current assets	**10.376**	3.547

Other current liabilities	**December 31, 2017**	December 31, 2016
Taxes and funds payable	**111.840**	137.356
Other liabilities	**2.336**	2.006
Total other current liabilities	**114.176**	139.362

19. PREPAID EXPENSES

As of December 31, 2017 and 2016, the details of Group's prepaid expenses in current assets are as follows:

Prepaid expenses	**December 31, 2017**	December 31, 2016
Prepaid expenses	**40.600**	38.035
Advances given(*)	**23.977**	3.131
Total prepaid expenses	**64.577**	41.166

(*) According to the decision of EMRA Board, as of 2017, a storage obligation (%6 of imports) is imposed on the natural gas importing companies. This liability is reflected to the company in accordance with the contract signed with Akfel Gaz. The gas has been invoiced to Akfel and stored by Akfel Gaz in the Botaş Silivri Warehouse. As of December 31, 2017 25 mcm of this stored gas is accounted as "Advances Given" in balance sheet.

As of December 31, 2017 and 2016, the details of Group's prepaid expenses in non-current assets are as follows:

Prepaid expenses	**December 31, 2017**	December 31, 2016
Prepaid expenses	**59.072**	67.193
Advances given	**2**	2
Total prepaid expenses	**59.074**	67.195

As of December 31, 2017 total amount of TL 36.546 thousand (2016: TL 36.202 thousand) presented as prepaid expenses under current assets and total amount of TL 58.647 thousand (2016: TL 66.453 thousand) presented as prepaid expenses under non-current assets are prepayments and investment contribution margin for dealer agreements.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

20. DEFERRED INCOME

Deferred income	December 31, 2017	December 31, 2016
Advances taken	604	1.502
Prepaid income	1.879	985
Total deferred income	**2.483**	2.487

21. SHARE CAPITAL

As of December 31, 2017 and 2016 the share capital held is as follows:

Shareholders	Participation rate	December 31, 2017	Participation rate	December 31, 2016
Temel Ticaret ve Yatırım A.Ş.	5,77%	17.324	5,77%	17.324
Koç Family Members	4,76%	14.265	4,76%	14.265
Total Koç Family Members and companies owned by Koç Family Members	**10,53%**	**31.589**	10,53%	31.589
Koç Holding A.Ş.	40,68%	122.054	40,68%	122.054
Liquid Petroleum Gas Development Company ("LPGDC") (*)	24,52%	73.546	24,52%	73.546
Publicly held (*)	24,27%	72.811	24,27%	72.811
Nominal capital	**100,00%**	**300.000**	100,00%	300.000
Inflation adjustment (**)		71.504		71.504
Adjusted capital		**371.504**		371.504

(*) TL 2.725.041,31 under publicly held shares (0,91% participation rate on the share capital) belong to Hilal Madeni Eşya Ticaret Sanayi ve Yatırım A.Ş., a 100% owned subsidiary of LPGDC.

(**) "Adjustment to share capital" represents the restatement effect of cash and cash equivalent contributions to share capital measured in accordance with the TAS/TFRS promulgated by the POA. "Adjustment to share capital" has no use other than being transferred to paid-in share capital.

Restricted reserves assorted from the profit

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. The second legal reserve is 10% of dividend distributed exceeding %5 of paid-in share capital. According to Turkish Commercial Code, legal reserves may only be used as long as it does not exceed 50% of the paid capital. It may not be used under any circumstances.

The details of the restricted reserves are stated below:

	December 31, 2017	December 31, 2016
Legal reserves	237.241	193.741
Gain on sale of subsidiary share that will be added to capital	12.268	9.808
	249.509	203.549

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

21. SHARE CAPITAL (CONTINUED)

Dividend distribution:

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

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also 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.

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.

The Company's statutory profit for the period and other sources that are subject the profit distribution as of December 31, 2017 amounts to TL 915.341 thousand. (December 31, 2016: TL 1.053.701 thousand). TL 209.043 thousand of such sources from inflation adjustment differences and TL 3.256 thousand from other capital reserves are subject to tax when they are distributed.

Dividends paid

In the Ordinary General Meeting held on March 29, 2017, the Company decided to reserve TL 43.500 thousand as legal reserves and distribute TL 450.000 thousand gross dividends from the net distributable income of 2016. According to this decision, the Company has begun dividend payments on April 5, 2017.

Gains and losses from the revaluation and reclassification of marketable securities:

Gains and losses from the revaluation and reclassification of marketable securities are related with financial assets and details are as follows:

	December 31, 2017	December 31, 2016
Koç Finansal Hizmetler A.Ş.	213.653	157.508
	213.653	157.508

Currency translation adjustment

Currency translation adjustment as of December 31, 2017 represents the Company's share of currency translation adjustment of equity investment.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

21. SHARE CAPITAL (CONTINUED)

Financial risk hedging reserve:

Fair value gains/losses of interest rates swap transactions and cross currency swap transactions carried out with respect to cash flow hedge accounting by TÜPRAŞ., a subsidiary of EYAŞ, are recognized under "Gains (losses) on cash flow hedges". The foreign exchange gains (losses) of loans of TÜPRAŞ defined as hedging instruments against the spot foreign exchange rate risk (USD/TL) associated with highly probable export revenues in USD are recognized under equity in the same account until the cash flows of the related item, which is subject of financial risk hedging reserve, are realized.

Non-controlling interest:

	January 1 - December 31, 2017	January 1 - December 31, 2016
Opening balance	1.094	672
Non-controlling interest on current year profit	-	422
Acquisition of shares from non-controlling interest	(1.094)	-
Closing balance	-	1.094

22. REVENUE AND COST OF SALES

Revenue	January 1 - December 31, 2017	January 1 - December 31, 2016
Domestic sales	7.852.893	6.659.230
Export sales	1.002.048	452.004
Sales returns (-)	(16.549)	(14.925)
Sales discounts (-)	(369.116)	(347.548)
Total revenue, net	8.469.276	6.748.761
Sales of goods and services	7.161.990	5.601.231
Sales of merchandises	1.307.286	1.147.530
Revenue	8.469.276	6.748.761

	January 1 - December 31, 2017	January 1 - December 31, 2016
Cost of goods sold and services rendered:		
Raw materials used	6.223.501	4.714.450
Production overheads	127.184	108.357
Depreciation expenses	69.246	69.071
Personnel expenses	71.285	66.483
Change in work in process inventories	(819)	(300)
Change in finished goods inventories	(3.394)	5.862
	6.487.003	4.963.923
Cost of merchandises sold	1.241.136	998.292
Total cost of sales	7.728.139	5.962.215

AYGAZ ANONIM SIRKETI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017 (CONTINUED)

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

23. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES

	January 1 - December 31, 2017	January 1 - December 31, 2016
General administrative expenses	**204.627**	194.586
Marketing expenses	**285.377**	276.395
Research and development expenses	**3.652**	4.585
Total	**493.656**	475.566

23. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES (CONTINUED)

a) Detail of general administrative expenses

	January 1 - December 31, 2017	January 1 - December 31, 2016
Personnel expenses	**99.913**	84.868
Consultancy expenses	**15.445**	15.391
Depreciation and amortization expenses	**12.442**	10.306
Information technology expenses	**10.464**	9.387
Insurance expenses	**8.320**	7.419
Donation and aids	**7.328**	7.761
Transportation expenses	**6.709**	5.855
Tax expenses	**5.233**	11.452
Maintenance expenses	**4.551**	4.281
Attendance fees	**3.501**	3.179
Lawsuit, consultancy and auditing expenses	**3.453**	6.963
Communication expenses	**3.439**	3.930
Rent expenses	**2.556**	2.541
Post office expenses	**1.613**	1.676
Public relations activities expenses	**1.796**	1.476
Other administrative expenses	**17.864**	18.101
Total general administrative expenses	**204.627**	194.586

b) Detail of marketing expenses

	January 1 - December 31, 2017	January 1 - December 31, 2016
Transportation, distribution and warehousing expenses	**135.439**	121.694
Sales expenses	**68.584**	59.471
Personnel expenses	**42.933**	41.981
Advertising and promotion expenses	**21.215**	37.478
Transportation expenses	**8.856**	7.744
License expenses	**5.100**	3.422
Depreciation and amortization expenses	**3.219**	4.558
Other marketing expenses	**31**	47
Total marketing expenses	**285.377**	276.395

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

23. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES (CONTINUED)

c) Detail of research and development expenses

	January 1 - December 31, 2017	January 1 - December 31, 2016
Outsourced research and development expenses	**3.652**	4.585
Total research and development expenses	**3.652**	4.585

24. EXPENSES RELATED TO THEIR NATURE

	January 1 - December 31, 2017	January 1 - December 31, 2016
Personnel expenses	**142.846**	126.849
Transportation, distribution and warehousing expenses	**135.439**	121.694
Sales expenses	**68.584**	59.471
Advertising and promotion expenses	**21.215**	37.478
Depreciation and amortization expenses	**15.661**	14.864
Transportation expenses	**15.565**	13.599
Consultancy expenses	**15.445**	15.391
Information technology expenses	**10.464**	9.387
Donation and aids	**7.328**	7.761
Insurance expenses	**8.320**	7.419
Tax expenses	**5.233**	11.452
License expenses	**5.100**	3.422
Maintenance expenses	**4.551**	4.281
Outsourced research and development expenses	**3.652**	4.585
Attendance fees	**3.501**	3.179
Lawsuit, consultancy and auditing expenses	**3.453**	6.963
Communication expenses	**3.439**	3.930
Rent expenses	**2.556**	2.541
Public relations activities expenses	**1.796**	1.476
Other	**19.508**	19.824
Total	**493.656**	475.566

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(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

25. OTHER OPERATING INCOME/EXPENSES

Other operating income for the years ended as of December 31, 2017 and 2016 are as follows:

Other operating income	January 1 - December 31, 2017	January 1 - December 31, 2016
Income generated from maturity differences of sales	59.014	18.455
Foreign exchange gains arising from trading activities	57.255	36.719
Demurrage income	5.767	1.443
Provisions no longer required	5.472	4.975
Gain on sale of scrap	4.395	1.537
Rent income	3.888	2.372
Income from port services	3.721	2.420
LPG pipeline usage income	1.565	1.201
Fair value differences on forward transactions	-	7.800
Other income and profits	17.237	16.760
Total	158.314	93.682

Other operating expenses for the years ended as of December 31, 2017 and 2016 are as follows:

Other operating expenses	January 1 - December 31, 2017	January 1 - December 31, 2016
Foreign exchange losses arising from trading activities	71.054	57.918
Expenses from maturity differences of purchases on credit	43.873	11.026
Provision expenses	17.005	12.370
Goodwill expenses	1.003	520
Fair value differences on forward transactions	214	3.001
Warranty expenses	-	6.372
Other expenses and losses	7.922	5.443
Total	141.071	96.650

26. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Income from investment activities	January 1 - December 31, 2017	January 1 - December 31, 2016
Income from sales of property, plant and equipment	21.939	1.015
Dividend income from financial investments	296	264
Total	22.235	1.279

Expenses from investment activities	January 1 - December 31, 2017	January 1 - December 31, 2016
Expenses from sales of property, plant and equipment	5.430	30
Total	5.430	30

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

27. FINANCIAL INCOME

Financial income for the years ended as of December 31, 2017 and 2016 are as follows:

Financial income	January 1 - December 31, 2017	January 1 - December 31, 2016
Interest income	46.290	33.501
Foreign exchange gains	34.340	35.220
Fair value differences on swap transactions	9.098	22.742
Total	89.728	91.463

28. FINANCIAL EXPENSE

Financial expense for the years ended as of December 31, 2017 and 2016 are as follows:

Financial expense	January 1 - December 31, 2017	January 1 - December 31, 2016
Interest expenses	98.488	64.062
Foreign exchange losses	40.617	53.009
Total	139.105	117.071

29. TAX ASSETS AND LIABILITIES

	December 31, 2017	December 31, 2016
Current tax liability		
Current corporate tax provision	42.517	71.421
Less: Prepaid taxes and funds	(43.142)	(66.996)
Current tax liability	(625)	4.425

Tax expenses	January 1- December 31, 2017	January 1- December 31, 2016
- Current corporate tax provision	(42.517)	(50.902)
- Deferred tax	(1.227)	(1.824)
Total	(43.744)	(52.726)

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

29. TAX ASSETS AND LIABILITIES (CONTINUED)

Corporate tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective rate of tax in 2017 is 20% (2016: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate in 2017 is 20% (2016: 20%). Losses are allowed to be carried 5 years maximum to be deducted from the taxable profit of the following years. Tax carry back is not allowed.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Deferred tax

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between the financial statements as reported for TAS/TFRS purposes issued by POA and financial statements prepared in accordance with the tax legislation. These differences arise from the differences in accounting periods for the recognition of income and expenses in accordance with TAS/TFRS and tax legislation.

In accordance with the regulation numbered 7061, published in Official Gazette on December 5, 2017, "Law Amending Certain Tax Laws and Certain Other Laws", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of
December 31, 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards (December 31, 2016 – 20%).

Deferred tax (assets)/liabilities:	**December 31, 2017**	December 31, 2016
Restatement and depreciation/amortization differences of property, plant and equipment and other intangible assets	**40.646**	36.843
Revaluation of available-for-sale financial assets	**11.245**	8.290
Provision for employment termination benefits	**(5.846)**	(5.437)
Valuation of inventories	**238**	548
Other	**(2.345)**	(742)
	43.938	39.502

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

29. TAX ASSETS AND LIABILITIES (CONTINUED)

In Turkey, since the companies cannot declare consolidated tax refund, subsidiaries with deferred tax assets and subsidiaries with deferred tax liabilities cannot be netted off and are shown separately.

	December 31, 2017			December 31, 2016		
			Deferred tax			Deferred tax
	Assets	Liabilities	Net	Assets	Liabilities	Net
Aygaz A.Ş.	(15.744)	59.373	43.629	(11.425)	50.486	39.061
Akpa A.Ş.	(890)	205	(685)	(896)	197	(699)
Aygaz Doğal Gaz	(555)	1.549	994	(480)	1.620	1.140
	(17.189)	61.127	43.938	(12.801)	52.303	39.502

Movement of deferred tax assets and liabilities are as follows:

Movement of deferred tax (assets)/liabilities :	2017	2016
Opening balance on January 1	39.502	38.194
Deferred tax expense/(income)	1.227	1.824
Deferred tax income/(expense) reflected in the comprehensive income statement:	3.209	(516)
Gains (losses) remeasurement on defined benefit plans	*254*	*(23)*
Gains (losses) on the revaluation and/or reclassification of available-for-sale financial assets	*2.955*	*(493)*
Closing balance on December 31	43.938	39.502

Tax reconciliation :

	January 1 - December 31, 2017	January 1 - December 31, 2016
Profit before tax	620.763	468.818
Income tax rate	20%	20%
Expected tax expense	124.153	93.764
Tax effects of:		
-revenue that is exempt from taxation (investments accounted under equity method)	(77.722)	(37.033)
-expenses that are not deductible in determining taxable profit	1.621	2.927
-tax losses	(5.254)	-
-other	946	(6.932)
Tax expense in the statement of profit or loss	43.744	52.726

30. EARNINGS PER SHARE

	January 1 - December 31, 2017	January 1 - December 31, 2016
Average number of ordinary shares outstanding during the period (one thousand)	300.000	300.000
Net profit for the year attributable equity holders of the parent company	577.019	415.670
Earnings per thousand shares (TL)	1,923397	1,385567

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31. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

A company is defined as a related party of the Company, if one of the companies has control power on the other company or has a significant impact on financial and administrative decisions of the other company. The Company is controlled by Koç Holding, Koç Family or entities owned by Koç Family. In financial statements, shareholder companies, shareholders and financial investments and other Group companies' assets are shown as related parties. As of December 31, 2017; dividends payable amounting to TL 863 thousand (December 31, 2016-TL 667 thousand) is reflected within other payables to related parties which are excluded from Koç Group under short-term liabilities at the consolidated balance sheet.

				December 31, 2017
		Receivables		Payables
Balances with related parties	Trade	Non-trade	Trade	Non-trade
Group companies (*)				
Türkiye Petrol Rafinerileri A.Ş.	12.920	-	88.413	-
Demir Export A.Ş.	12.402	-	8	-
Ford Otomotiv Sanayi A.Ş.	1.968	-	-	-
Arçelik A.Ş.	1.205	-	-	-
Demir Export A.Ş. - Fernas İnşaat A.Ş. Adi Ortaklığı	966	-	-	-
Tofaş Türk Otomobil Fabrikası A.Ş.	879	-	-	-
Körfez Hava Ulaştırma A.Ş.	781	-	-	-
Tat Gıda Sanayi A.Ş.	539	-	-	-
Opet Petrolcülük A.Ş.	295	-	40.375	-
Otokoç Otomotiv Tic. ve San. A.Ş.	-	-	2.654	-
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	-	4.439	-
Zer Merkezi Hizmetler ve Ticaret A.Ş. (**)	-	-	6.758	-
Ram Dış Ticaret A.Ş.	-	-	13.651	-
Other	1.382	-	3.971	-
Shareholders				
Koç Holding A.Ş.	-	-	5.642	-
Investments accounted under the equity method				
Entek Elektrik Üretimi A.Ş.	6.017	-	-	-
	39.354	-	165.911	-

				December 31, 2016
		Receivables		Payables
Balances with related parties	Trade	Non-trade	Trade	Non-trade
Group companies (*)				
Türkiye Petrol Rafinerileri A.Ş.	21.766	-	65.531	-
Demir Export A.Ş.	8.588	-	-	-
Arçelik A.Ş.	1.810	-	143	-
Tofaş Türk Otomobil Fabrikası A.Ş.	1.579	-	-	-
Ford Otomotiv Sanayi A.Ş.	1.376	-	-	-
Tat Gıda Sanayi A.Ş.	588	-	-	-
Demir Export A.Ş. - Fernas İnşaat A.Ş. Adi Ortaklığı	438	-	-	-
Opet Petrolcülük A.Ş.	256	-	35.240	-
Otokoç Otomotiv Tic. ve San. A.Ş.	-	-	3.192	-
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	-	1.905	-
Zer Merkezi Hizmetler ve Ticaret A.Ş. (**)	-	-	9.745	-
Ram Dış Ticaret A.Ş.	-	-	11.239	-
Other	1.486	-	3.681	-
Shareholders				
Koç Holding A.Ş.	-	-	4.996	-
Investments accounted under the equity method				
Entek Elektrik Üretimi A.Ş.	7	-	422	-
	37.894	-	136.094	-

(*) Group companies include Koç Group companies.
(**) Zer Merkezi Hizmetler ve Ticaret A.Ş. ("Zer") provides purchasing services for various item to the Group. As of balance sheet date, trade payables consist of Group's payables to third party intermediary service companies and payables to Zer for commissions for intermediary activities.

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(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

31. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

			January 1 - December 31, 2017	
Transactions with related parties	**Purchases (Goods)**	**Sales (Goods)**	**Purchases (Service)**	**Sales (Service)**
Group companies (*)				
Türkiye Petrol Rafinerileri A.Ş.	970.425	439.566	3.814	-
Opet Petrolcülük A.Ş.(**) (***)	225.417	3.634	108.402	-
Ram Dış Ticaret A.Ş.	34.739	-	55	-
Zer Merkezi Hizmetler ve Ticaret A.Ş.	20.725	97	20.418	-
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	202	59	8.254	-
Otokoç Otomotiv Tic. ve San. A.Ş.	5	604	708	-
Arçelik A.Ş.	2	13.033	-	-
Demir Export A.Ş.	-	51.958	7	-
Ford Otomotiv Sanayi A.Ş.	-	20.021	-	-
Tat Gıda Sanayi A.Ş.	-	12.320	-	-
Setur Servis Turistik A.Ş.	-	59	8.520	-
Tanı Pazarlama ve İletişim Hizmetleri A.Ş.	-	10	2.773	-
Other	4.995	30.655	3.233	-
Shareholders				
Koç Holding A.Ş. (****)	-	52	15.602	-
Temel Ticaret ve Yatırım A.Ş.	-	3	-	-
Koç Family Members	-	62	-	-
Investments accounted under the equity method				
Entek Elektrik Üretimi A.Ş.	8	67.307	4.289	-
	1.256.518	639.440	176.075	-

			January 1 - December 31, 2016	
Transactions with related parties	Purchases (Goods)	Sales (Goods)	Purchases (Service)	Sales (Service)
Group companies (*)				
Türkiye Petrol Rafinerileri A.Ş.	720.882	435.222	3.253	-
Opet Petrolcülük A.Ş.(**) (***)	169.329	1.869	117.491	-
Arçelik A.Ş.	20.449	13.475	76	-
Ram Dış Ticaret A.Ş.	26.327	1.232	131	-
Zer Merkezi Hizmetler ve Ticaret A.Ş.	22.404	26	29.849	-
Otokoç Otomotiv Tic. ve San. A.Ş.	192	335	759	-
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	68	6.952	-
Tanı Pazarlama ve İletişim Hizmetleri A.Ş.	-	7	2.743	-
Ford Otomotiv Sanayi A.Ş.	-	15.887	-	-
Demir Export A.Ş.	-	37.071	49	-
Tat Gıda Sanayi A.Ş.	-	13.828	-	-
Setur Servis Turistik A.Ş.	-	62	7.317	-
Other	3.997	24.398	2.632	-
Shareholders				
Koç Holding A.Ş. (****)	-	44	15.866	-
Temel Ticaret ve Yatırım A.Ş.	-	3	-	-
Koç Family Members	-	58	-	-
Investments accounted under the equity method				
Entek Elektrik Üretimi A.Ş.	-	27	4.110	-
	963.580	543.612	191.228	-

(*) Group companies include Koç Group companies.

(**) Commission expense regarding LPG sold at Opet stations as of December 31, 2017 is TL 107.826 thousand (December 31, 2016 - TL 116.580 thousand). The commission expense mentioned above is evaluated as part of sales and accounted under profit or loss statement as sales discounts.

(***) Though not presented at transactions with related parties, so as to fulfil fuel and auto gas sales exclusively and on the basis of station, prepayments and/or infrastructural investments are made directed for sales under "Agreement of Auto Gas Sales at Gas Stations" between Aygaz and Opet. Prepayments are presented under prepaid expenses in consolidated statement of financial position and are periodically amortized based on duration of dealer agreements. Prepayments and investment contribution margin amounting to TL 30.856 thousand has been made to Opet in 2017 in consideration of 5 years sale agreement on average to be paid to Aygaz Dealers making auto gas sales at Opet stations (2016: TL 24.488 thousand).

(****) Billed remuneration for services such as finance, law, planning, tax and senior management provided by Koç Holding, the main shareholder, to Group companies, service expenses including personnel and senior management as a result of arrangement of 1st Serial Number of General Communique About Transfer Pricing Through Hidden Income Distribution's "11- In Group Services".

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

31. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

			January 1 - December 31, 2017	
Tangible asset and rent transactions with related parties	**Rent income**	**Rent expense**	**Tangible and intangible asset purchases**	**Tangible asset sales**
Group companies (*)				
Opet Petrolcülük A.Ş.	566	25	-	-
Yapı Kredi Bankası A.Ş.	-	-	-	-
Otokoç Otomotiv Tic. ve San. A.Ş.	-	6.963	883	211
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	-	7.424	1
Zer Merkezi Hizmetler ve Ticaret A.Ş.	-	-	384	-
Türkiye Petrol Rafinerileri A.Ş.	-	16	-	-
Arçelik A.Ş.	-	-	65	-
Other	-	1	-	6
Shareholders				
Koç Family Members	-	670	-	-
Temel Ticaret ve Yatırım A.Ş.	-	703	-	-
	566	8.378	8.756	218

			January 1 - December 31, 2016	
Tangible asset and rent transactions with related parties	Rent income	Rent expense	Tangible and intangible asset purchases	Tangible asset sales
Group companies (*)				
Opet Petrolcülük A.Ş.	568	23	1.044	-
Yapı Kredi Bankası A.Ş.	-	112	-	-
Otokoç Otomotiv Tic. ve San. A.Ş.	-	5.837	1.627	465
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	-	2.058	-
Ford Otomotiv Sanayi A.Ş.	-	-	673	-
Zer Merkezi Hizmetler ve Ticaret A.Ş.	-	-	139	-
Türkiye Petrol Rafinerileri A.Ş.	-	18	-	-
Arçelik A.Ş.	-	-	28	-
Other	-	-	37	1
Shareholders				
Koç Family Members	-	503	-	-
Temel Ticaret ve Yatırım A.Ş.	-	486	-	-
	568	6.979	5.606	466

(*) Group companies include Koç Group companies.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

31. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

				January 1 - December 31, 2017
Financial and other transactions with related parties	**Financial income**	**Financial expense**	**Other income**	**Other expense**
Group companies (*)				
Yapı Kredi Bankası A.Ş.	55.191	17.113	-	-
Vehbi Koç Vakfı	-	-	-	6.503
Opet Petrolcülük A.Ş.	-	-	-	1.020
Ram Dış Ticaret A.Ş.	-	-	275	351
Tat Gıda Sanayi A.Ş.	-	-	21	-
Zer Merkezi Hizmetler ve Ticaret A.Ş.	-	-	14	272
Rahmi Koç Müzesi	-	-	-	10
Koç Üniversitesi	-	-	-	360
Other	-	-	3	413
	55.191	17.113	313	8.929

				January 1 - December 31, 2016
Financial and other transactions with related parties	Financial income	Financial expense	Other income	Other expense
Group Companies (*)				
Yapı Kredi Bankası A.Ş.	41.123	9.237	-	-
Vehbi Koç Vakfı	-	-	-	5.625
Opet Petrolcülük A.Ş.	-	-	-	189
Ram Dış Ticaret A.Ş.	-	-	250	264
Tat Gıda Sanayi A.Ş	-	-	14	-
Zer Merkezi Hizmetler ve Ticaret A.Ş.	-	-	549	-
Rahmi Koç Müzesi	-	-	-	950
Koç Üniversitesi	-	-	-	547
Other	-	-	-	172
	41.123	9.237	813	7.747

Cash at banks	**December 31, 2017**	December 31, 2016
Group companies (*)		
Yapı Kredi Bankası A.Ş.	389.735	391.514

Credit card receivables	**December 31, 2017**	December 31, 2016
Group companies (*)		
Yapı Kredi Bankası A.Ş.	44.220	35.276

Bank loans	**December 31, 2017**	December 31, 2016
Group companies (*)		
Yapı Kredi Bankası A.Ş.	24.331	-

(*) Group companies include Koç Group companies.

Benefits to Top Management:

The Company has determined senior manager squad as Board of Directors' members, General Manager, Vice General Managers and Directors directly reporting to General Manager.

Benefits to top management personnel includes salaries, premiums, SSI employer's contribution, employer's contribution of unemployment insurance and the attendance fees of board of directors.

As of December 31, 2017, total benefit provided to senior management of the Company is TL 36.723 thousand (December 31, 2016: TL 31.662 thousand). In this amount there is no payment to senior management due to their leave, the total amount is consist of short term benefits (December 31, 2016: none).

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS

a) Capital risk management

The Company's objectives when managing capital are to safeguard the Company'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 rearrange capital structure, the Company can return back capital to shareholders, issue new shares and sale assets in order to decrease debt requirement.

The Group controls its capital using the net financial debt/total equity ratio parallel to other companies in the sector. This ratio is the calculated as net debt divided by the equity amount. Net debt is calculated as total financial debt amount less cash and cash equivalents.

Risk management is managed by treasury department based on the policies approved by the Board of Directors. Group's treasury department defines and reviews the financial risk and uses tools to minimize the risk by collaborating with Group's operational units based on such risk policies. Board of Directors prepares written procedures or general policies related with the risk management including currency risk, interest risk, using of derivative and non-derivative instruments and to evaluate cash surplus.

	December 31, 2017	December 31, 2016
Total short-term and long-term borrowings	**973.270**	630.510
Less: Cash and cash equivalents	**(593.172)**	(567.728)
Net financial debt	**380.098**	62.782
Total shareholder's equity	**2.923.063**	2.741.557
Net financial debt/equity ratio	**13,0%**	2,3%

b) Financial risk factors

The risks of the Group resulted from operations, include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's risk management program generally seeks to minimize the effects of uncertainty in financial market on financial performance of the Group. The Group uses derivative financial instruments in order to safeguard itself from different financial risks.

b.1) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group manages this risk by the credit limits up to the guarantees received from customers. The usage of credit limits are monitored by the Group according to the customer's credibility is evaluated continuously.

Trade receivables consist of many customers that operate in various industries and locations. Credit risk of the receivables from counterparties is evaluated perpetually.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk of financial instruments

	Receivables					
	Trade receivables		Other receivables			
December 31, 2017	Related party	Third party	Related party	Third Party	Deposits inbanks	Credit card receivables
Maximum exposed credit risk as of reporting date (*)	39.354	545.766	-	7.434	546.687	46.023
- The part of maximum risk under guarantee with collateral etc.	-	366.075	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	39.354	501.072	-	7.434	546.687	46.023
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	-	44.694	-	-	-	-
- The part under guarantee with collateral etc.	-	6.256	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross carrying amount)	-	25.626	-	-	-	-
- Impairment (-)	-	(25.626)	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

(*) Amounts show the maximum credit risk as of balance sheet date, without considering the guarantees or other items increasing credit security.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk of financial instruments

	Receivables					
	Trade receivables		Other receivables			
December 31, 2016	Related party	Third party	Related party	Third Party	Deposits in banks	Credit card receivables
Maximum exposed credit risk as of reporting date (*)	37.894	442.405	-	5.845	529.762	37.608
- The part of maximum risk under guarantee with collateral etc.	-	297.200	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	37.894	390.841	-	5.845	529.762	37.608
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	-	51.564	-	-	-	-
- The part under guarantee with collateral etc.	-	5.072	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross carrying amount)	-	23.667	-	-	-	-
- Impairment (-)	-	(23.667)	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

(*) Amounts show the maximum credit risk as of balance sheet date, without considering the guarantees or other items increasing credit security.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (CONTINUED)

December 31, 2017	**Trade receivables**	**Other receivables**	**Deposits in banks**	**Derivative instruments**	**Other**	**Total**
Past due 1-30 days	**37.530**	-	-	-	-	**37.530**
Past due 1-3 months	**6.648**	-	-	-	-	**6.648**
Past due 3-12 months	**232**	-	-	-	-	**232**
Past due 1-5 years	**284**	-	-	-	-	**284**
Past due more than 5 years	-	-	-	-	-	-
Total past due	**44.694**	-	-	-	-	**44.694**
The part under guarantee with collateral	**6.256**	-	-	-	-	**6.256**

December 31, 2016	Trade receivables	Other receivables	Deposits in banks	Derivative instruments	Other	Total
Past due 1-30 days	44.858	-	-	-	-	44.858
Past due 1-3 months	5.699	-	-	-	-	5.699
Past due 3-12 months	662	-	-	-	-	662
Past due 1-5 years	345	-	-	-	-	345
Past due more than 5 years	-	-	-	-	-	-
Total past due	51.564	-	-	-	-	51.564
The part under guarantee with collateral	5.072	-	-	-	-	5.072

AYGAZ ANONIM SIRKETI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017 (CONTINUED)

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (CONTINUED)

b.2) Liquidity risk management

Liquidity risk management responsibility mainly belongs to the Board of Directors. The Board of Directors has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk forecasts and actual cash flows, by monitoring continuously and by maintaining adequate funds and reserve borrowings as matching the maturity profile of financial assets and liabilities.

The following table presents the maturity of Group's financial liabilities. The tables have been drawn up based on the undiscounted cash flows of non-derivative financial liabilities based on the earliest date on which the Group can be required to pay. Derivative financial liabilities are presented according to undiscounted net cash inflow and cash outflow. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instrument that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amounts of the payables or receivables are not fixed, the disclosed amount has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

December 31, 2017

Contractual maturity analysis	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Short term and long term borrowings(*)	973.270	1.142.488	257.876	151.516	733.096	-
Trade payables	670.034	670.034	670.034	-	-	-
Liabilities for employee benefits	53.191	53.191	53.191	-	-	-
Other payables	99.180	99.180	1.577	-	-	97.603
Other liabilities	114.176	114.176	114.176	-	-	-
	1.909.851	2.079.069	1.096.854	151.516	733.096	97.603

Derivative Instruments (*)	Carrying value	Cash flow according to contract	Less than 3 months	3-12 months	1-5 years	More than 5 years
Derivative cash inflows		188.407	60.350	38.217	89.840	-
Derivative cash outflows		(177.049)	(60.941)	(37.538)	(78.570)	-
Derivative instruments, net	31.626	11.358	(591)	679	11.270	-

(*) The amounts are cash flows based on contract, which have not been discounted.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (CONTINUED)

December 31, 2016						
Contractual maturity analysis	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Short term and long term borrowings(*)	630.510	701.978	147.777	100.473	453.728	-
Trade payables	470.731	470.731	470.731	-	-	-
Liabilities for employee benefits	43.252	43.252	43.252	-	-	-
Other payables	90.812	90.812	1.323	-	-	89.489
Other liabilities	139.362	139.362	139.362	-	-	-
	1.331.415	1.402.883	759.193	100.473	453.728	89.489

Derivative Instruments (*)	Carrying value	Cash flow according to contract	Less than 3 months	3-12 months	1-5 years	More than 5 years
Derivative cash inflows		123.274	-	4.269	119.005	-
Derivative cash outflows		(123.183)	-	(12.391)	(110.792)	-
Derivative instruments, net	22.742	91	-	(8.122)	8.213	-

(*) The amounts are cash flows based on contract, which have not been discounted.

b.3) Market risk management

The Group's activities are exposed to a variety of financial risks including foreign currency risk and interest rate risk as explained below. The Group uses derivative financial instruments to hedge certain risk exposures in order to manage foreign currency and interest rate risks. These instruments are:

1. Foreign exchange forward purchase agreements to manage exposure to liabilities denominated in foreign currencies.
2. Foreign exchange purchase options to manage exposure to liabilities denominated in foreign currencies.
3. Principal and interest swap agreements to manage exposure to liabilities denominated in foreign currencies.

At the Group level market risk exposures are measured by sensitivity analysis and stress scenarios.

There has been no change in the Group's exposure to market risks or the manner which it manages and measures the risk compared to the previous year.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (CONTINUED)

b.3.1) Foreign currency risk management

Transactions in terms of foreign currency cause the Group expose to foreign exchange risk. The Group controls foreign currency risk coming from its operations and cash flows of finance contracts by using "foreign exchange forward contracts".

The Group's monetary and non-monetary assets and liabilities in terms of foreign currencies are as follows:

December 31, 2017		**Total TL equivalent**	**TL equivalent of USD**	**TL equivalent of Euro**	**TL equivalent of other**
1.	Trade receivables	80.040	75.617	4.423	-
2.a	Monetary financial assets	165.189	164.662	396	131
2.b	Non-monetary financial assets	-	-	-	-
3.	Other	386	312	74	-
4.	**Current assets**	**245.615**	**240.591**	**4.893**	**131**
5.	Trade receivables	-	-	-	-
6.a	Monetary financial assets	-	-	-	-
6.b	Non-monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	**Non-current assets**	-	-	-	-
9.	**Total assets**	**245.615**	**240.591**	**4.893**	**131**
10.	Trade payables	(425.698)	(423.268)	(2.326)	(104)
11.	Financial liabilities	(48.381)	(48.381)	-	-
12.a	Other monetary financial liabilities	-	-	-	-
12.b	Other non-monetary financial liabilities	(105)	(105)	-	-
13.	**Current liabilities**	**(474.184)**	**(471.754)**	**(2.326)**	**(104)**
14.	Trade payables	-	-	-	-
15.	Financial liabilities	(147.104)	(147.104)	-	-
16.a	Other monetary financial liabilities	-	-	-	-
16.b	Other non-monetary financial liabilities	-	-	-	--
17.	**Non-current liabilities**	**(147.104)**	**(147.104)**	**-**	**-**
18.	**Total liabilities**	**(621.288)**	**(618.858)**	**(2.326)**	**(104)**
19.	Net asset/liability position of off balance sheet asset and liabilities (19a-19b)	179.165	179.165	-	-
19.a	Total derivative assets	179.165	179.165	-	-
19.b	Total derivative liabilities	-	-	-	-
20.	**Net foreign currency asset/liability position (9+18+19)**	**(196.508)**	**(199.102)**	**2.567**	**27**
21.	**Net foreign currency asset/liability position of monetary items (1+2a+5+6a+10+11+12a+14+15+16a)**	**(375.954)**	**(378.474)**	**2.493**	**27**
22.	Fair value of derivative instruments held for hedging	-	-	-	-
23.	Hedged foreign currency assets	-	-	-	-
24.	Hedged foreign currency liabilities	-	-	-	-
25.	Export	1.022.953	1.007.742	15.211	-
26.	Import	3.145.959	3.131.351	13.697	911

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (CONTINUED)

December 31, 2016		Total TL equivalent	TL equivalent of USD	TL equivalent of Euro	TL equivalent of other
1.	Trade receivables	48.900	38.405	10.495	-
2.a	Monetary financial assets	171.528	171.027	231	270
2.b	Non-monetary financial assets	-	-	-	-
3.	Other	273	212	61	-
4.	Current assets	220.701	209.644	10.787	270
5.	Trade receivables	-	-	-	-
6.a	Monetary financial assets	-	-	-	-
6.b	Non-monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	Non-current assets	-	-	-	-
9.	Total assets	220.701	209.644	10.787	270
10.	Trade payables	(232.463)	(228.048)	(3.693)	(722)
11.	Financial liabilities	(13.554)	(13.554)	-	-
12.a	Other monetary financial liabilities	-	-	-	-
12.b	Other non-monetary financial liabilities	(87)	(56)	(31)	-
13.	Current liabilities	(246.104)	(241.658)	(3.724)	(722)
14.	Trade payables	-	-	-	-
15.	Financial liabilities	(181.239)	(181.239)	-	-
16.a	Other monetary financial liabilities	-	-	-	-
16.b	Other non-monetary financial liabilities	-	-	-	-
17.	Non-current liabilities	(181.239)	(181.239)	-	-
18.	Total liabilities	(427.343)	(422.897)	(3.724)	(722)
19.	Net asset/liability position of off balance sheet asset and liabilities (19a-19b)	110.855	110.855	-	-
19.a	Total derivative assets	110.855	110.855	-	-
19.b	Total derivative liabilities	-	-	-	-
20.	Net foreign currency asset/liability position (9+18+19)	(95.787)	(102.398)	7.063	(452)
21.	Net foreign currency asset/liability position of monetary items (1+2a+5+6a+10+11+12a+14+15+16a)	(206.828)	(213.409)	7.033	(452)
22.	Fair value of derivative instruments held for hedging	-	-	-	-
23.	Hedged foreign currency assets	-	-	-	-
24.	Hedged foreign currency liabilities	-	-	-	-
25.	Export	466.656	436.982	28.603	1.071
26.	Import	1.767.217	1.751.967	13.076	2.174

Group's consolidated assets and liabilities denominated in foreign currency are as follows:

	December 31, 2017	December 31, 2016
Assets	245.615	220.701
Liabilities	(621.288)	(427.343)
Net asset/liability position	**(375.673)**	(206.642)
Derivative instruments net position	179.165	110.855
Net foreign currency asset/liability position	**(196.508)**	(95.787)
Inventories under the natural hedge (*)	262.730	145.368
Net foreign currency position after the natural hedge	**66.222**	49.581

(*)The Group manages its foreign currency risk by regularly considering and reflecting the foreign exchange rate changes in the determination of product prices (natural hedge). As of December 31, 2017, the Group has LPG amounting to TL 262.730 thousand (December 31, 2016: TL 145.368 thousand).

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency sensitivity:

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

The following table details the Group's sensitivity to a 10% increase and decrease in the USD and Euro. 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 only includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

A positive number indicates an increase in profit/loss and other equity accounts.

				December 31, 2017
		Income/Expense		Equity
	Foreign exchange appreciation	Foreign exchange depreciation	Foreign exchange appreciation	Foreign exchange depreciation
10% fluctuation of USD rate				
USD net asset/liability	(37.847)	37.847	(37.847)	37.847
Secured portion from USD risk	17.917	(17.917)	17.917	(17.917)
USD net effect	(19.930)	19.930	(19.930)	19.930
10% fluctuation of Euro rate				
Euro net asset/liability	249	(249)	249	(249)
Secured portion from Euro risk	-	-	-	-
Euro net effect	249	(249)	249	(249)
Total	(19.681)	19.681	(19.681)	19.681

				December 31, 2016
		Income/Expense		Equity
	Foreign exchange appreciation	Foreign exchange depreciation	Foreign exchange appreciation	Foreign exchange depreciation
10% fluctuation of USD rate				
USD net asset/liability	(21.341)	21.341	(21.341)	21.341
Secured portion from USD risk	11.086	(11.086)	11.086	(11.086)
USD net effect	(10.255)	10.255	(10.255)	10.255
10% fluctuation of Euro rate				
Euro net asset/liability	703	(703)	703	(703)
Secured portion from Euro risk	-	-	-	-
Euro net effect	703	(703)	703	(703)
Total	(9.552)	9.552	(9.552)	9.552

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (CONTINUED)

Currency forward agreements

Currency forward agreements which are valid as of December 31, 2017 are summarized at the table below. The Group has no currency forward agreement as of December 31, 2016.

					December 31, 2017
Maturity	Parity	Type of contract	Transactions	Total amount	Currency
19 days	3,6347-3,9290	Forward	Sells TL, Buys USD	16.000	USD

Swap agreements

As of December 31, 2017 the Group has swap agreement amounting to TL 91.350 thousand with fixed interest rate of 13,415% in return for USD 31.500 thousand with a floating interest rate of six-month USDLIBOR +2,4%. Swap transaction has half yearly interest payments and principal repayments will start on June 25, 2018. The maturity date of principal repayments is June 24, 2021.

b.3.2) Interest rate risk management

The Group is exposed to interest rate risk due to the effect of changes in interest rates on the Group's assets and liabilities having interest returns. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and interest rate forward contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

Details of the Group's financial instruments that are sensitive to interest rates are as follows:

Interest rate position table

	December 31, 2017	December 31, 2016
Instruments with fixed interest rate		
Time deposits	524.703	514.087
Borrowings and bonds issued	707.190	374.518
Instruments with variable interest rate		
Borrowings and bond issued	255.627	254.890

At December 31, 2017, for the financial instruments with variable interest rate, had the interest rates in terms of all the currency units increased/decreased by 100 basis points, with all other variables held constant, profit before taxation would have been higher/lower by TL 463 thousand (2016: TL 655 thousand) as a result of the low/high interest income/expense related with the borrowings and time deposits.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (CONTINUED)

Financial instrument categories and fair values

December 31, 2017	**Financial assets at amortized cost**	**Loans and receivables**	**Financial assets available for sale**	**Trading financial assets**	**Financial liabilities at amortized cost**	**Book value**	**Note**
Financial assets							
Cash and cash equivalents	**593.172**	-	-	-	-	**593.172**	**4**
Trade receivables	-	**585.120**	-	-	-	**585.120**	**8,31**
Other financial assets	-	-	**317.124**	-	-	**317.124**	**5**
Other receivables	-	**7.434**	-	-	-	**7.434**	**9**
Financial liabilities							
Short-term and long-term borrowings	-	-	-	-	**985.435**	**973.270**	**6**
Trade payables	-	-	-	-	**670.034**	**670.034**	**8,31**
Liabilities for employee benefits	-	-	-	-	**28.658**	**28.658**	**10**
Other payables	-	-	-	-	**99.180**	**99.180**	**9,31**
Other liabilities	-	-	-	-	**2.336**	**2.336**	**18**

December 31, 2016	Financial assets at amortized cost	Loans and receivables	Financial assets available for sale	Trading financial assets	Financial liabilities at amortized cost	Book value	Note
Financial assets							
Cash and cash equivalents	567.728	-	-	-	-	567.728	4
Trade receivables	-	480.299	-	-	-	480.299	8,31
Other financial assets	-	-	257.928	-	-	257.928	5
Other receivables	-	5.845	-	-	-	5.845	9
Financial liabilities							
Short-term and long-term borrowings	-	-	-	-	634.751	630.510	6
Trade payables	-	-	-	-	470.731	470.731	8,31
Liabilities for employee benefits	-	-	-	-	22.545	22.545	10
Other payables	-	-	-	-	90.812	90.812	9,31
Other liabilities	-	-	-	-	2.006	2.006	18

(*) The Group believes that the carrying value of its financial instruments is at fair value.

(Amounts expressed in thousands of Turkish Lira ("TL") and in thousands for other currencies unless otherwise indicated.)

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy table

The fair values of financial assets and financial liabilities are determined as follows:

- First level: The fair value of financial assets and financial liabilities are determined with reference to actively traded market prices;
- Second level: Other than market prices specified at first level, the fair value of financial assets and financial liabilities are evaluated with reference to inputs that used to determine directly or indirectly observable price in market;
- Third level: The fair value of financial assets and financial liabilities are evaluated with reference to inputs that used to determine fair value but not relying on observable data in the market.

Level classifications of financial assets and liabilities at fair value are as follows:

Financial assets/liabilities			**Level of fair value as of reporting date**	
	December 31, 2017	**1st Level**	**2nd Level**	**3rd Level**
Available-for-sale financial assets (*)	**316.148**	**73**	**316.075**	**-**
Derivative financial instruments	**31.626**	**-**	**31.626**	**-**

Financial assets /liabilities			Level of fair value as of reporting date	
	December 31, 2016	1st Level	2nd Level	3rd Level
Available-for-sale financial assets (*)	256.952	78	256.874	-
Derivative financial instruments	22.742	-	22.742	-

(*) The Group has available for sale financial assets, which are not quoted in stock markets, and total amount of these financial assets is TL 976 thousand as of December 31, 2017 (December 31, 2016 – TL 976 thousand). The fair value of these financial assets cannot be measured reliably and stated at cost in the accompanying financial statements.

Information for reflecting financial assets and liabilities at fair value:

Fair value is the amount at which a financial instrument 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 Group, using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

Following methods and assumptions were used to estimate the fair value of the financial instruments for which is practicable to estimate fair value:

Financial assets

The carrying amounts of foreign currency denominated monetary assets which are translated at year end exchange rates are considered to approximate their fair values.

The carrying values of cash and cash equivalents are estimated to be their fair values since they are short-term.

(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (CONTINUED)

The carrying values of trade receivables along with the related allowances for uncollectibility are estimated to be their fair values.

Financial Liabilities

The carrying values of short-term financial liabilities and other financial liabilities are estimated to be their fair values since they are short-term.

As of December 31, 2017 the carrying value and the fair value of the long-term borrowings, including the short term portions, are equal to TL 888.486 thousand (Note 6), and TL 629.408 thousand respectively. Fair value is calculated by discounting the cash outflows regarding market interest rates.

33. SUBSEQUENT EVENTS

Within the scope of approval of Capital Market Board at Meeting numbered 43/1440, and dated November 27, 2017, the Company has issued bond to be sold qualified investors only with a nominal value of TL 75.000 thousand, maturity of 728 days, and half yearly fixed interest rate coupon payments on January 26, 2018 (compound interest 15.70%, simple interest 15,12%).

Entek has decided to increase its share capital from TL 538.500 thousand to TL 950.000 thousand in its Extraordinary General Meeting. For the increased share amount of TL 411.500 thousand, the Company has agreed to pay TL 411.095 thousand in cash and the remaining part amounting to TL 405 thousand will be paid out of the Company's internal funds.
Board of Directors of the Company resolved to participate in this capital increase by exercising pre-emptive rights corresponding to TL 203.974 thousand and to pay it in cash by 1 March 2018. It was also resolved to exercise the pre-emptive rights of other shareholders that have not exercised their rights in time, together with Koç Holding A.Ş., other major shareholder of Entek, in accordance with our respective shareholdings.

34. OTHER SIGNIFICANT ISSUES AFFECTING THE FINANCIAL STATEMENTS OR THE OTHER ISSUES REQUIRED FOR CLARIFICATION OF FINANCIAL STATEMENTS

None.

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