# Our energy has left its mark on the last 55 years

AYGAZ

55 years

ANNUAL REPORT **2016**

## INTRODUCTION



## OPERATIONS IN 2015



## SUSTAINABLE GROWTH



## SOCIAL RESPONSIBILITY



## CORPORATE GOVERNANCE



## CONSOLIDATED FINANCIAL STATEMENTS

# Our energy has left its mark on the last 55 years

It has been exactly 55 years since we introduced cylinder gas, a clean-energy product, to Turkey. From the very first day of our establishment, we have maintained a friendly spot in homes and on streets. We have earned the trust of the people who expected to return to their well-heated homes on cold evenings and to enjoy an environmentally-friendly, high-performance experience behind their steering wheels.

We have remained true to our core principles of always working for the greater good, listening to our customers, and reforming our business approaches. The trust we have gained has sourced our endless energy. 55 years have flown us by on a rapid pace...

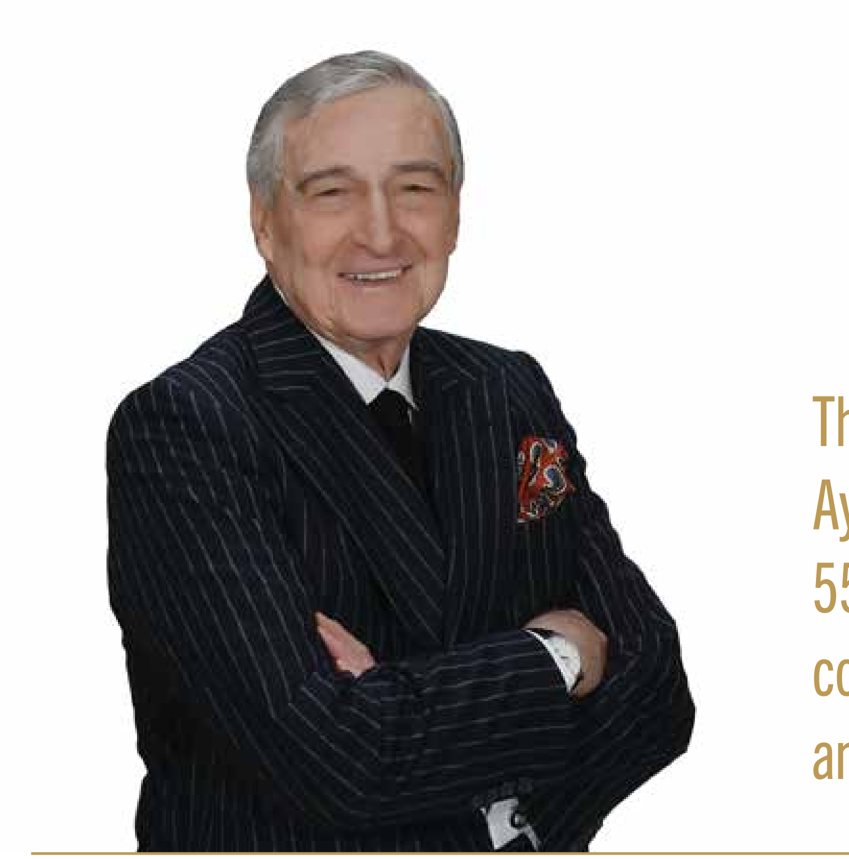
Today, with more than half a century's experience under our belt, we claim to be experts at our craft and we are excited for what the future holds for us and our consumers. By developing innovative solutions, and understanding the needs of our sector and our customers accurately, we are contributing to the construction of the path that stretches towards the future. We offer Turkey high-quality and environmentally-friendly energy solutions, ranging from cylinder gas to autogas, and from natural gas to electricity. We take pride in sharing our energy with the entire country as we touch thousands of lives every day.

Together with our stakeholders, we have left our mark on the past 55 years. We will also walk towards the youthful and energetic future together...

AYGAZ
55 years

ANNUAL REPORT **2016**

# Report from the Board of Directors, and Message from the Chairman



The success story that Aygaz has written for 55 years is the result of consistency, devotion, and determination.

**Dear Shareholders,**

Welcome to the 56th General Assembly Meeting of our Company. On behalf of myself and the Aygaz Board of Directors, I extend my warmest greetings and regards to all and wish for a productive meeting.

Last year, we felt the impact of the United Kingdom's decision to leave the European Union, the U.S. presidential elections, the interest pressure caused by the United States Federal Reserve (also known as the Fed, America's central bank), and the decrease in commodity prices that affected the global economy. 2016 was also a year during which, for political reasons, peace was broken in various regions of the world. Moreover, terrorist attacks observed from America to Europe and from the Middle East and Africa to the Far East have put a damper on our lives.

In light of these economic and political developments, commodity prices in 2016 fell farther than they have in a long time. Countries holding petroleum and natural gas reserves have either delayed, reduced, or cancelled their requirements and imports, thereby weakening global trade. And given the Chinese economy's less-than-expected growth, the global economy must carry its hopes for growth into 2017.

The Fed's statements about raising interest caused expectations throughout 2016. Investors eventually got on board, leading to a quarter-point increase (0.25) which raised the American dollar's value and put pressure on other currencies.

However, there have also been promising economic signals. The EU economy, which has been trying to grow for eight years now, eventually reinvigorated industry, particularly in the Euro Zone. Consequently, unemployment has decreased somewhat. Considering the Middle East and especially our neighbours, the disputes that remain unresolved for many years now have turned into conflicts and civil war. In fact, Turkish Armed Forces had to intervene in some regions in order to ensure our borders and our internal security.

Meanwhile, an unexpected military coup in Turkey was stymied before it could get out of hand, thanks to our people's common sense. Also, our relationship with Russia was repaired when a mutual understanding was reached between parties. I hope that we will soon see the positive consequences of this development.

Alas, this violence experienced at home and abroad conflicts have negatively affected our economy, which despite government-sponsored reform packages shrunk by 1.8% after Q2 2016. Thus, for the first time in 27 quarters our economy experienced a slow-down.

In Q4 2016, we witnessed severe foreign currency movements due to internal dynamics and foreign-based impacts, for example Federal Reserve rate-hike expectations and the presidential elections in America. The downgrading of Turkey's credit rating by credit agencies has only fanned the flames caused by such negative events.

We hope that the economic decisions taken from now on will eliminate the ambiguity that has become very important.

According to the latest data published in 2015 by the World LPG Gas Association, LPG, Aygaz's core business, grew by 29% globally, with an increase of 64 million tons over the past decade. In the last year alone, LPG grew by 3.7%, making it the fastest-growing sector after renewable energy. This positive development, coupled with declining oil prices, has increased LPG's share of the global energy market.

Turkey's LPG market ranks 3$^{rd}$ in Europe and 15$^{th}$ globally. I believe that our government will take the necessary measures to allow LPG, an eco-friendly energy resource, to reach a much wider audience in our country.

We hope that Aygaz's share will raise further within the LPG market that has been growing for 15 years.

We also have a positive outlook for autogas, another of our company's core business fields. In autogas consumption, Turkey is now the world's second-largest autogas consumer, trailing only South Korea, and is Europe's #1 consumer. Regarding Aygaz's operations in 2016, we are pleased to announce that we rank first among 86 companies in terms of turnover and market share. At the end of 2016, Aygaz's market share was 29% percent, including 42% for cylinder gas and 25% for autogas.

Another successful result we have achieved is exceeding the 1 billion m$^3$ threshold for natural gas, thus strengthening our pioneering position in this sector. Aygaz's other affiliates: Akpa (operating in sales and marketing), Entek (operating in electricity generation, distribution, and sales), and Opet Aygaz Gayrimenkul (which conducts our fuel and gas station-related real estate investments), also concluded 2016 successfully.

Our objective is to maintain a clear-cut leadership position in all of ur segments, as has always been the case. The successes covered above are the result of our management team's consistent strategies and robust actions, and their capability to quickly adaptation to changing conditions.
Aygaz has not only contributed to our country's economy, but we have also fulfilled our social responsibilities to the letter.

While we support various efforts to unearth Turkey's rich archaeological heritage, we also strive to preserve numerous works of art for future generations in the library that we have established. Aygaz creates value for all Turkish people, who deserve the best in various fields ranging from environmental issues to social gender equality, and from women's and children's health to sports.

The successful business and societal activities Aygaz has conducted have won the approval of customers and Turkish society, and last year and were honored with numerous awards in Turkey and abroad. One of the most valuable awards was our selection as the top-performing brand with the highest level of customer loyalty in the cylinder gas and auto gas segments of the "Voice of the Customer in Turkey" research that was jointly organized by the Turkish Quality Association and Ipsos.

Aygaz, the Koç Conglomerate's first energy company, finished 2016 with successful results despite the various difficulties experienced by our country and our economy. In all of our activities conducted last year, Aygaz created value particularly for its customers, and also for its investors, shareholders, suppliers, employees, and most importantly, for our country.

The success achieved by Aygaz over the last 55 years are the result of consistency, sound strategies, and determination. I believe that we will continue achieving great success at home and in the various markets that we have reached with the synergy created by all Aygaz employees. I would like to take this opportunity to express my gratitude to all of our stakeholders, particularly our employees, dealers, suppliers, customers, trade unions, side-industries, and shareholders for their valuable contributions to and their trust and dedication in Aygaz.

Hope to see you again next year,

Yours Sincerely,

**Rahmi M. Koç**
*Chairman of the Board of Directors*

# Message from the General Manager

In 2016 we maintained our leading position in the LPG sector, our core business, thereby concluding another successful year together with our affiliates.

**Dear Shareholders,**

In 2016 the energy industry, our company's core business field, fluctuated considerably under the impact of various internal and external forces. Oil prices continued to decline despite the short-term impact of geopolitical risks during 2016, a year marked by global developments, a strengthening dollar, and growth-related concerns. Although the uncertainties and fluctuations observed both in Turkey and globally aroused a level of concern in terms of our economy and our society, our company enjoyed a successful year as reflected by our results.

Additionally, the trend of declining LPG supply prices in 2016 positively impacted Turkey, which is the world's 15th and Europe's 3rd largest LPG market. Turkey's cylinder gas and autogas markets have experienced good growth.

## In 2016, we continued to create value

While working to provide better products and services and creating value for our country and our stakeholders, Aygaz finished 2016 with successful operational and financial indicators.

With nearly 2,200 cylinder gas dealers and 1,750 autogas stations, we continue to deliver our products and services to all corners of Turkey and meet our customers' requirements in a fast, safe, reliable manner. By the end of 2016, our consolidated turnover was TL 6.7 billion, a 5% increase over 2015. Our operating profit increased by 23%, reaching TL 308 million 2016, and our net profit was TL 416 million. Our sales volume reached its highest level in company history: 2.1 million tons.

According to EMRA (Energy Market Regulatory Authority) data, by 2016's end Aygaz was once again its sector's clear leader, with a market share of 29% in Turkey's total LPG market, 42% in cylinder gas, and 25% in autogas; and as the country's first publicly-traded LPG company, Aygaz ranked 13th on the list of Turkey's Top 500 largest industrial enterprises, as announced by the İstanbul Chamber of Industry.

## We use cutting-edge technologies in all of our processes

As an integrated LPG company managing all processes, including procurement, storage and LPG filling, we aim to sustain our leadership and further improve our profitability by expanding our market share in all of the segments we operate in, and create value for our country and our stakeholders. To this end, we attach special importance to using cutting-edge technology in all of

## Aygaz's operating profit increased by 23% in 2016 and our sales volume reached the highest level in company history: 2.1 million tons.

our business processes. We leverage and continuously improve our state-of-the-art technological infrastructure at every stage, from LPG distribution to LPG cylinder, tank, valve, and regulators manufacturing in our business fields of cylinder gas, autogas, and bulk gas. For years we have conducted R&D studies in order to strengthen our pioneering position in the industry. In 2016 we also further accelerated the support we provide for the creativity and entrepreneurship our employees show in the field of innovation. We initiated an Innovation Management Process to create value from our employees' ideas, and this process has become a key indicator of Aygaz's innovative corporate culture.

On the awards front, 2016 saw Aygaz receive new accolades in addition to those already earned. In the marketing sector, our advertising campaigns won prestigious prizes from Crystal Apple, Effie, and Felis; and we received the Ribbon of Honour (Ruban d'Honneur) in the "Customer Focus" category of the European Business Awards, competing with numerous companies from 33 countries. Furthermore, in research titled "Voice of the Customer in Turkey", organized jointly by the Turkish Quality Association and Ipsos, we were selected as the brand with the highest customer loyalty for cylinder gas and autogas. And for the "I Support Gender Equality For My Country" project initiated by Koç Holding in June 2015, we were named the "Most Successful Company for My Country" amongst companies with less than 2,500 employees.

### We are proud of our subsidiaries' and affiliates' achievements

The results of our subsidiaries and affiliates comprising the expansive Aygaz family played a large role in our overall 2016 success. Aygaz Doğal Gaz realized a turnover of TL 864 million with its sales volume of 1,061 million cubic meters. Also, nearly one-third of Aygaz's total marine transport operations were conducted by the young fleet of our affiliate, Anadoluhisarı Tankercilik, one of Turkey's most reliable companies in the field of LPG transportation. 640,000 tons of LPG were transported in 2016, the highest transportation tonnage ever realized.

Opet Aygaz Gayrimenkul, currently operating with 18 autogas stations and involved in purchasing real-estate properties throughout Turkey and operating/managing them as fuel or autogas stations, also completed a successful year. The same is true for Entek, which operates in the electricity generation sector in which important investments have been made in our country over the last decade, and which supports the idea of establishing a transparent, liberal market and continues its activities with the goal of expanding its market share under current conditions.

Our water brand, Pürsu, which we established in order to create added-value for our dealers, is now one of the sector's top five brands. Engaging hundreds of players in just a short period of time, our carboy water sales increased by 10% in 2016, thereby concluding a satisfactory period. Akpa, another Aygaz affiliate that is engaged in trading cylinder gas, water, and fuel oil, achieved satisfactory results across the board last year. Akpa recorded a total sales revenue of TL 432 million and increased its cylinder gas sales by 10%, reaching 31,000 tons.

### We contribute to society

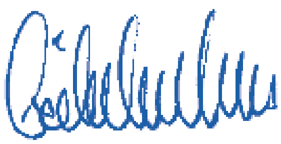
As Aygaz, we attach as much importance to our social investments as we do to our economic successes. We work to improve modern life with projects produced in various fields ranging from training, health, and environmental production to culture and art.

We shape our social responsibility activities around Turkish society's most pressing issues, and 2016 was a successful year in this regard.

We also conducted the project "Aygaz is Against Violence Towards Women", attracting interest within the company and in the business world, civil society, and public opinion in order to ensure social gender equality in Turkey. We will continue to support social development by participating in sustainable projects that create permanent value.

In the period ahead, I strongly believe that we will implement and complete many new projects that will strengthen our pioneering, leading market position and create value for our stakeholders and our company. I would like to express my gratitude to our customers, dealers, employees, suppliers, and stakeholders who have enabled us to take ever-greater steps since our incorporation. Your trust in Aygaz has made us stronger over our 55-year journey.

With best wishes and kind regards,



**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

**342**
thousand tons
Cylinder gas sales in 2016

**2,192**
Cylinder gas dealers

**1,741**
Autogas stations

**99**
million TL
Investment expenditures

**33,800**
$m^3$
Total LPG transportation capacity of the Beykoz, Beylerbeyi, Kuleli and Kuzguncuk

**1,061**
million $m^3$
Aygaz Doğal Gaz total sales volume

**933**
thousand tons
Exports and total sales in 2016

**4.4**
million
Number of vehicles running with autogas in Turkey

**34%**
Ratio of Aygaz's total marine supply and transport operations conducted by its own fleet

**70**
million
Units of cylinders produced by Gebze facility since 1962

A new record for Aygaz with
**2,109,000**
tons
of total LPG sales

**1,348**
Number of employees

**34**
Average training hours per person in 2016

**15%**
Return on equity

Pioneer in R&D with
**45**
Patents

**3.6**
billion TL
Market cap as of the end of 2016

**9.36**
Corporate governance rating score in 2016

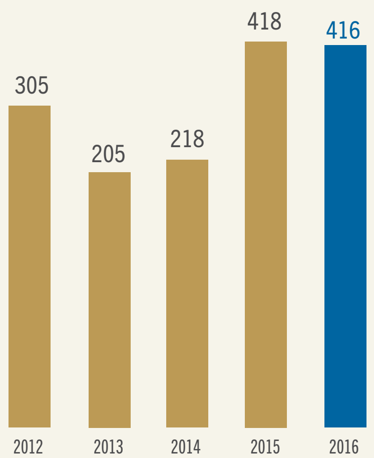
**467**
million TL
Exports and transit sales

**792**
thousand tons
Autogas sales in 2016

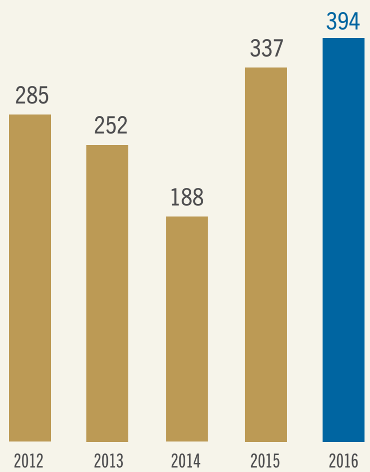
**8.9**
million units
Annual sales amount of Pürsu carboy water

# Financial and Operational Outlook

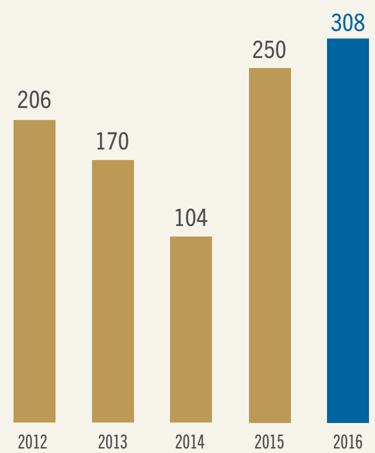
## NET PROFIT
(TL M)




## EBITDA
(TL M)



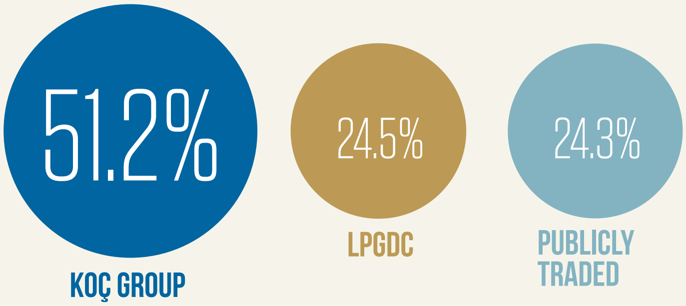

## OPERATING PROFIT
(TL M)



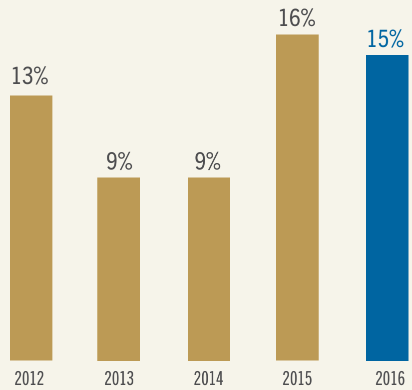

## SUMMARY FINANCIAL INDICATORS
(TL M)

| | 2016 | 2015 | 2014 | 2013 | 2012 | Change over the last year |
|---|---|---|---|---|---|---|
| Sales revenues | **6,749** | 6,420 | 7,061 | 6,005 | 5,586 | 5% |
| Gross profit | **787** | 677 | 527 | 571 | 521 | 16% |
| Operating profit | **308** | 250 | 104 | 170 | 206 | 23% |
| Pre-tax profit | **469** | 458 | 237 | 237 | 345 | 2% |
| Net profit | **416** | 418 | 218 | 205 | 305 | -0.6% |
| EBITDA | **394** | 337 | 188 | 252 | 285 | 17% |
| | | | | | | |
| Gross profit margin | **12%** | 11% | 7% | 10% | 9% | 1 |
| Operating profit margin | **5%** | 4% | 1% | 3% | 4% | 1 |
| Net profit margin | **6%** | 7% | 3% | 3% | 5% | -1 |
| EBITDA margin | **6%** | 5% | 3% | 4% | 5% | 1 |
| | | | | | | |
| Current assets | **1,360** | 1,025 | 713 | 867 | 692 | 33% |
| Fixed assets | **2,954** | 2,891 | 2,699 | 2,321 | 2,264 | 2% |
| Total assets | **4,314** | 3,916 | 3,412 | 3,188 | 2,956 | 10% |
| | | | | | | |
| Short term liabilities | **1.007** | 847 | 715 | 667 | 443 | 19% |
| Long term liabilities | **566** | 459 | 338 | 278 | 133 | 23% |
| Shareholders' equity | **2,742** | 2,611 | 2,359 | 2,244 | 2,381 | 5% |
| Total equity and liabilities | **4,314** | 3,916 | 3,412 | 3,188 | 2,956 | 10% |
| | | | | | | |
| Return on equity (ROE) | **15%** | 16% | 9% | 9% | 13% | -1 |
| Net debt/equity ratio | **2%** | 10% | 9% | 3% | - | -8 |
| Current ratio | **1.35** | 1.21 | 1.00 | 1.30 | 1.56 | 0.14 |

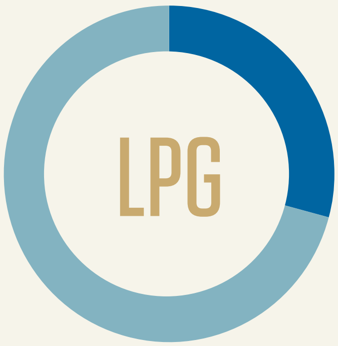
## CAPITAL STRUCTURE



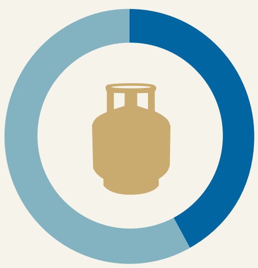

## RETURN ON EQUITY (ROE)



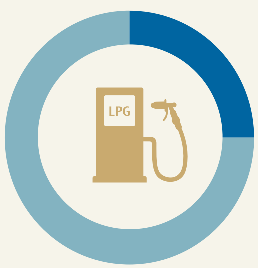

## MARKET SHARES




**29%**
Market share

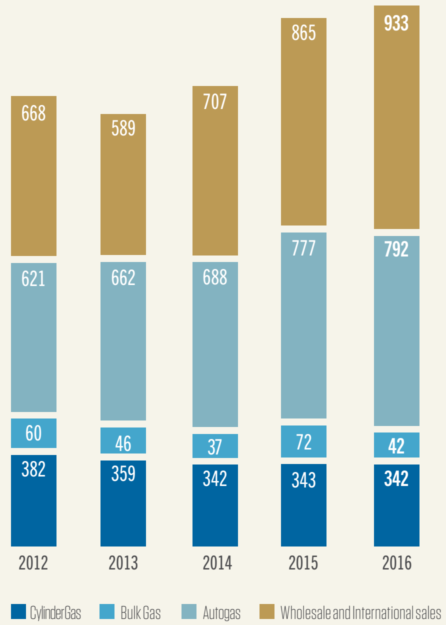


**42%**
Cylinder gas market share

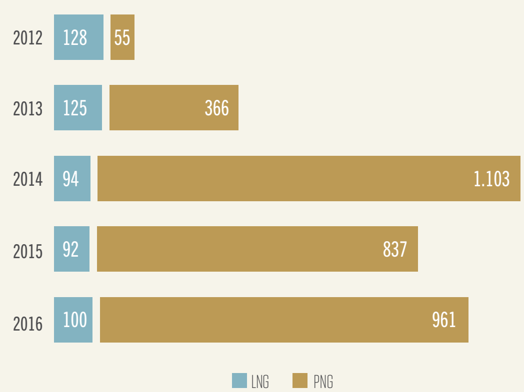



**25%**
Autogas market share

## LPG SALES VOLUME BY SEGMENTS (000 TON)




## NATURAL GAS SALES VOLUME (mcm)



# Subsidiaries and Affiliates

## AKPA

Participation Rate
100%

As one of the subsidiaries of Aygaz, Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş. carries out fuel trade in addition to its direct sales of cylinder gas and carboy water. Operating in marketing sector for about half a century and as now one of the leading sales and marketing companies in Turkey, Akpa has recently extended its cylinder gas sales service area significantly. Prioritizing the direct sales aimed at households and workplaces in its sales strategy, the company reached a sales volume of 31 thousand tons in 10 cities that it operates, increasing its sales 10% in comparison with the figures of the previous year.


## ANADOLUHİSARI TANKERCİLİK

Participation Rate
100%

Carrying out LPG marine transportation since 1967, Aygaz transferred the management of its ships to a subsidiary, Anadoluhisarı Tankercilik. The company has 4 full pressure ships in its disposal that are specially equipped. With the last purchasings, the fleet has gone younger and it is now 12.5 years old. And total transportation capacity also increased, reaching up to 33,800 $m^3$. Anadoluhisarı Tankercilik carried out 34% of marine procurement and transportation operations of Aygaz with its own fleet, including export, rent and spot transportation.


## ADG ENERJİ YATIRIMLARI

Participation Rate
100%

ADG Enerji Yatırımları was established in order to carry out production, sales and purchasing of natural gas both domestically and abroad. It is also responsible of transporting and distributing natural gas in any form to any place: underground, above ground, or via the sea; as well as to change the state of natural gas. The company also makes the necessary investments for all these operations in the scope of transportation and distribution activities like facility, storage yards, pipeline, and marine and ground vehicles.

# AYGAZ DOĞAL GAZ

Participation Rate
99%

Aygaz Doğal Gaz was founded in 2004, with the vision of becoming a diversified player in the natural gas market. Delivering the natural gas that it procures domestically to its customers via pipeline, the company also realizes the transportation and sales of liquefied natural gas (LNG) via with specially designed vehicles to its customers who do not consume natural gas


# OPET AYGAZ GAYRİMENKUL

Participation Rate
50%

Opet Aygaz Gayrimenkul A.Ş. was founded by equal partnership between Aygaz A.Ş. and Opet Petrolcülük A.Ş. in 2013. It operetas in purchasing real estate in various regions of Turkey and manage or lease these properties as fuel or autogas sales stations


# ENTEK

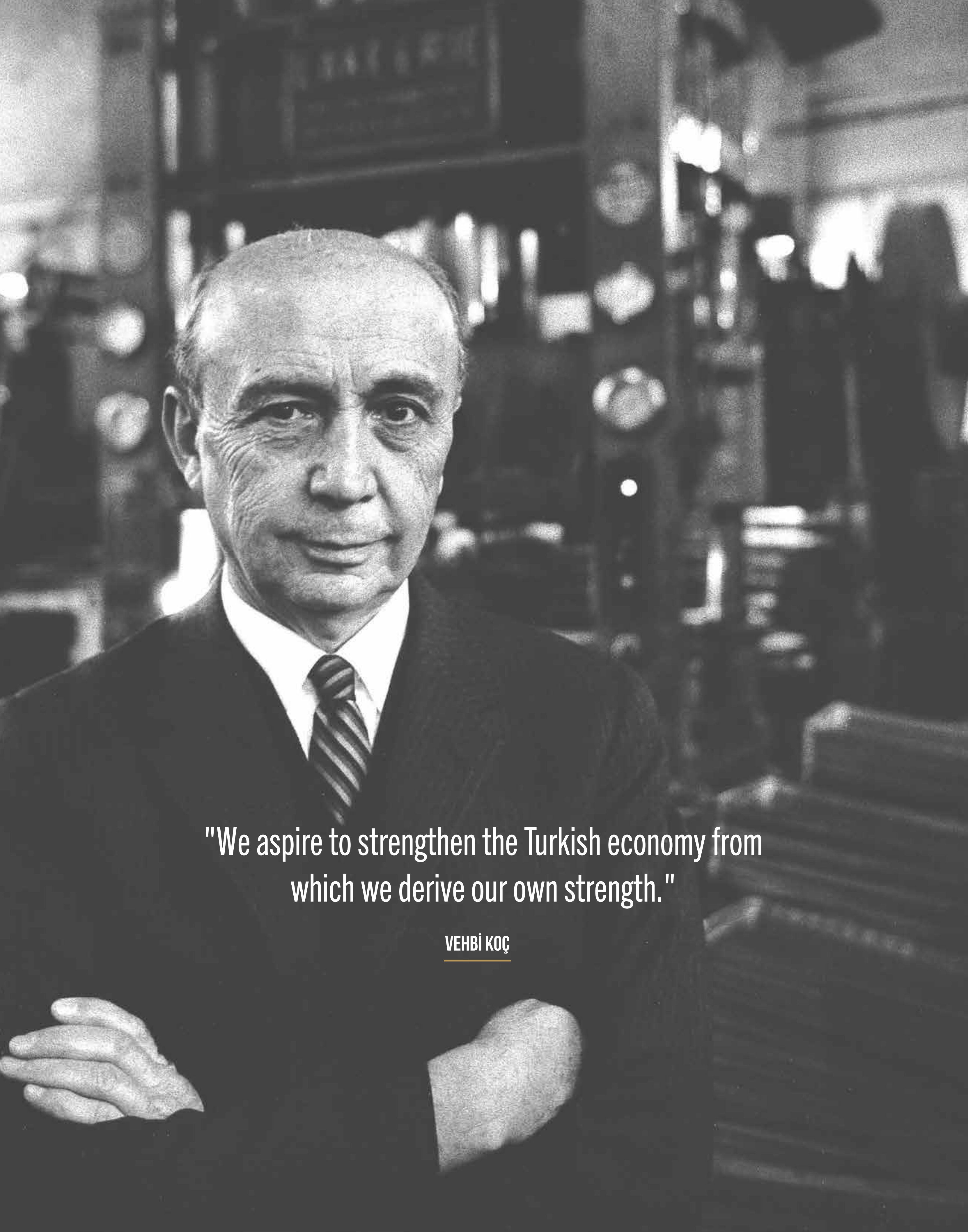
Participation Rate
50%

The electricity production company owned by Koç Conglomerate, Entek runs natural gas and hydroelectric power plants. With the natural gas cycle plant of 157 MW located in Kocaeli, and three hydroelectric production plants of 62 MW in total of which the two are located in Karaman and the one in Samsun, the company carries out its operations with a total capacity of 219 MW. Entek aims to expand in electricity production business.

# EYAŞ

Participation Rate
20%

Founded in December 2005, Enerji Yatırımları A.Ş. owns 51% of the shares of Tüpraş, Turkey's largest industrial corporation. Aygaz holds a 20% stake in Enerji Yatırımları A.Ş. As the one and only producer in the refining sector in Turkey, Tüpraş carries out its operations in refining, distribution, petroleum and petroleum products marine transport.



"We aspire to strengthen the Turkish economy from which we derive our own strength."

**VEHBİ KOÇ**

# VISION

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

# MISSION

To offer the best products and services in every field it operates, particularly in LPG, by prioritizing high quality and safety standards with working principles adopted from corporate values of the Koç Group and by being always responsive to society and the environment

# STRATEGIC PRIORITIES

**Sustain its market leadership in LPG through;**

Product differentiation and innovation for autogas

Further penetration by opening new autogas stations

Growth prospects for cylinder gas in rural Turkey

**Utilize and enhance its asset portfolio through;**

New acquisitions, mergers, and investments in Turkey and abroad

Profit generating opportunities

# 2016: Celebrating 55 Years!

JANUARY > "World Cuisine" themed commercial by Aygaz Cylinder Gas


APRIL > Aygaz's 55th Ordinary General Assembly Meeting

MAY> Mid-Anatolia and Çukurova Regional Dealers Meeting

## JANUARY

- Aygaz Tüpgaz commercial film with the theme "World Cuisine" that presents an Aygaz serviceperson's experiences in different cuisines with a humorous tone was broadcasted.

## FEBRUARY

- Aygaz signed the Women's Empowerment Principles (WEP), established by the partnership of UN Global Compact and UN Women and opened its Manifest "Aygaz is Against Violence Towards Women" to employees and visitors for signing which was prepared on the occasion of International Day for the Elimination of Violence against Women.

## MARCH

- As part of Conversion Club Meetings; Aygaz came together with 120 club members from Thrace and Marmara regions on March 9 in İstanbul, and with 90 members from Aegean region on March 23 in İzmir.
- At the "Analysts Meeting" held in Rahmi M. Koç Museum on March 25 in order to inform the research analysts of investment companies, the important agenda topics of last year were discussed in line with vision and targets.
- At ISTRADE 2016 Energy Trading and Supply Summit, Aygaz and Aygaz Doğal Gaz received the awards "Golden Cylinder" and "Golden Valve" awards respectively, with the social responsibility projects they realized.

## APRIL

- Aygaz held its 55th Ordinary General Assembly Meeting on April 4.
- On April 11, the Aygaz's idea collection platform Aythink was launched with the motto "Innovation starts with you!" within the scope of Aygaz Innovation Management Process and the platform was opened to Aygaz's employees the next day for submission of innovative ideas.

## MAY

- Held by İstanbul Foundation for Culture and Arts (IKSV), the İstanbul Theatre Festival was organized for the 20th time with sponsorship of Aygaz.
- As part of its 55th anniversary events, Aygaz gathered with 155 cylinder gas dealers from Karadeniz and Erzurum regions in Trabzon on May 3 and 4, and with 170 cylinder gas dealers from Mid-Anatolia and Çukurova regions in Nevşehir on May 31 and June 1.
- Aygaz Otogaz was granted the Silver Effie award in "Automotive Products" category at the 8th Effie Turkey Advertisement Effectiveness Contest, with its commercial film "Turkey takes on the road with Aygaz" featuring Şener Şen.
- Aygaz received the grand prize in "Mineral Oil and Fuel" category at the Export Awards organized by İstanbul Chemicals and Chemical Products Exporters' Association, for its LPG export in 2015.

## JUNE

- Aygaz received the "Ruban d'Honneur" at the award ceremony of European Business Awards that was held in Milano on June 17.
- In "The Voice of Customer-Turkey" (TMS) research that was realized with the partnership of KalDer (Quality Association of Turkey) and Ipsos, Aygaz was chosen the brand with highest customer loyalty level at both cylinder gas and autogas segments.
- As part of the "For My Country" project, Aygaz became the corporate supporter of the Domestic Violence Hotline administered by The Federation of Women Associations of Turkey.

SEPTEMBER > Business Results Sharing Meeting


OCTOBER > The 23rd World Energy Congress


DECEMBER > Service Award Ceremony of Aygaz

## JULY

- Joining the "Business World against Domestic Violence Platform" which was established by Sabancı University Corporate Governance Forum and TÜSİAD (Turkish Industry and Business Association) in order to create a workplace policy related with the violence against women, Aygaz was the first company to publish "Domestic Violence Policy at the Workplace" among 17 volunteer companies on the platform.

## AUGUST

- The first of Business Results Sharing Meetings in which Aygaz Group's consolidated results and targets are discussed was held in İzmir with the participation of 200 Aygaz employees on August 26.

## SEPTEMBER

- The commercial film titled "24 Hours in Aygaz" which points out that everyone stops at Aygaz, was broadcasted.
- The second Business Results Sharing Meeting was held in İstanbul with the participation of 300 employees from Marmara and surrounding regions on September 2.
- Aygaz Sailing Team Alize participated in the 56th Navy Cup Yacht Race on September 24 and 25 and came runner up in its class.

## OCTOBER

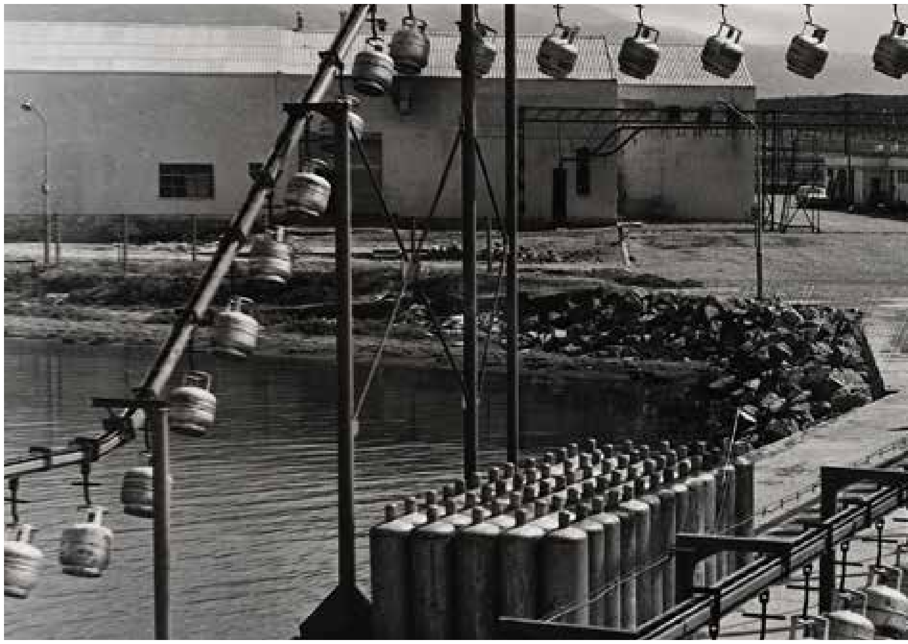
- World Energy Congress organized by World Energy Council took place in İstanbul between October 9 and 13, of which Aygaz was one of the sponsors.
- At the 28th Crystal Apple Turkey Advertising Awards Competition; Aygaz Tüpgaz received two Silver Apple awards; one in the "Film-TV-Cinema /Other" category with the "World Cuisine" commercial film and the other in the "Press" category with the advertisement titled "Aygaz Express When The Gas is Out / Barbunyaa", and two Bronze Apple awards; one again in the "Press" category with the advertisement titled "Child-Proof" and the other in "Open Air" category with the advertisement titled "Aygaz Express When The Gas is Out / Banyoo". Aygaz Otogaz was granted a Silver Apple award in "Integrated Campaigns" category with its campaign titled "Turkey takes on the road with Aygaz", and a Bronze Apple award in the "Radio" category with "Nihat Sırdar & Zeki Kayahan Coşkun Duel: If I Were To Hit The Road".
- As part of the strategy to extend its occupational health and safety culture that aims to eradicate workplace accidents among its employees, Aygaz continued its routine training sessions on the subject with a theater play in 2016. The play titled "Bize Bir Şey Olmaz Abi" (Oh brother, we'll be OK) premiered at Safranbolu facility on October 4.

## NOVEMBER

- Aygaz R&D Department developed a new sulphur-free LPG odorizer (Greenodor) for a sustainable and cleaner environment.
- Aygaz Otogaz was granted an award at 11st Felis Awards organized by MediaCat, a well-known Turkish magazine on marketing.
- Aygaz was granted the "Golden Cylinder" award at the 7th Turkey Energy Summit held in Adana.
- Being a corporate supporter of the Domestic Violence Hotline run by the Federation of Women Associations of Turkey, Aygaz launched its country-scale awareness campaign titled "Aygaz is Against Violence Towards Women" on November 25, International Day for the Elimination of Violence against Women.
- Aygaz participated in the panels and made presentations about its R&D practices at the 29th World LPG Forum between November 15 and 17 in Florence that was held by World LPG Association under presidency of Yağız Eyüboğlu, who is also President of Koç Holding Energy Group.
- Gökhan Tezel was elected as the Head of Market Growth Committee of World LPG Association (WLPGA).

## DECEMBER

- Aygaz was granted the "Most Successful Company for My Country" award within Koç Holding in the category of "Companies with Less Than 2,500 Employees" for its achievements in the "I Support Gender Equality for My Country" project that was launched in June 2015.
- At the Aygaz Service Award ceremony held on December 27, Aygaz Group employees who completed their 10th, 20th, 25th and 30th years within Koç Conglomerate, received service awards.
- The first phase of "Autogas Station Stock Management and Rotating Project" that aims to achieve the optimal rotating with the lowest cost taking the factors like station tank levels, the optimum tanker type, supply timings of stations into consideration, was completed.
- Organizing events for its 55th year, Aygaz convened with 300 cylinder gas dealers from the Marmara and Trakya regions in Bursa on December 5 and 6.




İZMİT


17 AD 863


ESMEN
KOLONYALARI
BENGI
GAZ
YANLIZ




**Our energy**
has left its mark
on the last
**55 years**


# Corporate History

## 1961
- Aygaz started to operate under the trade name Gazsan Likit Gaz Ticaret and Sanayi A.Ş.

## 1962
- Yarımca Filling Facility is established next to the İzmit İpraş Refinery, and LPG filling and distribution is launched.
- The dealership structure initiated.

## 1963
- The company's trade name is changed from Gazsan to Aygaz A.Ş.
- "TL 40 in cash, TL 40 in installments"; the first Aygaz ad campaign launched.

## 1965
- First publicity and promotion campaign realized. French fries are cooked using Aygaz cylinder gas in a delivery truck and distributed to the public.

## 1967
- Ambarlı Filling Facility is established.
- M/T Aygaz, Turkey's first LPG vessel, left the port for the first time.

## 1970
- A total of five filling facilities, including Aliağa Filling Facility, are in operation. The trade of chemicals were commenced.

## 1976
- All Aygaz management units are consolidated in one location at the new headquarters in Zincirlikuyu, İstanbul.

## 1982
- The "blue seal lid", a symbol of Aygaz's safety for cylinders, is launched.

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

## 1985
- Transit LPG purchase and sales agreement is signed with Iraqi state oil company SOMO.

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

## 1989
- Aygaz designed the "Gavdem Machine", the first LPG equipment to change valves without gas transfer.

## 1993
- Twelve-kilogram tall residential cylinders and 24 kg commercial cylinders are put on the market.
- Another new marketing ground broken; The Aygaz jingle started to be played on urban delivery trucks' loudspeakers.
- Aygaz Central Energy System started to be established in residences.
- Total shares of Mobil Oil Gaz A.Ş. were purchased and its trade name is changed to Mogaz.

## 1995
- Aygaz Hotline is launched to provide information to consumers on Aygaz products and services.
- Occupational Health and Safety Management System is launched.
- Use of Computerized Customer Code System started at dealerships.

## 1996
- Guaranteed seal cap is introduced for cylinder gas.

## 1997
- The "Aygaz 24" and Automatic Tank Ordering Systems are initiated.

## 1998
- Aygaz renewed its corporate image and identity. New logo introduced with the first zeppelin of Turkey.
- Aygaz entered the autogas market.
- Framework agreement signed with Opet.
- The new social responsibility campaign, "Aygaz Warns about Accidents at Home" launched.

## 1999
- Aygaz became the first company in LPG sector to qualify for ISO 9002 Certification.
- Aygaz used the Electronic Gas Control Detector, another first for Turkey.
- Aygaz Patio Heater is introduced to the market.
- With the propane industrial cylinder, Aygaz started the propane era within industry.

## 2000
- Aygaz received the "Most Successful LPG Company" award in the Petroleum '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 are united in a single organization.
- Turkish customers are introduced to Turkey's first autogas brand that meets European standards: OTOAYGAZ LPG1, designed just for automobiles.

## 2002
- The corporate responsibility project for raising awareness against accidents, "The Cautious Child" is launched.

## 2004
- Aygaz Euro LPG is put on the market.

## 2005

- With the launch of hologram cap application another “first” in LPG sector, Aygaz differentiated itself at cylinder gas safety.

## 2006

- Aygaz received the first rank for four consecutive quarters in Turkey Customer Satisfaction Index (TMME) conducted by KalDer (Quality Association of Turkey).
- For the first time in Turkey, Aygaz offered consumers the option of purchasing cylinders via credit card or with loyalty points at their home.

## 2007

- A special forklift tank is produced for forklifts used extensively in factories and industrial establishments.
- In the scope of the project titled “Moonlight: Aygaz brings the Light of Health”, vaccination rooms of 81 community health clinics in 81 provinces were renovated.

## 2008

- Aygaz came third in the Management category at the EU Environment Awards.
- Aygaz ranked among the top five financially transparent companies in Turkey according to a report by Sabancı University and Standard & Poor’s as a result of GfK Turkey’s “Best Brands” study, Aygaz was chosen as the best brand in the LPG sector and one of the four best brands in Turkey.

## 2009

- Aygaz increases its stake in the Koç Statoil Gaz Company to 98% and changes the name of the company to Aygaz Doğal Gaz.
- Aygaz Euro LPG+, Turkey’s first autogas with additives, put on the market.
- www.aygaz.com.tr is awarded the Superb Achievement award at the Interactive Media Awards competition.

## 2010

- Corporate Governance Rating score of Aygaz was announced as 8.46.
- The social responsibility campaign “What Will the Weather Be Tomorrow?” initiated against climate change.
- Aygaz receives the grand prize in ‘Performance Management’ category at Turkey Personnel Management Association’s (PERYÖN) “2010 Human Management Awards”.

## 2011

- Aygaz celebrated its 50th anniversary with a series of events with participation of its employees, dealers and industry representatives.
- Aygaz received a total of 14 awards from national and international institutions.
- Aygaz broke another ground in LPG sector by qualifying for the ISO 10002 certificate; perceived as the symbol of a company’s excellence in resolving customer demands in the whole world.

## 2012

- Aygaz was selected the “Most Admired Company” in the LPG sector in Capital Magazine’s Survey of the Most Admired Companies in Turkey.
- For the second consecutive year, Aygaz was granted the “Company to Adopt the Principle of Consumer Satisfaction” award at the 15th Annual Traditional Consumer Awards organized by the Turkish Customs and Trade Ministry.

## 2013

- The merger of Mogaz with Aygaz was completed with the registration made by Registry of Commerce of İstanbul.
- Aygaz achieved another “first” when it became the first company to receive a “Customer-Friendly Brand and Customer-Friendly Enterprise” certificate, a brand recognition launched by the Turkish Standards Institute.
- Opet Aygaz Gayrimenkul A.Ş. was established as a 50-50 partnership between Aygaz A.Ş. and Opet Petrolcülük A.Ş.

## 2014

- According to the results of the 2013 Turkey Customer Satisfaction Index (TMME), research conducted by KalDer, Aygaz, Mogaz and Lipetgaz were selected as the most admired brands, and received the Silver Statue award in the cylinder gas category. With this award, Aygaz was ranked number one by consumers for the fifth time since 2005.
- At the Turkey Energy Summit, Aygaz Doğal Gaz was granted the Golden Valve Award while Aygaz received the Golden Barrel Award.

## 2015

- Knightsbridge (Beykoz) a ship built in Japan in 2009 and has 11,000m$^3$ transportation capacity joined the Aygaz fleet.
- Aygaz signed the GAN (Global Apprenticeship Network) agreement which was established to find solutions for youth unemployment.
- Aygaz was honored at the Environment Friendly Facility Awards organized by the Turkish Healthy Cities Association as part of World Health Organization’s Healthy Cities Movement.
- Aygaz convened with more than 275 Conversion Club members to strengthen its relations with autogas conversion companies.
- For the first time in its history, Aygaz’s sales volume surpassed two million tons.


AYGAZ

# OUR WARMTH HAS LEFT ITS MARK AT HOMES

*Aygaz Cylinder Gas is a symbol of trust and warmth in homes.*

# The LPG Industry in Turkey and Worldwide

An easily processable product with its substantial reserves, LPG is accepted as the energy source of the future due to its environmentally-friendly property.

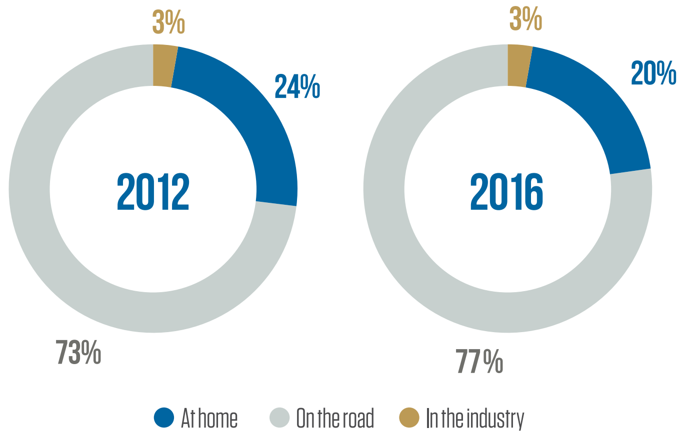
**LPG: The fastest-growing energy source of the last decade after renewable energy**
An efficient and environmentally-friendly energy source, LPG is expected to have an important position among energy sources as it has today. According to the latest report (2015) published by the World LPG Association (WLPGA), LPG consumption grew by 29% corresponding to a volume increase of 64 million tons during the past decade. Based on the same report, the global LPG consumption reached 285 million tons with an annual increase of 3.7% in 2015 and it was the fastest growing energy source excluding renewable energy. According to WLPGA data, the consumption for 2016 was projected to increase by 2-4% to reach 290 to 295 million tons.

According to the report, refinery industry recorded the biggest growth globally with a 20% growth rate whereas the residential consumption still has the biggest share with a 44% share in the global LPG market.

China, India and the U.S. were the first three countries leading in residential LPG consumption. The LPG used by these countries accounted for 43% of total residential consumption.

On the other hand, with a 9% share in global consumption, autogas consumption ranked fourth following the residential, petrochemical and industrial consumption. The global autogas consumption increased by 1.9%, reaching 26.4 million tons in 2015. Meanwhile, the number of vehicles with autogas rose by 3.1% on a global scale, reaching 26.4 million units.

## The areas of use and shares of consumption of LPG in Turkey




Turkey has stepped forward as second largest autogas market in the world.

Global LPG consumption

**285**

million tons (2015)

South Korea, Turkey and Russia are the three countries with the highest autogas consumption rates. These countries accounted for 37% of global autogas consumption and Turkey ranked second, followed by Russia.

Any easily processable energy with substantial reserves, LPG is also a transportable product. LPG is preferred by hundreds of millions of consumers all over the world; and as a sustainable energy source, LPG has an audience potential of nearly 1.5 billion consumers.

Adoption of policies aiming to reduce greenhouse gas emissions worldwide also creates a great opportunity for industrial development of LPG, an environmentally-friendly energy source.

All the relevant data illustrate that LPG has lower greenhouse gas emission values compared to other energy sources. Considering the efforts made within the framework of the decisions taken at Paris Climate Change Conference, it can be clearly anticipated that LPG's existing share in general energy consumption will significantly increase in the future.

In 2015, LPG production increased by 4% on a global scale compared to the previous year, totaling 292 million tons. The US, China and Saudi Arabia maintained their shares as the top three countries, accounting for 43% of the total production. While the natural gas-based production accounted for 62% of such production figure, the refinery-based production had a share of 38%.

Due to commissioning of shale gas resources, the US has shifted from being an LPG importer to an LPG exporter.

The US's LPG exports totaled 102 million in 2015. Thanks to the additional production of 23 million tons/year realized in line with the shale gas development since 2010, the US has been the pioneering country in the increase of exports. China and India have been the countries displaying the highest increase in imports in line with the rise in their consumptions.

In line with the increased global marine exports, nearly 50 new VLGC (very large gas carrier) ships were launched in 2016. The capacity increase in this segment reached a record high of 30% and this has caused the ship charter rates to rapidly fall down from the high levels in 2015.

Since the rapid decline in oil prices in 2015 persisted especially until the third quarter of 2016, LPG prices retreated back to the lowest level of the last 13 years. The energy complex price increases that occurred after OPEC meeting in November 2016 also affected LPG prices. Therefore, LPG prices entered the year 2017 with a level above 400 US dollars/ton in the international markets. In 2016, the cylinder gas and autogas annual average sales prices in Turkish LPG market increased by 3% and 2%, respectively.

### Turkey is Europe's third-largest LPG market

Turkey is the world's 15$^{th}$ and Europe's 3$^{rd}$ largest LPG market. In 2016, 23% of Turkey's total LPG demand was met by domestic production and the remaining 77% was imported from abroad. Algeria, Russia, Kazakhstan, Norway and the US have the biggest share in Turkey's LPG import volume.

In 2016, there was a significant decline in the imports from Russia and Kazakhstan. The trend of contraction observed in the cylinder gas market since 2004 diminished under the impacts such as the natural gas infrastructure expansion reaching to its saturation point, the demand created by the immigrant population and the decline in the supply prices. Consequently, this market grew in the last two years.

Having continued its trend of steady growth since 2003, Turkish autogas market has the largest fleet of LPG trucks in the world with a fleet consisting of 4.4 million vehicles. According to the data from the Energy Market Regulatory Authority (EMRA), Turkish cylinder gas market grew by 0.6% and the autogas market grew by 2.4% in 2016. EMRA data obtained by the end of 2016 show that the share of autogas in total consumption was 77% and the share of cylinder gas used in 7.5 million households and workplaces stood at the level of 20%.

Increase in autogas consumption in the world

**1.9%**

(2015)

# Aygaz in 2016

## Aygaz constantly improves its product and service quality by anticipating the needs of consumers.


29%

LPG market share

### Our target: To increase the market shares in all the segments we operate in

Koç Conglomerate began its activities in the energy sector with Aygaz in 1961. Aygaz has become the generic brand of LPG users during more than half a century that has passed since its establishment. Having continued to grow with the business culture that it has established, Aygaz has also been the pioneering force in the sector. Ranked 13th largest industrial company in 2016 among the list of Top 500 largest industrial enterprises compiled by İstanbul Chamber of Industry (ISO), Aygaz has been proud of being the first and only publicly-traded LPG company.

Aygaz has been using the state-of-the-art technological infrastructure in the fields of distribution of LPG and manufacturing of LPG cylinders, tanks, valves and regulators in the cylinder gas, autogas and bulk gas segments constituting its main business areas. Conducting domestic and international sales, Aygaz is also engaged in the sales of LPG-operated devices and marine transportation of LPG.

Since the very first date of its incorporation, Aygaz has aimed to sustain its leadership and further improve its profitability by expanding its market share in all segments that it operates. The company's strategic goal is to develop alternative projects providing diversified solutions for energy requirements primary in LPG and natural gas, both in Turkey and in the other potential markets.

### Sector's clear-cut leader

Aygaz has completed another successful period

# Turkish LPG market

CYLINDER GAS USERS
**7.5**
MILLION

VEHICLES WITH AUTOGAS
**4.4**
MILLION

BULK GAS CUSTOMERS
**8,000**

in terms of both operational and financial results. According to EMRA data, Aygaz remained as the clear-cut leader of its sector in 2016 among 85 other competitors. Aygaz has a market share of 29% in the total market, and this rate is 42% in the cylinder gas and 25% in the autogas segments.

Last year, Aygaz's domestic sales of cylinder gas, bulk gas and autogas was 1,176 thousand tons. Together with wholesale, export and transit sales, this figure reached historically the highest level with 2.1 million tons. By the end of 2016, Aygaz's consolidated turnover was TL 6.7 billion, of which TL 467 million was gained from exports and transit sales.

### Digital transformation

With the assistance of its constantly developing technological infrastructure, Aygaz continues to introduce ground breaking new applications. As one of the pioneers of "Digital Transformation" efforts carried out at Koç Conglomerate, Aygaz strives to integrate technological developments with all of its business processes extending from supply and manufacturing to sales and marketing.

### 2016: Continued innovations in LPG procurement

Closely monitoring the recent developments in the world, Aygaz was the first company that imported shale gas-based LPG from the U.S. to Turkey in 2015. Retaining this position in 2016, it has strengthened its position as the leading company in Turkey in terms of supplier diversity.

The number of LPG cargoes of US origin has increased and this source has reached a share of 12% in Turkish LPG procurement.

### Business culture focused on consumers

According to the results of independent surveys, which have been conducted since 2003, Aygaz continually maintains its position as the brand having the highest customer satisfaction in the sector, both in cylinder gas and autogas segments.

With its consumer-focused business culture, Aygaz continuously improves its product and service quality by proactively anticipating the needs of the consumers. Aygaz's broad distribution network plays an important role for its service quality.

The company meets its customers' demands in a fast, safe and reliable manner by means of 2,912 cylinder gas dealers and 1,741 autogas stations that it has all around Turkey as of 2016. Thanks to this strong distribution and service network, Aygaz cylinders enter into thousands of houses every day and more than 1 million vehicles are driven daily with Aygaz Otogaz.

### Turkey's largest LPG logistics operation

Managing the largest LPG logistics operations of Turkey, Aygaz benefits from economies of scale to organize the number and capacities of its vehicles and its distribution network according to the volume and distribution of its sales under the scope of its logistics optimization activities.

With more than 200 autogas trucks, Aygaz has Turkey's largest fleet of land LPG vehicles. The company initiated the Station Stock Management and Routing project for LPG supply management to its nearly 1,750 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 th utilization of an optimal supply plan.

Aygaz has been successfully managing various processes including production, supply, storage, and filling of LPG as well as production of pressure vessels and equipment for long years.

**1,176**
thousand tons

Aygaz's total cylinder gas, bulk gas and autogas sales in the domestic market


With more than 200 autogas trucks, Aygaz has Turkey's largest fleet of land LPG vehicles.

Automation was firstly started at Yarimca, the largest terminal of Aygaz in terms of tanker traffic. The implementation of the program at the other terminals is ongoing.

**A pioneer in LPG marine transportation**

Aygaz is actively engaged also in marine transport as well as land transport. Conducting marine transport operations since 1967, Aygaz transferred the management of its ships to its affiliate, Anadoluhisari Tankercilik Company in 2010. The fleet is comprised of four units of specially-equipped and fully-pressurized ships with a total capacity of 33,800 m$^3$. The average age of the fleet is 12.5 years.

In 2016, the company conducted 34% of its total marine supply and transport operations including imports, time charter and spot transportations using its own fleet.

Having been implementing Tanker Management Self-Assessment Model in its fleet since 2008 and holding quality (ISO 9001), safety (ISM Code), security (ISPS Code) and environmental (ISO 14001) management system certificates, Anadoluhisari Tankercilik successfully completes the audits regularly conducted by main petroleum suppliers as well as the other inspections required by the related regulation (class, flag state, port state, insurance, etc.).

Having integrated Occupational Health and Safety Management (OHSAS 18001:2007) certificate with its management system in 2014, the company has also successfully completed office and on-board inspections conducted by ClassNK and received certification in January 2015.

650 thousand tons of LPG were transported in 2016, thereby reaching the highest transportation tonnage realized with the company's fleet in the history of Aygaz.

**Automatic filling and safety inspections**

Striving to deliver its products to its consumers all around the country within the scope of its high-quality service system, Aygaz has 5 marine terminals meeting international standards and operating with the state-of-the- art technologies. In addition, it has 6 filling facilities and 12 distribution centers as well as an additional facility where pressure vessels and accessories are produced. Aygaz has the largest LPG storage capacity in Turkey with a total capacity of 178.4 thousand m$^3$.

**650**

thousand tons

The highest LPG transportation tonnage in Aygaz's history realized with its own fleet


LPG stored at Aygaz facilities are automatically filled into cylinders and made ready and available for distribution after a series of safety tests. Each Aygaz cylinder undergoes "Valve Gasket Integrity" and "Overfilling and Gas Leakage" inspections. These cylinders are then delivered to consumers after they are issued with a "Cylinder Information Card" showing that it is completely filled and quality certified and sealed with a "Hologram Lid".

The "Cylinder Tracking Project" initiated in 2015, which ensures the tracking of cylinders from facilities to dealers and customers, has been gradually expanded to Işıkkent, Aliaga and Isparta Facilities in 2016; thus allowing for barcoding of 3.5 million units of cylinders. With the systems developed and patented by Aygaz, the cylinder movements between "Filling Facilities-Dealers" started to be tracked.

All Aygaz products are issued with ISO 9001 Quality, ISO 14001 Environment and OHSAS 18001 Occupational Health and Safety, ISO 50001 Energy, and ISO 10002 Customer Complaints Management certificates. The products also carry the CE and PI marking certificates documenting the free movement permit in EU countries as well as TSE Customer Friendly Organization and Customer Friendly Brand certificates.

### Gebze Facility's export success

Aygaz produces its products including cylinders, valves, bulk gas tanks and pressure regulators and regulators, and other products at its Gebze Facility located in Gebze Organized Industrial Zone. Having quality, environment, occupational health and safety and energy management system certificates this facility covers 52 thousand m$^2$ of outdoor area and 25 thousand m$^2$ of indoor area.

Last year, the first robotic application was started at the facility and the total number reached to 7 with 5 robots used in valve and pressure regulator factory. Having continued with wide deployment of structure, automation, robotic applications and automatic quality control systems communicating via the machines integrated with SAP software, Gebze Facility takes firm steps on its Industry 4.0 journey.

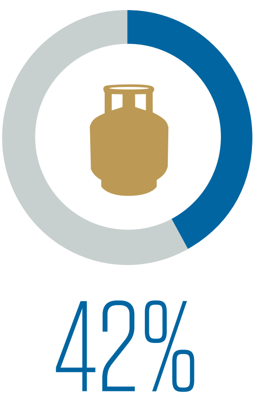
With energy efficiency-oriented activities, the consumption has been reduced by 5.8% of TOE (tons of oil equivalent). This value corresponds to 1-month electrical consumption of nearly 1,700 houses.

Despite the contraction in foreign trade, the turmoil in the target markets and the decline in commodity prices, the exports made from Gebze Facility to 14 countries in the Middle East, Africa and Europe in 2016 provided a foreign currency inflow of over 29 million US dollars. The highest volume of nearly 1.2 million units was exported from the residential cylinder gas line.

Gebze Facility has produced nearly 70 million units of cylinders and 130 million units of valves and regulators for both domestic and international markets so far since 1962.

# Cylinder Gas

## With its business culture and exceptional service-quality approach adopted from Koç Group, Aygaz improves its competitive capacity in the cylinder gas market every day.




Cylinder gas market share

### Undisputed leader of the cylinder gas market

As in previous years, Aygaz maintained its leading position in the cylinder gas market in 2016. With a total sales figure over 342 thousand tons and a 42% market share, Aygaz sustained its undisputed market superiority. With its extensive and effective dealership structure country wide, and deep-rooted business culture and outstanding service quality approach adopted from Koç Group, Aygaz maintains its competitive power. Aygaz serves its customers under its Aygaz, Mogaz and Lipetgaz brands with more than 6,000 employees at circa 2,200 dealers throughout Turkey. According to Energy Market Regulatory Authority (EMRA) report dated December 2016, the domestic cylinder gas market recorded an annual growth of 0.6% and reached a total of 821 thousand tons.

### 360-degree communication

In addition to conventional communication practices on local and national scales that strengthen the brand perception, Aygaz introduces to its sector new approaches in digital communication by following the developing communication trends closely.

In 2016 Aygaz maintained its clear-cut leadership in the cylinder gas segment, with a 42% market share and total sales of 342,000 tons.

**2,192**
Cylinder Gas dealers

Realized in compliance with 360 degree communication criteria, the campaign "Dünya Mutfakları" (World Cuisines) was received with admiration by all of the stakeholders, particularly by the target customers. Another communication work that created difference in the sector was "Evde Şef Başına" (Chef Alone at Home), produced for the digital platforms to specifically address the youth.

With the image campaigns carried out in 2016 for the cylinder gas product, Aygaz won 4 Crystal Apple awards, which is the hallmark award of the communication sector.

### Campaigns making a difference

Campaigns designed with business partners from various sectors including transportation, food and fast moving consumer goods were carried out throughout the year. In this scope, local credit card campaigns were realized in collaboration with banks taking the local needs of customers into consideration. Receiving a great deal of attention, these campaigns helped the company to reach its targets and customer satisfaction.

### Training is one of the pillars of our corporate culture

Training is one of the building blocks of Aygaz's culture of conducting business. Thus, The Aygaz Training Truck continues traveling all over Turkey, and delivering the service and security trainings to the dealers and their employees to ensure that Aygaz corporate culture, values and vision are embraced by them, and to standardize service quality throughout Turkey.

Aygaz also places a great deal of importance on training cylinder gas users, providing them with information on safe use of cylinder gas. Aygaz Security Campaign, which raises awareness of the safe usage of regulator and LPG hose and provides advantageous renewal possibilities, received a high level of interest among cylinder gas users. Aygaz does constant brand and CSR communication during these trainings.



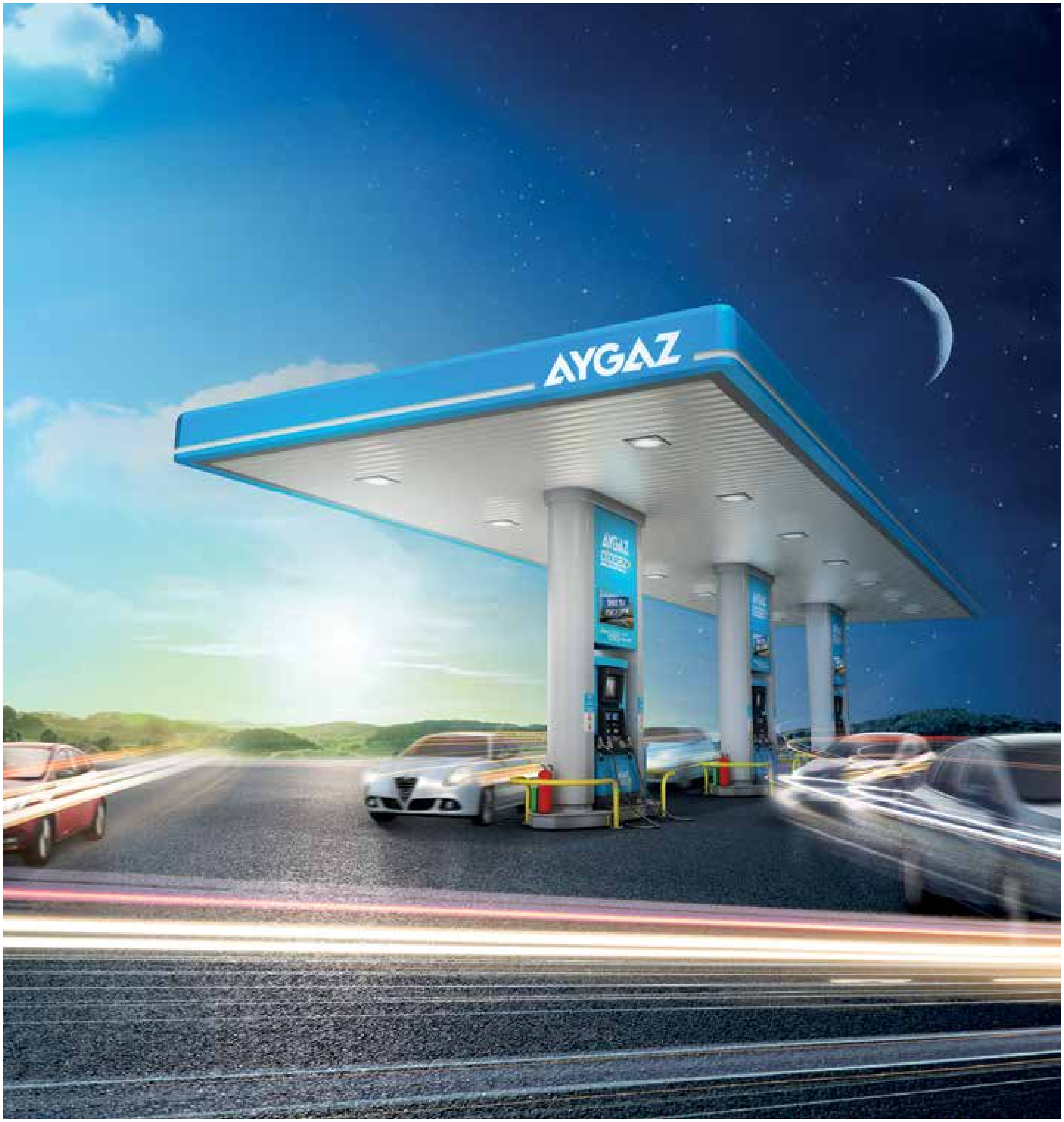
203

# OUR UNIQUE PERFORMANCE HAS LEFT ITS MARK ON THE ROADS

*With the unique performance of budget-friendly Aygaz autogas, we accompany hundreds of thousands of drivers.*

# Autogas

Awareness of autogas as an eco-friendly product is growing daily.



### Autogas market share

With a 12% share in global autogas consumption, Turkey is one of the most important players in the autogas market. Following South Korea and ahead of Russia, Turkish autogas market is the second biggest market globally and it is the largest market in Europe.

Turkey has the largest LPG vehicle park globally. 4.4 million vehicles (39% of the total car park) use autogas. According to 2015 year-end data, this figure is equivalent to 16% of the global LPG vehicle park that is well over 26 million vehicles.

With its solid and sustainable growth performance, Turkish autogas market serves as a model in the international arena. With an increase of 2.4% in 2016, autogas consumption reached 3,142 thousand tons in Turkey.

The consumer awareness of autogas as an eco-friendly product increases every day. In addition, the user perception regarding performance and safety also improves due to improved conversion systems technologies. As high segment vehicle owners started to prefer autogas in recent years, the consumer group has expanded even more.

### Turkey's most extensive distribution network

In Turkey, approximately 4.4 million LPG vehicles refuel at more than 10,000 autogas stations. Having the most extensive distribution network in the country with nearly 1,750 licensed autogas stations, Aygaz maintained the number of its stations in 2016.

Reaching a sales volume of 792 thousand tons in 2016, Aygaz sustained its market leadership with a 25% market share.

Aygaz focuses on providing solutions in line with consumers' expectations through proactive marketing policies and expanding its distribution network to further enhance its competitive advantage.

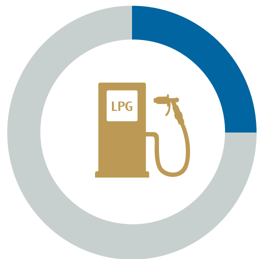
Continuing its cooperation with Opet, Aygaz also grows in different distribution channels with Mogaz Otogaz and Lipetgaz Otogaz brands.

### Communication strategies that build brand loyalty

Various communication campaigns were executed during different periods of the year for Aygaz Otogaz and Mogaz Otogaz in order to strengthen brand perception and loyalty, and manage the consumer choices.

Aygaz's communication strategy in the autogas segment focuses on the product superiority and high engine performance.

The market research studies conducted regularly by Aygaz revealed that the consumer choices had started to shift some time ago. By December 2015, the main communication strategy began to convey the messages that LPG is the most commonly used fuel and Aygaz Otogaz is the most preferred autogas brand




25%

Autogas market share

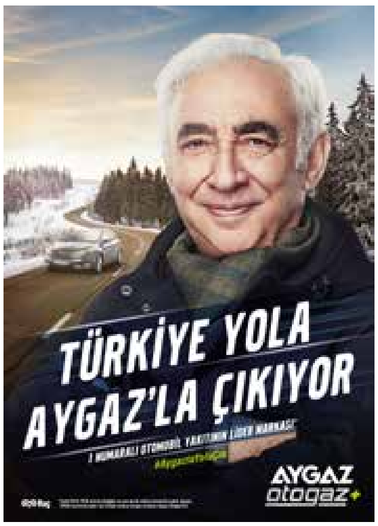
In 2016 Aygaz reached a sales volume of 792,000 tons, maintaining its autogas market leadership with a 25% share.

1,741

Autogas stations



## Autogas is used in 4.4 million vehicles, comprising almost 39% percent of Turkey's total car park.





in Turkey. After receiving positive feedbacks the company continued "Türkiye Aygaz'la Yola Çıkıyor" (Turkey Takes on the Road with Aygaz) campaign in 2016.

The TV commercial that was aired in September conveyed the message "Türkiye Aygaz'la Yola Çıkıyor" (Turkey Takes on the Road with Aygaz) together with the message "Herkesin Yolu Aygaz'dan Geçiyor" (Everyone Stops by Aygaz).

For Mogaz Otogaz, long-term sponsorships executed throughout the year improved brand familiarity and the emphasis put on "Mogaz is an Aygaz brand" enhanced quality perception. To underline that the quality of the product matches its price and the product itself provides fuel efficiency, the theme "Git Git Bitmez" (Never Runs Out) was used in the communication works.

### 2016: A year of communication awards

2016 was one of the years that Aygaz Otogaz was granted the highest number of awards in the marketing field. At the Felis Awards where the high-class practices were evaluated, Aygaz was granted 5 awards in total for "Turkey Takes on the Road with Aygaz" commercial film, and otogazla.com and gelecegeyolal.com projects.

At the Effie Awards where the most effective works are determined through criteria like providing increase in the brand perception, customer satisfaction and sales, a Silver Effie was granted for "Turkey Takes on the Road with Aygaz" commercial film.

At the 28th Crystal Apple Advertisement Awards held by Advertisers' Association where the most creative works of the sector are awarded, Aygaz Otogaz once more was granted 2 awards for "Turkey Takes on the Road with Aygaz" advertisement campaign.

### Focused communication

Besides the communication on a national scale, 2016 has been a year that local communication campaigns also became prominent in order to meet regional consumers' expectations for Aygaz Otogaz. In certain cities of Turkey, tailor-made practices were applied according to the communication needs of brands. In addition, campaigns were carried out with the strong local stores of these cities.

On the other hand, Aygaz Conversion Club continued its intensive activities in 2016 to develop the autogas conversion sector, strengthen the perception of autogas, and increase the consumption.

The website "www.otogazla.com", where autogas vehicle owners and vehicle owners considering conversion convene with Aygaz Conversion Club members, has been visited by more than 375,000 consumers.

# Bulk Gas

## Bulk gas represents a 4% share of Aygaz's total domestic sales.


Serving over 3,000 bulk gas customers in 2016, Aygaz reached nearly a 42 thousand tons sales volume in this segment by the end of the year. With this sales volume, bulk gas makes up 4% of the total domestic LPG sales of Aygaz.

# Pürsu

Aygaz initiated the carboy water distribution in 2011 in order to use its distribution network more efficient and to open up a new business branch for their dealers. Providing its water from three springs located in Uludağ, Nazilli and Sapanca, Pürsu carries out water sales in 33 cities through 500 dealers.

Pürsu ranks among the first five brands in carboy water market where more than 300 brands compete.

In 2016, Pürsu carboy sales increased by 10% to reach 8.9 million units annually.

SUBSIDIARIES

# Aygaz Doğal Gaz

## In 2016 Aygaz Doğal Gaz achieved a sales volume of 1.61 billion m$^3$ and a turnover of TL 864 million.

Aygaz Doğal Gaz was founded in 2004, with the vision of becoming a diversified player in the natural gas market. Delivering the natural gas that it procures domestically to its customers via pipeline, the company also realizes the transportation and sales of liquefied natural gas (LNG).

Leaving a successful year of operation behind, Aygaz Doğal Gaz has reached a sales volume of 1 billion 61 million m$^3$ and a turnover of TL 864 million in 2016.

### Increased sales volume

Aygaz Doğal Gaz operates in the procurement market excluding BOTAŞ. In that market which reaches nearly 11 billion m$^3$, the company provides consumers with natural gas through transportation and distribution lines in an uninterrupted, economic and reliable fashion.

Aygaz Doğal Gaz initiated the piped gas operations in 2010 and successfully enhanced its sales volume by broadening its customer portfolio through various procurement agreements. Aiming at increasing the domestic sales through imports, Aygaz Doğal Gaz, within this framework, closely monitors the developments in global LNG markets, market dynamics and opportunities.

### LNG sales to customers not accessed by pipelines

The LNG market in Turkey has a size of approximately 550 million m$^3$. The LNG received from Botaş Marmara Ereğlisi and Egegaz Aliağa LNG terminals is distributed all around Turkey with special LNG trailers. Being stored in tanks on the premises of customers, LNG is delivered to consumers in locations that are not served by pipelines. The asphalt, food and tourism sectors have a significant place in LNG market.

As one of the prominent players in the bulk LNG market, Aygaz Doğal Gaz strengthens its market presence each day by closely monitoring developments and new business opportunities in this field.

## *Natural gas consumption will continue increasing*

*Natural gas reached a very significant use rate, especially in the last 20 years. The consumption of natural gas in residences and industry reached a level of 46 billion m³ in 2016. In the Turkish market, which depends 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, claiming the top spot. Last year, the private sector's level of meeting the domestic demand was around 20%. In parallel with the increase in the number of companies with import licenses, players in the domestic wholesale sector increased.*

*The exchange rate increases and continued government subsidies applied on domestic natural gas price cause the domestic market price to remain low compared to international LNG prices. Thus, the private sector did not import LNG from the pipelines in 2016 and the needed LNG was imported by BOTAŞ alone.*

*Calculations show that, in case that the natural gas usage trend continues like this, it is anticipated that the consumption will reach the level of 58 billion m³ in 2023, increasing by 20% compared to today's levels. Accordingly, the number of gas inlet points will be increased in order to meet domestic demand and to deliver the gas to Europe with supply security and diversity of sources. In addition to that, it is foreseen that the private sector will have a stronger position with a higher market share. This way, Turkey can become an important gas trade center that offers high quality natural gas to consumers.*

*Positioning itself in the market in line with this vision, Aygaz Doğal Gaz focuses on the work to be done in the short-term as well as long-term future.*

# Akpa

Beside its cylinder gas and carboy water direct sales, Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş. also carries out fuel trade. Because of the uncertainties in the tourism sector, Akpa exited the business of selling durable consumer goods to related businesses like hotels, holiday camps and golf resorts within the year.

Operating for about half a century, Akpa is one of Turkey's leading sales and marketing organizations in its field. The company's turnover for 2016 was TL 342 million.

Akpa has been active in the cylinder gas market since the day it was founded. In 2016, the company increased its cylinder gas sales by 10% compared to the previous year and reached a sales volume of 31 thousand tons from its operations in 10 cities. Akpa considerably enhanced its service area in recent years and focused on direct sales to residences and offices.

One of Akpa's important business areas is sales of fuel products. In addition to wholesaling to corporate businesses, Akpa also provides retail sales to individual customers through its own stations. Fuel sales reached 65 thousand tons and TL 174 million in 2016.

Akpa also carries out carboy water sales to corporations, cylinder gas dealers and retail customers. The company realized a total of 2.3 million units with Pürsu brand in 2016, with an increase of 16% compared to the previous year.

AFFILIATES

# Opet Aygaz Gayrimenkul

## As of the year-end 2016, Opet Aygaz Gayrimenkul has 18 stations.

Opet Aygaz Gayrimenkul A.Ş. was founded in 2013 as a 50-50% partnership between Opet Petrolcülük A.Ş. and Aygaz.

The company operates with the purpose of buying real estate properties in various regions of Turkey and to either operate them itself as fuel and autogas stations or rent them to third parties. With its partnership in Opet Aygaz Gayrimenkul A.Ş., Aygaz aims to further strengthen its presence in the market and increase the competitive capacity of its autogas brands.

As of the year-end 2016, the company owns 18 stations.

# Entek

## Entek continues to work towards a balanced portfolio structure.

In 2016, Entek, the electricity production company of Koç Conglomerate, carried out its operations with a total installed capacity of 219 MW. Natural gas cycle plant in Kocaeli accounts for 157 MW and three hydroelectric production plants (two in Karaman and one in Samsun) account for 62 MW of this capacity. Beside the plants it has in operation, Entek has 100% share in wholesale company Eltek, %50 in Ayas export coal fired power plant ith installed capacity of 625 MW, and 0.05% in Enerji Piyasaları İşletme A.Ş. (EPİAŞ) which was established to run the Energy Exchange.

Especially in the last ten years, high scale investments were made with the expectation towards liberalization of the electricity production competition, continued to increase with new technology and highly efficient power plants entering the market. This has led the low-efficient electricity production facilities that use natural gas as fuel withdraw from the market.

Via its wholesaling company Eltek, Entek can purchase energy from the grid, sell it when system prices are at a low level, and thus protect its portfolio. Consequently, when the system prices are low, Eltek's sales profit grows, increasing the competitive power of Entek.

Entek plans to reach a balanced portfolio structure by giving priority to diversification of production sources and to renewables investments. In addition, it also plans to purchase related assets in order to increase its market share.

# Enerji Yatırımları

Enerji Yatırımları A.Ş. (EYAŞ) was established in 2005 for the purpose of purchasing 51% of the shares of Tüpraş, the largest industrial corporation in Turkey, from the Privatization Administration. Aygaz holds a 20% stake in Enerji Yatırımları A.Ş. As the only producer in Turkey's refining industry, Tüpraş operates in refinery, distribution and marine transportation of gasoline and products. Tüpraş is the seventh largest oil refining company in Europe with an annual crude oil capacity of 28.1 million tons.

# Human Resources

## Aygaz's greatest value is its contributing and competent workforce.

A total of

**1,348**

employees

of which
708 work at the office
640 work in the field

### Contributing and competent workforce

The modern human resources policies of Aygaz are based on the phrase of its founder, Vehbi Koç: "Our human resources are our most important asset." The leading and pioneer position that Aygaz holds in business since the day it was founded, comes from its innovative human resources profile that is target-oriented and based on diversity.

With a corporate approach that includes international norms, Aygaz formed a contributing and competent workforce that consists of the best in the sector.

Acquiring highly qualified human resources, employees' personal and professional improvement and employee loyalty through high motivation practices are of high priority and importance for the company.

As of the end of 2016, total number of Aygaz employees was 1,348, of which 708 work at the office and 640 in the field; 10% of them are women and 90% are men. The average age of Aygaz employees is 37 and average seniority is 8 years. The rate of women executives increased in the last five years, reaching 15.4% of the total number of executives.

The rate of office employees who have an undergraduate and post-graduate academic degree

**75%**

40% of all employees have undergraduate and post-graduate degrees, while this ratio is 75% among office employees.

### Right candidate for the right position

The human resources policy of Aygaz includes the selected candidates being added to the qualified human resource, following the communication activities carried out in collaboration with Koç Group. In the recruitment process, candidates are being evaluated through several phases which are competence based interviews, case studies, presentations, English language tests, personality inventory and reference checks.

The individuals conforming to the corporate culture of Aygaz are selected by “right candidate for the right position” approach. Afterwards, the new employees are offered an orientation program covering both Aygaz Group and Koç Group. . In addition, a mentorship practice in line with the group policies has been initiated within Aygaz that will provide support for the employees’ improvement and career plans. 26 mentees benefited from this practice that 24 mentors participated in.

### Performance management based on quantitative data

One of the most successful practice areas of Aygaz corporate culture is the Performance Management System. In the system, the objectives are delegated from top management down to all employees, and employee performances are tracked with objective cards and evaluated based on quantitative criteria. Results of the Performance Management System constitute a scale that is used in determining the personal development plans as well as promotion and wages.

Providing objective criteria for the evaluation, the system enables employees to see their contributions to the company objectives and define their own development areas accordingly. It also has an “immediate reward” mechanism based on the achievements that all employees show within the year.

### Training to accelerate personal and professional improvement

Continuous training and employee development is among the corporate priorities of Aygaz. The employees are able to receive feedback from their managers and co-workers through a 360-degree Competency Evaluation System and plan their own personal development in line with their career objectives. Through Koç Academy System, employees can obtain trainings whenever and wherever they want on a digital platform.

In order to improve the foreign language skills, one of the most important personal development tools today, Aygaz provides its employees in-class and one-to-one training opportunities. In addition to the Papagei, an e-training platform introduced in 2015, the Pearson online training, specifically tailored for Aygaz, was added to the development tools.

In addition, Aygaz initiated the AygazLEAD Modular training programs to managers’ leadership skills. With “You Are the Leader” program and Yenibirlider Association leadership programs, the employees with managerial potential are improved. Each year, participation in Koç University Executive MBA and Technical MBA programs is provided.

In 2016, as a result of the investments made in employees’ development, the average number of training hours provided per employee was 34 hours.

### Internal communication

In line with the internal communications plan prepared annually by the Human Resources Department, improving communication among employees is a primary objective considering the diverse structure of the company. Last year, a series of events were organized in the scope of this plan.

Business Results Sharing Meetings with top management, terrace breakfasts, area and plant visits, service award ceremonies, department dinners, sports festival, strategic plan meeting and BizBize chats are among these events. Also, in order to have a direct communication, e-mail addresses were generated for factory and plant employees and information screens were installed in 2016.

Based on the results of the surveys it conducts in order to measure the employee loyalty and satisfaction, Aygaz evaluates improvement opportunities and takes action on them.

# OUR SOLUTIONS HAVE LEFT ITS MARK ON LIVES

*With our eco-friendly, creative solutions we embrace what the day brings, adopting co-existence as a guiding principle.*

# Sustainable, value-creating growth

## Already a pioneer in many fields, Aygaz is also the first company to publish a sustainability report which has since become a model for the business world.

Aygaz is the first Turkish company to have published a report on sustainability and it updates the report once biannually in line with Global Reporting Initiative (GRI) principles.

Fulfilling its obligations concerning working conditions, human rights and transparent corporate governance, as per its commitment to the UN Global Compact, Aygaz devotes all its efforts to reduce the environmental impact of its production processes, products and services. Aygaz realizes the regarding activities by its policies integrated with the management philosophy. In that scope, the company is included in Koç Group Sustainability Report.

# Quality, Environment, Occupational Health and Safety

## The voice of the customer calls: "Aygaz Cylinder Gas, Aygaz Autogas."

All of Aygaz business processes' common goal is customer satisfaction. As a reuslt of this approach, Aygaz was elected the brand with highest customer loyalty in both cylinder gas and autogas segments, in the scope of "Turkey the Voice of the Customer" research conducted in collaboration with Turkey Quality Association and Ipsos. Aygaz prioritizes to continue its activities without harming its stakeholders and envrionment.

Aygaz improved the Total Quality Approach that it embraced in the early 90's every year, and it expanded its scope. In line with the changes in management systems standards, Aygaz finalized the Integrated Management Systems Policy in 2016.

The company's Integrated Management Systems enables centralization and integration of the management disciplines on quality, environment, occupational health and safety, energy, customer complaints, and information security. All employees are responsible for adhering to the company's Integrated Management Systems policy. Integrated Management Systems can be reached at www.aygaz.com.tr.

In 2016, 71 internal controllers inspected 75 business units within the framework of Integrated Management Systems. Following internal and external inspections made in the context of quality, environment, occupational health and safety, energy, customer complaints as well as customer friendly organization and customer friendly brand requirements, compatibility with the related systems was confirmed and necessary improvements were executed.

The company completed TPED and PED inspections and renewed its products' CE and PI brand certificates. Depending on the Authorized Obligator Status, ISO 27001 Information Security Management System was installed at Ambarlı, Aliağa, Dörtyol, Samsun and Yarımca Terminals,


Headquarters and Gebze Plant. The system is now active in a certified fashion after the related inspections.

### Leader in customer satisfaction

Being selected as the sector leader in cylinder gas category for three consecutive years according to the results of the Turkey Customer Satisfaction Index (TMME) conducted by Turkey Quality Association (KalDer) and KA Research, Aygaz was granted the Golden Sculpture representing Sustained Success Award.

### Practice occupational health and safety

Aygaz carries out its activities as certified by OHSAS 18001 Occupational Health and Safety Management System, at 12 locations including Headquarters, Gebze Plant and Facilities.

The Platform of Occupational Health and Safety Experts continued its activities in 2016 uniterruptedly and in close cooperation with other institutions of the industry and actively participated in the related meetings and acitivities.

Regarding workers' health and security of Aygaz employees who work at filling and production facilities, training sessions were organized by the Forum Theater model in order to raise awareness and have the corporate culture built on even further solid ground in this respect. 750 employees received training through 11 plays at filling facilities, and 400 employees received training through 4 plays at Gebze Plant.

### Aygaz strategically prioritizes the environment

As the company to have published the first sustainability report, efficient use of natural resources and protecting the environment is a strategic priority for Aygaz. The company contributes positively urban air quality with its environment friendly product portfolio.

In 2016, with the contest where models were created out of waste realized during World Environment Week, the environmental awareness of Aygaz employees' children was increased.

As part of its social responsibility perspective, Aygaz launched a Climate Change to participate fight against climate change. Along with the compatibility plan with Climate Change Strategy, switching to LED armatures was realized at Aygaz activity locations, saving 474,500 kWh of energy and reducing $CO_2$ emissions approximately by 235 tons.

In 2016, 524 hours of enviromental-related trainings were performed at Aygaz facilities.

In the scope of the regulation regarding Prevention of Major Accidents and Reducing Their Effects, Security Management System is installed at all Aygaz locations. The regulation, the security reports prepared for high-level facilities (Ambarlı Terminal - Dörtyol Terminal - Samsun Terminal - Aliağa Terminal - Yarımca Terminal and Isparta Filling Facility - Diyarbakır Filling Facility - Ankara Cylinder Gas Distribution Center - Işıkkent Filling Facility - Kırıkkale Filling Facility) were delivered to Ministry of Labour and Social Security on June 30, 2016. For the facilities defined as low-level (Safranbolu Filling Facility and Adana, Lüleburgaz, Eskişehir, Gaziantep, Kağıthane and Samandıra Cylinder Gas Filling and Distribution Facilities), The Policy for Preventing Major Accidents was uploaded to Ministry for Environment and Urbanisation BEKRA Notification System.

## Integrated Management Systems Policies

*Aygaz, working in accordance with the Objectives and Principles of Koç Conglomerate, and as LPGas its main business area, has undertaken;*

- to be a pioneer and innovative company in the sector,
- to work in accordance with ethical values,
- to benefit from strategic growth opportunities,
- to work in accordance withregulations and standards,
- to ensure that the work processes are managed efficiently and developed continuously,
- to give priority to customer perception, sustainable customer satisfaction and loyalty, and offer applicable solutions for customer complaints,
- to ensure and develop optimum stakeholder satisfaction in accordance with corporate management principles,
- to continue the success in employee loyalty and satisfaction,
- to undertake efforts supporting innovation and climate change strategies,
- to work with respect towards thesociety and the environment, create a healthy and reliable work environment, and establish preventive approaches regarding occupational diseases and injuries,
- to give priority to energy efficiency in facilities and buildings as well as design and procurement processes,
- to prevent pollution, decrease waste, and ensure that waste is disposed of in a manner in which recycling is a priority,
- to take into consideration possible environmental effects and occupational health safety risks during realization of investments,
- to inform the society regarding their operations,

as a main policy.

All of Aygaz's employees are responsible for implementing, developing and ensuring the required resources for the principles of the integrated management systems policy.

Aygaz aims to bring in distinguished candidates to join its qualified human resources following communication activities integrated with Koç Group.

Aygaz carries out its activities as certified by Environment Management System, at 12 locations including Headquarters, Gebze Plant and Facilities.

### Monitoring intellectual property rights

The preservation and monitoring of intellectual property rights have an important place among Aygaz business processes. The company manages an intellectual property portfolio that expands each year with trademarks and patents which are either in application process or registered in Turkey and abroad.

Since the day it was founded, Aygaz has been allocating resources to monitor and protect its trademarks, patents, industrial designs, works and internet domain names.

At Aygaz, intellectual property management process aims to support creativity within the company as well as to protect the activities of R&D, marketing and operation in line with intellectual property rights strategies. Aygaz periodically reviews and commercializes its patent portfolio.

### Innovation Management Process

Aygaz, the most innovative company in its field, supports the creativity and entrepreneurship of its employees in the context of innovative processes. In this framework, the opinions of the employees is considered to be important and an Innovation Management Process has been launched to ensure that any idea that has the potential to create value is benefited from.

This process encompasses all stages, from collecting ideas to implementing them systematically including the vision, mission, strategy and innovative fields. Aygaz has defined its innovation fields as servicing, digitalization and the sharing economy, which it views as future strategic fields.

On the other hand, with the implementation of the Aythink Idea Collection Platform, a

Aythink
Yenilik Senle Başlar!

structure aiming at developing the innovative side of the company culture has been created. With this platform, innovative ideas can be shared, shared ideas can be tracked and global technological developments can be followed. In total, 225 ideas have been entered to the Aythink system. 10 ideas were selected as having potential for becoming new products, services and business models, and project teams have been created for these ideas.

Teams undertook different practices at the Atölye Labs for 10 days in order to actualize their ideas. With these efforts, team members learned the “Plain New Venture” method, which was integrated to the project management systems of corporate companies, and have also transformed their ideas to business models, using the “Business Method Canvas”.

Project teams have defined problems via contacting customers, and have tested their solution prototypes again with customers. At the end of this process, they have submitted their investor presentations to the Innovation Committee and requested budget and time in order to transform their projects into “Aygaz Pilot Project”.

The Innovation Committee has chosen 6 projects by voting and a person from top management has been appointed as the project sponsor for each project. The teams are continuing work in order to realize the projects with their allotted budgets, human resources and time.

As with each process, measurement is also of importance in this process. For this reason, a survey has been conducted to determine the level of innovation internalisation throughout the company. In order to continue development, a monthly electronic bulletin named “Inobox” is being sent to employees, which includes sectoral and global trends as well as technological developments. Also, as part of the “Congratulations for your Insight”, a question about the innovative culture of the company is communicated to the employees to foster their thinking process on the concept of innovation.

### Also a leader in sectoral standards development

Aygaz tracks down the operational standards given by Energy Market Regulatory Authority (EMRA), follows all kinds of regulatory arrangements that define sectoral operations and carries out the required actions without delay.

Being a member of many national and international NGO's, Aygaz also leads in this field by transferring its accumulated knowledge to the internal sector for the purpose of creating and enhancing standards as well as sectoral policies.

# Research and Development

## Aygaz leads its sector with new R&D projects.

Closely monitoring latest technological developments internationally, Aygaz further strengthened its innovative and pioneering position in the sector in 2016, by virtue of its R&D activities focused on developing new technologies.

Aygaz implements its innovation-based philosophy to all the three main R&D activity areas: new product development, machine and process improvement and alternative fuels. Maintaining its sector leadership position in R&D with its 45 national and international patents, Aygaz applied to the Turkish Patent Institute for 3 patents and international patent institutes for 3 patents in 2016, reaching a total of 6 new patent applications in the year.

At the Global Technology Conference held in Italy in November where the innovation projects conducted in LPG sector were presented, Aygaz took place with its projects "Sulphur-Free LPG Odorizer - Greenodor" and "Diesel-LPG Practices in Heavy Vehicles" and promoted them to participants of the conference.

Benefiting from the TUBİTAK TEYDEB R&D incentives, Aygaz conducts some of its projects

in cooperation with universities and Teknokent companies. In 2016, Aygaz carried out two projects that received R&D incentive support in this framework. The Production of Light and Middle Distillates through the Olefin Oligomerization project that has been carried out in partnership with Tupra§ also continued in 2016.

With the support of Ministry of Science, Industry and Technology via the SAN-TEZ R&D Incentive Program it carries out and collaboration of İstanbul Technical University, Aygaz realized the project "Production of Aerosol Grade LPG from Standard LPG".

The traceability of cylinders is of a huge importance for facilities, dealers and customers. Having initiated at Işıkkent Filling Facility in 2015, Aygaz continued the "Cylinder Barcode" project at Aliağa and Isparta in 2016. With 2d-code tag and reading systems developed for this purpose, 3.5 million cylinders were tagged and their move between facility and dealers were started to be monitored. The work on implementation of the project in all facilities and all dealers is ongoing.

In 2015, the Removal of Heavy Hydrocarbons project was presented in the 28th World LPG Association Conference. The filtration system reduces the evaporation residue of LPG by filtering the heavy hydrocarbon structures inside it. In 2016, the filtration system was started to be installed on tanker trucks to be utilized in bulk gas operations.

# Social Responsibility

## Aware of the fact that economic improvement alone is not enough for social development, Aygaz leads projects that invest in Turkey's future.


Academic research shows that society does not see the state to be the sole provider of solutions to social and economic problems; it expects prominent companies to contribute their own solutions as well. Aygaz believes that economic improvement alone is not enough for strong social development. That's why the company, contributes to Turkish society's continued development through its social responsibility projects. This belief, aligned with Aygaz founder Vehbi Koç's philosophy: "We exist as long as our state and country exists.", encourages projects that invest in our country's bright future and its rich past, covering environment, education, arts & culture, health, sports, and other social development fields, thus fulfilling our social and environmental responsibilities with all stakeholders working in harmony.

## ART & CULTURE

### Aygaz Library

In order to ensure the existence of Turkey's cultural and historical wealth and preserve it for future generations, Aygaz initiated the "Aygaz Library" project in 1996, seeking to reach book and art lovers, researchers, and college students.

Over the last two decades, 14 books on topics ranging from history to archaeology have been published in relation to this project. Some examples are Nemrut: The Mountain of Gods, The Photographers of Constantinople, The Treasures of Troia, The First Year of the Second Constitutional Monarchy Era, Dynasty and Camera, Kat'ı: Quilling Art,and Artists in the Ottoman World.

### Publishing of Ottoman-term diplomatic documents, in book form

One of Aygaz's many cultural activities 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. Also included are the notes and diaries of diplomats who served in İstanbul. With four books published in 2016 alone, the total number of published works now stands at 44.

### Sagalassos Ancient City excavations

Aygaz also supports the ongoing excavations at Sagalassos Ancient City located at the foothills of the Taurus Mountains. The first signs of settlement here date back to 4200 BC. Since 2005, Aygaz has promoted efforts to bring this ancient city to light. In 2010, the ruined Antonine Nymphaeum was

restored with Aygaz's support. The monumental structure also regained its original fountain function, with water once again running through its "waterfall" structure.

Following the completion of the Antonine Nymphaeum project, the restoration of the Upper Agora structures commenced, where the heart of the ancient urban life once beat. The Agora surface's restoration will commence in 2017.

The goal of this project is to revive the area's monumental structures and even the agora surface. The restoration will also provide exceptional protection for the Upper Agora monuments, which are of outstanding global importance, and present the site in a more articulate and understandable way. When finished, the Upper Agora will combine with the Antonine Nymphaeum and all other monumental structures to form a high-tech museum-like setting where visitors will be able to walk through the ancient city.

All of these works help support efforts to include Sagalassos on UNESCO's World Cultural Heritage List.

### Supporting the Van Castle and Tumulus excavations

Starting in 2010, Aygaz began supporting the Old Van City, Castle, and Tumulus excavations being carried out by the Ministry of Culture and Tourism, and Istanbul University. The archaeological excavations continuing at Tuşpa, the capital of the majestic Anatolian Kingdom of Urartu (which reigned in the first millennium BC), shed light on many questions concerning Urartu history. During the excavations at Van Castle Mound, where the capital's everyday citizens resided, stone cladded backyards, ateliers, and residences built to certain standards and with a specific planned infrastructure have been discovered, along with multi-room houses. The foundations and the architecture indicate that the large civilian settlement established here at the citadel's foot were the residences of the attendants responsible for the citadel's upkeep. Clay tablets, seals, and bullas found here form a strong body of evidence.

The Old City of Van is another site benefiting from active excavation. Relics dating to the 12$^{th}$-century Seljukian term have been unearthed, as well as Ottoman monuments and urban fabric from the 16$^{th}$- early 20$^{th}$ century. The Old City's public and commercial structures, bazaar, inns, residences, stone-clad roads, and impressive religious structures paint an intimate portrait of 19th-century Ottoman life, and restoration work is ongoing to preserve the architecture discovered here.

### İstanbul Theatre Festival Sponsorship

Aygaz has for many years supported Turkish theater. In addition to being long-time co-sponsors of the İstanbul Theatre Festival, organized by the İstanbul Foundation for Culture and Arts (İKSV), Aygaz also sponsored the 2016 İstanbul Theatre Festival, which entertained Turkish audiences with plays from around the world.

Aygaz supported the restoration of the Antonine Nymphaeum in Sagalassos Ancient City, and supports the pending restoration of the Upper Agora structures.

The Diabetic Children's Camp, supported by Aygaz since 2004, teaches diabetic children to be self-sufficient and provides them with the opportunity to make new friends and spend quality time.

## ENVIRONMENT

### What will the weather be like tomorrow?

The project titled "What will the weather be like tomorrow?", initiated in 2010 in collaboration with the Regional Environmental Center (REC), is maintained by the Ministry of Environment and Forestry. This project saw the "Sky Truck", complete with mobile planetarium and "Magical Globe" (a 3D simulation device displaying the earth's movements) visit 32 cities from 2010 - 2011, educating close to 10,000 people.

Additionally, educational programs have been offered at the Rahmi M. Koç Museum since 2012. In 2016, 12,129 students from 277 schools attended the Climate Change Awareness Workshop in the museum's "Discovery Globe".

## HEALTH

### Supporting diabetic children

Always maintaining a close interest in health issues, Aygaz supports the Diabetic Children's Camp organized by the Child and Adolescent Diabetic Association. Last year's camp, the 24th annual, was organized in Kocaeli and attended by 100 diabetic children. This camp, supported by Aygaz since 2004, is one of Turkey's first health camps dedicated solely to children. The camp's objective is to teach diabetic children to be self-sufficient while having fun and making new friends. Having hosted 1,900 children in its 23 years, the Diabetic Children's Camp is a great example for other health camps.

### Safe Motherhood project

The health of mothers and babies is an issue close to the heart of all Turkish people, and is another field of interest for Aygaz. For decades now, Aygaz has worked in collaboration with the Turkish Family Health and Planning Foundation (TAPV) to educate pregnant women and mothers on issues related to their baby's and their own health. TAPV aims to improve mothers' and babies' quality of life and reduce mother/infant deaths.

The scope of the "Safe Motherhood" project was recently expanded to include support for the "Women's Health Training Program" (KSEP), designed to increase health awareness in families with limited income and educational means, as well as those who have immigrated or been forced to move to large cities. In the period June 2015 - June 2016, 78 closed-group activities were carried out by KSEP trainers in 13 cities, with 1,253 women receiving a participation certificate. Since the project's inception, approximately 8,500 women have received training.

## SPORTS

### The Mogaz brand supports sports

Along with culture, arts, and health, sports is another social field where Aygaz contributes.


Since 2013 Aygaz has supported the Beşiktaş Jimnastik Kulübü (BJK) Handball Team via Mogaz brand. In fact, Aygaz is the first private sector institution to support handball. The team, commonly known as Beşiktaş Mogaz Handball, proudly represents Turkey in the European Handball Federation (EHF) Champions League.

## FOR MY COUNTRY

### Women's Empowerment Principles signed

In 2016, Aygaz continued its project "I Support Gender Equality for My Country" which been executed throughout the Koç Conglomerate under "For My Country" umbrella project. In this context, the company provided social gender equality training to its employees, who participated voluntarily in the "Knowledge Mill" seminar that was held in collaboration with the Mother Child Education Foundation (AÇEV). By October 2016 the trainings were completed, with 100% participation. The training was included in the corporate orientation program.

Aygaz signed the Women's Empowerment Principles, established by the partnership of the UN Global Compact and UN Women. Thus, Aygaz joined an international movement towards women's empowerment in society, business, and economic life.

The manifest published on March 8, 2016 stating that Aygaz is against violence against women and its reasons why, was available at Aygaz headquarters from February 25 to March 8 for employee and visitor fon signing. In June 2016 Aygaz became the first company amongst 17 pilot companies to publish the "Policy Regarding Domestic Violence at Work", which targets towards developing a work culture that is intolerant of violence against women. With this policy, Aygaz aims to provide support for employees facing domestic violence, and guide its executives in terms of how the effects of domestic violence should be approached. Within this framework, Aygaz collaborates with the Turkey Women's Associations Federation (TKDF) and the Mor Çatı Women's Shelter Foundation. Aygaz is also the corporate supporter of TKDF's Domestic Violence Hotline, and via the Mor Çatı Women's Shelter Foundation, Aygaz provides executive-level training focused on the extent of violence against women.

Initiating a one-month communication campaign aimed at creating awareness for domestic violence nationwide on November 25, 2016, coinciding with the "International Day for the Elimination of Violence against Women", Aygaz opened the "Aygaz is Against Violence Towards Women" manifest for signing at its regional directorates and facilities. Prepared in flyer and poster forms, the manifest was also delivered to customers via dealers. The manifest reached 344,960 social media accounts alone. Emphasising the fact that violence against women impairs economic and social development, the campaign resonated throughout Turkish society. Thanks to these efforts, conducted in the scope of the "For My Country" project in 2016, Aygaz earned the "Most Successful Company" award in the category "Companies with Less Than 2,500 Employees" within Koç Conglomerate.

We Support
WOMEN'S EMPOWERMENT PRINCIPLES
EQUALITY MEANS BUSINESS
UN WOMEN
UNITED NATIONS GLOBAL COMPACT
www.weprinciples.org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AYGAZ

# WITH OUR ENERGY WE WILL MARK THE FUTURE AS WELL

*We keep adapting our deep-rooted corporate culture to shape the future and as we strive to be better, we share our experiences with future generations.*

# Risk Management and Internal Control

## Aygaz carries out an effective risk management process in order to achieve its corporate targets, sustain its long-term profitability and growth.

Aygaz structures its risk management with systematic targets and policies in order to eliminate future risks and make use of the potential opportunities accurately with the aim of creating the highest value for its shareholders.

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

Financial risks arising from uncertainties and fluctuations in currency, interest rates and commodity prices are identified and evaluated within this framework and related instruments are used to mitigate these risks. Currency risks originate from purchases in foreign currencies regarding business activities or the credits obtained in foreign currency for liquidity purposes.

This risk is mitigated by the "natural hedge" that arises from reflecting exchange rate fluctuations to product sales prices, and the foreign exchange position exposed to currency risk after natural hedge is closely monitored and effectively managed. The risks are restricted and kept within targeted limits by

The company's goal in terms of capital risk is to continue its activities with the most efficient capital structure that reduces the cost of capital while providing return for its shareholders.

forward or derivative transaction agreements when necessary.

The interest rate risk shows its effects on rate-sensitive assets and liabilities. The negative effects of interest rate risk is eliminated through having financial debts balanced in terms of fixed/variable interest rates and short term/long term maturity periods.

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

Aygaz's receivables are spread across different industries and geographical regions through numerous dealers and customers due to its broad range of activities. Concentrating on a specific field or a customer is avoided. Continuously and closely monitoring its clients, Aygaz seeks to keep credit risk exposure arising from commercial receivables within approved limits.

The company is careful to conduct business with counterparties with high crediblity and to mitigate the existing risks with collaterals. The use of various payment systems also helps facilitating the collections and reducing the risks.

In terms of capital risk, the company's objective is to carry out business with the most efficient capital structure that minimizes the cost of capital while creating value for its shareholders. The most significant indicators in that perspective are the ratios of Net Financial Debt/EBITDA, Total Financial Debts/Equity, Current Ratio and Liquidity Ratio,as well as maturity structure of Financial Debt and Net Working Capital. Having indicators within the required limits, Aygaz has the capital structure and debt capacity enabling it to conduct its business in a healthy manner. The Board of Directors is informed through the reports which are prepared by the management and presented to the Risk Management Committee periodically. Operational, legal and strategic risks which are evaluated by related units, and the decisions taken by the executive management are monitored by the Board of Directors through this committee. The Board of Directors receives also information about corporate risk management activities carried out within the scope of strategic planning and management processes through the executive management and the Risk Management Committee.

Regulational changes are monitored primarily by the Legal Department and all related units. All required information is provided regarding training and compliance activities in order to avoid legal risks.

### Activities of the Risk Management Committee

Appointed by the Board of Directors' decision dated April 6, 2016, the independent Board Member Ayşe Canan Ediboğlu has been the Chairman of The Risk Management Committee that was established in line with the provision of 378 of the Turkish Commercial Code No. 6102 and Corporate Governance Declaration of the Capital Markets Board, in order to target early identification and effective management of risks that may endanger the company's existence, and to take the necessary measures against these risks. The other member of the committee is Board Member Dr. Bulent Bulgurlu.

The committee assesses Aygaz Risk Management System and the principles of risk-reporting and evaluates the periodical reports prepared in this scope, provides 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. The committee held seven meetings in 2016.

### Internal Control System and Internal Audit

An Internal Control System is established within the company in order to ensure the integrity of the financial reporting system and to provide assurance on compatibility with the regulations. Internal Control System consists of the standard definitions of work flows, duty descriptions, authorization system, policies and written processes.

Internal Audit Unit routinely assesses the Internal Control System and its effectiveness. The unit performs its duties under the supervision of the General Manager. The mission of the Internal Audit Unit is to establish a risk-based and an objective and prudent approach as well as to protect and enhance corporate value through recommendations and predictions. Internal Audit Unit provides an information flow to the management by a systematic, independent and objective approach and puts effort on consisting an effective and solid control structure within the company. Within this context, Internal Audit Unit analyzes the company processes and report the risk issues to the executive management.

Also reporting to the Audit Committee, when required, the Internal Audit Unit conducts efficient and regular internal controls to ensure the integrity, consistency, reliability, timeliness, and security of the information provided by the accounting and financial reporting system.

# Investor Relations

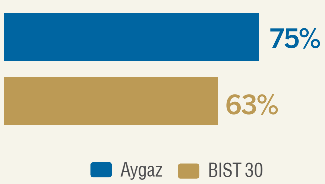
## Aygaz promotes the equality, transparency, accountability and responsibility principals in investor relations.

### SHARE INFORMATION

| | |
|---|---|
| BIST Code | : AYGAZ |
| Bloomberg Code | : AYGAZ.TI |
| Reuters Code | : AYGAZ.IS |
| Date of Public Offering | : 01.13.1988 |
| Free Float Rate | : 24,3% |

### THE FOREIGN SHARE IN FREE FLOAT (%)

31.12.2016




Aygaz Investor Relations Unit targets to increase the shareholder value through corporate management and investor relations implementations confirming to international standards.

One of its most important responsibilities is providing unclassified information to shareholders, public and stakeholders in a timely, accurately and easily comprehensible and accessible way. Fairness, transparency, accountability and responsibility are the fundamentals in sharing such information.

**Investor Relations Activities**

While targeting to increase the value of the company for existing shareholders, Investor Relations Unit also aims to attract attention of potential investors by promoting the company. Within this framework, the company attended a conference abroad. Through meetings at the Headquarter and teleconference sessions, around 50 individual investors were informed on various related subjects.

In March, the analysts and corporate investors came together with Aygaz Top Management at Analysts Meeting held at Rahmi M. Koç Museum, in which the important headlines of the previous year were discussed in the perspective of the current vision and mission of the company.

In 2016, the number of brokerage houses that cover Aygaz and publish regular research reports increased to reach 18 institutions. In almost all the reports published these institutions forecast Aygaz shares to perform in line with or beat the BIST 100 Index.

In 2016, Investor Relations answered various inquiries coming from the investors and analysts via telephone and e-mail as well as informing them during financial reporting periods. Shareholders generally require information about Aygaz's sales volumes, market shares, profitability, share value, investments, turnover, subsidiaries, dividends, and withholding tax and convey related questions. There were over 70 inquiries in 2016, which were responded in written, verbal and electronic forms. Company presentations are updated on a regular basis. Earnings Release reports are published after the financial results are announced. Other informational documents are available at www.aygaz.com.tr website under the Investor Relations section.

Aygaz's Corporate Governance Rating was determined as 9.36 by Saha Corporate Governance and Credit Rating Services in 2015 and was confirmed as 9.36 on June 1, 2016.

### Share performance

As far as equity markets are concerned, 2016 was a tough year during which eco-political dynamics changed rapidly and unexpected developments affected the market balances. Geopolitical developments throughout the year, FED and European Central Bank decisions, international economic developments, oil and commodity prices, Brexit and USA Presidential Elections directed the global risk appetite and the markets.

BIST 100 Index recorded an increase of 9% to finish 2016 at 78,139 points, compared with 71,727 points in 2015. Once again proving that it is not influenced by the market fluctuations over the mid to long-term time frames, Aygaz share value increased by %30 in 2016. The value of the company is TL 3,609 million (1,026 million US dollars), as of December 31, 2016.

### Dividend distribution

In an effort to create high shareholder value, Aygaz pursues a consistent dividend policy that balances both the company's and the shareholders' interests. With TL 450 million to be submitted for General Assembly approval for distribution from the 2016 profit, the dividend distribution rate stands at 108%, and the total dividend of last 5 years has reached TL 1,340 million.

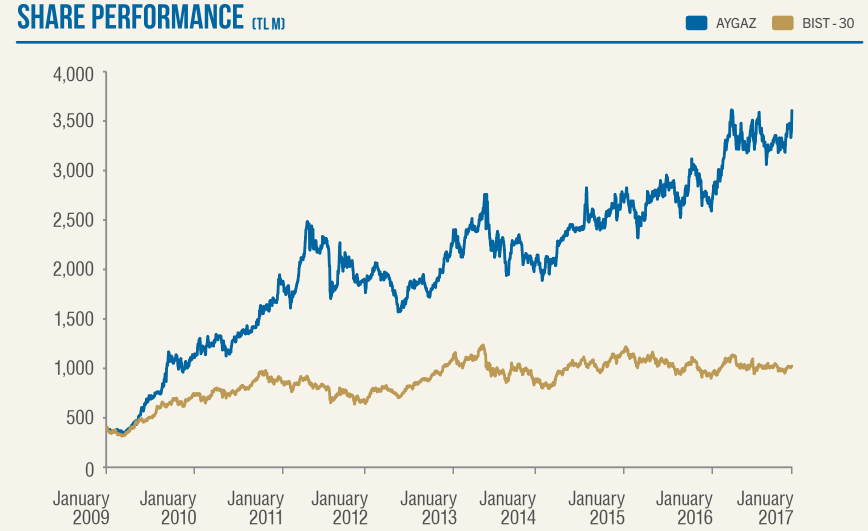
## AYGAZ CREATES SHAREHOLDER VALUE THROUGH

MAIN BUSINESS FIELD WITH SUSTAINABLE OPERATING PROFITABILITY: LPG

REGULAR DIVIDEND DISTRIBUTION

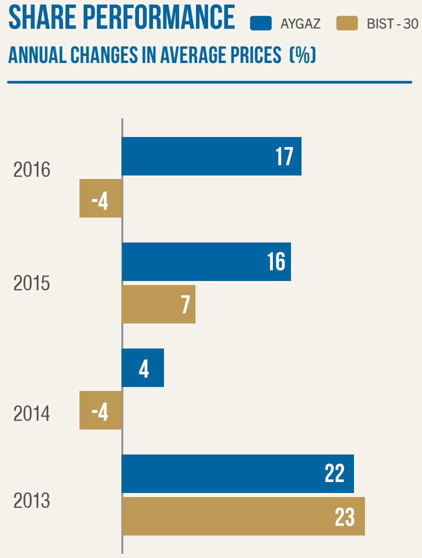
CORPORATE MANAGEMENT AND INVESTOR RELATIONS IMPLEMENTATIONS CONFIRMING TO INTERNATIONAL STANDARDS

## SHARE PERFORMANCE (TL M)



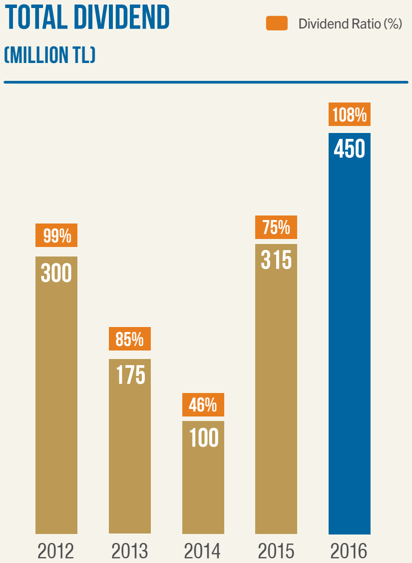

## SHARE PERFORMANCE

ANNUAL CHANGES IN AVERAGE PRICES (%)




## TOTAL DIVIDEND

(MILLION TL)




## CORPORATE GOVERNANCE RATING SCORE

| SHAREHOLDERS | STAKEHOLDERS | PUBLIC DISCLOSURE AND TRANSPARENCY | BOARD OF DIRECTORS | TOTAL |
|---|---|---|---|---|
| 9.53 | 9.88 | 9.20 | 9.14 | 9.36 |

# Corporate Governance Principles Compliance Report

## SECTION I - Corporate Governance Principles Compliance Declaration

Aygaz is aware of the benefit and importance of the Principles of Corporate Governance with regard to the capital market and companies. Compliance with international standards, creating sustainable value for shareholders, funds procurement from foreign markets and to achievement of consistent growth are very important in today's world that is becoming more global each day. Within this context, corporate governance makes a significant contribution to increasing the quality of management, reducing risks and managing them better, and increasing the reliability and image of the company in the financial and capital markets.

Aygaz fully complies with the principles that are compulsory as per the Corporate Governance Communiqué No: II-17.1 and adopted a majority of the non-compulsory principles. Although the company aims to fully comply with the non-compulsory Corporate Governance Principles, full compliance is not yet achieved due to difficulties regarding implementation of some principles, the current debate both on domestic and international platforms towards their adoption, and some principles failing to match up 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 our company's effective management. The comprehensive efforts undertaken within the framework of Corporate Governance Principles and the principles that have yet to be adopted under relevant sections, and the resulting conflicts of interest, if any, are explained below.

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

The necessary studies will be carried out by taking the legislational developments and implementations into consideration for full compliance with the principles in the upcoming period.

The principles that are not yet fully complied and included by the Corporate Governance Principles which are non-compulsory as per regulation are mentioned below, and the additional relevant explanations can be found in relevant sections below. Aygaz has not experienced any conflict of interest because of not fully complying with the related principles.

- Regarding the principle no 1.5.2, minority rights are not recognized for shareholders who hold an amount less than one-twentieth of the share capital by the Articles Of Association; general legislative arrangements are adopted in this field.
- Regarding the principle no 4.3.9, a target rate and timetable for the number of female members in the Board of Directors have not been determined yet, and the relevant assessments are underway. Detailed information on this issue is provided in section 5.1.
- Regarding the principle no 4.4.7, as descripted in section 5.1 below, Board Members are not restricted from taking on any other duty outside the company.
- Regarding the principle no 4.5.5, the committee assignments are realized in the direction of relevant regulations and with the accumulation of knowledge and experiences of the Board Members are taken into consideration. Some Board Members are being assigned for multiple committees which also helps communication on related subjects and increases the collaboration possibilities.
- Regarding the principle no 4.6.5, the payments made to Board Members and executives with administrative responsibility are documented at the Ordinary General Assembly and at notes to the consolidated financial statements and are announced to the public in line with the general implementations.

Aygaz A.Ş. has demonstrated the importance it places on the principles of corporate governance and its determination on implementing these as a continuous and dynamic process by receiving Corporate Governance Rating scores and remaining in the Corporate Governance Index. Operating in Turkey under license from the Capital Markets Board (CMB) to conduct corporate governance rating activities, SAHA Corporate Governance and Credit Rating Services confirmed the corporate governance rating score of Aygaz on the 1st of July 2016 as 9.36, which was assigned as the same on the 1st of July 2015. Among the fields open to improvement, announcement of the company's donation policy, preparing a policy and setting a timetable to reach the target of at least 25% female board membership rate were stated. With its current corporate governance rating, Aygaz has been one of the companies to hold the highest corporate governance scores in Turkey as of its assignment date.

The corporate governance rating score is determined by four main categories weighted to different degrees within the framework of the CMB resolution regarding the issue. The announcement made via Public Disclosure Platform (KAP) about the insurance to protect the company against the 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 made, and they have contributed to a significant increase in the scores received, particularly in "Stakeholders" and "Board of Directors" categories.

Necessary work will be done taking regulatory developments and practices into consideration with the aim of increasing the compliance with the principles also in the upcoming period. While the efforts of Aygaz in this field were accelerated by its Deep-rooted corporate identity, its management structure and processes have been reorganized 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 held in 2005. We hereby present our Corporate Governance Report for your information, which has been prepared this year in accordance with the format set out by the Capital Markets Board Resolution dated January 27, 2014 and no. 2/35.

Corporate Governance Committee

| | | |
|---|---|---|
| Mansur Özgün<br>Chairman | Yağız Eyüboğlu<br>Member | Ferda Erginoğlu<br>Member |

# SECTION II – Shareholders

## 2.1. Investor Relations Unit

At Aygaz, Investor Relations Unit's duties stated by the article 11 of the Corporate Governance Communiqué are approved to be carried out by the Finance Director under the supervision of Assistant General Manager in charge of Finance, Ferda Erginoğlu. The unit is administered by Şebnem Yücel who holds Capital Market Activities Advance Level and Corporate Governance Rating Specialist Licenses, and Selin Sanver. Requests for information may be made to the unit by e-mail at yatirimciiliskileri@aygaz.com.tr or investorrelations@aygaz.com.tr, or by phone at +90 212 354 15 15 / extensions 1510-1659.

The primary responsibilities of Investor Relations Unit are as follows:

- To maintain relations with shareholders in an orderly manner within the scope of the disclosure policy, and to ensure regular and reliable access to information about the company
- To ensure the exercise of shareholders' rights and to answer shareholders' inquiries
- To update the communication tools like corporate website, annual report, investor presentations and earnings releases in a way that shareholders can have complete and rapid access.
- To fulfill the investors' information requests using various communication tools such as face-to-face meetings, investor conferences, road shows, teleconferencing, telephone, e-mail, fax, and statements/announcements in order to increase the value of the company
- To provide a two-way information flow between shareholders and the company's senior management and Board of Directors
- To keep shareholder records accurate, reliable, and up-to-date based on the records of the CRA
- To implement and monitor the Principles of Corporate Governance and ensure that the company operations complies with them, and represent the corporate entity of the company before the relevant ministries, the Capital Markets Board (CMB), the Borsa Istanbul (BIST), the Istanbul Settlement and Custody Bank Inc. (Takasbank), the Central Registry Agency (CRA) and other relevant institutions and organizations, and provide these institutions with required reports and information.
- To make the necessary disclosures to Borsa Istanbul (BIST) via the Public Disclosure Platform
- To hold the General Assembly of Shareholders meetings, to keep the records of Boards of Directors and Auditors 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 70 requests for information received in 2016 were met verbally, electronically and in writing. In addition to that, an investor's conference was attended abroad and nearly 50 meetings held with domestic and foreign corporate investors and brokerage house analysts. Presentations prepared for this purpose are available to all investors on the company website.

The report including all of the activities carried out throughout the year was submitted to Corporate Governance Committee and Board of Directors on March 6, 2017.

## 2.2. Exercise of Shareholders' Right to Obtain Information

The "Investor Relations" section on the corporate website is continuously revised in a fashion that enables shareholders to use it more easily and to access more information.

All information except those qualify as trade secret is shared with shareholders, and there is no discrimination 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 secret are responded upon conferring with the highest-ranking official on the relevant issue, on telephone or in writing. As explained under section 3.1 of this report, the company website features all relevant information and explanation that may affect the exercise of shareholders' rights.

While our Articles of Association does not designate any right to request a special auditor as an individual right, as per Article 438 of the Turkish Commercial Code, each shareholder may request the clarification of certain events from the General Assembly, even if it is not included in the agenda, through a special audit provided that doing so is necessary for the exercise of shareholders' rights and the right to obtain information or inspect what was previously exercised. Shareholders have not made 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 2015 during the reporting period were discharged, was held open to public, on April 4, 2016 at the headquarters of the company located in İstanbul Şişli, Büyükdere Street, No: 145/1 Zincirlikuyu with a shareholder attendance of 85%. Five members of the Board of Directors, auditors and executive managers attended the general assembly meetings. Individual shareholders and members of the press also showed interest 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 2015 annual report, auditor's report, independent audit report, financial charts and footnotes, dividend distribution proposal of the Board of Directors, General Assembly information document and annexes were submitted shareholders' information both at the company Headquarter and on the company website 21 days prior to the General Assembly meeting. The dividend distribution proposal was announced via Public Disclosure Platform (PDP). Shareholders made no requests with regard to the agenda. Shareholders' questions at the General Assembly were answered by the members of the Board of Directors and senior management.

At the annual Ordinary General Assembly, the Chairman and members of the Board of Directors are authorized to carry out the company businesses personally or on behalf of others and to become partners in such companies and carry out other transactions, as per articles 395 and 396 of the Turkish Commercial Code. Within the framework of this authorization, members of the Board of Directors are not limited in any manner on assuming other duties outside the company.

At the Ordinary General Assembly meeting held in 2016, information was provided regarding the donations and aids given in 2015 within a separate agenda item and the donation limit for 2015 was determined as TL 10,000,000 and no changes made in Company's ongoing donation practices.

Some of the shareholders that hold control over the management, members of the Board of Directors, the executives with managerial responsibilities and their spouses and blood relatives and in laws to second degree carry out managerial duties as members of Board of Directors in some of other Koç Conglomerate companies including the ones that operate in similar area of activity. In 2016, there has been no transaction required to be informed within the scope of article Corporate Governance Communiqué Article No: 1.3.6

The minutes of the General Assembly are registered and announced in Turkish Trade Registry Gazette (TTRG) and made accessible to shareholders both at the company Head Office and on the company website. General Assembly meetings are held open to public including media and stakeholders without right to speak as a regarding provision in this context was added to Articles of Association, Article No: 14.

### 2.4. Voting Rights and Minority Rights

No privileges are accorded to shareholders' voting rights in the company. There is no shareholding company that has a mutual participation 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 recognized for shareholders who hold an amount less than one-twentieth of the share capital; general regulations in the legislation are adopted in this field.

### 2.5. Dividend Rights

There are no privileges regarding the sharing of company profits. Dividend distribution is made in accordance with and at the intervals stipulated by the relevant legal legislation. A dividend distribution policy in compliance with Corporate Governance Principles that will take the interests of both the shareholders and the company into consideration to be determined and declared is the goal. The dividend distribution policy which is currently in effect was revised at the company's Board of Directors meeting on March 5, 2014 and reached its present form as follows:

"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 as long as 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.

The profit is aimed to be distributed at the latest within one month subsequent to the General Assembly Meeting; the date of distribution is decided at the General Meeting. The General Assembly itself, or the Board of Directors in case that it is authorized, 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."

As per the Principles of Corporate Governance, the Profit Distribution Policy published on the company website and in the annual report was presented to the General Assembly on April 4th, 2016, to ensure that the shareholders possessed this information. The company distributed a gross amount of 315 million TL to shareholders as cash dividend in 2016.

### 2.6. Transfer of Shares

As stated in Article 8 of the Articles of Association, titled "Transfer of Shares", only the persons registered in the share book as per the records kept in the Central Registry Agency will be considered and treated as holders of shares or holders of rights of usufruct on shares. The transfer of the publicly traded registered shares of the company shall be governed by and subject to the pertinent regulations of the Capital Markets Board.

## SECTION III – Public Disclosure and Transparency

### 3.1. Corporate Website and Content

Company's corporate website is accessible at www.aygaz.com.tr. It 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 ID, financial reports, material disclosures, partnership structure and subsidiaries, registration information, agendas and minutes of general assembly meetings, list of attendants and meeting records, proxy vote form, profit distribution policy, distribution policy, information policy, Board of Directors, Corporate Governance, news and announcements, presentations, frequently asked questions, and "contact us" as well as a diverse set of documents and information under these that must be featured on the website as per the Corporate Governance Principles and other legislation. Changes either to this information or to the legislation are reflected on the website simultaneously.

### 3.2. Annual Report

The company's Annual Report is prepared in a manner that includes all information stipulated by the Corporate Governance Principle No. 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 the 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. Blue-collar workers at the Aygaz Gebze Plant and seamen working on vessels are members of trade unions organized in related line of work. These workers are informed through union representatives. Regional or general dealer meetings are held every year. During the meetings held in 2015, 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.

In the meantime, a comprehensive informing activity is carried out through company's corporate website, e-bulletins, technical publications, and the company magazine, "Aygaz Dünyası". Designed in order to improve 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 internet and intranet sites to report any infringements of legislations and ethically inappropriate activities to the Company Management or Internal Audit Department then to be submitted to the Audit Committee.

## 4.2. Stakeholder Participation in Management

The attenders of the stakeholder meetings find the opportunity to express their requests and suggestions, which are then taken into consideration by the management. Furthermore, the Individual Suggestion System and e-mail pools established within the company provide an opportunity to bring new ideas, and those whose ideas are implemented are rewarded. Suggestions can be submitted through the company's corporate internet and intranet sites.

## 4.3. Human Resources Policy

As is for all Koç Conglomerate companies, Aygaz's human resources policy is also based on the "Our most valuable asset is our human resources" philosophy. 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 the other business processes that grounds on the benefit of all stakeholders.

The Aygaz vision is to be "The most preferred company to work for in Turkey" by keeping the satisfaction and loyalty of its employees who are considered to be a strategic advantage that manages all resources, at the highest possible level through established systems and practices.

Our human resources mission is to support the entire company management and all employees and to establish the human resources systems in coordination with the related departments to maintain the continuity of a creative, dynamic, well-trained, motivated, and productive Aygaz team.

HR Management Principles:
- Make employee motivation and company loyalty a priority
- Provide individual approaches and solutions in HR implementations.
- Develop flexible HR systems with solutions that can rapidly adapt to shifting business conditions
- Organizational planning to provide employees with their individual, professional, leadership, foreign language improvement possibilities
- Prepare redundancy plans systematically in the scope of organizational improvement, monitor them and provide them with possibilities of improvement
- Conduct human resources planning
- Provide fair compensation and rewards
- Provide individuals with feedback on their job performance through target-based performance system
- Hiring and appointing right person for the right position
- Honor employees committed to success with public recognition and respect their personal rights when offering criticism
- Plan and promote social and cultural activities
- Promotion of the processes and informing in a timely and accurate fashion

In addition to union workplace representatives designated in accordance with the Collective Labor Agreement, Terminal Directors, Regional Directors, Facility Managers and/or Finance Managers working in all the regions are charged with 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. The performance of white-collar workers is evaluated through objective business objectives in the system, which was established based on the balanced scorecard methodology. For blue-collar workers, the required functional competences to achieve excellent performance have been defined and the evaluation is made through these competences. With regard to recognition and award practices, in addition to the Individual Recommendation System and TPM applications that aim to boost efficiency, the reward categories were redefined and the Blue Star Reward System was put in place in 2012. The Blue Star Reward System aims to instantly recognize and reward high performance and efforts that make a difference.

Aygaz operates in compliance with the principle of informing employees of their job definitions and distribution of work as well as performance and reward criteria. Employee satisfaction and loyalty are measured through the "Employee Loyalty Assessment Questionnaire" realized every year, as a result of which areas that require improvement are determined and remedial measures are taken. The Collective Labor Agreement between the Turkish Metal Union and our workers at Aygaz Gas Tools Production Facility was signed on December 15, 2014 for the September 1, 2014 - August 31, 2017 period. Meanwhile, the Collective Labor Agreement between the Seafarers' Union of Turkey and our seamen working on vessels was signed on August 3, 2015 for the January 1, 2015 - December 31, 2016 period. Negotiations are underway on the agreement for the new period. No representatives have been assigned within the company to maintain relations with the employees other than the union workplace representative designated in accordance with the Collective Labor Agreement. Relations with the union are maintained by the Human Resources Department.

### 4.4. Codes of Conduct 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 regulatory rules, throughout its history that exceeds half a century.

In the performance of their duties, employees of Aygaz, which is part of the Koç Group, are obligated to comply with the "Koç Group Goals and Principles."

Committed to Koç Group's ethical principles, Aygaz:

- Respects the respectability, privacy, and personal rights of individuals.
- Respects the differences among individuals such as race, origin, religion, gender, social class, nationality, age, and physical disability, and does not discriminate.
- Provides all of its employees with equal opportunity in personal development and career regardless of their origins and creeds as part of its employee commitments.
- Enforces the mechanisms related to the rules of work discipline in the 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.

With the purpose of ensuring that ethical values are extended to all employees with the same effectiveness and passed onto the next generations, Aygaz put its "Codes of Ethical Conduct and Practice" in a written form.

A Board of Ethical Conduct has been established in order to better assess any infringements and have the implementations carried out in line. The Ethics Board is comprised of the General Manager, the relevant Assistant General Manager, the Human Resources Manager, and the Legal Advisor.

The "Codes of Ethical Conduct and Practice" were made into 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 personal files. Newly recruited personnel are also informed of these principles and declare and undertake that they would adhere to them.

Aygaz announced its environmental policy principles in the annual report and corporate website. The social responsibility projects in which our 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. The 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 2016, the Board of Directors has one female member.

| Name of Board Member | Independence Status | Duties in 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, 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 and Board Member in Koç Group Companies |
| Yağız Eyüboğlu | Non-independent | Board Member, 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 |

All members of the Board of Directors were elected in the General Assembly on April 4, 2016 to serve until the Ordinary General Assembly Meeting to be held to discuss the financial results for the year 2016. Backgrounds of the Board members and the General Manager are provided in the annual report.

The chart above provides a summarized information about the non-executive members of the Board in accordance with CMB's Corporate Governance Principles.

The Chairman and General Director duties are carried out by different persons. While Board members are expected to spare the required time for the affairs of the company, there are no limitations imposed on them regarding assuming other duties outside the company. Limitation in that context is not needed particularly due to independent members' significant contributions to Board of Directors with their respective professional and industrial experiences. The background of the member and the duties he/she assumes outside the company are submitted for the information of the shareholders prior to the General Assembly.

In Aygaz, the Corporate Governance Committee carries out the duties of the Nomination Committee. In 2016, the three independent membership nominees were submitted to the Corporate Governance Committee and they all presented their statements of independence to the Corporate Governance Committee. The Corporate Governance Committee and the Board of Directors evaluated the declarations of nomination and backgrounds of Independent Board Members at their meetings held on March 2, 2016 and March 3, 2016 respectively, and upon determining all meet the criteria specified in Corporate Governance Principles and it was decided that all should be designated as independent member candidates. As of 2016 operating period no situations that would eliminate independence arose.

We believe that having a diverse structure in terms of knowledge, experience and point of view provided for the Board of Directors will positively contribute to operations of the company and increase the efficiency of the Board's works. Within this context, being one of the means of representing diverse points of view in the Board of Directors, Aygaz continues its effort on determining a target rate for female members in the Board. Currently, there is only 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 based on company's needs upon the assessment of its activities. The General Manager and the Assistant Manager in charge of Finance inform and maintain communication with the Board of Directors.

Assembling as the company's activities require, the Board of Directors held three meetings in 2016 in which the strategic points were assessed, and a total of 19 resolutions 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 neither carry out transactions with the company nor take place in any competitive entities. As stated in section 2.3, some of the shareholders that hold control over the management, members of the Board of Directors, the executives with managerial responsibilities and their spouses and blood relatives and in laws to second degree carry out managerial duties as members of Board of Directors in some of other Koç Conglomerate companies including the ones that operate in similar area of activity. Board Members and Senior Executives of the company are covered by "executive responsibility insurance".

Supervising the activities of the company, Board of Directors carries out inspections in regards on situations that may create conflict of interest, and if any, it evaluates the consequences of the conflict and takes necessary decisions in line with the company's best interest. The Board meticulously 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 2016, all the Board Committees have fulfilled the responsibilities and the duties that were expected of them as per Corporate Governance Principles and operating principles of its 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 submitted to the Board of Directors. The opinion of the Board of Directors in this respect is that the benefit expected of Board Committees' efforts.

The Audit Committee was formed within the statutory period and carries out the duties set out by the Capital Markets Board Communiqué. Within this scope, it 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 partnership. Selection of the independent auditing firm, drafting of independent auditing agreements, initiation of the independent audit process, and efforts of the independent auditing 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 reports to be disclosed to the public complied with the accounting principles followed by the partnership and fully reflected the financial condition of the company after conferring with the responsible managers of the partnership and independent auditors. It was convened six times in 2016. The responsibilities of the Audit Committee together with the company management are to execute both internal and external audition meticulously and ensuring the compliance of records, operation, and reporting with relevant laws, rules and regulations and with principles set out by CMB and IFRS. In 2016, independent Board member Tunç Uluğ was appointed as the Audit Committee Chairman and Mansur Özgün as committee member.

The Chairman duty of the Corporate Governance Committee that was established in order to monitor the compliance of the company with Corporate Governance Principles and to inspect the grounds for the principles yet to be implemented, is carried out by independent Board member Mansur Özgün. Yağız Eyüboğlu was appointed as committee member. As per the article 11 of CMB's Corporate Governance Communiqué (II-17.1), which came into effect on January 3, 2014, Assistant General Manager in charge of Finance was appointed Executive Manager Responsible for Investor Relations Unit and member of the Corporate Governance Committee. Within this scope, Assistant General

Manager in charge of Finance, Ferda Erginoğlu carries out the membership duty of the Corporate Governance Committee. The duties of Remuneration and Nomination Committees are assumed by Corporate Governance Committee in the company. Committee was convened four times during 2016.

The Risk Management Committee was established with a view to providing 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 to this end. In 2016, independent Board member Ayşe Canan Ediboğlu was appointed as the Chairwoman and Dr. Bülent Bulgurlu as member of the committee. During 2016, the Risk Management Committee convened seven times.

With the Board resolution dated May 4, 2012, it was decided that the activities of the Investment and Business Development Committee, renamed as the Executive Committee, established on July 15, 2010 with a view to generating ideas and strategies for the company, ensuring coordination among relevant departments, and accordingly, determining the special areas within the company's field of activity and designing and planning of new projects and investments, as well as overseeing the management of adopted strategies and projects, should be expanded in a way to provide the Board of Directors with support in all matters. The Executive Committee convenes as frequently as required by the activities of the company. In 2016, The Committee convened each month, 12 times in total; Mustafa Rahmi Koç was the committee Chairman with Mehmet Ömer Koç, Yıldırım Ali Koç, Alexandre F.J. Picciotto and Dr. Bülent Bulgurlu acting 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 of our Board members have duties in more than one committee. These members help strengthen communication among committees and increase cooperation possibilities.

## 5.4. Risk Management and Internal Control Mechanism

Internal control system and the healthy operation of the internal audit are under the Board of Director's responsibility, and the related efforts coordinated by the General Manager, overseen by the committees created by the Board of Directors, and necessary information is submitted to the Board of Directors. Thus, the efficiency of the risk management systems can be reviewed.

Responsible to General Director and reporting to Audit Committee when necessary, The Internal Audit Department continues to carry out its efforts to form a more effective internal control structure by analyzing the company processes and reporting to senior management the issues that are considered risky.

In addition, Koç Holding Internal Control Units and an independent auditing firm conducts periodic audits, and outcomes of theses audits are reported to Board of Directors. The work of Corporate Risk Management (CRM) is carried out by a team formed with participation of various units under the leadership of Assistant General Manager in charge of Finance, and monitored by the Risk Management Committee. Detailed information about Risk Management efforts 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 are submitted for the information of all stakeholders through various channels. The annual targets that are determined and set out for the company management by the Board of Directors in accordance with these, are generalized in all levels Both the Board of Directors and relevant committees are periodically briefed regarding the realization of the given targets and the developments.

The strategic goals of Aygaz are;

- Maintaining the market leadership in LPG by; maintaining its innovative approach and product differentiation in autogas, improving market penetration by opening new autogas stations and evaluating the growth potential for cylinder gas in rural areas, and

- Improving and strengthening the existing subsidiary portfolio by pursuing opportunities for new acquisitions, mergers, and investments, and making use of high profitability level opportunities in both Turkey and abroad.

## 5.6. Financial Rights

Our Company's Remuneration Policy for the members of the Board of Directors and Senior Executives, which includes all rights, benefits and wages provided to the members of the Board of Directors and senior executives, was changed considering Corporate Governance Committee's proposal made within the context of Capital Markets Board's Corporate Governance Communiqué No: II-17.1 dated January 3, 2014. The new policy was approved by the Ordinary General Assembly on March 31, 2014, and took effect thereafter.

Disclosed to public through company's annual report and corporate web site, and approved by its stakeholders at the Ordinary General Assembly that was held on April 4, 2016 lastly, this policy is also on the agenda Ordinary General Assembly that will be held on March 29, 2017 to be presented to the shareholders of the company, at which the 2016 activities will be discussed.

The total payments made for the 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 for the members of the Board of Directors and Senior Executives are disclosed to the public through our financial chart footnotes, in parallel with the general practices. There are strictly no transactions that may lead to conflicts of interest such as loaning, extension of credit, provision of guarantees to the benefit of our board members or executives.

At the company's Ordinary General Assembly Meeting on April 4, 2016, a resolution was passed to pay a yearly gross honorarium of TL 300,000 (Three hundred thousand Turkish lira) to each of the members of the Board of Directors. This amount will be paid in equal installments starting from the month following the general assembly.

# Legal Disclosures

### Commercial name, registry number, contact information of its head office and branches

The Company is registered at the Istanbul Trade Registry with the number 80651 (Mersis No. 0-1190-0510-2700017), and contact information of its head office and branches appear on its website, 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, 2016 is as follows:

| 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 of Temel Ticaret ve Yatırım A.Ş. shares 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., of which LPGDC is a 100% shareholder.

### Division of duties of Board members and changes made

There have been no changes made during the period in the members of the Board of Directors who were elected to serve until the next Ordinary General Meeting of Shareholders on April 4, 2016. By decision of the Decision of the Board of Directors dated April 6, 2016, the Committees of the Board of Directors have been delegated 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 took 19 unanimous decisions during 2016. It was seen that all the committees worked efficiently during the year. Details about the work of the committees can be found in Article 5.3. of the Corporate Governance Principles Compliance Report, the working principles of the committees are to be found on the corporate website.

### Lawsuits and sanctions

There are no lawsuits against the company that may affect its financial situation 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 corporation's internal auditing; the Ministry of Finance, the Ministry of Customs and Trade and other regulatory and supervisory organizations requested various documents and information ordinary and limited audits were executed.

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

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

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

### Conflicts of interest between the company and the organizations from which it obtains services on matters such as 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 consultancy and rating companies.

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

As per Article 199 of the Turkish Commercial Code no. 6102, which entered into force on July 1, 2012, the Aygaz A.Ş. Board of Directors is liable 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 Footnote 31 of the financial statement.

The report dated March 6, 2017, which was prepared by the Aygaz A.Ş. Board of Directors, says: "It is 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 2016, 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 matters

In order to meet the financing needs that company activities require, on February 16, 2015, our Board of Directors decided to issue debt instruments with a total nominal value up to TL 300,000,000 with maturity not exceeding 3 years by way of selling to qualified investors and/or private placement; its sale will be done one or several times domestically excluding public offering.

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

- As the result of the book building for bonds 728-day maturity, fixed interest, 182-days coupon payment and principal payment at maturity, the issuance amount is finalized as 75,000,000 TL nominal upon the investors' demand on increasing it, and the sale was completed on 28.01.2016
- The second coupon payment of 100,000,000 nominal value of bonds issued by Aygaz A.Ş. with the code TRSAYGZ31719 ISIN was realized as 5,130,000 TL on 17.03.2016.
- The fourth coupon payment of 60,000,000 TL nominal value of bonds issued by Aygaz A.Ş. with the code TRSAYGZ31818 ISIN was realized as 1,817,999.99TL on 28.03.2016.
- The fifth coupon payment of 60,000,000 TL nominal value of bonds issued by Aygaz A.Ş. with the code TRSAYGZ31818 ISIN was realized as 1,697,999.99 TL on 27.06.2016.
- The first coupon payment of 75,000,000 TL nominal value of bonds issued by Aygaz A.Ş. with the code TRSAYGZ11810 ISIN, was realized as 4,747,500.00 TL on 29.07.2016.
- The third coupon payment of 100,000,000 TL nominal value of bonds issued by Aygaz A.Ş. with the code TRSAYGZ31719 ISIN, was realized as 5,160,000 TL on 16.09.2016.
- The sixth coupon payment of 60,000,000 TL nominal value of bonds issued by Aygaz A.Ş. with the code TRSAYGZ31818 ISIN, was realized as 1,553,999.99 TL on 26.09.2016.
- The seventh coupon payment of 60,000,000 TL nominal value of bonds issued by Aygaz A.Ş. with the code TRSAYGZ31818 ISIN, was realized as 1,512,000.00 TL on 26.12.2016.

As of July 1, 2016, Corporate Governance Rating score of our company was confirmed as 93.61 (9.36) by SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. Material event disclosure on this issue was made on July 1, 2016. The renewal of existing Corporate Governance Rating Contract between our company and SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. that holds official authorization for conducting rating services in compliance with Capital Markets Board Corporate Governance Principles was decided. The validity period of the contract signed on 24.02.2016 is two years.

SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. degreed 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 determined its appearance as stabile on 01.07.2016.

With the decision of our Board of Directors dated September 7, 2016, it is decided that, in consultation with the Audit Committee and in compliance with the guidelines that were determined as per Turkish Commercial Code No. 6102 and Capital Markets Board Code No: 6362; PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A member of PricewaterhouseCoopers) (formerly titled: Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.) was selected for the audition of the financial reports of our company in 2017 accounting period, and for the conduction of other operations within the scope of related regulations included buy these laws, to be submitted to the approval of the General Assembly.

In 2017, an application was made to Capital Markets Board on 16.02.2017, in order to have approved the issuance document regarding our company to issue debt instruments with a total value up to TL 200,000,000 (two hundred million Turkish Liras) with maturity not exceeding 3 years by way of selling to qualified investors and/or private placement domestically excluding public offering; as the sales would be done one or several times.

In order to extend the validity period of the registered equity ceiling which will be expired in 2017 to 2021, a decision was made by our Board of Directors to acquire the necessary permits by the Capital Markets Board and the Ministry of Customs and Trade in order to have the 6th article of Articles of Association titled "Capital" changed, and have the changes made following the permits to be submitted to the closest General Assembly for shareholders' approval. Within this framework, the company's application made on 08.02.2017 to Capital Markets Board was approved, and the necessary permit by the Ministry of Customs and Trade was obtained subsequently.

### Profit distribution policy and payment of dividends during the year

The Profit Distribution Policy for 2014 and subsequent years, as decided upon and revised by the Board of Directors with the decision dated 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, 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."

In line with the decision taken at the General Meeting of Shareholders on April 4, 2016, a payment of dividends in the amount of TL 315 million was made, this to be paid out as of April 11, 2016.

### Changes in the Articles of Association during the period

The company's Articles of Association were not amended during the period.

### Personnel and worker movements and collective labor agreement practices

The Collective Labor Agreement with the Turkish Metals Union for the period September 1, 2014 - August 31, 2017 to provide coverage for workers at the Aygaz Gaz Aletleri Production Facility was signed on December 15, 2014. The Collective Labor Agreement for the period of January 1, 2015 - December 31, 2016 between the Seafarers' Union of Turkey and our seamen working on vessels was signed on August 3, 2015.

Our employees are regularly and periodically provided with social rights in accordance with the law. Provisions for seniority pay at the end of the period and leave obligations totaled TL 35,697,000 (2015: TL 31,414,000).

### Donations and assistance paid out

At the ordinary general meeting of shareholders held in 2016, information was provided as a separate item on the agenda about the donations and assistance paid out during 2015; the donation limit for 2016 was determined as TL 10,000,000. No change has been made in customary donation practices. The total amount of donations paid out in 2016 is TL 8,038,408.27.

# Board of Directors

## RAHMİ M. KOÇ

Chairman of the Board of Directors

Rahmi M. Koç completed his graduate studies in Industrial Management at Johns Hopkins University in the USA. He began his career at Koç Group in 1958 at Otokoç and held various senior positions at Koç Holding. After serving as Chairman of the Executive Committee starting from 1980, he was appointed as the Chairman of the Board of Directors of Koç Holding A.Ş. in 1984. He has been carrying out his duties as Koç Holding Honorary President since 2003. Serving as the President of the International Chamber of Commerce from 1995 to 1996. Rahmi M. Koç carries out duties such 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 Directors 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 High Advisory Council of Turkish Industrialists' and Businessmen's Association, Member of the Advisory Board of the Turkish Employers Association, Honorary Member of the Foreign Policy Association, Honorary Member of NY Metropolitan Museum Board of Trustees and Founder Member of Global Relations Forum. He serves s the Chairman of the Board of Directors of Aygaz A.Ş. since 1996.

## ÖMER M. KOÇ

Vice Chairman of the Board of Directors

Ömer M. Koç received his B.A. degree from Columbia University in 1985. He worked at Kofisa Trading for one year. He completed his MBA at Columbia University in 1989. Mr. Koç worked at Ramerica International Inc. and then he joined Koç Group in 1990 and held various senior positions such as Manager at Gazal A.Ş., Financial Coordinator, Vice President and President of Energy Group at Koç Holding. He became a Member of the Board of Directors of Koç Holding in 2004, and served as Vice Chairman of the Board of Directors in 2008. On February 22, 2016, he was appointed as the Chairman of Koç Holding. He is also the Chairman of Turkish Educational Foundation Board of Trustees, Chairman of Koç University Board of Trustees, President of Geyre Foundation, Chairman of Yapı Kredi Culture, Arts and Publishing Board of Directors, and Chairman of Tüpraş Board of Directors. Ömer M. Koç has been on the Board of Directors at Aygaz A.Ş. since 1996, and has been the 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. From 1990 to 2003, he managed different subsidiaries operating in various fields including real estate, movie industry. In 2003, he was appointed General Manager at Liquid Petroleum Gas Development Company, the Picciotto family owned company, which is shareholder of Aygaz. Then he was 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

Dr. Bülent Bulgurlu graduated from Ankara Engineering and Architectural Faculty and he continued the doctoral program at the Norwegian University of Science and Technology. He began his career as a Construction Engineer at Elliot Strömme in Oslo in 1972. He joined Garanti İnşaat in 1977 as an engineer and worked as Planning and Construction Manager, Work Site Coordination and Construction Manager, Assistant General Manager and General Manager. He assumed the position of Executive Member at Garanti-Koza. Starting from 1996, he worked at Koç Holding as the 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 the CEO of Koç Holding A.Ş. from May 2007 to April 2010. He is a member of the Board of Directors at Koç Holding since May 2007. He is also a member of TÜSİAD (Turkish Industrialists' and Businessmen's Association) and TURMEPA (The Turkish Marine and Environment Protection Association). Bülent Bulgurlu has been serving on the Aygaz Board of Directors since 2008.

## LEVENT ÇAKIROĞLU

Member of the Board of Directors

Levent Çakıroğlu graduated from Ankara University, School of Political Science in Business Administration and completed his MBA at the University of Illinois. He began his career at the Ministry of Finance as Junior Accountant in 1988. Between 1997 and 1998, he worked as part-time lecturer at Bilkent University and as Vice President of Financial Crimes Investigation Board at Ministry of Finance. He joined Koç Holding A.Ş. in 1998 as Finance Group Coordinator and he served as the General Manager of Koçtas Yapı Marketleri Tic. A.Ş. from 2002 to 2007 and Migros Türk T.A.Ş. from 2007 to 2008, the General Manager of Arçelik A.Ş. from 2008 to 2015 and as President of Consumer Durables Group at Koç Holding A.Ş. from 2010 to 2015. Appointed as the Vice Chief Executive Officer in February 2015, he has been serving as Chief Executive Officer of Koç Holding A.Ş. since April 2015. He is a member of the Board of Directors at Koç Holding and he has been serving on the Aygaz Board of Directors since 2015.

## YAĞIZ EYÜBOĞLU

Member of the Board of Directors

Yağız Eyüboğlu graduated from Boğaziçi University with BA degree in Economics in 1991, he earned his MBA from Koç University in 1996. He started his professional life as a Management Trainee at Arçelik A.Ş. in 1991. In 1993, he was promoted to Koç Holding Headquarters, where he worked for more than 10 years, as Senior Internal Auditor, Assistant Financial Coordinator and Financial Coordinator, respectively. Between 2004 and 2009, Eyüboğlu assumed several responsibilities within the Koç Group, namely, CFO of Arçelik A.Ş., CEO and Board Member of Beko Elektronik A.Ş., Assistant to the President of the Koç Holding Foreign Trade and Tourism Group, and Human Resources Director of Koç Holding. In 2009 he joined Aygaz A.Ş. where he served as the C.E.O. of the company until October 2015. Following his assignment to Koç Holding as the Deputy President of Energy Group in October 2015, he is now serving as the President of Energy Group at Koç Holding since April 2016. Serving as Board Member at several companies of Koç Conglomerate, Eyüboğlu also carries out the positions of President of World LPG Association (WLPGA), President of the Board of Trustees of Turkish Family Health and Planning Foundation (TAPV), Board Member of International Competitive Research Institution. He has started to serve as a Member of the Board of Directors of Aygaz A.Ş. in 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 again at Southampton University as a Research Assistant, she continued her professional life as Planning Manager at Shell in 1980. Assuming various responsibilities at Shell Turkey, she was appointed as General Manager in 2002 and the Country Officer 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 completed his graduate degrees at Robert College Engineering School and Columbia University (USA). He joined Koç Group in 1969 at Aygaz A.Ş. as Assistant General Manager. He was appointed as General Manager at Tat A.Ş. in 1976 and at RAM A.Ş. in 1979. At Koç Holding, he served as the Vice President of Energy and Trade Group between 1981-1985 and as the President of Foreign Trade Group between 1991-1997. After serving as a Member of Yaşar Holding Board of Directors between 1997-2000, Tunç Uluğ has been offering consultancy to various firms since 2001. Tunç Uluğ has memberships from DEIK, TESEV and Turkey- Switzerland Trade Office. 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 between 1963-1971 he worked at the Ministry of Finance. He joined Koç Group in 1971 at Koç Holding as Assistant Finance Manager. He was appointed as Assistant General Manager at Ormak A.Ş. between 1974-1983. He served as Finance Coordinator at Koç Holding between 1984-1999. After 1999, he worked as a chartered accountant. He 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. In addition, he served as the General Manager of Koç Fiat Consumer Credit Financing. Mr Tezel was appointed as the General Manager of Aygaz in October 1, 2015 where he had been the Assistant General Manager of Finance since 2009; Mr. Tezel also serves as President of LPG Assembly of The Union of Chambers and Commodity Exchanges of Turkey and President of Market Development Committee of World LPG Association.

## FERDA ERGİNOĞLU
Assistant General Manager (Finance)

Mr. Erginoğlu worked as a Mechanical Engineer at Ata İnşaat from 1985 to 1986 .He started working as an Assistant Financial Coordinator at RAM Dış Ticaret A.Ş. in 1990, where he served as the Finance Group Manager from 1996 to 2001, and as the Assistant General Manager (Finance) from 2001 to 2002. Mr. Erginoğlu worked at Koç Bilgi Grubu A.Ş. as Director of the Financial Expertise Center from 2002 to 2006, and has served as the Financial Coordinator at Koç Holding from 2006 to 2015. On November 2, 2015, he was appointed as the 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. From 1992 to 1994, he worked as a Purchasing Engineer at Istanbul Fruehauf A.Ş. In 1996, he joined Aygaz A.Ş. and from 1996 to 2002 he served as the Bulk Gas Sales Supervisor in the Marmara Region and as the Purchasing Supervisor. In 2002, he served as the Lipet A.Ş. Operations Manager and in 2004 as the Mogaz A.Ş. Operations Manager, after which he became the Aygaz A.Ş. Facility System Manager and in 2004. Mr. Kızılkaya was appointed as the Aliağa Terminal Manager in 2008, and since 2010 he has been serving as the Assistant General Manager of Technical Affairs and Investments.

## FİKRET COŞAR
Assistant General Manager (Sales)

Fikret Coşar began his career as Sales Specialist at Çukurova Import and Export Company in 1988. He then joined Aygaz A. Ş. in 1991 and worked as Diyarbakır Cylinder LPG Sales Supervisor. Mr. Coşar was appointed as Diyarbakır Sales Manager in 1998. Between 1999 and 2010 he served as Trakya Cylinder LPG Assistant Sales Manager, Çukurova Sales Manager and Marmara Sales Manager, respectively. After 2010 he worked as the General Manager at Akpa A. Ş., and as of January 1, 2016, he became the Assistant General Manager of Sales at Aygaz A.Ş.

## AYŞE ABAMOR BİLGİN
Director (Supply Chain)

Ayşe Abamor Bilgin began her career in 1998 as a Management Trainee at Aygaz A.Ş. Appointed as Supply Manager in 2005, Ayşe Abamor Bilgin served as LPG Supply and Trade Manager from 2008 to 2011. She serves as the Supply Chain Director since January 2012.

## NURETTİN DEMİRTAŞ
Director (Affiliates and Accounting)

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

## RAMAZAN PULAT OKTAY
Director (Production)

Ramazan Pulat Oktay began his career as an Engineer and Construction Site Foreman at Disa in 1988. He joined the Koç Group in 1991. From 1991 to 2001, he served at Gazal A.Ş. 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. From 2003 to 2008, he worked as the Purchasing Manager. He has been serving as the Production Director in 2008.

## ÖZGÜR ASENA YILDIRIM
Director (Cylinder Gas Sales)

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 then he worked as the Kırıkkale Facility 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
Director (Autogas Sales)

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 the Marmara Sales Manager at Opet Petrolcülük A.Ş., and from 2008 to 2010 he served as the Sales Group Manager at Opet Petrolcülük A.Ş. He has been serving as the Autogas Sales Director at Aygaz since 2010.

## AHMET ERCÜMENT POLAT
Director (Marketing)

Ercüment Polat joined Aygaz in 1995 and consecutively served as Sales Engineer, 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 the Company Manager from 2008 to 2010. He is the Marketing Director of Aygaz since 2010.

# Agenda for the Ordinary General Assembly Meeting of Aygaz Anonim Şirketi for the Year 2015 to be held on March 29, 2017

1. Opening and election of the Chairman of the Meeting,
2. Reading, discussing and approving the 2016 Annual Report prepared by the Board of Directors,
3. Reading the Independent Audit Report Summary for 2016 accounting period,
4. Reading, discussing and approving the Financial Statements related to 2016 accounting period,
5. Acquittal of each member of the Board of Directors in relation to the activities of Company in 2016,
6. Acceptance, acceptance after amendment or refusal of the offer of the Board of Directors in accordance with the Company's profit distribution policy regarding the distribution of the profits of 2016 and the date of the distribution of profits,
7. Acceptance, acceptance after amendment or refusal of the Board of Directors' offer for amending Article 6 entitled "Capital" of the Company Articles of Association,
8. Determining the number and duty term of the Members of the Board of Directors, making elections in accordance with the determined number of members, selecting the Independent Members of the Board of Directors,
9. Informing and approval of the Shareholders about the Remuneration Policy for the Members of the Board of Directors and Top Managers and the payments made within the scope of the policy in accordance with the Corporate Governance Principles,
10. Determining the annual gross salaries of the members of the Board of Directors,
11. Approval of the Independent Auditing Institution selected by the Board of Directors in accordance with the Turkish Commercial Code and the Capital Markets Board regulations,
12. Informing the shareholders about the donations made by the Company in 2016 and determining an upper limit for donations to be made in 2017,
13. Informing the shareholders about the collaterals, pledges, mortgages and surety granted in favor of third parties and the income and benefits obtained in 2016 by the Company and subsidiaries in accordance with Capital Markets Board regulations,
14. Authorising the shareholders holding management capacity, the Members of the Board of Directors, top managers and their spouses and relatives by blood and marriage up to the second degree within the framework of the articles 395th and 396th of Turkish Commercial Code and informing shareholders about transactions performed within the scope during 2016 as per the Corporate Governance Communiqué of Capital Markets Board,
15. Wishes and opinions.

# Proposal of the Board of Directors for Profit Distribution

Dear Shareholders,

As a result of the review of Consolidated Financial Statements for the accounting period of January 1 – December 31, 2016, and the Independent Audit Report composed by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. company (A Member firm of Ernst&Young Global Limited),

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

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

It is figured out that 415,670,000.00 TL distributable profit for the period was earned in compliance with the Capital Market Law and the regulations of the Capital Market Board; 423,708,408.27 TL resulting from the addition of 8,038,408.27 TL donation made to foundations and associations within the year in such amount is the first dividend and TPL records indicate 1,053,871,932.42 TL total distributable profit, 302,530,934.57 TL of which is the current profit of the year.

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

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

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

Upon acceptance by the General Meeting of Shareholders of the dividend distribution proposal made above, it has been resolved that 276,391,758.70 TL of the total 450,000,000.00 TL dividend payable to the shareholders shall be afforded from the earnings of the current year and the balance 173,608,241.30 TL shall be afforded from extraordinary reserves and 26,139,175.87 TL of the 43,500,000.00 TL secondary legal reserve shall be afforded from the earnings of the current year and the balance 17,360,824.13 TL shall be afforded from extraordinary reserves.

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

and payment of dividends shall begin to be made on April 5, 2017. The proposal detailed above is kindly submitted for your approval.

Yours sincerely,

**Rahmi M. Koç**
Chairman of the Board

# Statements of Independence of the Independent Board Members

**DECLARATION OF INDEPENDENCE JANUARY 23, 2017**

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.

Ayşe Canan EDİBOĞLU

**DECLARATION OF INDEPENDENCE JANUARY 23, 2017**

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 a university faculty member position;

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.

Tunç ULUĞ

**DECLARATION OF INDEPENDENCE JANUARY 23, 2017**

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 law to which I must abide, I will not work full-time in public enterprises and organizations after being appointed member, save for a university faculty member position;

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.

Mansur ÖZGÜN

# 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 Auditors' Report on the Annual Report of the Board of Directors

To the Board of Directors of Aygaz Anonim Şirketi;

**Report on the Audit of the Annual Report of the Board of Directors in accordance with the Independent Auditing Standards**
We have audited the annual report of Aygaz Anonim Şirketi ("the Company") and its subsidiaries (together referred to as "the Company") for the year ended December 31, 2016.

**The responsibility of the Board of Directors on the Annual Report**
In accordance with Article 514 of the Turkish Commercial Code 6102 ("TCC") and the provisions of the Communiqué II-14.1 on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") of the Capital Market Board ("CMB"), the management of the Group is responsible for the preparation and fair presentation of the annual report consistent with the consolidated financial statements and for the internal controls considered for the preparation of a report of such quality.

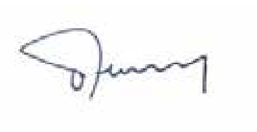
**Responsibility of the Independent Auditor**
Our responsibility is to express and opinion, based on the independent audit we have performed on the Group's annual report in accordance with article 397 of the TCC and the Communiqué, on whether the financial information provided in this annual report is presented fairly and consistent with the Group's consolidated financial statements there on which auditor's report dated February 13, 2017 has been issued.

Our independent audit has been performed in accordance with the Independence Auditing Standards as endorsed by CMB and Independent Auditing Standards which are a part of Turkish Auditing Standards promulgated by the Public Oversight, Accounting and Auditing Standards Authority. These standards require compliance with ethical provisions and the independent audit to be planned and performed to obtain reasonable assurance on whether the financial information provided in the annual report is free from material misstatement and consistent with the consolidated financial statements. This independent audit involves the application of auditing procedures in order to obtain audit evidence on the historical financial information. The selection of these procedures is based in the professional judgment of the independent auditor. We believe that the audit evidence we have obtained during our independent audit is sufficient and appropriate to provide a basis for our opinion.

**Opinion**
In our opinion, the financial information provided in the annual report of the Board of Directors is presented fairly and consistent with the audited consolidated financial statements in all material respects.

**Independent auditor's responsibilities arising from other regulatory requirements**
In accordance with paragraph 3 of Article 402 of the Turkish Commercial Code ("TCC") 6102, within the framework of the Independent Auditing Standards 570 "Going Concern", no material uncertainty has come to our attention which causes us to believe that the Group will not be able to continue as a going concern in the foreseeable future.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited



Ethem Kutucular, SMMM
Partner

March 6, 2017
Istanbul, Turkey

# Amendments to the Articles of Association

## OLD TEXT

**Article 6 – CAPITAL**
In accordance with the provisions of the Capital Market Law, the Company has accepted the registered capital system and adopted this system with the permission no. 96 of the Capital Markets Board dated 2 March 1987.

Registered capital of the company shall be TL 500,000,000 (Five hundred million Turkish Liras), and divided into 50,000,000,000 (fifty billion Turkish Liras) shares with 1 (one) Kuruş value per share.

The authorised capital limit granted by the Capital Markets Board is valid for (five years) between 2013 and 2017. Even if the authorised capital limit permitted as above is not reached as of the end of 2017, in order for the Board of Directors to take a capital increase decision after 2017, authorization is required to be taken from the General Assembly of Shareholders for a new term of up to 5 years, with a prior permission of the Capital Markets Board for the previous upper limit or for a new upper limit amount. If such authorization is not taken, the company shall be considered as having abandoned the registered capital system.

The issued capital of the company is TL 300,000,000.00 (three hundred million Turkish Liras) and the entire issued capital has been pledged and paid in full by the partners free of collusion. Issued capital is divided into 30,000,000,000 (thirty billion) registered shares with 1 (one) Kuruş nominal value per share.

The shares making up the capital are monitored on the records within the framework of the recording rules. The capital of the company may be increased or decreased as necessary within the framework of the provisions of the Turkish Commercial Code and Capital Market legislation.

The Board of Directors is authorized to increase the issued capital by issuing new shares up to the ceiling value of the registered capital as deemed necessary in compliance with the provisions of the Capital Market Law as well as restricting the rights of the owners of the privileged shares and limiting the right of the shareholders to buy new shares. The power of restricting the right of buying new shares may not be used in a manner that might create inequality between the shareholders.

## NEW TEXT

**Article 6 – CAPITAL**
In accordance with the provisions of the Capital Market Law, the Company has accepted the registered capital system and adopted this system with the permission no. 96 of the Capital Markets Board dated 2 March 1987.

Registered capital of the company shall be TL 500,000,000 (Five hundred million Turkish Liras), and divided into 50,000,000,000 (fifty billion Turkish Liras) shares with 1 (one) Kuruş value per share.

The authorised capital limit granted by the Capital Markets Board is valid for (five years) between **2017** and **2021**. Even if the authorised capital limit permitted as above is not reached as of the end of **2021**, in order for the Board of Directors to take a capital increase decision after **2021**, authorization is required to be taken from the General Assembly of Shareholders for a new term of up to 5 years, with a prior permission of the Capital Markets Board for the previous upper limit or for a new upper limit amount. If such authorization is not taken, the Company **cannot make a capital increase by a decision of the board of directors.**

The issued capital of the company is TL 300,000,000.00 (three hundred million Turkish Liras) and the entire issued capital has been pledged and paid in full by the partners free of collusion. Issued capital is divided into 30,000,000,000 (thirty billion) registered shares with 1 (one) Kuruş nominal value per share.

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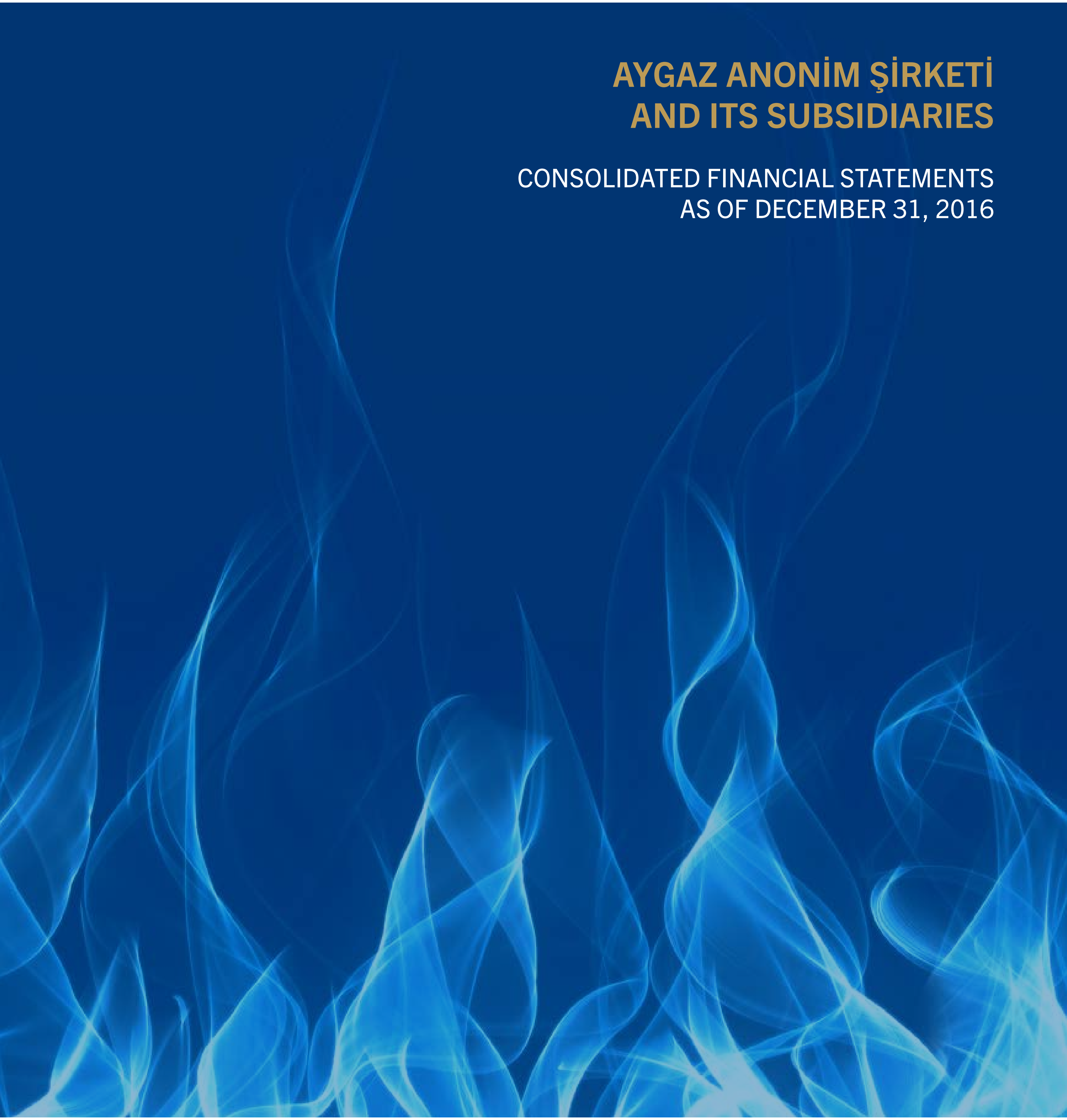

# AYGAZ ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016

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

## Table of contents

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

# Independent Auditors' Report on the Consolidated Financial Statements

**To the Board of Directors of Aygaz Anonim Şirketi:**

We have audited the accompanying consolidated statement of financial position of Aygaz Anonim Şirketi (the "Company") and its Subsidiaries (together will be referred to as the ''Group'') as at December 31, 2016 and the related 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 a summary of significant accounting policies and explanatory notes.

**Group management's responsibility for the financial statements**

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

**Independent auditors' responsibility**

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

Independent audit involves performing independent audit procedures to obtain independent audit evidence about the amounts and disclosures in the financial statements. The independent audit procedures selected depend on our professional judgment, including the assessment of the risks of "material misstatement" of the financial statements, whether due to error and/or fraud. In making those risk assessments; the Company's internal control system is taken into consideration. Our purpose, however, is not to express an opinion on the effectiveness of internal control system, but to design independent audit procedures that are appropriate for the circumstances in order to identify the relation between the financial statements prepared by the Company and its internal control system. Our independent audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Aygaz Anonim Şirketi and its Subsidiaries as at December 31, 2016 and their financial performance and cash flows for the year then ended in accordance with the Turkish Accounting Standards.

**Reports on other responsibilities arising from regulatory requirements**

1) Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on February 13, 2017.

2) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period January 1 – December 31, 2016 and financial statements are not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.

3) In accordance with paragraph 4 of Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Ethem Kutucular, SMMM
Engagement Partner

February 13, 2017
İstanbul, Turkey

AYGAZ ANONIM ŞIRKETI AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2016

(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, 2016 | Prior period (Audited) December 31, 2015 |
|---|---|---|---|
| **Current assets** | | **1.360.364** | 1.025.191 |
| Cash and cash equivalents | 4 | 567.728 | 288.637 |
| Trade receivables | | 474.653 | 483.374 |
| *-Trade receivables from related parties* | *31* | *37.894* | *30.274* |
| *-Trade receivables from third parties* | *8* | *436.759* | *453.100* |
| Other receivables | | 5.770 | 2.376 |
| *-Other receivables from third parties* | *9* | *5.770* | *2.376* |
| Derivative financial instruments | 7 | - | 19.654 |
| Inventories | 11 | 266.820 | 186.024 |
| Prepaid expenses | 19 | 41.166 | 40.703 |
| Assets related to current year tax | | 680 | 376 |
| Other current assets | 18 | 3.547 | 4.047 |
| **Non-current assets** | | **2.953.986** | 2.891.133 |
| Financial investments | 5 | 257.928 | 268.002 |
| Trade receivables | | 5.646 | 6.791 |
| *-Trade receivables from third parties* | *8* | *5.646* | *6.791* |
| Other receivables | | 75 | 82 |
| *-Other receivables from third parties* | *9* | *75* | *82* |
| Derivative financial instruments | 7 | 22.742 | - |
| Investments accounted under equity method | 12 | 1.922.344 | 1.867.181 |
| Property, plant and equipment | 13 | 658.238 | 650.672 |
| Intangible assets | | 19.119 | 21.340 |
| *-Other intangible assets* | *14* | *19.119* | *21.340* |
| Prepaid expenses | 19 | 67.195 | 76.632 |
| Deferred tax asset | 29 | 699 | 433 |
| **Total assets** | | **4.314.350** | 3.916.324 |

The accompanying accounting policies and notes between the pages 87 and 161 form an integral part of these consolidated financial statements.

AYGAZ ANONIM ŞIRKETI AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2016

(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, 2016 | Prior period (Audited) December 31, 2016 |
|---|---|---|---|
| **Short term liabilities** | | **1.007.263** | 846.837 |
| Short-term financial borrowings | 6 | 1.102 | 66.128 |
| Current portion of long term financial borrowings | 6 | 229.265 | 182.478 |
| Trade payables | | 470.731 | 372.235 |
| *- Trade payables to related parties* | *31* | *136.094* | *143.019* |
| *- Trade payables to third parties* | *8* | *334.637* | *229.216* |
| Liabilities for employee benefits | 10 | 43.252 | 26.852 |
| Other payables | | 1.323 | 1.252 |
| *- Other payables to related parties* | *31* | *677* | *547* |
| *- Other payables to third parties* | *9* | *646* | *705* |
| Derivative financial instruments | 7 | - | 1.475 |
| Deferred income | 20 | 2.487 | 2.703 |
| Provision for taxation on income | 29 | 5.105 | 8.767 |
| Short-term provisions | | 114.636 | 86.970 |
| *-Other provisions* | *17* | *114.636* | *86.970* |
| Other current liabilities | 18 | 139.362 | 97.977 |
| **Long term liabilities** | | **565.530** | 458.667 |
| Long-term borrowings | 6 | 400.143 | 302.748 |
| Other payables | | 89.489 | 83.917 |
| *- Other payables to third parties* | *9* | *89.489* | *83.917* |
| Long-term provisions | | 35.697 | 31.414 |
| *-Provisions for employee benefits* | *16* | *35.697* | *31.414* |
| Deferred tax liabilities | 29 | 40.201 | 38.627 |
| Other non-current liabilities | | - | 1.961 |
| **Equity** | | **2.741.557** | 2.610.820 |
| 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 | | (793) | (253) |
| *Gains (losses) on the revaluation and/or reclassification* | | (793) | (253) |
| *-Gains (losses) remeasurement from defined benefit plans* | | *(793)* | *(253)* |
| Other comprehensive income or expenses to be reclassified to profit or loss | | 44.327 | 116.448 |
| *-Foreign currency translation differences* | | *2.366* | *1.791* |
| *Gains (losses) on hedging* | | (115.547) | (52.208) |
| *-Gains (losses) on cash flow hedges* | *12* | *(115.547)* | *(52.208)* |
| *Gains (losses) on the revaluation and/or reclassification* | | 157.508 | 166.865 |
| *-Gains (losses) on the revaluation and/or reclassification of available-for-sale financial assets* | *21* | *157.508* | *166.865* |
| Restricted reserves | 21 | 203.549 | 320.430 |
| Retained earnings | | 1.713.648 | 1.391.086 |
| Net profit for the period | | 415.670 | 418.375 |
| **Equity attributable to equity holders of the parent** | | **2.740.463** | 2.610.148 |
| **Non-controlling interests** | 21 | **1.094** | 672 |
| **Total equity and liabilities** | | **4.314.350** | 3.916.324 |

The accompanying accounting policies and notes between the pages 87 and 161 form an integral part of these consolidated financial statements.

AYGAZ ANONIM ŞIRKETI AND ITS SUBSIDIARIES

## CONSOLIDATED PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

(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, 2016 | (Audited) January 1- December 31, 2015 |
|---|---|---|---|
| Revenue | 22 | 6.748.761 | 6.419.610 |
| Cost of sales (-) | 22 | (5.962.215) | (5.743.058) |
| **Gross profit** | | 786.546 | 676.552 |
| General administrative expenses (-) | 23 | (194.586) | (167.467) |
| Marketing expenses (-) | 23 | (276.395) | (252.865) |
| Research and development expenses (-) | 23 | (4.585) | (2.481) |
| Other operating income | 25 | 93.682 | 94.662 |
| Other operating expenses (-) | 25 | (96.650) | (97.912) |
| **Operating profit** | | 308.012 | 250.489 |
| Income from investment activities | 26 | 1.279 | 7.248 |
| Loss from investment activities (-) | 26 | (30) | (2.164) |
| Profit (losses) from investments accounted under equity method | 12 | 185.165 | 230.770 |
| **Operating profit before financial income (expense)** | | 494.426 | 486.343 |
| Financial income | 27 | 288.243 | 217.573 |
| Financial expense (-) | 28 | (313.851) | (246.110) |
| **Profit from continuing operations before tax** | | 468.818 | 457.806 |
| **Tax income (expense), continuing operations** | | | |
| - Current tax expense for the period (-) | 29 | (50.902) | (33.232) |
| - Deferred tax income (expense) | 29 | (1.824) | (6.112) |
| **Profit for the period** | | 416.092 | 418.462 |
| **Distribution of profit for the period** | | | |
| Non-controlling interest | | 422 | 87 |
| Equity holders of the parent | | 415.670 | 418.375 |
| **Earnings per share (TL)** | 30 | 1,385567 | 1,394583 |
| **Diluted earnings per share (TL)** | 30 | 1,385567 | 1,394583 |
| **Other comprehensive income** | | | |
| **Not to be reclassified to profit or loss** | | | |
| *Gains (losses) remeasurement on defined benefit plans* | | (563) | 3.112 |
| **Not to be reclassified to profit or loss, tax effect** | | | |
| *Gains (losses) remeasurement on defined benefit plans* | 29 | 23 | (473) |
| **To be reclassified as profit or loss** | | | |
| Foreign currency translation differences | | 575 | 561 |
| Gains (losses) on the revaluation and/or reclassification of available-for-sale financial assets | | | |
| - Gains (losses) on the revaluation of available-for-sale financial assets | | *(9.850)* | *(78.800)* |
| Other comprehensive income (expense) on cash flow hedging | | | |
| - Gains/losses on cash flow hedging | *12* | *(63.339)* | *(52.162)* |
| **To be reclassified as profit or loss, tax effect** | | | |
| Gains (losses) on the revaluation and/or reclassification of available-for-sale financial assets | 29 | 493 | 3.940 |
| **Other comprehensive income/(expense) (after taxation)** | | (72.661) | (123.822) |
| **Total comprehensive income** | | 343.431 | 294.640 |
| **Distribution of total comprehensive income** | | | |
| Non-controlling interest | | 422 | 87 |
| Equity holders of the parent | | 343.009 | 294.553 |

The accompanying accounting policies and notes between the pages 87 and 161 form an integral part of these consolidated financial statements.

## AYGAZ ANONIM ŞIRKETI AND ITS SUBSIDIARIES

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

(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 remeasurement of defined benefit plans | Foreign currency translation differences | Gains (losses) on cash flow hedging | 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, 2015 | 300.000 | 71.504 | (7.442) | (2.892) | 1.230 | (46) | 241.725 | 303.833 | 1.232.650 | 217.958 | 2.358.520 | 670 | 2.359.190 |
| Effect of prior year period adjustments | - | - | - | - | - | - | - | - | 57.075 | - | 57.075 | - | 57.075 |
| Transfers | - | - | - | - | - | - | - | 16.597 | 201.361 | (217.958) | - | - | - |
| Total comprehensive income (loss) | - | - | - | 2.639 | 561 | (52.162) | (74.860) | - | - | 418.375 | 294.553 | 87 | 294.640 |
| *Net income* | - | - | - | - | - | - | - | - | - | *418.375* | *418.375* | *87* | *418.462* |
| *Other comprehensive income (loss)* | - | - | - | *2.639* | *561* | *(52.162)* | *(74.860)* | - | - | - | *(123.822)* | - | *(123.822)* |
| Dividend paid | - | - | - | - | - | - | - | - | (100.000) | - | (100.000) | (85) | (100.085) |
| Balance as of December 31, 2015 | 300.000 | 71.504 | (7.442) | (253) | 1.791 | (52.208) | 166.865 | 320.430 | 1.391.086 | 418.375 | 2.610.148 | 672 | 2.610.820 |
| **Audited** | | | | | | | | | | | | | |
| **Balance as of January 1, 2016** | **300.000** | **71.504** | **(7.442)** | **(253)** | **1.791** | **(52.208)** | **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)** | - | - | - | **(540)** | **575** | **(63.339)** | **(9.357)** | - | - | **415.670** | **343.009** | **422** | **343.431** |
| ***Net income*** | - | - | - | - | - | - | - | - | - | ***415.670*** | ***415.670*** | ***422*** | ***416.092*** |
| ***Other comprehensive income (loss)*** | - | - | - | ***(540)*** | ***575*** | ***(63.339)*** | ***(9.357)*** | - | - | - | ***(72.661)*** | - | ***(72.661)*** |
| **Dividend paid (Note 21)** | - | - | - | - | - | - | - | - | **(315.000)** | - | **(315.000)** | - | **(315.000)** |
| **Balance as of December 31, 2016** | **300.000** | **71.504** | **(7.442)** | **(793)** | **2.366** | **(115.547)** | **157.508** | **203.549** | **1.713.648** | **415.670** | **2.740.463** | **1.094** | **2.741.557** |

The accompanying accounting policies and notes between the pages 87 and 161 form an integral part of these consolidated financial statements.

AYGAZ ANONIM ŞIRKETI AND ITS SUBSIDIARIES

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

(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, 2016 | Audited January 1- December 31, 2015 |
|---|---|---|---|
| **Cash flows from operating activities** | | 582.379 | 239.432 |
| **Net income from continuing operations** | | 416.092 | 418.462 |
| **Adjustments related with the reconciliation of net profit (loss) for the period** | | 52.339 | (44.531) |
| -Adjustments for depreciation and amortization expenses | 13,14 | 86.035 | 86.432 |
| -Adjustments for impairment loss (reversal) | | 3.390 | 4.178 |
| -Adjustments for provisions | | 36.503 | 19.717 |
| -Adjustments for dividend (income) expense | 26 | (264) | (6.507) |
| -Adjustments for interest income | 27 | (33.501) | (14.583) |
| -Adjustments for interest expense | 28 | 64.062 | 45.593 |
| -Adjustments for unrealized foreign exchange differences | | 33.877 | 24.217 |
| -Adjustments for fair value losses (gains) on derivative financial instruments | | (4.563) | (13.385) |
| -Adjustments for undistributed profits of investments accounted under equity method | 12 | (185.165) | (230.770) |
| -Adjustments for tax (income) expenses | 29 | 52.726 | 39.344 |
| -Adjustments for losses (gains) on disposal of non-current assets | 26 | (985) | 1.423 |
| -Other adjustments for reconciliation of profit (loss) | | 224 | (190) |
| **Changes in working capital:** | | 194.006 | (96.878) |
| -Adjustments for decrease (increase) in trade receivables | | 6.476 | (98.451) |
| -Adjustments for decrease (increase) in other operating receivables | | 101.086 | (11.126) |
| -Adjustments for decrease (increase) in inventories | | (80.796) | (76.400) |
| -Decrease (increase) in prepaid expenses | | 8.974 | (24.994) |
| -Adjustments for increase (decrease) in trade payables | | 98.496 | 53.678 |
| -Increase (decrease) in liabilities for employee benefits | | 16.400 | (17.241) |
| -Adjustments for increase (decrease) in other operating payables | | 43.586 | 78.278 |
| -Increase (decrease) in deferred income | | (216) | (622) |
| **Cash flows from operating activities** | | 662.437 | 277.053 |
| -Payments related to provisions for employee benefits | 16 | (4.671) | (3.506) |
| -Tax returns (payments) | | (75.387) | (34.115) |
| **Cash flows from investing activities** | | (3.109) | (142.549) |
| Cash inflows from the sale of property, plant and equipment and intangible assets | | 8.504 | 6.566 |
| Cash outflows from the purchase of property, plant and equipment and intangible assets | 13,14 | (98.899) | (155.622) |
| Dividends received | | 87.286 | 6.507 |
| **Cash flows from financing activities** | | (300.179) | 30.850 |
| Proceeds from borrowings | | 247.412 | 309.449 |
| Repayments of borrowings | | (205.677) | (150.000) |
| Dividends paid | | (315.000) | (100.085) |
| Interest paid | | (60.518) | (43.195) |
| Interest received | | 33.604 | 14.681 |
| **Net increase (decrease) in cash and cash equivalents** | | 279.091 | 127.733 |
| **Cash and cash equivalents at the beginning of the period** | 4 | 288.637 | 160.904 |
| **Cash and cash equivalents at the end of the period** | 4 | 567.728 | 288.637 |

The accompanying accounting policies and notes between the pages 87 and 161 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, 2016

(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. As a result of the merger in 2001 with Gaz Aletleri A.Ş., the Company started to manufacture LPG cylinders, LPG tanks, LPG stoves and other supplementary materials which support the Company's main business and which are necessary equipment for the end-user. The ultimate and controlling shareholder is Koç Holding A.Ş.

The Company is registered at the Capital Markets Board of Turkey ("CMB") and as of December 31, 2016, 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 2016 is 703 white-collar (2015: 694) and 720 blue-collar (2015: 703) totaling to 1.423 (2015:1.397).

**Subsidiaries**

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

| | | Ownership interest (%) | | | |
|---|---|---|---|---|---|
| Subsidiaries | Place of incorporation and Operation | **December 31, 2016** | December 31, 2015 | **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 | **99,15%** | 99,15% | **99,15%** | Natural gas |
| Aygaz Doğal Gaz İletim A.Ş. | Turkey | **99,59%** | 99,59% | **99,59%** | 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 Anonim Şirketi" 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 acitivity. In October 2012, the Company has purchased shares with a nominal amount of TL 4 from natural persons and raised Group's effective control to 100%. On July 22, 2014, Akpa, which already had 8% ownership of Zinerji A.Ş., acquired 100% ownership of Zinerji from other shareholders including the Company, by purchasing the rest of the shares with a nominal value of TL 184 thousand representing 92% of total capital, with a price of TL 3.404 thousand, with the decision taken through Board of Directors held on July 24, 2014. By the decision taken through Boards of Directors held on October 30, 2014, the procedures related with the acquisition of Zinerji A.Ş. by Akpa have been registered on December 10, 2014. The merger of Akpa, with Zinerji A.Ş., through a whole take-over of all assets and liabilities were completed as of registration date.

(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)

Main activity of Aygaz Doğal Gaz Toptan Satış A.Ş. and Aygaz Doğal Gaz İletim A.Ş. (together "Aygaz Doğal Gaz") is to purchase natural gas from domestic and/or overseas suppliers, selling natural gas to domestic and/or overseas customers and make related arrangements for the modulation, storing of natural gas and building necessary facilities. Aygaz Doğal Gaz Toptan Satış A.Ş. has decided to increase its share capital from TL 28.000 thousand to TL 33.000 thousand in its Ordinary General Meeting dated February 6, 2012. The Company has agreed to pay the increased amount of TL 5.000 thousand in cash and the payment was realized on March 2, 2012. The Group's share in Aygaz Doğal Gaz Toptan Satış A.Ş. has increased to 99,15%. Aygaz Doğal Gaz İletim A.Ş. has decided to increase its share capital from TL 3.700 thousand to TL 9.000 thousand in its Ordinary General Meeting dated February 6, 2012. The Company has agreed to pay the increased amount of TL 5.300 thousand in cash and the payment was realized on March 2, 2012. The Group's share in Aygaz Doğal Gaz İletim A.Ş. has increased to 99,59%. On December 28, 2016 the Company has decided to acquire the shares which is equivalent to the 1,7% of total shares of Aygaz Doğal Gaz Toptan Satış A.Ş with the nominal value of TL 560 thousand for TL 5.096 thousand in cash and to acquire the shares which is equivalent to the 0,82% of total shares of Aygaz Doğal Gaz İletim A.Ş with the nominal value of TL 74 thousand for TL 81 thousand in cash.

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. Kandilli Tankercilik A.Ş. has decided to increase share capital from TL 8.500 thousand to TL 62.500 thousand in its Extraordinary General Meeting held on September 25, 2014. For the increased share amount of TL 54.000 thousand, the Company has paid TL 13.500 thousand in cash on September 26, 2014 and the remaining part amounting to TL 40.500 thousand was paid in cash on January 30, 2015.

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 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, 2016** | December 31, 2015 | **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 and operate in oil refinery related sectors in Turkey.

(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)

Entek Elektrik Üretimi A.Ş. ("Entek"), the electricity producer company of Koç Group, has been operating with its two natural gas cycling plants with 300 MW power (Kocaeli and Bursa), one cogeneration facility with a total of 2 MW power (İstanbul Koç University) and two hydroelectric power plants in Karaman and one hydroelectric power plant in Samsun with 62 MW power, that has a total amount of 364 MW power. Besides Entek's power plants, Entek has 50% share on imported coal plant project with a total of 625 MW power. Entek decided to terminate the licences of natural gas cycle plant (143MW) in Bursa and cogeneration facility (2MW) in Koç University and its operations in 2016. On October 13, 2014, a Share Purchase Agreement was signed between Aygaz A.Ş., Koç Holding A.Ş. and AES Mont Blanc Holdings B.V. for the Company's acquisition of the shares with a nominal value of TL 133.594 thousand and equivalent to 24,81% of the shares of the Group's associate AES Entek Elektrik Üretimi A.Ş. for USD 62.500 thousand, and the acquisition of the shares with a nominal value of TL 133.594 thousand and equivalent to 24,81% by Koç Holding A.Ş., the Group's parent, from AES Mont Blanc Holdings B.V for USD 62.500 thousand.

After the receipt of EMRA approval and required legal permissions, the purchase price has been paid in cash on December 18, 2014. The share transfers have been completed on December 22, 2014 and the Company's share in Entek has increased to 49,62%. AES Entek changed its trade name to "Entek" with the decision of Ordinary General Meeting in 2015.

**Joint ventures**

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

| | | Ownership interest (%) | | | |
|---|---|---|---|---|---|
| Joint venture | Place of incorporation and operation | **December 31, 2016** | December 31, 2015 | **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. decided to increase its capital from TL 90.000 thousand to TL 150.000 thousand in its Ordinary General Meeting, held on March 10, 2014. All of the related increase has been paid in cash by shareholders.

*Approval of financial statements*

The consolidated financial statements as of and for the year ended December 31, 2016 are approved in the Board of Directors meeting held on February 13, 2017. These consolidated financial statements will be finalised following their approval in the General Assembly.

# 2. BASIS OF PRESENTATION OF 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. 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 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 associated 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 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 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 associate and joint venture 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 associate or joint venture 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 Group's share of the results of operations of the associate or joint venture. 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 of an associate or a joint venture' in the statement of profit or loss.

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

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

**2.3 New and revised Turkey Financial Reporting Standards**

**New and amended standards and interpretations**

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2016 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of January 1, 2016. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

**i) The new standards, amendments and interpretations which are effective as at January 1, 2016 are as follows:**

**TFRS 11 Acquisition of an Interest in a Joint Operation (Amendments)**

TFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in TFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in TFRS 3 and other TFRSs except for those principles that conflict with the guidance in this TFRS. In addition, the acquirer shall disclose the information required by TFRS 3 and other TFRSs for business combinations. The amendments did not have an impact on the financial position or performance of the Group.

**TAS 16 and TAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments)**

The amendments to TAS 16 and TAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments did not have an impact on the financial position or performance of the Group.

**TAS 16 Property, Plant and Equipment and TAS 41 Agriculture (Amendment) – Bearer Plants**

TAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in TAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of TAS 41, measured at fair value less costs to sell. The amendment is not applicable for the Group and did not have an impact on the financial position or performance of the Group.

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

**TAS 27 Equity Method in Separate Financial Statements (Amendments to TAS 27)**

Public Oversight Accounting and Auditing Standards Authority (POA) of Turkey issued an amendment to TAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity's separate financial statements. Therefore, an entity must account for these investments either:
- At cost
- In accordance with IFRS 9, or
- Using the equity method defined in TAS 28

The entity must apply the same accounting for each category of investments. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

**TFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)**

Amendments issued to TFRS 10 and TAS 28, to address the acknowledged inconsistency between the requirements in TFRS 10 and TAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in TFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendment is not applicable for the Group and did not have an impact on the financial position or performance of the Group.

**TFRS 10, TFRS 12 and TAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)**

Amendments issued to TFRS 10, TFRS 12 and TAS 28, to address the following issues that have arisen in applying the investment entities exception under TFRS 10 Consolidated Financial Statements; i) the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value, ii) only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value, iii) the amendments to TAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

**TAS 1: Disclosure Initiative (Amendment)**

The amendments issued to TAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. These amendments did not have significant impact on the notes to the consolidated financial statements of the Group.

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

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

**Annual Improvements to TFRSs - 2012-2014 Cycle**

POA issued, Annual Improvements to TFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarifies that changes in methods of disposal (through sale or distribution to owners) would not be considered a new plan of disposal, rather it is a continuation of the original plan
- IFRS 7 Financial Instruments: Disclosures – clarifies that i) the assessment of servicing contracts that includes a fee for the continuing involvement of financial assets in accordance with IFRS 7; ii) the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report
- IAS 19 Employee Benefits – clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located
- IAS 34 Interim Financial Reporting –clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report

These amendments did not have significant impact on the notes to the consolidated financial statements of the Group.

**ii) Standards issued but not yet effective and not early adopted**

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

**TFRS 15 Revenue from Contracts with Customers**

In September 2016, POA issued TFRS 15 Revenue from Contracts with Customers. The new standard issued includes the clarifying amendments to IFRS 15 made by IASB in April 2016. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). TFRS 15 effective date is January 1, 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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

**TFRS 9 Financial Instruments**

In January 2016, POA issued the final version of TFRS 9 Financial Instruments. The final version of TFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. TFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, TFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. TFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

**iii) The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by Public Oversight Authority (POA)**

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued by the POA, thus they do not constitute part of TFRS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

**IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)**

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted.

**Annual Improvements – *2010–2012 Cycle***

**IFRS 13 Fair Value Measurement**

As clarified in the Basis for Conclusions short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately.

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

**Annual Improvements – *2011–2013 Cycle***

**IFRS 16 Leases**

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

**IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)**

The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Group applies this relief, it shall disclose that fact. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

**IAS 7 Statement of Cash Flows (Amendments)**

The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after January 1, 2017 with earlier application permitted. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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

**IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)**

In June 2016 the IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:
a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
b. share-based payment transactions with a net settlement feature for withholding tax obligations; and
c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

**IFRS 4 Insurance Contracts (Amendments)**

In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will:
a. give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 Financial instruments is applied before the new insurance contracts Standard is issued; and
b. give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 Financial instruments until 2021. The entities that defer the application of IFRS 9 Financial instruments will continue to apply the existing financial instruments Standard-IAS 39.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

**IAS 40 Investment Property: Transfers of Investment Property (Amendments)**

The IASB issued amendments to IAS 40 'Investment Property'. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

**IFRIC 22 Foreign Currency Transactions and Advance Consideration**

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

**Annual Improvements to IFRSs - 2014-2016 Cycle**

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle, amending the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: 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.

- IFRS 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. These amendments are to be applied for annual periods beginning on or after 1 January 2017.

- IAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

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

**2.4 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. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

**2.5 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.

*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.

**2.6 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 elements included in inventories are materials, labour and factory overheads. Overheads include, expenses directly related to production such as direct labor expenses. 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.)

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

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

### 2.7 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 |

### 2.8 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 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.

**2.9 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.

**2.10 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.

**2.11 Financial instruments**

2.11.1 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.

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

## 2. BASIS OF PRESENTATION OF 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 can not 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 income 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 amortized 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. 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 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.

*2.11.2 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 where the financial liability is either held for trading or it is designated as at FVTPL. 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 amortized cost using effective interest rate method.

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

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

2.11.3 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).

2.11.4 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.

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

**2.12 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".

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

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

**2.13 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 translation reserve. Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

**2.14 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.

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

**2.15 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.

**2.16 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.

**2.17 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.

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

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

**2.18 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.

**2.19 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 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 FINANCIAL STATEMENTS (CONTINUED)

### 2.20 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.

### 2.21 Statement of cash flows

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

### 2.22 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.

### 2.23 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 can not 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, 2016, the Group has no capitalized research and development expenses (December 31, 2015: none).

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

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

**2.24 Important accounting policies and applications**

Accounting policies which have material effects on book values of assets and liabilities 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 investment of the Group includes shares of Koç Finansal Hizmetler A.Ş. as an unlisted company, which owns 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 Koç Finansal Hizmetler has been determined by using several methods such as the existing market value of Yapı ve Kredi Bankası and discounted dividend method and considering price/equity ratio of recent similar local or international acquisitions realized. In the equity method, discount rate of 17,4% (2015: 16,7%) and growth rate of 5% (2015: 4,9%) have been taken into consideration. The average of maximum and minimum values that are formed by calculations using these methods are reflected in the recordings as fair value (Note 5).

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, 2016 and 2015, assets and liabilities according to industrial segments are as follows:

| | | | | | December 31, 2016 |
|---|---|---|---|---|---|
| | **Gas and petroleum products** | **Electricity** | **Other** | **Consolidation adjustments** | **Total** |
| **Assets** | | | | | |
| Current assets | 1.254.987 | - | 113.421 | (8.044) | 1.360.364 |
| Non-current assets | 2.645.740 | 345.289 | 242.237 | (279.280) | 2.953.986 |
| **Total assets** | 3.900.727 | 345.289 | 355.658 | (287.324) | 4.314.350 |
| **Liabilities** | | | | | |
| Short term liabilities | 985.469 | - | 29.838 | (8.044) | 1.007.263 |
| Long term liabilities | 557.835 | - | 14.429 | (6.734) | 565.530 |
| Equity | 2.357.423 | 345.289 | 311.383 | (272.538) | 2.741.557 |
| **Total liabilities and equity** | 3.900.727 | 345.289 | 355.650 | (287.316) | 4.314.350 |
| Investments accounted under equity method | 1.497.211 | 345.289 | 79.844 | - | 1.922.344 |

| | | | | | December 31, 2015 |
|---|---|---|---|---|---|
| | Gas and petroleum products | Electricity | Other | Consolidation adjustments | Total |
| Assets | | | | | |
| Current assets | 927.624 | - | 103.194 | (5.627) | 1.025.191 |
| Non-current assets | 2.566.893 | 330.875 | 246.561 | (253.196) | 2.891.133 |
| Total assets | 3.494.517 | 330.875 | 349.755 | (258.823) | 3.916.324 |
| Liabilities | | | | | |
| Short term liabilities | 823.016 | - | 29.453 | (5.632) | 846.837 |
| Long term liabilities | 449.642 | - | 15.726 | (6.701) | 458.667 |
| Equity | 2.221.859 | 330.875 | 304.576 | (246.490) | 2.610.820 |
| Total liabilities and equity | 3.494.517 | 330.875 | 349.755 | (258.823) | 3.916.324 |
| Investments accounted under equity method | 1.459.501 | 330.875 | 76.805 | - | 1.867.181 |

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

## 3. SEGMENT INFORMATION (CONTINUED)

As of December 31, 2016 and 2015, profit and loss statement according to industrial segments are as follows:

| | | | | | 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 | 276.273 | - | 11.970 | - | 288.243 |
| Financial expense (-) | (311.160) | - | (2.691) | - | (313.851) |
| **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 |

AYGAZ ANONIM ŞIRKETI AND ITS SUBSIDIARIES

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

(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)

| | | | | January 1 - December 31, 2015 | |
|---|---|---|---|---|---|
| | Gas and petroleum products | Electricity | Other | Consolidation adjustments | Total |
| Revenue | 6.149.025 | - | 426.624 | (156.039) | 6.419.610 |
| Cost of sales (-) | (5.539.292) | - | (360.450) | 156.684 | (5.743.058) |
| Gross profit | 609.733 | - | 66.174 | 645 | 676.552 |
| General administrative expenses (-) | (148.011) | - | (20.693) | 1.237 | (167.467) |
| Marketing expenses (-) | (240.265) | - | (12.600) | - | (252.865) |
| Research and development expenses (-) | (2.481) | - | - | - | (2.481) |
| Other operating income | 87.481 | - | 9.014 | (1.833) | 94.662 |
| Other operating expenses (-) | (92.137) | - | (6.468) | 693 | (97.912) |
| Operating profit | 214.320 | - | 35.427 | 742 | 250.489 |
| Income from investment activities | 56.477 | - | 686 | (49.915) | 7.248 |
| Loss from investment activities (-) | (2.026) | - | (150) | 12 | (2.164) |
| Profit/losses from investments accounted under equity method | 229.605 | (334) | 1.499 | - | 230.770 |
| Operating profit before financial income (expense) | 498.376 | (334) | 37.462 | (49.161) | 486.343 |
| Financial income | 208.137 | - | 9.436 | - | 217.573 |
| Financial expense (-) | (244.648) | - | (1.462) | - | (246.110) |
| Profit from continuing operations before tax | 461.865 | (334) | 45.436 | (49.161) | 457.806 |
| Tax income (expense), continuing operations | | | | | |
| Current tax expense for the period (-) | (29.222) | - | (4.010) | - | (33.232) |
| Deferred tax income/(expense) | (6.186) | - | 74 | - | (6.112) |
| Profit for the period | 426.457 | (334) | 41.500 | (49.161) | 418.462 |

The depreciation and amortization expense for the industrial segmental assets as of December 31, 2016 and 2015 is as follows:

| | January 1 - December 31, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| Gas and petroleum products | 75.670 | 76.542 |
| Other | 10.365 | 9.890 |
| | 86.035 | 86.432 |

(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, 2016 and 2015 are as follows:

| | **January 1 - December 31, 2016** | January 1 - December 31, 2015 |
|---|---|---|
| Gas and petroleum products | **95.635** | 85.746 |
| Other (*) | **3.264** | 69.876 |
| | **98.899** | 155.622 |

(*) On February 25, 2015, the vessel named "Knightsbridge" which is used in the transportation of liquid petroleum gas, was bought for USD 27.150 thousand in cash by Kandilli Tankercilik A.Ş. - the Company's subsidiary.

## 4. CASH AND CASH EQUIVALENTS

| | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Cash on hand | **358** | 181 |
| Cash at banks | **529.762** | 258.820 |
| *- Demand deposits* | ***15.675*** | *19.653* |
| *- Time deposits* | ***514.087*** | *239.167* |
| Receivables from credit card transactions | **37.608** | 29.636 |
| **Total cash and cash equivalents** | **567.728** | 288.637 |

As of December 31, 2016 the Group's TL time deposits amounting to TL 342.271 thousand with 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) with maturities of 3 days and interest rate of 2% (As of December 31, 2015 the Group's TL time deposits amounting to TL 134.228 thousand have maturities of 4-37 days and interest rates of 10,6-14,00%; USD time deposits amounting to USD 36.090 thousand (TL104.939 thousand) have a maturity of 4-6 days and an interest rate of 1,75%).

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

## 5. FINANCIAL ASSETS

The Group's long term financial assets identified as available-for-sale financial assets are as follows as of December 31, 2016 and 2015:

| | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Participation amount | Participation rate % | Participation amount | Participation rate % |
| Koç Finansal Hizmetler A.Ş. (*) | 256.100 | 1,97 | 265.950 | 1,97 |
| Ram Dış Ticaret A.Ş. (**) | 774 | 2,50 | 1.000 | 2,50 |
| Tanı Pazarlama ve İletişim Hizmetleri A.Ş. (***) | 540 | 10,00 | 540 | 10,00 |
| Tat Gıda Sanayi A.Ş. (**) | 78 | 0,08 | 76 | 0,08 |
| Other (***) | 436 | - | 436 | - |
| | 257.928 | | 268.002 | |

(*) Stated at fair value, the difference between the acquisition cost and fair value are accounted as valuation fund under equity also considering the 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, 2016 and 2015 the Group's short-term financial borrowings are as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| USD-denominated short-term bank borrowings (*) | - | 58.722 |
| TL-denominated short-term bank borrowings (*) | 1.102 | 7.406 |
| **Total short-term bank borrowings** | 1.102 | 66.128 |
| Short-term portion and interest accruals of TL-denominated long-term bank borrowings | 103.499 | 91.337 |
| Short-term portion and interest accruals of USD-denominated long-term bank borrowings | 13.554 | 81.254 |
| Short-term portion of long-term bond issued (**) | 112.212 | 9.887 |
| **Total short-term portion of long-term financial borrowings** | 229.265 | 182.478 |

(*) As of December 31, 2016, the Group has interest free loan with a total amount of TL 1.102 thousand which was used for custom payments. (December 31, 2015: TL 2.204 thousand).
(**) On March 18, 2015, March 30, 2015 and January 28, 2016 the Group has issued a fixed rate bond with a nominal value of TL 100.000 thousand, with a maturity of 728 days and half-yearly coupon payments, 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, respectively. As of December 31, 2016, net present value of the issued bonds are TL 242.126 thousand (TL 129.914 thousand is presented as long term bonds issued) and their effective interest rates are 10,55%, 11,62% 13,09% respectively.

(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)*

# 6. FINANCIAL BORROWINGS (CONTINUED)

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 |

As of December 31, 2015, the details of short-term bank borrowings are as follows:

| Currency | Effective interest rate per annum (%) | Original amount | TL amount |
|---|---|---|---|
| TL | - | 2.204 | 2.204 |
| TL | 12,9 | 5.202 | 5.202 |
| USD | 3 | 20.196 | 58.722 |
| | | | 66.128 |

As of December 31, 2016 and 2015 the Group's long-term financial borrowings are as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| TL-denominated long-term bank borrowings | 88.990 | 81.286 |
| USD-denominated long-term bank borrowings | 181.239 | 68.329 |
| **Total long-term bank borrowings** | 270.229 | 149.615 |
| Long-term bonds issued | 129.914 | 153.133 |
| **Total long-term bonds** | 129.914 | 153.133 |
| **Total long-term financial borrowings** | 400.143 | 302.748 |

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.)

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

# 6. FINANCIAL BORROWINGS (CONTINUED)

As of December 31, 2015 the details of long-term bank borrowings are as follows:

| Currency | Effective interest rate per annum (%) | Original amount | TL amount |
|---|---|---|---|
| TL | 11,6-14,3 | 172.623 | 172.623 |
| USD | 2,12-3,23 | 51.445 | 149.583 |
| | | | 322.206 |
| Short-term portion of long-term loans and interest accruals | | | (172.591) |
| | | | 149.615 |

# 7.DERIVATIVE FINANCIAL INSTRUMENTS

As of December 31, 2016 and 2015, the Group's derivative financial instruments are as follows:

| **Short-term derivative financial instruments** | **December 31, 2016** | | December 31, 2015 | |
|---|---|---|---|---|
| | **Contract amount** | **Fair value assets (liabilities)** | Contract amount | Fair value assets (liabilities) |
| Forward transactions (*) | - | - | 68.761 | (1.475) |
| Foreign currency swap contracts (**) | - | - | 50.635 | 19.654 |

| **Long-term derivative financial instruments** | **December 31, 2016** | | December 31, 2015 | |
|---|---|---|---|---|
| | **Contract amount** | **Fair value assets (liabilities)** | Contract amount | Fair value assets (liabilities) |
| Foreign currency swap contracts (**) | **91.350** | **22.742** | - | - |

(*) The Group has no forward transaction as of December 31, 2016. (As of December 31, 2015 the Group has entered into forward transaction with a maturity of 19 - 110 days and nominal value amounting to USD 22.800 thousand).

(**) 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% (In May, 2014, the Group has entered into swap transaction with a contract amounting to TL 50.635 thousand with 2 years maturity, trimonthly interest payment and fixed interest rate of 11,2%, in return for USD 24.070 thousand with a floating interest rate of 3 months USDLIBOR +1,8%).

# 8. TRADE RECEIVABLES AND PAYABLES FROM THIRD PARTIES

The Group's trade receivables from third parties as of December 31, 2016 and 2015 are as follows:

| **Current trade receivables** | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Trade receivables | **420.582** | 434.185 |
| Notes receivables | **39.844** | 39.628 |
| Allowance for doubtful receivables (-) | **(23.667)** | (20.713) |
| **Total current trade receivables** | **436.759** | 453.100 |

| **Non-current trade receivables** | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Notes receivable | **5.646** | 6.791 |
| **Total non-current trade receivables** | **5.646** | 6.791 |

(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, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| Opening balance | 20.713 | 17.943 |
| Increases during the period | 3.459 | 3.354 |
| Collections | (436) | (584) |
| Provisions no longer required | (69) | - |
| **Closing balance** | 23.667 | 20.713 |

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, 2016 and 2015 are as follows:

| Short-term trade payables | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Trade payables | 334.637 | 229.216 |
| **Total short-term trade payables** | 334.637 | 229.216 |

## 9. OTHER RECEIVABLES AND PAYABLES FROM THIRD PARTIES

The Group's other receivables from third parties as of December 31, 2016 and 2015 are as follows:

| Other current receivables | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Guarantees and deposits given | 4.827 | 1.246 |
| Other receivables | 943 | 1.130 |
| **Total other current receivables** | 5.770 | 2.376 |

| Other non-current receivables | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Guarantees and deposits given | 75 | 82 |
| **Total other non-current receivables** | 75 | 82 |

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

## 9. OTHER RECEIVABLES AND PAYABLES FROM THIRD PARTIES (CONTINUED)

As of December 31, 2016 and 2015, other payables to third parties of the Group are as follows:

| **Other short-term payables** | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Deposits and guarantees taken | **646** | 705 |
| **Total other short-term payables** | **646** | 705 |

| **Other long-term payables** | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Cylinder deposits received | **89.489** | 83.917 |
| **Total other long-term payables** | **89.489** | 83.917 |

## 10. LIABILITIES FOR EMPLOYEE BENEFITS

As of December 31, 2016 and 2015, liabilities for employee benefits of the Group are as follows:

| **Liabilities for employee benefits** | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Payables to personnel | **22.545** | 13.665 |
| Employee's income tax payable | **14.899** | 10.228 |
| Social security liabilities | **5.808** | 2.959 |
| **Total liabilities for employee benefits** | **43.252** | 26.852 |

## 11. INVENTORIES

| | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Raw materials | **168.033** | 150.698 |
| Trade goods | **30.195** | 17.264 |
| Goods in transit | **61.146** | 5.054 |
| Finished goods | **6.537** | 12.399 |
| Work in process | **1.962** | 1.662 |
| Allowance for impairment on inventory | **(1.053)** | (1.053) |
| **Total inventories** | **266.820** | 186.024 |

As of December 31, 2016, the inventories compromise of 102.232 tons of LPG (December 31, 2015: 57.795 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, 2016 | January 1- December 31, 2015 |
|---|---|---|
| Opening balance | 1.053 | 229 |
| Additional provision | - | 824 |
| **Closing balance** | 1.053 | 1.053 |

## 12. EQUITY INVESTMENTS

| | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Participation amount | Participation rate % | Participation amount | Participation rate % |
| EYAŞ acquisition value | 669.400 | | 669.400 | |
| Adjustment to share capital | (7.442) | | (7.442) | |
| Currency translation differences | 2.366 | | 1.791 | |
| Group's share in legal reserves after the acquisition date | 24.196 | | 15.494 | |
| Actuarial gains (losses) arising from defined benefit plans | (815) | | (369) | |
| Gains (losses) from cash flow hedging (*) | (115.538) | | (52.109) | |
| Group's share in accumulated profit (losses) after the acquisition date | 991.836 | | 825.886 | |
| Dividend distributed | (87.022) | | - | |
| Effect of prior year period adjustments | 20.230 | | 6.850 | |
| | 1.497.211 | %20,00 | 1.459.501 | %20,00 |
| Entek acquisition value | 118.930 | | 118.930 | |
| Acquisition of additional shares | 147.831 | | 147.831 | |
| Participation in share capital increase of equity investment | 108.300 | | 108.300 | |
| Fair value adjustment for share purchase | 548 | | 548 | |
| Gains (losses) on remeasurement of defined benefit plans | (102) | | (102) | |
| Gains (losses) from cash flow hedging | (9) | | (99) | |
| Group's share in accumulated profit (losses) after the acquisition date | (30.209) | | (48.064) | |
| Effect of prior year period adjustments | - | | 3.531 | |
| | 345.289 | %49,62 | 330.875 | %49,62 |
| OAGM subsidiary value | 45.000 | | 45.000 | |
| Participation in share capital increase of equity investment | 30.000 | | 30.000 | |
| Group's share in accumulated profit (losses) realized after the date of establishment | 4.844 | | 1.805 | |
| | 79.844 | %50,00 | 76.805 | %50,00 |
| **Toplam** | 1.922.344 | | 1.867.181 | |

(*) TÜPRAŞ, a subsidiary of Enerji Yatırımları A.Ş, designated its investment loans amounting to USD 1.457.823 thousand (TL 5.130.371 thousand) 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 (December 31, 2015 - USD 1.709.447 thousand (TL 4.970.388 thousand)). 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.

(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 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, 2016 | December 31, 2015 |
|---|---|---|
| Total assets | 35.881.268 | 30.234.948 |
| Total liabilities | (23.398.299) | (17.799.055) |
| Non-controlling interest | (4.996.915) | (5.138.388) |
| **Net assets** | 7.486.054 | 7.297.505 |
| Group's ownership | 20% | 20% |
| Group's share in associates' net assets | 1.497.211 | 1.459.501 |

| Consolidated profit or loss statement | January 1 - December 31, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| Revenue | 34.854.851 | 36.893.328 |
| Profit for the period | 839.008 | 1.148.027 |
| **Group's share in associates' profit for the period** | 167.802 | 229.605 |

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, 2016 | December 31, 2015 |
|---|---|---|
| Total assets | 885.681 | 906.400 |
| Total liabilities | (189.815) | (239.582) |
| **Net assets** | 695.866 | 666.818 |
| Group's ownership | 49,62% | 49,62% |
| Group's share in associates' net assets | 345.289 | 330.875 |

| Consolidated profit or loss statement | January 1 - December 31, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| Revenue | 301.637 | 323.048 |
| Loss for the period | 28.867 | (673) |
| **Group's share in associates' loss for the period** | 14.324 | (334) |

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

## 12. EQUITY INVESTMENTS (CONTINUED)

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, 2016** | December 31, 2015 |
|---|---|---|
| Total assets | **397.675** | 399.880 |
| Total liabilities | **(237.987)** | (246.270) |
| **Net assets** | **159.688** | 153.610 |
| Group's ownership | **50%** | 50% |
| Group's share in associates' net assets | **79.844** | 76.805 |

| **Consolidated profit or loss statement** | **January 1 - December 31, 2016** | January 1 - December 31, 2015 |
|---|---|---|
| Revenue | **18.930** | 14.485 |
| Profit for the period | **6.077** | 2.998 |
| **Group's share in associates' profit for the period** | **3.039** | 1.499 |

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AYGAZ ANONIM ŞIRKETI AND ITS SUBSIDIARIES

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

(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, 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.

AYGAZ ANONIM ŞIRKETI AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
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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)*

## 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, 2015 | 16.204 | 122.673 | 70.847 | 1.577.648 | 179.650 | 55.463 | 25.022 | 16.135 | 2.063.642 |
| Additions | - | - | - | 689 | 69.280 | 479 | 650 | 84.471 | 155.569 |
| Transfers (*) | - | 15.522 | 202 | 56.462 | 4.663 | 5.355 | 179 | (83.022) | (639) |
| Disposals | - | (3.081) | (177) | (27.500) | (2.372) | (2.808) | (106) | - | (36.044) |
| Ending balance as of December 31, 2015 | 16.204 | 135.114 | 70.872 | 1.607.299 | 251.221 | 58.489 | 25.745 | 17.584 | 2.182.528 |
| Accumulated depreciation | | | | | | | | | |
| Opening balance as of January 1, 2015 | - | 52.523 | 47.247 | 1.220.227 | 94.012 | 40.953 | 23.617 | - | 1.478.579 |
| Charge of the period | - | 4.638 | 1.979 | 54.822 | 14.589 | 4.504 | 800 | - | 81.332 |
| Disposals | - | (1.054) | (11) | (23.258) | (1.723) | (1.982) | (27) | - | (28.055) |
| Ending balance as of December 31, 2015 | - | 56.107 | 49.215 | 1.251.791 | 106.878 | 43.475 | 24.390 | - | 1.531.856 |
| Net book value as of December 31, 2015 | 16.204 | 79.007 | 21.657 | 355.508 | 144.343 | 15.014 | 1.355 | 17.584 | 650.672 |

(*) TL 639 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)

The carrying amounts of fully depreciated property, plant and equipment still in use are as follows:

| | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Land improvements | **14.718** | 12.635 |
| Buildings | **22.477** | 19.173 |
| Plant, machinery, equipment and LPG cylinders | **986.796** | 926.594 |
| Vehicles and vessels | **36.053** | 22.960 |
| Furniture and fixtures | **34.108** | 31.901 |
| Leasehold improvements | **22.687** | 24.123 |
| | **1.116.839** | 1.037.386 |

As of December 31, 2016 and 2015, the details of depreciation expenses are as follows:

| | **January 1 - December 31, 2016** | January 1 - December 31, 2015 |
|---|---|---|
| Cost of sales and services rendered | **69.071** | 67.946 |
| General and administrative expenses | **5.979** | 5.959 |
| Selling, marketing and distribution expenses | **4.558** | 5.070 |
| Capitalized on cylinders | **2.100** | 2.357 |
| | **81.708** | 81.332 |

(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

| | 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.

| | Rights | Total |
|---|---|---|
| Acquisition costs | | |
| Opening balance as of January 1, 2015 | 53.825 | 53.825 |
| Additions | 53 | 53 |
| Transfers (*) | 639 | 639 |
| Ending balance as of December 31, 2015 | 54.517 | 54.517 |
| Accumulated amortization | | |
| Opening balance as of January 1, 2015 | 28.077 | 28.077 |
| Charge for the period | 5.100 | 5.100 |
| Ending balance as of December 31, 2015 | 33.177 | 33.177 |
| Carrying value as of December 31, 2015 | 21.340 | 21.340 |

(*) TL 639 thousand under "Construction in progress" under the account property, plant and equipment has been classified to intangible fixed assets.

The carrying amounts of fully amortized intangible assets still in use are as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Rights | **23.054** | 22.075 |
| | **23.054** | 22.075 |

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

## 14. INTANGIBLE ASSETS (CONTINUED)

As of December 31, 2016 and 2015, the details of amortization expenses of intangible assets are as follows:

| | January 1 - December 31, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| General and administrative expenses | 4.327 | 5.100 |
| | 4.327 | 5.100 |

## 15. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Guarantees given as of December 31, 2016 and 2015 are as follows:

| Guarantees given | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Letter of guarantees given for gas purchase | 796.138 | 815.301 |
| Other letter of guarantees given | 37.602 | 27.388 |
| **Total guarantees given** | 833.740 | 842.689 |

**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 reserve liability:**

Oil refineries, licensed oil and LPG distributers should carry at least equivalent of 20 times their average daily sales of inventory in their storage tanks or the rented storage tanks of licensed third parties.

**Competition Board Investigation:**

On August 13, 2015 the Company has received a notification from the Competition Board informing that an investigation has been opened by decision of Competition Board dated 05.08.2015, numbered 15-33/477-M whether there has been violation of Article 4 of the Law No.4054 on the Protection of Competition through the setting of resale prices of dealers of Company. On November 21, the Company has been informed that it was decided by Competition Board (decision dated 16.11.2016), subject to any appeal, that the Company had not violated Article 4 of the Law No.4054 and accordingly there is no condition to impose any administrative fine pursuant.

(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)*

## 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, 2016 | | | | | December 31, 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Euro | USD | Other | TL | Total TL | Euro | USD | Other | TL | Total TL |
| **A. CPMBs given on behalf of the Company's legal personality** | 45.459 | 6.489 | - | 647.263 | 699.211 | 37.848 | 61.802 | 57 | 584.530 | 684.237 |
| **B. CPMBs given in favor of subsidiaries included in full consolidation (*)** | - | 51.006 | - | 83.523 | 134.529 | - | 93.075 | - | 65.377 | 158.452 |
| **C. CPMBs given by the Company for the liabilities of 3rd parties in order to run ordinary course of business** | - | - | - | - | - | - | - | - | - | - |
| **D. Other GPM's** | | | | | | | | | | |
| 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** | 45.459 | 57.495 | - | 730.786 | 833.740 | 37.848 | 154.877 | 57 | 649.907 | 842.689 |

(*) As of December 31, 2016 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 571 thousand (December 31, 2015: TL 693 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, 2016 and 2015 are as follows:

| Long term provision for employee benefits | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Retirement pay provision | 28.282 | 24.469 |
| Vacation pay liabilities | 7.415 | 6.945 |
| **Total long-term provision for employee benefits** | **35.697** | 31.414 |

**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 4.297,21 (December 31, 2015: TL 3.828,37) for each year of service at December 31, 2016.

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 liability.

| | 2016 | 2015 |
|---|---|---|
| Net discount rate (%) | 4,50 | 4,60 |
| Turnover rate related to the probability of retirement (%) | 94,21-97,88 | 94,76-97,73 |

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.)

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

## 16. LONG-TERM PROVISION FOR EMPLOYEE BENEFITS (CONTINUED)

The movement of retirement pay provision for the period ended December 31, 2016 and 2015 is as follows:

| | 2016 | 2015 |
|---|---|---|
| Opening balance at January 1 | 24.469 | 23.401 |
| Increases during the period | 8.367 | 7.014 |
| Actuarial (gain) loss | 117 | (2.440) |
| Payments during the period | (4.671) | (3.506) |
| **Closing balance at December 31** | 28.282 | 24.469 |

## 17. OTHER SHORT-TERM PROVISIONS

| Other short-term provisions | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Special Consumption Tax (SCT) provision on imported LPG | 83.577 | 68.496 |
| Provision for other operating expenses | 9.963 | 3.537 |
| Provision for lawsuit | 5.102 | 5.724 |
| Provision for selling and marketing expenses | 4.926 | 4.540 |
| Provision for EMRA contribution | 3.422 | 3.399 |
| Provision for warranty expenses | 7.646 | 1.274 |
| **Total other short term provisions** | 114.636 | 86.970 |

| Movement of SCT provision on imported LPG | January 1- December 31, 2016 | January 1- December 31, 2015 |
|---|---|---|
| Opening balance | 68.496 | 33.542 |
| Payments during the period | (68.496) | (33.542) |
| Increases during the period | 83.577 | 68.496 |
| **Closing balance** | 83.577 | 68.496 |

| Movement of provision for other operating expenses | January 1- December 31, 2016 | January 1- December 31, 2015 |
|---|---|---|
| Opening balance | 3.537 | 28.211 |
| Payments during the period | (151) | (22.254) |
| Provision no longer required | (3.184) | (2.789) |
| Increases during the period | 9.761 | 369 |
| **Closing balance** | 9.963 | 3.537 |

(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, 2016 | December 31, 2015 |
|---|---|---|
| Deferred VAT | 146 | 43 |
| Fuel used in shipping operations | 2.071 | 2.559 |
| Income accrual | 416 | 962 |
| Other current assets | 914 | 483 |
| **Total other current assets** | **3.547** | 4.047 |

| Other current liabilities | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Taxes and funds payable | 137.356 | 95.824 |
| Other liabilities | 2.006 | 2.153 |
| **Total other current liabilities** | **139.362** | 97.977 |

## 19. PREPAID EXPENSES

As of December 31, 2016 and 2015, the details of Group's prepaid expenses in current assets are as follows:

| Prepaid expenses | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Prepaid expenses | 38.035 | 38.433 |
| Advances given | 3.131 | 2.270 |
| **Total prepaid expenses** | **41.166** | 40.703 |

As of December 31, 2016 and 2015, the details of Group's prepaid expenses in non-current assets are as follows:

| Prepaid expenses | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Prepaid expenses | 67.193 | 76.630 |
| Advances given | 2 | 2 |
| **Total prepaid expenses** | **67.195** | 76.632 |

As of December 31, 2016 total amount of TL 36.202 thousand (2015: TL 35.166 thousand) presented as prepaid expenses under current assets and total amount of TL 66.453 thousand (2015: TL 75.620 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.)

## 20. DEFERRED INCOME

| Deferred income | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Advances taken | 1.502 | 1.307 |
| Prepaid income | 985 | 1.396 |
| **Total deferred income** | **2.487** | 2.703 |

## 21. SHARE CAPITAL

As of December 31, 2016 and 2015 the share capital held is as follows:

| Shareholders | Participation rate | December 31, 2016 | Participation rate | December 31, 2015 |
|---|---|---|---|---|
| Temel Ticaret ve Yatırım A.Ş. | %5,77 | 17.324 | %5,29 | 15.884 |
| Koç Ailesi üyeleri | %4,76 | 14.265 | %5,24 | 15.705 |
| **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 |
| Halka açık (*) | %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 appropriated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions. 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, 2016 | December 31, 2015 |
|---|---|---|
| Legal reserves | 193.741 | 163.741 |
| Gain on sale of subsidiary share that will be added to capital | 9.808 | 156.689 |
| | **203.549** | 320.430 |

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

## 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, 2016 amounts to TL 1.053.701 thousand. (December 31, 2015: TL 1.066.139 thousand). TL 209.043 thousand of such sources from inflation adjustment differences and TL 796 thousand from other capital reserves are subject to tax when they are distributed.

Dividends paid

In the Ordinary General Meeting held on April 4, 2016, the Company decided to reserve TL 30.000 thousand as legal reserves and distribute TL 315.000 thousand gross dividends from the net distributable income of 2015. According to this decision, the Company has begun dividend payments on April 11, 2016.

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, 2016** | December 31, 2015 |
|---|---|---|
| Koç Finansal Hizmetler A.Ş. | **157.508** | 166.865 |
| | **157.508** | 166.865 |

Currency translation adjustment

Currency translation adjustment as of December 31, 2016 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.)

## 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 Türkiye Petrol Rafinerileri A.Ş., a subsidiary of Enerji Yatırımları A.Ş, 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, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| Opening balance | 672 | 670 |
| Dividends paid | - | (85) |
| Non-controlling interest on current year profit | 422 | 87 |
| **Closing balance** | **1.094** | 672 |

## 22. REVENUE AND COST OF SALES

| **Revenue** | January 1 - December 31, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| Domestic sales | 6.659.230 | 6.292.308 |
| Export sales | 452.004 | 458.036 |
| Sales returns (-) | (14.925) | (10.860) |
| Sales discounts (-) | (347.548) | (319.874) |
| **Total revenue, net** | **6.748.761** | 6.419.610 |
| Sales of goods and services | 5.601.231 | 5.340.805 |
| Sales of merchandises | 1.147.530 | 1.078.805 |
| **Revenue** | **6.748.761** | 6.419.610 |

(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)*

## 22. REVENUE AND COST OF SALES (CONTINUED)

| | January 1 - December 31, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| **Cost of goods sold and services rendered:** | | |
| Raw materials used | 4.714.450 | 4.545.987 |
| Production overheads | 108.357 | 98.825 |
| Depreciation expenses | 69.071 | 67.946 |
| Personnel expenses | 66.483 | 55.415 |
| Change in work in process inventories | (300) | (299) |
| Change in finished goods inventories | 5.862 | (3.981) |
| | 4.963.923 | 4.763.893 |
| **Cost of merchandises sold** | 998.292 | 979.165 |
| **Total cost of sales** | 5.962.215 | 5.743.058 |

## 23. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES

| | January 1 - December 31, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| General administrative expenses | 194.586 | 167.467 |
| Marketing expenses | 276.395 | 252.865 |
| Research and development expenses | 4.585 | 2.481 |
| **Total** | 475.566 | 422.813 |

(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)

**a) Detail of general administrative expenses**

| | January 1 - December 31, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| Personnel expenses | 84.868 | 73.559 |
| Consultancy expenses | 15.391 | 11.897 |
| Tax expenses | 11.452 | 9.504 |
| Depreciation and amortization expenses | 10.306 | 11.059 |
| Information technology expenses | 9.387 | 8.551 |
| Donation and aids | 7.761 | 5.785 |
| Insurance expenses | 7.419 | 6.476 |
| Lawsuit, consultancy and auditing expenses | 6.963 | 4.425 |
| Transportation expenses | 5.855 | 6.733 |
| Maintenance expenses | 4.281 | 3.834 |
| Communication expenses | 3.930 | 2.813 |
| Attendance fees | 3.179 | 2.619 |
| Rent expenses | 2.541 | 2.375 |
| Post office expenses | 1.676 | 1.702 |
| Public relations activities expenses | 1.476 | 1.554 |
| Other administrative expenses | 18.101 | 14.581 |
| **Total general administrative expenses** | **194.586** | 167.467 |

**b) Detail of marketing expenses**

| | January 1 - December 31, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| Transportation, distribution and warehousing expenses | 121.694 | 110.652 |
| Sales expenses | 59.471 | 52.507 |
| Personnel expenses | 41.981 | 38.726 |
| Advertising and promotion expenses | 37.478 | 35.146 |
| Transportation expenses | 7.744 | 7.381 |
| Depreciation and amortization expenses | 4.558 | 5.070 |
| License expenses | 3.422 | 3.344 |
| Other marketing expenses | 47 | 39 |
| **Total marketing expenses** | **276.395** | 252.865 |

(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 (CONTINUED)

**c) Detail of research and development expenses**

| | January 1 - December 31, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| Outsourced research and development expenses | 4.585 | 2.481 |
| **Total research and development expenses** | 4.585 | 2.481 |

## 24. EXPENSES RELATED TO THEIR NATURE

| | January 1 - December 31, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| Personnel expenses | 126.849 | 112.285 |
| Transportation, distribution and warehousing expenses | 121.694 | 110.652 |
| Sales expenses | 59.471 | 52.507 |
| Advertising and promotion expenses | 37.478 | 35.146 |
| Consultancy expenses | 15.391 | 11.897 |
| Depreciation and amortization expenses | 14.864 | 16.129 |
| Transportation expenses | 13.599 | 14.114 |
| Tax expenses | 11.452 | 9.504 |
| Information technology expenses | 9.387 | 8.551 |
| Donation and aids | 7.761 | 5.785 |
| Insurance expenses | 7.419 | 6.476 |
| Lawsuit, consultancy and auditing expenses | 6.963 | 4.425 |
| Outsourced research and development expenses | 4.585 | 2.481 |
| Maintenance expenses | 4.281 | 3.834 |
| Communication expenses | 3.930 | 2.813 |
| License expenses | 3.422 | 3.344 |
| Attendance fees | 3.179 | 2.619 |
| Rent expenses | 2.541 | 2.375 |
| Public relations activities expenses | 1.476 | 1.554 |
| Other | 19.824 | 16.322 |
| **Total** | 475.566 | 422.813 |

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

## 25. OTHER OPERATING INCOME/EXPENSES

Other operating income for the years ended as of December 31, 2016 and 2015 are as follows:

| Other operating income | January 1 - December 31, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| Foreign exchange gains arising from trading activities | 36.719 | 43.576 |
| Income generated from maturity differences of sales | 18.455 | 21.020 |
| Fair value differences on forward transactions | 7.800 | 2.230 |
| Provisions no longer required | 4.975 | 5.299 |
| Income from port services | 2.420 | 2.463 |
| Rent income | 2.372 | 2.050 |
| Gain on sale of scrap | 1.537 | 1.708 |
| Demurrage income | 1.443 | 2.229 |
| LPG pipeline usage income | 1.201 | 1.502 |
| Other income and profits | 16.760 | 12.585 |
| **Total** | 93.682 | 94.662 |

Other operating expenses for the years ended as of December 31, 2016 and 2015 are as follows:

| Other operating expenses | January 1 - December 31, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| Foreign exchange losses arising from trading activities | 57.918 | 65.681 |
| Expenses from maturity differences of purchases on credit | 11.026 | 19.415 |
| Provision expenses | 12.370 | 3.302 |
| Warranty expenses | 6.372 | 1.274 |
| Fair value differences on forward transactions | 3.001 | 3.227 |
| Other expenses and losses | 5.963 | 5.013 |
| **Total** | 96.650 | 97.912 |

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

## 26. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

| Income from investment activities | January 1 - December 31, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| Dividend income from financial investments | 264 | 6.507 |
| Income from sales of property, plant and equipment | 1.015 | 741 |
| Total | 1.279 | 7.248 |

| Expenses from investment activities | January 1 - December 31, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| Expenses from sales of property, plant and equipment | 30 | 2.164 |
| Total | 30 | 2.164 |

## 27. FINANCIAL INCOME

Financial income for the years ended as of December 31, 2016 and 2015 are as follows:

| Financial income | January 1 - December 31, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| Foreign exchange gains | 232.000 | 187.630 |
| Interest income | 33.501 | 14.583 |
| Fair value differences on swap transactions | 22.742 | 15.360 |
| Total | 288.243 | 217.573 |

## 28. FINANCIAL EXPENSE

Financial expense for the years ended as of December 31, 2016 and 2015 are as follows:

| Financial expense | January 1 - December 31, 2016 | January 1 - December 31, 2015 |
|---|---|---|
| Foreign exchange losses | 249.789 | 200.517 |
| Interest expenses | 64.062 | 45.593 |
| Total | 313.851 | 246.110 |

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

## 29. TAX ASSETS AND LIABILITIES

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Current tax liability** | | |
| Current corporate tax provision | 71.421 | 44.905 |
| Less: Prepaid taxes and funds | (66.316) | (36.138) |
| **Current tax liability** | 5.105 | 8.767 |

| Tax expenses | January 1-<br>December 31, 2016 | January 1-<br>December 31, 2015 |
|---|---|---|
| - Current corporate tax provision | (50.902) | (33.232) |
| - Deferred tax | (1.824) | (6.112) |
| | (52.726) | (39.344) |

**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 2016 is 20% (2015: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate in 2016 is 20% (2015: 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.

(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)

**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. The rate applied in the calculation of deferred tax assets and liabilities is 20% (December 31, 2015: 20%).

| Deferred tax (assets)/liabilities: | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Restatement and depreciation/amortization differences of property, plant and equipment and other intangible assets | 36.843 | 35.771 |
| Revaluation of available-for-sale financial assets | 8.290 | 8.782 |
| Provision for employment termination benefits | (5.437) | (4.725) |
| Valuation of inventories | 548 | (1.369) |
| Other | (742) | (265) |
| | 39.502 | 38.194 |

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, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | | | Deferred tax | | | Deferred tax |
| | Assets | Liabilities | Net | Assets | Liabilities | Net |
| Aygaz A.Ş. | (11.425) | 50.486 | 39.061 | (8.671) | 46.406 | 37.735 |
| Akpa A.Ş. | (896) | 197 | (699) | (897) | 464 | (433) |
| Aygaz Doğal Gaz | (480) | 1.620 | 1.140 | (868) | 1.760 | 892 |
| | (12.801) | 52.303 | 39.502 | (10.436) | 48.630 | 38.194 |

(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)

Movement of deferred tax assets and liabilities are as follows:

| **Movement of deferred tax (assets)/liabilities :** | **2016** | 2015 |
|---|---|---|
| **Opening balance on January 1** | **38.194** | 35.549 |
| Deferred tax expense/(income) | **1.824** | 6.112 |
| Deferred tax income/(expense) reflected in the comprehensive income statement: | **(516)** | (3.467) |
| *Gains (losses) remeasurement on defined benefit plans* | ***(23)*** | *473* |
| *Gains (losses) on the revaluation and/or reclassification of available-for-sale financial assets* | ***(493)*** | *(3.940)* |
| **Closing balance on December 31** | **39.502** | 38.194 |

Tax reconciliation :

| | **January 1 - December 31, 2016** | January 1 - December 31, 2015 |
|---|---|---|
| Profit before tax | **468.818** | 457.806 |
| Income tax rate | **20%** | 20% |
| Expected tax expense | **93.764** | 91.561 |
| Tax effects of: | | |
| -revenue that is exempt from taxation | **(32.430)** | (18.112) |
| -expenses that are not deductible in determining taxable profit | **2.927** | 2.670 |
| -consolidation eliminations without tax effect | **(11.321)** | (36.322) |
| Other | **(214)** | (453) |
| Tax expense in the statement of profit or loss | **52.726** | 39.344 |

## 30. EARNINGS PER SHARE

| | **January 1 - December 31, 2016** | January 1 - December 31, 2015 |
|---|---|---|
| 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 | **415.670** | 418.375 |
| Earnings per thousand shares (TL) | **1,385567** | 1,394583 |

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

# 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.

| | | | | 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 | - | - | - |
| Ford Otomotiv Sanayi A.Ş. | 1.376 | - | - | - |
| Tat Gıda Sanayi A.Ş. | 588 | - | - | - |
| Arçelik A.Ş. | 1.810 | - | 143 | - |
| 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 | 3.503 | - | 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 | - |

| | | | | December 31, 2015 |
|---|---|---|---|---|
| | | Receivables | | Payables |
| Balances with related parties | Trade | Non-trade | Trade | Non-trade |
| Group companies (*) | | | | |
| Türkiye Petrol Rafinerileri A.Ş. | 17.224 | - | 70.614 | - |
| Demir Export A.Ş. | 6.661 | - | - | - |
| Ford Otomotiv Sanayi A.Ş. | 1.128 | - | - | - |
| Tat Gıda Sanayi A.Ş. | 533 | - | - | - |
| Arçelik A.Ş. | 357 | - | 6.603 | - |
| Opet Petrolcülük A.Ş. | 78 | - | 33.076 | - |
| Otokoç Otomotiv Tic. ve San. A.Ş. | - | - | 2.023 | - |
| Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. | - | - | 1.189 | - |
| Zer Merkezi Hizmetler ve Ticaret A.Ş. (**) | - | - | 9.927 | - |
| Ram Dış Ticaret A.Ş. | 61 | - | 8.507 | - |
| Yapı Kredi Finansal Kiralama A.O. | 1.953 | - | - | - |
| Other | 2.278 | - | 1.666 | - |
| Shareholders | | | | |
| Koç Holding A.Ş. | - | - | 9.059 | - |
| Investments accounted under the equity method | | | | |
| Entek Elektrik Üretimi A.Ş. | 1 | - | 355 | - |
| | 30.274 | - | 143.019 | - |

(*) 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.

(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)

As of December 31, 2016; dividends payable amounting to TL 677 thousand (December 31, 2015 – TL 547 thousand) is reflected within other payables to related parties under short-term liabilities at the consolidated balance sheet.

| | | | 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 | - |
| Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. | - | 68 | 6.952 | - |
| Tanı Pazarlama ve İletişim Hizmetleri A.Ş. | - | 7 | 2.743 | - |
| Otokoç Otomotiv Tic. ve San. A.Ş. | 192 | 335 | 759 | - |
| 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 | - |

| | | | January 1 - December 31, 2015 | |
|---|---|---|---|---|
| Transactions with related parties | Purchases (Goods) | Sales (Goods) | Purchases (Service) | Sales (Service) |
| Group companies (*) | | | | |
| Türkiye Petrol Rafinerileri A.Ş. | 764.056 | 417.352 | 3.168 | - |
| Opet Petrolcülük A.Ş.(**) (***) | 175.422 | 1.229 | 107.156 | - |
| Arçelik A.Ş. | 36.090 | 3.102 | 123 | - |
| Ram Dış Ticaret A.Ş. | 35.806 | 251 | 2.753 | - |
| Zer Merkezi Hizmetler ve Ticaret A.Ş. | 22.398 | 8 | 25.205 | - |
| Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. | 51 | 150 | 7.048 | - |
| Tanı Pazarlama ve İletişim Hizmetleri A.Ş. | - | 6 | 2.701 | - |
| Otokoç Otomotiv Tic. ve San. A.Ş. | 45 | 1.028 | 594 | - |
| Ford Otomotiv Sanayi A.Ş. | - | 17.260 | - | - |
| Demir Export A.Ş. | - | 33.903 | - | - |
| Tat Gıda Sanayi A.Ş. | - | 15.500 | - | - |
| Setur Servis Turistik A.Ş. | - | 69 | 3.642 | - |
| Setair Hava Taşımacılığı ve Hizm. A.Ş. | - | - | 1.021 | - |
| Other | 3.753 | 20.761 | 2.441 | - |
| Shareholders | | | | |
| Koç Holding A.Ş. (****) | - | 36 | 11.897 | - |
| Temel Ticaret ve Yatırım A.Ş. | - | 3 | - | - |
| Investments accounted under the equity method | | | | |
| Entek Elektrik Üretimi A.Ş. | - | 30 | 3.797 | - |
| | 1.037.621 | 510.688 | 171.546 | - |

(*) Group companies include Koç Group companies.

(**) Commission expense regarding LPG sold at Opet stations as of December 31, 2016 is TL 116.580 thousand (December 31, 2015 - TL 106.727 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 24.488 thousand has been made to Opet in 2016 in consideration of 5 years sale agreement on average to be paid to Aygaz Dealers making auto gas sales at Opet stations (2015: TL 53.031 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".

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## 31. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

| | January 1 - December 31, 2016 | | | |
|---|---|---|---|---|
| **Tangible asset and rent transactions with related parties** | **Rent income** | **Rent expense** | **Tangible and intangible asset purchases** | **Sale of fixed assets** |
| **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 |

| | January 1 - December 31, 2015 | | | |
|---|---|---|---|---|
| Tangible asset and rent transactions with related parties | Rent income | Rent expense | Tangible and intangible asset purchases | Sale of fixed assets |
| Group companies (*) | | | | |
| Opet Petrolcülük A.Ş. | 522 | 22 | 61 | - |
| Yapı Kredi Bankası A.Ş. | - | 291 | - | - |
| Otokoç Otomotiv Tic. ve San. A.Ş. | - | 5.284 | 1.148 | 94 |
| Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. | - | - | 1.409 | - |
| Otokar Otomotiv ve Savunma Sanayi A.Ş. | - | - | 922 | - |
| Zer Merkezi Hizmetler ve Ticaret A.Ş. | - | - | 115 | - |
| Türkiye Petrol Rafinerileri A.Ş. | - | 17 | - | 526 |
| Arçelik A.Ş. | - | - | 20 | - |
| Other | - | - | 3 | 8 |
| Shareholders | | | | |
| Koç Family Members | - | 865 | - | - |
| | 522 | 6.479 | 3.678 | 628 |

(*) Group companies include Koç Group companies.

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## 31. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

| | 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** |

| | January 1 - December 31, 2015 | | | |
|---|---|---|---|---|
| Financial and other transactions with related parties | Financial income | Financial expense | Other income | Other expense |
| Group companies (*) | | | | |
| Yapı Kredi Bankası A.Ş. | 21.490 | 9.112 | - | - |
| Vehbi Koç Vakfı | - | - | - | 3.826 |
| Koç Finansal Hizmetler A.Ş. | - | - | 6.353 | - |
| Opet Petrolcülük A.Ş. | - | - | - | 479 |
| Ram Dış Ticaret A.Ş. | - | - | 150 | - |
| Ditaş Deniz İşletmeciliği ve Tic. A.Ş. | - | - | 4 | - |
| Rahmi Koç Müzesi | - | - | - | 500 |
| | 21.490 | 9.112 | 6.507 | 4.805 |

| **Cash at banks** | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| **Group companies (*)** | | |
| Yapı Kredi Bankası A.Ş. | **391.514** | 220.777 |

| **Credit card receivables** | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| **Group companies (*)** | | |
| Yapı Kredi Bankası A.Ş. | **35.276** | 27.059 |

| **Bank loans** | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| **Grup şirketleri (*)** | | |
| Yapı Kredi Bankası A.Ş. | **-** | 6.953 |

(*) Group companies include Koç Group companies.

**Benefits to Top Management:**

The Company has determined senior manager squad as board of directors' members, general manager and vice general managers.

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, 2016, total benefit provided to senior management of the Company is TL 34.981 thousand (December 31, 2015: TL 32.825 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, 2015: TL 2.680 thousand).

(Amounts expressed in thousands of Turkish Lira ("TL")
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*(Convenience translation of consolidated financial statements originally issued in Turkish – see Note 2)*

## 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, 2016** | December 31, 2015 |
|---|---|---|
| Total short-term and long-term borrowings | **630.510** | 551.354 |
| Less: Cash and cash equivalents | **(567.728)** | (288.637) |
| **Net financial debt** | **62.782** | 262.717 |
| Total shareholder's equity | **2.741.557** | 2.610.820 |
| **Net financial debt/equity ratio** | **2,3%** | 10,1% |

**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.

AYGAZ ANONIM ŞIRKETI AND ITS SUBSIDIARIES

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

(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.

AYGAZ ANONIM ŞIRKETI AND ITS SUBSIDIARIES

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

(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, 2015 | Related party | Third party | Related party | Third party | Deposits in banks | Credit card receivables |
| Maximum exposed credit risk as of reporting date (*) | 30.274 | 459.891 | - | 2.458 | 258.820 | 29.636 |
| - The part of maximum risk under guarantee with collateral etc. | - | 273.461 | - | - | - | - |
| A. Net book value of financial assets that are neither past due nor impaired | 30.274 | 421.405 | - | 2.458 | 258.820 | 29.636 |
| 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 | - | 38.486 | - | - | - | - |
| - The part under guarantee with collateral etc- | - | 6.114 | - | - | - | - |
| D. Net book value of impaired assets | - | - | - | - | - | - |
| - Past due (gross carrying amount) | - | 20.713 | - | - | - | - |
| - Impairment (-) | - | (20.713) | - | - | - | - |
| - 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, 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 |

| December 31, 2015 | Trade receivables | Other receivables | Deposits in banks | Derivative instruments | Other | Total |
|---|---|---|---|---|---|---|
| Past due 1-30 days | 28.146 | - | - | - | - | 28.146 |
| Past due 1-3 months | 5.717 | - | - | - | - | 5.717 |
| Past due 3-12 months | 844 | - | - | - | - | 844 |
| Past due 1-5 years | 3.656 | - | - | - | - | 3.656 |
| Past due more than 5 years | 123 | - | - | - | - | 123 |
| Total past due | 38.486 | - | - | - | - | 38.486 |
| The part under guarantee with collateral | 6.114 | - | - | - | - | 6.114 |

(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.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, 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.

(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, 2015

| 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 | 551.354 | 598.990 | 30.948 | 245.377 | 322.665 | - |
| Trade payables | 372.235 | 372.235 | 372.235 | - | - | - |
| Liabilities for employee benefits | 26.852 | 26.852 | 26.852 | - | - | - |
| Other payables | 85.169 | 85.169 | 1.252 | - | - | 83.917 |
| Other liabilities | 99.938 | 99.938 | 97.977 | - | - | 1.961 |
| | 1.108.696 | 1.156.332 | 502.412 | 245.377 | 322.665 | 85.878 |

| 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 | | 137.485 | 56.117 | 81.368 | - | - |
| Derivative cash outflows | | (122.263) | (58.127) | (64.136) | - | - |
| Derivative instruments, net | 18.179 | 15.222 | (2.010) | 17.232 | - | - |

(*) 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.)

*(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.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 manages its foreign currency risk by regularly considering and reflecting the foreign exchange rate changes in the determination of product prices. As of December 31, 2016, the Group has LPG amounting to TL 145.368 thousand (December 31, 2015: TL 64.808 thousand).

The Group's monetary and non-monetary assets and liabilities in terms of foreign currencies are as follows:

| 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 hedged assets | 110.855 | 110.855 | - | - |
| 19.b | Total hedged 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 foreign currency hedged financial assets | - | - | - | - |
| 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 |

(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, 2015 | | Total TL equivalent | TL equivalent of USD | TL equivalent of Euro | TL equivalent of other |
|---|---|---|---|---|---|
| 1. | Trade receivables | 114.504 | 114.502 | 2 | - |
| 2.a | Monetary financial assets | 106.283 | 105.673 | 322 | 288 |
| 2.b | Non-monetary financial assets | - | - | - | - |
| 3. | Other | 80 | 44 | 36 | - |
| 4. | Current assets | 220.867 | 220.219 | 360 | 288 |
| 5. | Trade receivables | - | - | - | - |
| 6.a | Monetary financial assets | - | - | - | - |
| 6.b | Non-monetary financial assets | - | - | - | - |
| 7. | Other | - | - | - | - |
| 8. | Non-current assets | - | - | - | - |
| 9. | Total assets | 220.867 | 220.219 | 360 | 288 |
| 10. | Trade payables | (154.831) | (153.518) | (1.301) | (12) |
| 11. | Financial liabilities | (139.978) | (139.978) | - | - |
| 12.a | Other monetary financial liabilities | - | - | - | - |
| 12.b | Other non-monetary financial liabilities | (1.013) | (1.013) | - | - |
| 13. | Current liabilities | (295.822) | (294.509) | (1.301) | (12) |
| 14. | Trade payables | - | - | - | - |
| 15. | Financial liabilities | (68.330) | (68.330) | - | - |
| 16.a | Other monetary financial liabilities | - | - | - | - |
| 16.b | Other non-monetary financial liabilities | - | - | - | - |
| 17. | Non-current liabilities | (68.330) | (68.330) | - | - |
| 18. | Total liabilities | (364.152) | (362.839) | (1.301) | (12) |
| 19. | Net asset/liability position of off balance sheet asset and liabilities (19a-19b) | 136.279 | 136.279 | - | - |
| 19.a | Total hedged assets | 136.279 | 136.279 | - | - |
| 19.b | Total hedged liabilities | - | - | - | - |
| 20. | Net foreign currency asset/liability position (9+18+19) | (7.006) | (6.341) | (941) | 276 |
| 21. | Net foreign currency asset/liability position of monetary items (1+2a+5+6a+10+11+12a+14+15+16a) | (142.352) | (141.651) | (977) | 276 |
| 22. | Fair value of foreign currency hedged financial assets | - | - | - | - |
| 23. | Hedged foreign currency assets | - | - | - | - |
| 24. | Hedged foreign currency liabilities | - | - | - | - |
| 25. | Export | 458.036 | 446.111 | 10.418 | 1.507 |
| 26. | Import | 1.736.001 | 1.725.892 | 8.840 | 1.269 |

(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)

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, 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 |

| | | | | December 31, 2015 |
|---|---|---|---|---|
| | | Income/Expense | | Equity |
| | Foreign exchange appreciation | Foreign exchange depreciation | Foreign exchange appreciation | Foreign exchange depreciation |
| 10% fluctuation of USD rate | | | | |
| USD net asset/liability | (14.165) | 14.165 | (14.165) | 14.165 |
| Secured portion from USD risk | 13.628 | (13.628) | 13.628 | (13.628) |
| USD net effect | (537) | 537 | (537) | 537 |
| 10% fluctuation of Euro rate | | | | |
| Euro net asset/liability | (98) | 98 | (98) | 98 |
| Secured portion from Euro risk | - | - | - | - |
| Euro net effect | (98) | 98 | (98) | 98 |
| Total | (635) | 635 | (635) | 635 |

(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*

The Group has no currency forward agreement as of December 31, 2016. Currency forward agreements which are valid as of December 31, 2015 are summarized at the table below:

| | | | | | December 31, 2015 |
|---|---|---|---|---|---|
| Maturity | Parity | Type of contract | Transactions | Total amount | Currency |
| 1 to 4 months | 2,9750 -3,0462 | Forward | Sells TL, buys USD | 22.800 | USD |

*Swap agreements*

As of December 31, 2016 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, 2016** | December 31, 2015 |
|---|---|---|
| **Instruments with fixed interest rate** | | |
| Time deposits | **514.087** | 239.167 |
| Borrowings and bonds issued | **374.518** | 308.531 |
| **Instruments with variable interest rate** | | |
| Borrowings | **254.890** | 240.619 |

At December 31, 2016, 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 655 thousand (2015: TL 341 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, 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 |

| December 31, 2015 | 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 | 288.637 | - | - | - | - | 288.637 | 4 |
| Trade receivables | - | 490.165 | - | - | - | 490.165 | 8,31 |
| Other financial assets | - | - | 268.002 | - | - | 268.002 | 5 |
| Other receivables | - | 2.458 | - | - | - | 2.458 | 9 |
| Financial liabilities | | | | | | | |
| Short-term and long-term borrowings | - | - | - | - | 553.919 | 551.354 | 6 |
| Trade payables | - | - | - | - | 372.235 | 372.235 | 8,31 |
| Liabilities for employee benefits | - | - | - | - | 13.665 | 13.665 | 10 |
| Other payables | - | - | - | - | 85.169 | 85.169 | 9,31 |
| Other liabilities | - | - | - | - | 2.153 | 2.153 | 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.)

# 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, 2016** | **1st Level** | **2nd Level** | **3rd Level** |
| Available-for-sale financial assets (*) | **256.952** | **78** | **256.874** | **-** |
| Derivative financial instruments | **22.742** | **-** | **22.742** | **-** |

| Financial assets /liabilities | | | Level of fair value as of reporting date | |
|---|---|---|---|---|
| | December 31, 2015 | 1st Level | 2nd Level | 3rd Level |
| Available-for-sale financial assets (*) | 267.026 | 76 | 266.950 | - |
| Derivative financial instruments | 18.179 | - | 18.179 | - |

(*) 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, 2016 (December 31, 2015 – 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.

## 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, 2016 the carrying value and the fair value of the long-term borrowings, including the short term portions, are equal to TL 629.408 thousand (Note 6), and TL 633.649 thousand respectively. Fair value is calculated by discounting the cash out flows regarding market interest rates.

## 33. SUBSEQUENT EVENTS

The Company has completed transactions of acquisition of the 560.001 shares of Aygaz Doğal Gaz Toptan Satış A.Ş. which is equivalent to the 1,7% of its total shares with the nominal value of TL 1 per share unit for TL 5.096 thousand ( TL 9,10 per share unit ) in cash and the 74.001 shares of Aygaz Doğal Gaz İletim A.Ş. which is equivalent to the 0,82% of its total shares with the nominal value of TL 1 per share unit for TL 81 thousand (TL 1,10 per share unit ) in cash. Share transfer and assignment transactions has been concluded on January 25, 2017.

## 34. OTHER SIGNIFICANT ISSUES AFFECTING THE FINANCIAL STATEMENTS OR THE OTHER ISSUES REQUIRED FOR CLARIFICATION OF FINANCIAL STATEMENTS

None.

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