YESTERDAY, TODAY, ALWAYS

AYGAZ ANNUAL REPORT 2018

INTRODUCTION

OPERATIONS IN 2018

SUSTAINABLE GROWTH

SOCIAL RESPONSIBILITY

CORPORATE GOVERNANCE

CONSOLIDATED FINANCIAL STATEMENTS

TO BE "THE BEST"
IS OUR ULTIMATE GOAL.

Vehbi Koç
Founder


YESTERDAY, TO

DAY, ALWAYS

What started yesterday
in a historical building in Istanbul,
that transcends borders today and
always drives our adventure forward
is our energy.

It is our energy, what makes us heralds of a brand new lifestyle as our blue light becomes a part of everyday life and Aygaz stands for household name for gas. This is the energy that earns us the trust of consumers and makes us a love mark across the country, empowering us to stand out with our innovations and take the lead in everything we do.

What paved the way forward yesterday,

never ceases today,

and will always ensure that we drive
on to new horizons
is our energy.

Agenda for Ordinary General Assembly Meeting of Aygaz A.Ş. to be held on 20 March 2019

1. Opening and election of the Chairman of the Meeting,
2. Reading, discussing and approving the 2018 Annual Report prepared by the Board of Directors,
3. Reading the Independent Audit Report Summary for 2018 accounting period,
4. Reading, discussing and approving of the Financial Statements related to 2018 accounting period,
5. Acquittal of each member of the Board of Directors in relation to the activities of Company in 2018,
6. Acceptance, acceptance after amendment or refusal of the proposal of the Board of Directors in accordance with the Company's profit distribution policy regarding the distribution of the profits of 2018 and the date of the distribution of profits,
7. 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,
8. Informing and approval of the Shareholders about the Remuneration Policy for the Members of the Board of Directors and Executive Management and the payments made within the scope of the policy in accordance with the Corporate Governance Principles,
9. Determining the annual gross salaries of the Members of the Board of Directors,
10. Approval of the Independent Auditing Institution selection made by the Board of Directors in accordance with the Turkish Commercial Code and the Capital Markets Board regulations,
11. Informing the shareholders about the donations made by the Company in 2018 and determining an upper limit for donations to be made in 2019,
12. Informing the shareholders about the collaterals, pledges, mortgages and surety granted in favor of third parties and the income and benefits obtained in 2018 by the Company and subsidiaries in accordance with Capital Markets Board regulations,
13. Authorising the shareholders holding management capacity, the Members of the Board of Directors, executive 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 2018 as per the Corporate Governance Communiqué of Capital Markets Board,
14. Wishes and opinions.

Convenience Translation Into English of Independent Auditor's Report On The Board Of Directors' Annual Report Originally Issued In Turkish

To the General Assembly of Aygaz Anonim Şirketi

1.Opinion

We have audited the annual report of Aygaz Anonim Şirketi (the "Company") and its subsidiaries (collectively referred to as the "Group") for the 1 January - 31 December 2018 period.

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

2. Basis for Opinion

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

3. Our Audit Opinion on the Full Set Consolidated Financial Statements

We expressed an unqualified opinion in the auditor's report dated 13 February 2019 on the full set consolidated financial statements for the 1 January - 31 December 2018 period.

4. Board of Director's Responsibility for the Annual Report

Group management's responsibilities related to the annual report according to Articles 514 and 516 of Turkish Commercial Code ("TCC") No. 6102 and Capital Markets Board's ("CMB") Communiqué Serial II, No:14.1, "Principles of Financial Reporting in Capital Markets" (the "Communiqué") are as follows:

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

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

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

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

5. Independent Auditor's Responsibility in the Audit of the Annual Report

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

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

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

Ediz Günsel, SMMM
Partner

İstanbul, 22 February 2019

Report of the Board of Directors and Chairman's Message

Dear Shareholders,

Welcome to the 58th General Assembly Meeting of Aygaz.

On behalf of the Board of Directors, I would like to welcome you all to another productive meeting.

In 2018, the global economy experienced volatility with increasing levels of political, economic and social uncertainties. Throughout the year, the global markets monitored anxiously as the Federal Reserve System (FED) reduced its balance sheet and continued interest rate hikes, European Central Bank (ECB) announced that it would slow down and then end monetary expansion, the US and China continued their trade war, the US carried on its sanctions on Iran, Brexit drifted into an ambiguity, and Italy faced a budget crisis with the EU. In addition, geopolitical developments in the Middle East preserved its priority on the global agenda.

As the FED and ECB tightened their monetary policies gradually, the excess liquidity that was provided to the markets after the global crisis started to decrease. FED stated that it would be more patient to tighten monetary policy further in the coming period after the meeting held in January 2019; a decision that surprised everyone. This decision was received favorably by the markets as it was interpreted that the expected liquidity shortage in the markets may not reach the feared dimensions. Nevertheless, it is clear that funding will be more difficult and costly in 2019 for the emerging economies including Turkey.

The uncertainties of Brexit and the geopolitical developments in Turkey's immediate vicinity continue to affect the global economy. In the meantime, as the world's second largest economy, China experienced slower growth in 2018 with 6.6 percent compared to 6.8 percent in 2017. Moreover, International Monetary Fund (IMF) drew attention to the fact that the developed economies grew at a slower pace in the first half of 2018 compared to the year before, and lowered global growth forecast to 3.9 percent for 2018 and 3.5 percent for 2019. The World Bank predicts 2.9 percent and 2.8 percent growth rates for 2019 and 2020, respectively. Even though the experts of World Bank call it "a soft landing", they agree that the indicators point to a slowdown in the global economy.

In the light of these global developments, the Turkish economy's growth rates were announced as 7.2 percent and 5.3 percent in the first two quarters of 2018. However, the sharp movement in foreign exchange rates in August led to a decline in domestic demand and rise in costs. These developments had a significant negative impact not only on the industrial production figures, but also on the consumption and growth figures. Consequently, the economy slowed down, resulting in a growth of 1.6 percent in the third quarter. Moreover, the rise in foreign exchange rates and the increase in food prices had a profound effect on inflation as the annual CPI inflation rate, which was 10.4 percent in January 2018, rose to a peak level of 25.2 percent in October, and ended the year at 20.3 percent.

Central Bank of Turkey increased its policy interest rate by 625 basis points to 24 percent on September the 13th, and the government introduced the New Economy Program a week later which enabled the sentiment of unease prevailing in the domestic market to disperse. In addition, as the relations with the US began to improve in October, geopolitical risk perception of Turkey also declined. All of these developments contributed to a more tranquil period in the domestic financial markets towards the end of 2018. However, the financial burden caused by the rise in interest and foreign exchange rates on the corporate balance sheets, the decrease in the sales revenues due to decline in domestic demand, and banks' reluctance to lend caused the continuation of liquidity shortage in the last quarter of the year.

Despite the international and domestic challenges, we will focus on long-term targets as we always do, and not on short-term developments. We will keep on growing by interpreting the changing conditions accurately and continue to renew ourselves.

In this respect, improving the investment environment for all domestic and international investors is of utmost importance in order to attract the investments that are required under current circumstances. I believe that ensuring openness, transparency, compliance and cooperation is the key to the future of our country, and all of the institutions.

According to World LPG Association data published in 2018, the global LPG market grew by 35 percent (78 million tons) in the last 10 years. On the demand side, world LPG consumption increased by 1.7 percent annually and reached to 303 million tons. Together with renewable energy, LPG has become the fastest growing energy source in global energy consumption. Turkish LPG market is the second largest in Europe and 11th largest in the world. In terms of autogas consumption, Turkish market is ranked second largest in the world. With a vehicle park of 4.7 million, Turkey has the largest LPG-powered vehicle fleet worldwide. As the most preferred automobile fuel since 2011, autogas is used in 38 percent of all the passenger cars in Turkey.

According to the November 2018 data published by the Energy Market Regulatory Authority (EMRA), Aygaz maintained its leading position in its core business areas. Our company was the leader in LPG, cylinder gas and autogas market segments with 27 percent, 42 percent and 22 percent market shares, respectively.

I am pleased to inform you that as the originator of pioneering and exemplary practices in the industry, Aygaz continues to create value for our stakeholders, the Turkish economy and the community. In 2018, Aygaz achieved a revenue of TL 9.6 billion, a 13 percent increase compared to the previous year.

We are proud to succeed in maintaining our leading position in the domestic LPG sector among 93 companies both in terms of revenues and market share.

Our main goal is to firmly maintain our leading position in the coming years.

Attaining success with the best human resources available in the industry, Aygaz R&D Center was established as a pioneer in the Turkish LPG market to ensure the continuity of its achievements well into the future. I strongly believe that Aygaz will further its operational and financial achievements with the new projects that will be shaped by its R&D Center as well as its international expansion efforts that started by the initiation of the launch of its new London branch.

As a leading brand that was born in this country, we take pride in supporting the Turkish economy with our operations and also contributing to social and cultural development through sustainable projects in many areas ranging from culture and the arts to gender equality, and from archeology to child health and sports.

I would like to express my gratitude to all our stakeholders, and in particular to our employees, dealers, suppliers, customers, labor unions, side industry and shareholders for their contributions to and trust in Aygaz.

Sincerely,

Rahmi M. Koç
Chairman

General Manager's Message

With continued leadership in the LPG sector, 2018 was a successful year for Aygaz.

Esteemed Shareholders,

Welcome to our General Assembly Meeting.

As the main field of operations for Aygaz, the global LPG industry recorded 35 percent growth over the last decade while annual consumption was up 1.7 percent, reaching 303 million tons. In the upcoming period, global LPG consumption is expected to maintain this rising trend in line with continued oil and natural gas production as well as environment friendly policies. Meanwhile, after the contraction in 2017 due to increased LPG prices, the Turkish LPG market experienced 2 percent growth in the first eleven months of 2018, as stated in the Energy Market Regulatory Authority's (EMRA) LPG Market Industry Report.

As Turkey's 11th largest corporation in Istanbul Chamber of Industry's (ISO) 500 Largest Industrial Enterprises Ranking in 2017, Aygaz closed 2018 with successful results in line with its sustainable growth target. According to the LPG Market Industry Report published by EMRA we maintained our leadership position with a 27 percent market share as of November 2018. Our sales volume reached 2 million tons, with 1.1 million tons consisting of cylinder gas, bulk gas and autogas sales in 2018. As a result, we reached TL 9.6 billion in consolidated revenues, with 13 percent growth year-on-year.

In 2018, we continued our efforts to strengthen further Aygaz's pioneering and innovative position in the sector. As the company that introduced clean energy, LPG, to Turkey, we established the first ever R&D Center in the Turkish LPG industry with the objective of developing innovative products, enhancing product quality, achieving digitalization through smart products, increasing efficiency with automation systems, and conducting research on alternative and clean energy sources. We aim to contribute even more to the national economy with research and development activities in this new center at our Gebze Plant.

As we move forward on our digitalization journey with firm steps, we leverage advanced technology effectively to attain our goals. We carry out various events and activities as part of different projects related to the innovation processes both within the company and also at Koç Group. Our goal is to increase our efficiency by creating new business areas as a result of our innovation projects that we plan to implement in the near future.

Our subsidiaries and affiliates that make up the Aygaz family without any doubt play a significant role in the results that we achieve as a company. For the reasons explained in detail in the year-end financial statements and investor presentation, our results were lower than the previous year. As one-off items, provision was allocated for Aygaz Doğal Gaz against a potential loss at the end of the arbitration process, and impairment was reflected for Entek, our affiliate operating in the power generation sector. However, despite the challenging market conditions, we succeeded in maintaining our leadership in the LPG sector industry in 2018. Aygaz Doğal Gaz recorded a turnover of TL 1 billion, selling 900 million cubic meters of natural gas in 2018 while Entek also worked toward its mission of adding value to all its stakeholders by offering energy solutions to take its place among the leading electricity generation companies. Anadoluhisarı Tankercilik, with a total payload capacity of 28,800 cubic meters, undertook 17 percent of Aygaz's maritime transportation and procurement by sea. Our distribution company, Akpa, recorded turnover of TL 523 million. In the meantime, Opet Aygaz Gayrimenkul continued to carry out its activities with the aim of further strengthening the presence of Aygaz in the market. Meanwhile, carboy water sales, which we launched to benefit from our distribution network more efficiently and create a new business area for our dealers, fared at a similar rate. Our carboy water brand, Pürsu, is sourced from three different springs and is delivered to consumers by 400 dealers in 35 provinces. As a leading brand in its segment, Pürsu's carboy sales reached 8.5 million units in 2018.

Our gains in 2018 reflected not only on our business results but also on the awards we received based on the assessments of independent organizations. We were once again named the Brand with Highest Customer Loyalty in both the cylinder gas and autogas categories in the Turkish Customers' Voice Survey. At the Standardization Summit, organized by the Turkish Standards Institute and the Union of Chambers and Commodity Exchanges, we won the award for Contribution to Standardization and Participation. We also won first prize in the "Mineral Fuels Exports" category and fourth prize in the "Highest Increase in Exports" category at the Stars of Export Awards, and were awarded in the "Public and Private Sector" category at the Crystal Helmet Awards.

As we raised our Corporate Governance Rating Score to 9.40, we also included sustainability in all our business processes. For the first time, we earned our place in the Borsa Istanbul (BIST) Sustainability Index, which includes listed companies that display the highest corporate sustainability performance. In addition to enhancing our brand value in both the national and international arena, we proved once again our contribution to the economy as a company that remains committed to the values and principles of the Koç Group, and respects the environment.

In all these efforts, initiatives and activities, our priority is to always develop and implement projects that improve the community and create lasting values. In addition to our main areas of activity, we also adopt this outlook as we pioneer and lead a number of valuable projects in the fields of environment, societal development, culture and arts, and health and sports. In 2018, we continued to invest in Turkey's future through social responsibility activities which we shape around the society's pressing issues that await solutions.

While expectations for 2019 both in Turkey and worldwide point to a challenging year ahead, our priority goal remains the same, and empowered by our deep-rooted history, we aim to continue with our sustainable growth. Driven by the responsibility of being the company that introduced LPG, the clean energy source, to Turkey, we will strive to maintain our innovative position. We will keep on bringing the service quality that we keep improving further every day to our consumers through our 2,400 plus cylinder gas dealers and over 1,700 autogas stations across Turkey. We will also carry on working to implement several projects, which will provide added value for our country, company and stakeholders both at home and abroad. I believe that our decision to open a branch in London, will also support these goals. As the most preffered brand among consumers, and a company held in high esteem and position in the international markets, we believe in the importance of monitoring other markets even more closely. Our London branch will be an investment that will support our import, export and transit operations by increasing the trade volume with third parties in international markets even more, and will create added value through the supply chain.

I would like to extend my gratitude to our customers, dealers, employees, suppliers and all stakeholders for empowering us on our leadership journey from the past to the present, and for placing their trust in us as we take even bolder steps every year.

With warm regards,

Gökhan Tezel
General Manager

Aygaz in Figures

303 million tons Global LPG consumption* *According to The World LPG Association (WLPGA) 2018 Report	**178** thousand m^3 The largest LPG storage capacity in Turkey	**315** thousand tons Cylinder gas sales in 2018
2,406 Cylinder gas dealers	**1,718** Autogas stations	**907** thousand tons Export and wholesale volume in 2018
28,800 m^3 Total transportation capacity of the Beykoz, Beylerbeyi and Kuzguncuk LPG vessels	**4.7** million Autogas-powered vehicles in Turkey	**17%** Share of maritime transportation by own fleet in all sea-related transportation activities

2
million tons
Aygaz's total LPG sales volume

730
thousand tons
autogas sales in 2018

11th
in the list of Turkey's Top 500 Industrial Enterprises*

*2017 ISO 500

32
patents as industry leader in R&D

1,325
Average number of employees in 2018

3.4
billion TL
2018 yearend market value

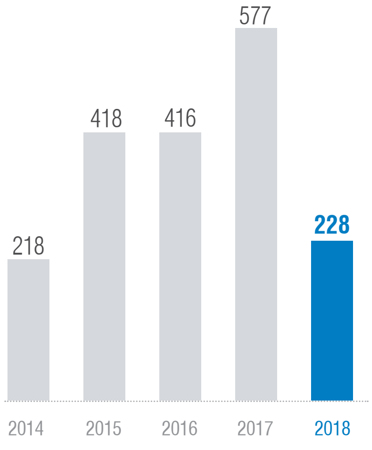
39
average training hours per person in 2018

9.40
Corporate Governance Rating Score in 2018

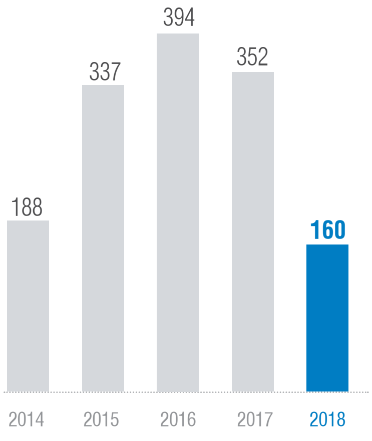
8.5
million units
Pürsu annual carboy water sales

Financial and Operational Outlook

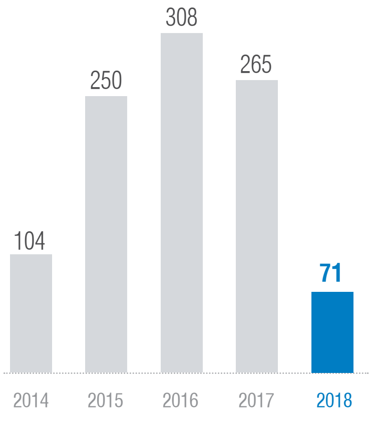
Net Profit (TL M)



EBITDA (TL M)



Operating Profit (TL M)

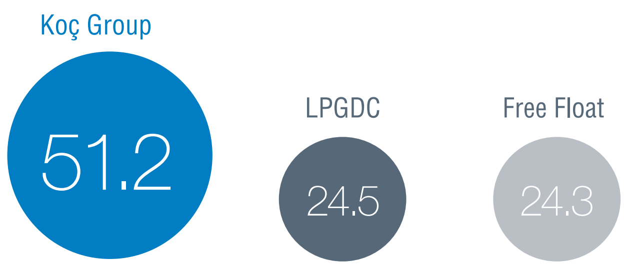


Summary Financial Indicators

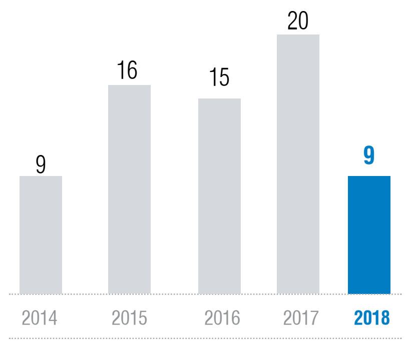
(TL M)

	2018	2017	2016	2015	2014	2018-2017 Change
Sales revenues	**9,554**	8,469	6,749	6,420	7,061	13%
Gross profit	**634**	741	787	677	527	-14%
Operating profit	**71**	265	308	250	104	-73%
Pre-tax profit	**250**	621	469	458	237	-60%
Net profit	**228**	577	416	418	218	-60%
EBITDA	**160**	352	394	337	188	-55%
Gross profit margin	**7%**	9%	12%	11%	7%	-2
Operating profit margin	**1%**	3%	5%	4%	1%	-2
Net profit margin	**2%**	7%	6%	7%	3%	-5
EBITDA margin	**2%**	4%	6%	5%	3%	-2
Current assets	**1,618**	1,588	1,277	1,025	713	%2
Fixed assets	**3,396**	3,379	2,954	2,891	2,699	0.5%
Total assets	**5,013**	4,966	4,231	3,916	3,412	0.9%
Short term liabilities	**1,484**	1,279	924	847	715	16%
Long term liabilities	**1,027**	764	566	459	338	34%
Shareholders' equity	**2,502**	2,923	2,742	2,611	2,359	-14%
Total equity and liabilities	**5,013**	4,966	4,231	3,916	3,412	0.9%
Return on equity (ROE)	**9%**	20%	15%	16%	9%	-11
Net debt/equity ratio	**30%**	13%	2%	10%	9%	17
Current ratio	**1.09**	1.24	1.38	1.21	1.00	-0.15

Shareholding Structure (%)



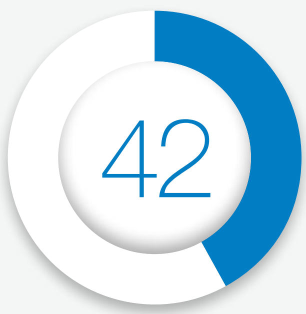
Return on Equity (ROE) (%)



Market Shares* (%)

LPG Market Share

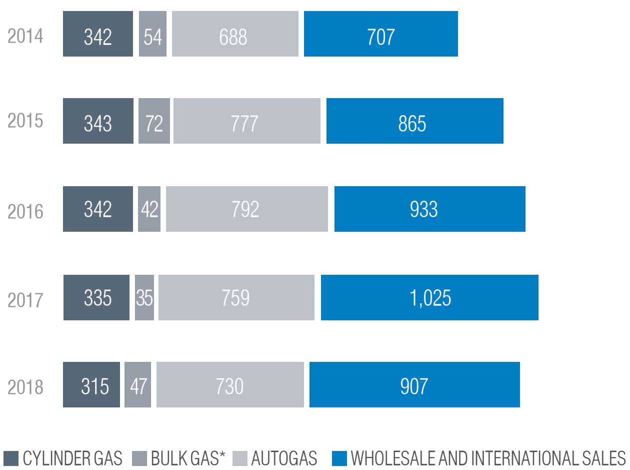
Cylinder Gas Market Share



Autogas Market Share

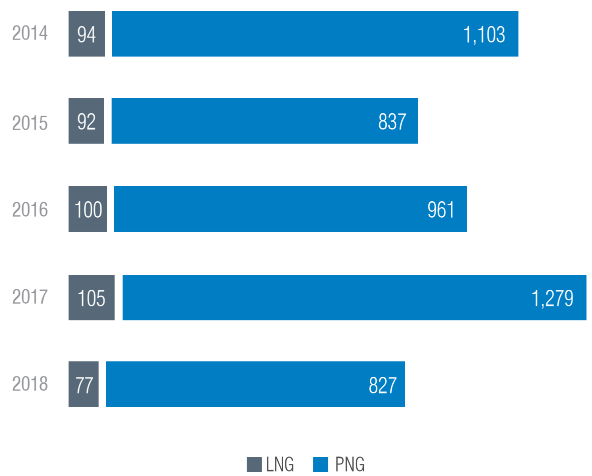
*EMRA November 2018 Report

LPG Sales Volume By Segments (000 TONS)



*Petrochemical sales included

Natural Gas Sales Volume (mcm)



Subsidiaries and Affiliates

AYGAZ DOĞAL GAZ

PARTICIPATION RATE 100%

Aygaz Doğal Gaz was founded in 2004 with the vision of becoming a versatile player in the natural gas market. Delivering the natural gas procured domestically to its customers via a pipeline, the company also sells and delivers liquefied natural gas (LNG) by purpose-built vehicles to businesses that lack access to the pipeline.

ANADOLUHİSARI TANKERCİLİK

PARTICIPATION RATE 100%

Carrying out LPG marine transportation since 1967, Aygaz transferred the management of its ships to a subsidiary, Anadoluhisarı Tankercilik in 2010. The company currently has at its disposal three specifically equipped, full pressure ships. Total transportation capacity of the fleet is currently 28,800 m^3 and the average age is 12. In 2018, Anadoluhisarı Tankercilik accounted for 17% of Aygaz's procurement by sea and marine transportation operations.

AKPA

PARTICIPATION RATE 100%

Operating in the marketing sector for nearly half a century, Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş. is one of Turkey's leading sales and marketing companies in its segment. Akpa carries out direct sales of cylinder gas and carboy water, and also engages in fuel trade. Prioritizing direct sales aimed at households and workplaces in its sales strategy, Akpa has recently expanded its cylinder gas sales service reach significantly.

ADG ENERJİ YATIRIMLARI

PARTICIPATION RATE 100%

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

ENTEK

PARTICIPATION RATE	50%

Entek is the electricity production company of Koç Group. With six 87-MW hydroelectric power plants (HEPPs) located in Karaman, Samsun and Mersin and a natural gas cycle plant of 157-MW in Kocaeli, Entek currently operates with total 244 MW of installed capacity. In September 2017, Entek submitted the highest bid to the Privatization Administration and was granted operating rights of the 178-MW Menzelet and Kılavuzlu HEPPs for 49 years. Menzelet Kılavuzlu Elektrik Üretimi A.Ş., wholly owned by Entek, started operating the plants on 9 March 2018.

OPET AYGAZ GAYRİMENKUL

PARTICIPATION RATE	50%

Opet Aygaz Gayrimenkul A.Ş. was founded in 2013 as an equal partnership between Aygaz A.Ş. and Opet Petrolcülük A.Ş. to invest in properties that can be operated as fuel or autogas stations at various locations across Turkey. The company operates or leases these properties and owns 21 stations as of 2018 yearend.

ENERJİ YATIRIMLARI (EYAŞ)

PARTICIPATION RATE	20%

Enerji Yatırımları A.Ş. (EYAŞ) was founded in 2005 to acquire 51% of the shares of Tüpraş, Turkey's largest industrial corporation, from the Privatization Administration. Aygaz holds a 20% stake in Enerji Yatırımları A.Ş. As the pioneering producer in the refinery industry in Turkey, Tüpraş operates in the fields of refining, distribution, oil and petroleum products and marine transport. With an annual crude oil processing capacity of 28.1 million tons, Tüpraş is the 7th largest refinery company in Europe.

Vision

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

Mission

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

Strategic Priorities

Sustain its market leadership in LPG by:

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

Ensure sustainable growth to move its current position forward by:

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

FEBRUARY / *Turkish Customer's Voice Survey*

MARCH / *57th Ordinary General Assembly Meeting*

APRIL / *Stars of Export Awards*

Highlights of 2018

JANUARY

- M/T Beykoz was chartered for two years, becoming the first long-term charter in Aygaz's marine operations history, and listed in the international marine market.
- The 15th book in the Aygaz Library, "Your Excellency's Obedient Servant" comprising handwritten letters that shed light on the Ottoman Empire's relations with the West was published.
- The first e-commerce site of Aygaz, "keyiflibahce.com", launched in 2011, was updated and renewed in line with the latest technologies.

FEBRUARY

- Aygaz was named the Brand with Highest Customer Loyalty in the cylinder gas and autogas segments in the Turkish Customer's Voice Survey for the third consecutive year.

MARCH

- Aygaz held its 57th Ordinary General Assembly Meeting on 21 March.
- Aygaz Group executives were selected for assembly and committee memberships in the Chambers of Commerce and Industry elections.
- Performance and talent management processes were implemented on the HR Master platform which was launched to move HR processes to integrated, next generation digital platforms.

APRIL

- Aygaz won first prize in the "Mineral Fuels Exports" category and fourth prize in the "Highest Increase in Exports" category at the Stars of Export Awards presented by the Istanbul Chemicals and Chemical Products Exporters' Association.
- Aygaz, as the only publicly traded company in the Turkish LPG industry, hosted an Analyst Meeting on 2 April to inform participants about its activities.
- At the Design Thinking Workshop held on 13-14 April, participants generated 114 ideas.
- At the Argus LPG 2018, on 19-20 April in Moscow, Aygaz's position in Turkey's LPG sourcing was presented.

MAY

- 50th edition of "Aygaz Dünyası" (Aygaz World), the corporate magazine that accompanies the success journey of Aygaz since 2001, was published.

JUNE

- The Corporate Governance Rating Score of Aygaz, which was determined as 9.36 in 2017 by SAHA Corporate Governance and Credit Rating Services, upgraded to 9.40.
- SAHA Corporate Governance and Credit Rating Services assigned Aygaz's national long-term rating as (TR) AAA and national short-term rating as (TR) A1+. The rating's outlook is stable.
- 2016-2017 Sustainability Report, regarding the activities that Aygaz carries out with the goal of adding value to the environment was published.
- Aygaz supported the Firefly Learning Unit of the Educational Volunteers Foundation of Turkey to teach coding, the alphabet of the future, to nearly 1,000 students.

***JULY /** The Aykargo project, The Most Successful Koç Employees Awards*

***SEPTEMBER /** The Business Results Sharing Meetings*

***OCTOBER /** Aygaz R&D Center was established.*

JULY

- The Aykargo project, carried out by Aygaz in collaboration with Koçtaş, won the award in the "Collaborators" category at the Most Successful Koç Employees Awards Ceremony.

AUGUST

- Diabetic Children's Camp, which Aygaz has supported for 14 years, was held on 5-11 August at the DSI Iznik Recreational Facility.

SEPTEMBER

- The Business Results Sharing Meetings, themed "Onward with Innovation" were organized in Adana and Istanbul.
- The offices at the Headquarters were refurbished, and common work spaces and lounge areas were created to promote communication within the company and to provide a modern, spacious and productive environment.

OCTOBER

- Aygaz was included in the BIST Sustainability Index, which consists of companies that are traded on Borsa İstanbul (BIST) and that demonstrate the highest corporate sustainability performance.
- As a first among the LPG distribution companies in Turkey, Aygaz R&D Center was established.
- At the Standardization Summit themed "Guide International Standards", organized by the Turkish Standards Institute and the Union of Chambers and Commodity Exchanges (TOBB), Aygaz won the award for Contribution to Standardization and Participation.
- Aygaz participated in the 9th Turkey Energy Summit held in Antalya. Aygaz General Manager was among the panelists in the Turkish LPG Markets session as a speaker on behalf of the TOBB LPG Assembly.
- At the 13th LPG Trade Summit, cosponsored by Aygaz, details of the Turkish LPG market were shared by the Aygaz Supply Chain Directorate.
- Aygaz General Manager Gökhan Tezel was elected to the Board of Directors of the World LPG Association (WLPGA).

NOVEMBER

- Aygaz launched a new ad campaign to emphasize that autogas is a high octane fuel with positive impact on engine performance and efficiency.
- Aygaz, as the cosponsor of 22nd Istanbul Theater Festival, organized by the Istanbul Foundation for Culture and Arts, also sponsored a student project to bring higher number of young people to the theater.
- Within the framework of the cooperation with Fenerbahçe Sports Club, Aygaz initiated another value-added activity in the field of sports as one of the sponsors of the Football Team.
- International Data Corporation (IDC), which provides global, regional and local expertise on technology and industry trends, awarded Aygaz in the "Innovative Women" category for the company's new product, service and business model projects implemented to promote innovation culture within the organization and encourage internal entrepreneurship.

DECEMBER

- Aygaz was awarded in the "Public and Private Sector" category at the Crystal Helmet Awards, organized by the Istanbul Metropolitan Municipality to promote occupational health and safety culture.
- Aygaz Sailing Team became the 2018 champion in the IRC3 class at Istanbul Yacht Racing Trophy, organized by Istanbul Sailing Club.

Corporate History

1961

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

1962

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

1963

- Registered title changed from Gazsan to Aygaz A.Ş.
- The first Aygaz ad campaign launched with the slogan, "TL 40 in cash, TL 40 in installments".

1965

- First publicity campaign launched with French fries cooked using Aygaz cylinder gas given out to passersby from a delivery truck.

1967

- Ambarlı Filling Plant built.
- Turkey's first LPG vessel, M/T Aygaz set sail.

1970

- With the addition of Aliağa Filling Plant, five filling plants in operation.
- Aygaz starts selling chemicals.

1976

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

1982

- The "blue seal lid", a symbol of safety is introduced in Aygaz cylinders.

1984

- The first Aygaz mobile heater that uses cylinder gas is produced.

1985

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

1988

- Modernization of Aygaz dealers begins to better serve customers.

1989

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

1993

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

1995

- Aygaz Hotline launched to inform consumers about Aygaz products and services.
- Occupational Health and Safety Management System implemented.
- Computerized customer code system implemented at dealerships.

1996

- "Guaranteed seal cap" introduced for cylinder gas.

1997

- The "Aygaz 24" and automatic tank ordering Systems launched.

1998

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

1999

- Aygaz becomes the first company in LPG industry to qualify for ISO 9002 Certification.
- Aygaz starts using electronic gas leak detector, another first for Turkey.
- Aygaz Patio Heater introduced to the market.
- With the propane industrial cylinder, Aygaz pioneers the propane era in the industry.

2000

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

2001

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

2002

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

2004

- Aygaz Euro LPG offered to consumers.

2005

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

2006

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

2007

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

2008

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

2009

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

2010

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

2011

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

2012

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

2013

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

2014

- According to 2013 Turkey Customer Satisfaction Index (TMME), a survey conducted by KalDer, Aygaz, Mogaz and Lipetgaz named the most admired brands, winning the Silver Statuette in the cylinder gas category.
- At the Turkey Energy Summit, Aygaz Doğal Gaz wins the Golden Valve Award, and Aygaz the Golden Barrel Award.

2015

- Knightsbridge (Beykoz), a vessel with 11,000-m³ capacity built in Japan in 2009, joins the Aygaz fleet.
- Aliağa Filling Plant awarded at the Environment Friendly Plant Awards by the Turkish Healthy Cities Association.
- For the first time in its history, Aygaz's sales volume exceeds two million tons.
- Following world trends and innovations for LPG supplies closely, Aygaz becomes the first company to import shale gas-based LPG from the US into Turkey.

2016

- Aygaz becomes a signatory of the United Nations Global Compact (UNGC) and Women's Empowerment Principles (WEPs).
- Aygaz wins the Honor Ribbon at the European Business Awards.
- As part of its R&D activities, Aygaz develops a new sulphur-free LPG odorant (Greenodor).
- Aygaz General Manager Gökhan Tezel is elected Chair of Market Development Committee within the new structure of World LPG Association (WLPGA).

2017

- With the Cylinder Gas Tracking Project, Aygaz starts to record the journey of the cylinders from the filling plant up until delivery to consumers.
- Aygaz launches the mobile version of its website.
- Aygaz earns the Authorized Economic Operator (AEO) certification, becoming the first in the Turkish LPG industry.

WHAT DRIVES US ONE STEP FURTHER EVERY DAY

is the energy of our dealers who always act with the principle of “If Aygaz is in, I’m in” principle and represent us in even the remotest corner of Turkey.

TEHLİKELİ MADDE
AYGAZ
AYGAZ
AYGAZ
AYGAZ
YANLIZ

2018 OVERVIEW

LPG Industry in Turkey and Worldwide

LPG is a sustainable and environment friendly energy source with hundreds of millions of consumers in Turkey and across the world.

Liquified Petroleum Gas or LPG has come to the forefront along with renewable energy in the last decade as the fastest growing energy source. As an efficient fuel with environment-friendly properties, LPG holds an important place among the energy sources and is anticipated to maintain this position in the future.

The USA, China and Saudi Arabia lead LPG production

The World LPG Association (WLPGA) reported that in 2018, global LPG consumption was up 1.4% year on year, reaching 309 million tons. The United States (USA), China, Saudi Arabia, Russia and Canada accounted for 53% of the total production as the top five countries. LPG production is directly related to the production and consumption of fossil fuels. 61% of the production comes from natural gas, and 39% is sourced from refineries. Even though oil, natural gas and LPG are alternative fuels to one another, LPG production inevitably accompanies oil and natural gas production. Despite some geographic and industrial changes, LPG production continues to

The World LPG Association (WLPGA) reports that LPG consumption grew by 35% over the last decade, corresponding to a volume increase of 78 million tons.

increase in correlation with these two sources.

Global LPG consumption in excess of 300 million tons

LPG production also triggers LPG consumption. WLPGA reports that LPG consumption grew by 35% over the last decade, corresponding to a volume increase of 78 million tons. The data published in the same report show that LPG consumption increased by 1.7% year-on-year to 303 million tons, exceeding 300 million tons for the first time. This increase is expected to continue in the next ten years and the production to exceed 360 million tons.

In national consumption terms, China ranks first with 53.2 million tons, followed by the USA and India. These three countries account for 38% of total LPG consumption.

According to the WLPGA report, household consumption continues to dominate the global LPG market with 44% share. The first three countries in household LPG consumption were China, India and the USA. The LPG used in these countries accounts for 45% of total household consumption.

Turkey ranks second worldwide in autogas consumption

In the latest WLPGA report autogas consumption, which had 9% share in global consumption in 2017, ranks fourth after household, petrochemical and industrial consumption. The three countries with the highest autogas consumption are South Korea, Turkey and Russia, respectively. These countries accounted for 36% of total autogas consumption.

An energy source with lower greenhouse gas values

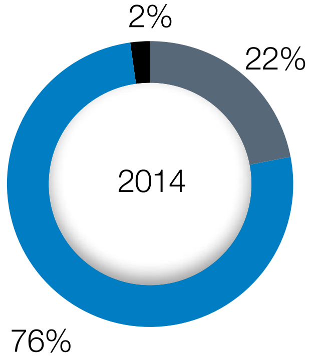
As an easily processed and transportable energy source with rich reserves, LPG is preferred by hundreds of millions of consumers across the world. LPG

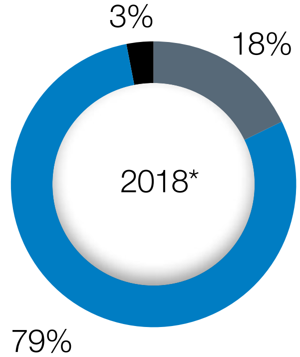
Potential consumers

1.5 billion

Areas of LPG use and consumption shares in Turkey

At home   On road   In industry





*EMRA November 2018 Report

LPG, which according to studies has lower greenhouse gas emission values compared with other energy sources, is regarded as an environment-friendly energy.

Global LPG trade volume

116

million tons

is a sustainable energy source, with approximately 1.5 billion potential consumers.

According to studies LPG has lower greenhouse gas emission values compared to other energy sources, and is considered as an ecofriendly energy. Adopting earth smart approaches and policies to prevent climate change presents opportunities to develop and spread LPG use further.

The USA, which in recent years introduced shale gas resources, turned from an importer of LPG into an exporter. In 2018, global LPG trade amounted to 116 million tons with the USA accounting for 30% of exports with 34 million tons.

Last year, in direct proportion to the increase in maritime transportation worldwide, 46 new vessels started carrying LPG. As a result, the number of vessels carrying LPG globally reached 1,476, with total capacity amounting to 33 million cubic meters.

The Algerian (SP) sourced LPG, which was priced at 536 USD per ton in January 2018, closed December at 378 USD per ton. Through the year, LPG prices fared at 526 USD per ton

LPG's share in global energy consumption is 2.6% while this ratio is 3.1% in Turkey.

on average. Except for December, a similar trend was observed in the last quarter, however from November to December, the price of LPG decreased by 137 USD per ton. One of the main reasons for this decline is the fact that the decision to restrict production, reached by the Organization of Petroleum Exporting Countries (OPEC) in November, has not been enforced yet.

Turkey, Europe's second largest LPG market

Turkish LPG market is the second largest in Europe and eleventh in the world in terms of use as an energy source and excluding petrochemicals and refineries. LPG's share in global energy consumption is 2.6% while this ratio is 3.1% in Turkey.

As of November 2018, total LPG demand in the Turkish market was supplied 22% by domestic production and 78% by imports. LPG is imported primarily from Algeria, USA and Norway among other countries.

With the ongoing contraction trend observed since 2004, the natural gas conversions that continued in 2018, and changes in commercial sales due to the impact of gentrification projects and the economy, the cylinder gas market shrank 7% year on year in the January-November period.

Turkey has the world's largest LPG-powered car park

Turkish autogas market has the world's largest LPG-powered car park with 4.7 million units. Autogas, which is used in 38% of passenger cars in Turkey, has been among the most preferred automotive fuels since 2011. The market, which has grown uninterruptedly since 2003, recorded cumulative growth of 6% according to the November 2018 report by the Energy Market Regulatory Authority (EMRA) in 11 months.

Worldwide maritime transportation of LPG in 2018

46

new vessels

Total

1,476

vessels

33 million m^3

capacity

Aygaz in 2018

Aygaz, the first and only publicly traded LPG company in Turkey, leads the industry with a strong corporate culture since its foundation.

As the first Koç Group company in the energy sector, Aygaz is an integrated LPG company that carries out all processes including the procurement, storage, filling and sale of LPG, as well as production and sales of pressurized containers and LPG equipment. With an effective dealership network, customer proximity, service speed and quality, Aygaz has become a generic brand for LPG users since its founding in 1961.

Turkey's 11th largest industrial corporation

In Istanbul Chamber of Industry's (ISO) 2017 list of Turkey's Top 500 Industrial Enterprises, Aygaz ranks 11th, taking pride in being the first and only publicly traded LPG company in the country. Since the very beginning, Aygaz has adopted a pioneering role in the industry, and built a strong corporate culture.

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

Turkish LPG market

Cylinder gas customers	Autogas vehicles	Bulk gas customers
7.5 million	4.7 million	8 thousand

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

Once again, industry leader in 2018

Aygaz left behind another successful period in both operational and financial terms. According to the Energy Market Regulatory Agency (EMRA) data, in 2018, Aygaz maintained its clear industry leadership in the market where 93 companies operate. As of end of November, the overall market share of Aygaz is 27%, with 42% in the cylinder gas and 22% in autogas segments.

Aygaz's total sales (cylinder gas, bulk and autogas) amounted to 1,092 thousand tons last year in the domestic market. This figure, including wholesale, export and transit sales, reached 2 million tons. As of 2018 yearend, Aygaz has recorded TL 9.6 billion in consolidated turnover.

International initiatives

Upon evaluation of similar practices in the industry, consideration of developments, and close monitoring of the opportunities in international markets, the company decided to open a branch in London. With this international initiative, Aygaz aims to engage in trading and to carry out other activities that will help to increase its trade volume with third parties in foreign markets, support import, export and transit operations, generate additional value from the supply chain.

A successful year in digital transformation

On its digital transformation journey, Aygaz continues to charge ahead toward its target with firm steps. The digital transformation activities continued in 2018 with 15 main projects and 40 communication and training activities under six initiatives. Technology and infrastructure upgrading activities, as two effective components of digital transformation, are also fast underway.

In implementing the Digital Transformation Program, the focus is on mobility, data analytics and artificial intelligence while the goal is to make most effective use of the opportunities that digital technologies provide. A digital transformation roadmap is applied successfully for this purpose.

With the Sales Assistant Project developed within this scope, sales divisions started to manage all processes in the field effectively. The projects implemented with the "data-based decision making" approach, which aims to benefit from the power of data, have resulted in high efficiency. Aygaz places people at the center of its digital transformation, and aims to enrich mobile platforms and working environments that are accessible from any location, in the future.

As part of the digital transformation efforts, Aygaz Express (AES) customer and order tracking app is updated in line with developing technologies. The app has been launched for smart devices and given a more user-friendly interface as work continues for wider implementation.

LPG sourcing with robust infrastructure

In contrast to other LPG companies in Turkey, Aygaz benefits from a broad range of suppliers of different origins, contributing significantly toward ensuring seamless LPG operations.

Aygaz, with its robust infrastructure and high sales volume, is one of the few companies that can discharge the largest LPG vessels alone and at a single port. Aygaz meets a significant portion of the LPG sourced for Turkey.

Aygaz ranks 11th in Istanbul Chamber of Industry's 2017 list of Turkey's Top 500 Industrial Enterprises.

LPG market share

27%

Total domestic sales*

1,092 thousand tons

*Cylinder gas, autogas and bulk gas

Aygaz adopts a business culture that places the consumer at the core of its activities, constantly improving product and service quality by anticipating their needs.

2.5

TL million

invested in the R&D Center

A business culture that places the consumer at its core

According to the results of independent customer satisfaction surveys conducted in 2018, Aygaz has been named the brand with highest customer satisfaction in the industry both in the cylinder and autogas segments as in previous years.

Aygaz adopts a business culture that places the consumer at the core of its activities, constantly improving product and service quality by anticipating their needs. The extensive distribution network plays an important role in the superior service quality of Aygaz. With more than 2,400 cylinder gas dealers and over 1,700 autogas stations across Turkey as of 2018 yearend, Aygaz meets the demands of customers quickly and safely. Through this strong distribution and service network, 60 thousand Aygaz cylinders are delivered to homes every day while nearly 200 thousand autogas-powered vehicles fill up their tanks at stations of Aygaz and its brands.

Efficiency in LPG supply through technology

Aygaz, running Turkey's largest LPG logistics operations, utilizes economies of scale as part of logistics optimization efforts. The company coordinated the number of vehicles, capacities and distribution network based on volume and distribution of sales. With over 200 autogas tankers, Aygaz boasts Turkey's largest LPG truck fleet.

The company uses the Station Inventory Management and Routing System to plan the LPG supply operation of more than 1,700 autogas stations. The objective of this project, as part of digitalizing business operations and data analytics, is to manage the distribution network through person-independent optimized routes by creating accurate order requests, thereby contributing to increased efficiency and dealer satisfaction.

50 years in maritime transportation of LPG

In addition to road transportation, Aygaz is also actively involved in maritime transportation of LPG. The company has left behind 50 years in maritime transportation, which first started in 1967, and assigned the management of its LPG carriers to its subsidiary Anadoluhisarı Tankercilik A.Ş. in 2010. The fleet currently has a total capacity of 28,800 cubic meters with three specially equipped, full-pressure carriers with an average age of 12 years.

In 2018, Anadoluhisarı Tankercilik accounted for 17% of Aygaz's maritime procurement and transportation activities. In January 2018, M/T Beykoz, an Aygaz vessel, was chartered. The plan is to extend the charter period of M/T Beykoz for another year, with four months in 2019 already confirmed. This long-term charter, which is a first in the company's vessel management business, Aygaz R&D Center, established in 2018, aims to contribute to a cleaner world through innovations and studies on expanding the application areas and improving efficiency of LPG, described as the "Fuel of the Future" by the World LPG Association (WLPGA).

took Aygaz to the international maritime market. This experience also enables monitoring of global LPG trade.

World-class facilities

Aygaz strives to deliver its products to consumers with the highest quality service system in the country, and operates five world-class marine terminals equipped with the latest technologies. Furthermore, there are six filling plants, nine distribution centers, and a pressurized container and accessory manufacturing plant at the company's disposal. With total 178.4 thousand cubic meters, Aygaz has Turkey's largest LPG storage capacity.

Innovation with the R&D Center

Aygaz continues to make investments to ensure sustainability in line with technological requirements. The R&D Center, launched with an investment of TL 2.5 million within the Gebze Plant, aims to contribute to a cleaner world through innovations and studies on expanding the application areas and improving efficiency of LPG, described as the "Fuel of the Future" by the World LPG Association (WLPGA). In 2018, Aygaz spent TL 108 million in total investment expenditures as part of plant modernization, efficiency increase, and environment and occupational health and safety (OHS) activities.

Cylinder Tracking Project

As the Cylinder Tracking Project, launched in 2015 to ensure that the cylinders are tracked from the plants to the dealers and all the way to the customers, spread across the country, the Data Matrix Barcode Scanning System has been installed in all the plants and the data matrix barcodes developed for this purpose have been placed on the cylinders. The activities to build the infrastructure that will enable tracking of cylinder movements between the plant and the dealer are currently underway.

Products with international certification

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

Employee-friendly technology

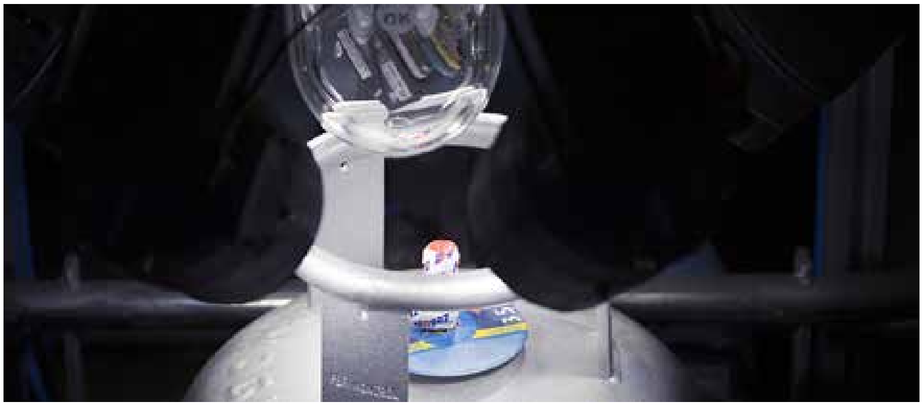
Aygaz manufactures its products such as cylinders, valves, regulators at the Gebze Plant, located within the Gebze Organized Industrial Zone. The Gebze plant, with quality, environment, occupational health and safety and energy management system certificates, stretches across 52 thousand square meters of open area and 25 thousand square meters of indoor space. The new robotic and domestic cylinder deep drawing press investments contributed to improved production technologies while the welding line has been completely relocated to create a more ergonomic and efficient work space. An investment has been made to relocate and upgrade the reheating furnace in order to improve printing capabilities for achieving visual variety.

New products

The compact regulator, which sold 6 million units since 2004 when it was first produced, was redesigned in line with the demands of the consumers and launched in September. The design of the high pressure regulator, as another member of the product range, has been revised, and and preparations have been completed to launch the product in the new year.

Pressurized container exports

Since 1962, more than 70 million cylinders, approximately 40 thousand tanks and more than 130 million valves and regulators manufactured at the Gebze Plant have been used in 50 countries. In 2018, the sales were extended to five additional countries and 17 new LPG distribution companies.



Cylinder Gas

As the leader of the cylinder gas sector since its establishment, Aygaz is a pioneer in the industry with the innovations and campaigns it launches.

Cylinder gas market share

42%

As of November 2018

Aygaz operates in the cylinder gas market with over 2,400 Aygaz and Mogaz cylinder gas dealers and more than 5,000 dealer employees.

Aygaz, regarded as the generic brand of cylinder gas in Turkey, has maintained its pioneering and leading position in the market since its establishment. Empowered by its established corporate culture, qualified workforce, excellent service approach, and widespread and effective dealer network across Turkey, Aygaz acts on customer insights, expectations and needs to create value by implementing innovative applications.

Aygaz, leader of the cylinder gas market

According to EMRA's November industry report, Aygaz maintained its leadership with 42% market share.

Practices leading the industry

Driven by its excellent service approach and ultimate customer satisfaction principle, Aygaz created a new order channel for customers using its knowhow and strong technological infrastructure. Aygaz Online Sales Platform was launched to respond to the needs that arise with digital channels becoming an integral part of daily life. This application, a first in the industry, enables customers to place orders and make their payments via the Aygaz website. With the system designed to make customers' lives easier, orders can be submitted with one click. In addition to cylinder gas products, the online sales system also offers customers the option to order cylinder connection equipment and devices such as regulators and LPG hoses as well as Pürsu carboy water.

The efforts to develop Aygaz Express, the digital customer and order tracking system of Aygaz further, continued in 2018. The upgraded Aygaz Express System aims to

Aygaz was named the brand with highest customer loyalty in both the cylinder gas and autogas categories for the third consecutive year in the Turkish Customer's Voice Survey conducted by Quality Association of Turkey in partnership with Ipsos.

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

Trainings and campaigns that make a difference

Aygaz operates in the cylinder gas market with over 2,400 Aygaz and Mogaz cylinder gas dealers, serving customers with more than 5,000 dealer employees.

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

Aygaz also organizes trainings aimed at raising the awareness of customers about safe cylinder gas usage. Information on brand communication and corporate social responsibility projects are also shared during the trainings that instruct proper use of cylinders and their equipment.

With the safety campaign organized last year, customers were informed about regulators and LPG hoses for safe use of cylinders, and also offered an opportunity to purchase these devices at special prices. Alongside the campaign, new regulators in different colors and barcode designs were also offered to the customers.

Successful communication activities in digital channels

Aygaz follows the changing media consumption habits closely, and supports communication activities that strengthen brand perception in national and local conventional channels with the use of other popular digital platforms, especially social media.

In 2018, Aygaz sponsored the TV show, “Anatolian Flavors with Sahrap” with food writer and expert Sahrap Sosyal to enhance brand recognition and strengthen the connection between Aygaz and the consumers. The 21-episode TV show, which reinforced the perception of “Meals are Cooked with Aygaz”, featured various cities to further enhance the strong brand image by promoting Aygaz with its countrywide distribution network.

Campaigns with effective collaborations

Campaigns conceived together with business partners from different industries continued in 2018, like in the previous years. Credit card campaigns prepared with partnering banks by considering both national and local needs and preferences of customers, supermarket campaigns in various cities, and digital campaigns based on changing consumer behavior were all welcomed and appreciated by customers as well as dealers. In this manner, the brand image and service quality of Aygaz was supported, contributing to the realization of company targets.

Turkey's favorite brand

For the third consecutive year, Aygaz was named the brand with highest customer loyalty in the cylinder gas and autogas segments in the Turkish Customer's Voice Survey conducted by KalDer (Quality Association of Turkey) in partnership with Ipsos. At the 23rd Communicator Awards, which honors marketing and communications activities that make a difference, the Online Sales and Keyifli Bahçe (Delightful Garden) websites of Aygaz won the Communicator Award of Distinction in the “Websites General Marketing” and “Websites General Shopping” categories, presented to the projects that go beyond the industry standards in terms of quality and success.

WHAT BUILDS THE TRUST THAT FUELS US

is the energy which motivates us to always raise the bar higher with a pioneering and innovative perspective beyond leadership.


AYGAZ
AYGAZ
AYGAZ
otogaz+
AYGAZ
AYGAZ

Autogas

With successful operations in the sector, Aygaz also contributes to the sustainable and vigorous development of the Turkish autogas market.

Autogas market share

22%

As of November 2018

Aygaz, serving with over 1,700 autogas stations in Turkey, has the most extensive distribution network in the country.

With 730 thousand tons of sales volume and 22% market share in 2018, Aygaz is hands down the leader of the autogas segment in Turkey, which is the second largest autogas market worldwide. Aygaz with the most extensive distribution network in the country thanks to its 1,700 autogas stations, has a station efficiency above industry average.

The awareness about autogas, an ecofriendly and economic fuel, is growing by the day among consumers in Turkey and around the world. Advancements in the technologies used in conversion systems also have a positive impact on the consumers' perception of performance and safety. The consumer segment continues to expand steadily, with more upper-segment automobile owners opting for autogas in the recent years.

Aygaz concentrates its efforts on supporting the sustainable and healthy development of the industry, and further increasing its competitive strength in its segments. For this purpose, the company focuses on developing proactive marketing strategies, offering solutions that exceed consumer expectations, and expanding the distribution network.

Campaigns that stand out in the industry

Since the early years when autogas market began to take shape in Turkey, Aygaz has undertaken a wide variety of activities and introduced numerous firsts for healthy and sustainable development of the industry through product differentiation and by adopting it as a principle to raise awareness about autogas. In line with this approach, a new advertising campaign was launched in 2018 to emphasize that autogas is a high performance fuel. The results of the three-year long R&D activities carried out by Aygaz were combined with the fact that Aygaz Otogaz is the most recommended brand by LPG conversion specialists, who are regarded as experts by consumers, and a communication campaign was created. The “monster truck” designed and built specifically for the campaign was used as an engaging element together with the slogan “Don’t Say It without Driving It First” (“Binip Binmeden Konuşma”). In this manner, autogas was emphasized as a high-octane fuel with positive impact on engine performance and efficiency, while the campaign also drew attention to the myths about autogas.

As a continuation of this communication activity, a special sweepstakes was organized for autogas consumers. Concurrently with the sweepstakes campaign, a communication activity was carried out to support both the main ad campaign, and to reinforce the Aygaz brand perception and brand loyalty. The campaign was carried out mostly via the Aygaz mobile app in line with Aygaz's digitalization vision. This also helped to increase the number of mobile app downloads.

Long-term sponsorship activities were carried out through the year for the Mogaz Otogaz brand to support brand recognition. Communication activities were built around the notions, “value for money” and “fuel savings” with a focus on the “long-lasting fuel” theme.

Sports marketing

Communication activities within the scope of sports marketing continued in 2018. Aygaz, with its Mogaz brand, has been the title sponsor of Beşiktaş men’s handball team, one of the most successful clubs in its field in Turkey since 2014. Aygaz also became a sponsor of Fenerbahçe Football A Team in 2018. Communication activities aimed at sporting events also continue

with ads running during Turkey's most watched games and matches.

Customer loyalty affirmed with awards

Aygaz was named the brand with highest customer loyalty in both the cylinder gas and autogas segments for the third consecutive year in the Turkish Customer’s Voice Survey conducted by KalDer (Quality Association of Turkey) in partnership with Ipsos.

Region-specific campaigns and communications

In 2018, Aygaz continued its communications efforts and campaigns on national scale and also organized local campaigns aimed at consumer expectations. The company enhanced customer satisfaction and brand loyalty organizing campaigns and communication activities in a number of cities in response to local needs and expectations of customers.

Aygaz aims to contribute to the advancement of the autogas conversion sector as one of the keys to vigorous and sustainable development of the autogas market. For this purpose, the Aygaz Conversion Club, established in 2006, continued to work intensively in 2018. The Aygaz Conversion Center, opened in Antalya as a first in Turkey, aims contribute to the autogas industry and conversion sector.

In 2018, to emphasize the high performance characteristic of autogas, an advertising campaign was launched featuring the “monster truck”.

Bulk Gas

Aygaz, serving a customer portfolio of nearly 2,500 in the bulk gas segment, sold over 30 thousand tons in 2018.

Bulk gas , with nearly 3% share in the Turkish LPG market, is used for heating, hot water and cooking needs in homes and for production as well as heating in commercial and industrial enterprises. Bulk gas consumption is based on the principle that LPG is transported by tanker trucks and stored in the tanks of consumers.

The Standardized LPG (Aerosol), included in the same segment and used as a propellant in products, undergoes a special treatment process by Aygaz, and it is then stored separately and transported by a different fleet.

Aygaz, serving a customer portfolio of nearly 2,500 in the bulk gas segment, sold over 30 thousand tons as of 2018 yearend.

Pürsu

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

In 2011, Aygaz started selling bottled water to generate additional value from its strong distribution network and to offer a new line of business for dealers. In the bottled water industry with more than 300 brands, Pürsu ranks among the leading brands.

With a performance in parallel with the previous year, Pürsu sold 8.5 million carboys in 2018. The water obtained from three sources, Uludağ, Nazilli and Sapanca, is delivered to customers under the Pürsu brand by 400 dealers in 35 provinces.

SUBSIDIARIES

Aygaz Doğal Gaz

Aygaz Doğal Gaz aims to reinforce its position following closely the developments and new business opportunities in the market.

Aygaz Doğal Gaz was founded in 2004 with the vision of becoming a diversified player in the growing natural gas market in Turkey.

Aygaz Doğal Gaz started selling piped natural gas in 2010 and increased its sales volume by expanding its customer portfolio through various procurement agreements, achieving TL 1 billion in turnover with natural gas sales of total 830 million m^3 in 2018. With this sales volume, the company takes 10% share from the wholesale sector in which approximately 20 companies operate. In this period, Aygaz Doğal Gaz was not involved in any imports or exports.

Aygaz Doğal Gaz holds a 30-year Wholesale license from the Energy Market Regulatory Authority (EMRA) to sell the natural gas sourced from the domestic market to users, as well as a 30-year Transmission license to transmit liquified natural gas (LNG) to consumers. Aygaz Doğal Gaz is also licensed for Spot LNG Imports since the company aims to drive its operations further with natural gas imports in accordance with its targets and strategies. In 2018, Aygaz Doğal Gaz filed an application with EMRA for Export license in order to benefit from export opportunities.

Prominent player in the bulk LNG market

The LNG market in Turkey has reached a size of approximately 600 million m^3 in line with the increase in the energy requirements of consumers, especially in the asphalt, food and tourism industries, and public institutions. The LNG procured from the Marmara Ereğlisi terminal of Boru Hatları İle Petrol Taşıma Anonim Şirketi (BOTAŞ) and Aliağa terminal of Egegaz is distributed all around Turkey by special LNG trailers to consumers in locations without access to pipelines.

In 2018, Aygaz Doğal Gaz achieved TL 140 million in turnover from the sales of 80 million m^3 of LNG. With this sales volume, Aygaz Doğal Gaz took approximately 13% market share among nine licensed companies.

Aygaz Doğal Gaz monitors the developments and new business opportunities in the bulk LNG market and new business opportunities closely and steadily reinforces its position in the market. For this purpose, the company carried out pilot studies about the use of LNG as fuel in heavy vehicles and vessels. The developments and opportunities in this field are also followed continually.

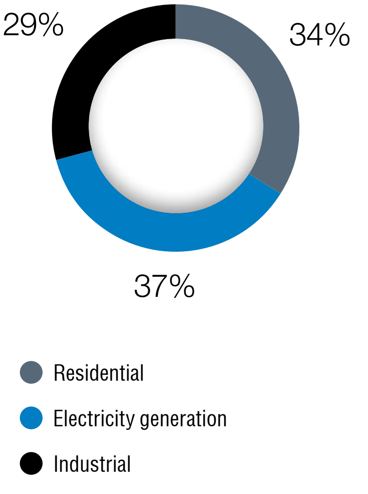
Natural gas use continues to gain more ground by the day

Natural gas is used primarily in homes as well as electricity generation and industry. Natural gas consumption in the Turkish market is estimated to be around 50 billion m^3 in 2018. The procurement of natural gas in Turkey is carried out by nine companies with BOTAŞ in the lead. In 2018, the private sector met approximately 7% of the domestic demand.

Continued subsidies applied on domestic natural gas prices and increases in exchange rates have made it impossible for the private sector companies to sell gas to end users at competitive prices. In this period, it has only been possible to sell a limited amount of gas to some natural gas conversion plants where the subsidies were relatively stretched. Furthermore, since the international LNG prices were more costly than domestic sales prices, the private sector was unable to import LNG from pipelines, and the needed LNG was only imported by BOTAŞ.

In line with the objective of liberalizing the natural gas market in Turkey, both the public and the private sectors are working heavily for this purpose. Accordingly, the Organized Natural Gas Wholesale Market was established by Enerji Piyasaları İşletme A.Ş. (EPİAŞ) to ensure high liquidity in natural gas trade in an open and transparent environment. Aygaz Doğal Gaz has 0.67% stake in this legal entity.

Areas where natural gas is used



Reference: Aygaz

Anadoluhisarı Tankercilik

Anadoluhisarı Tankercilik carries out its operations with over half a century of experience in maritime transport.

Aygaz is actively engaged in maritime transport as well as land transport. Conducting maritime transport of LPG since 1967, Aygaz transferred the management of its vessels to its subsidiary Anadoluhisarı Tankercilik in 2010. The fleet currently consists of three specifically equipped and fully pressurized ships with a total capacity of 28,800 m^3 and an average age of 12 years.

Anadoluhisarı Tankercilik accounted for 17% of Aygaz's maritime procurement and transportation activities in 2018, including charters and ad hoc transports by its own fleet. Due to a change in Aygaz's Black Sea supply structure, the purpose of the fleet has also changed. In order to utilize the surplus capacity, the fleet has been made available for external customers, allowing it to work productively through the year. M/T Beykoz was chartered for two years starting from the beginning of 2018 with the longest contract in the maritime history of Aygaz. Since then, the vessel has been operating between Indian Ocean, Middle East and East African ports.

Anadoluhisarı Tankercilik, as the holder of quality (ISO 9001:2015), safety (ISM Code), security (ISPS Code), environment (ISO 14001:2015) and occupational health and safety (OHSAS18001:2007) management system certifications, has been implementing the Tanker Management Self-Assessment Model in its fleet since 2008. The company successfully completes the audits regularly conducted by major oil suppliers as well as other inspections required by applicable regulations (class, flag state, port state, insurance, etc.). In line with the digitalization targets of Aygaz, quality processes, including document submissions have been moved to electronic medium and are currently managed on this platform.

Pursuant to environmental legislation, studies are carried out to measure and report maritime shipping-related emissions in line with IMO-EU Greenhouse Gas Monitoring Rules and Sulfur Reduction, which will come into force in 2020.

Anadolu Tankercilik, generally operating with 90 employees on average, completed 2018 with 99.3% employee continuity and 66 hours of training per employee. The Collective Labor Agreement covering the seafaring employees that Anadoluhisarı Tankercilik signed with the Turkish Seamen's Union on 15 June 2017 ended to 31 December 2018. Negotiations for the next period are ongoing.

Akpa

Akpa, with its deep-rooted history, is among Turkey’s leading sales and marketing organizations, specialized in cylinder gas and carboy water sales, and fuel trade.

Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş., with a history of nearly half a century, is one of Turkey’s leading sales and marketing organizations, specialized in direct sales of cylinder gas and carboy water as well as fuel trade. In addition to wholesale of fuel products to corporations, Akpa also provides retail services for individual customers through its own station.

The company recorded TL 523 million in turnover in 2018. Having maintained its cylinder gas sales volume year on year, Akpa continues to expand its service territory, focusing on direct sales to households and workplaces as part of its sales strategy.

Akpa also sells carboy water to businesses, cylinder gas dealers and retail customers. The company sold 2.4 million Pürsu-branded carboys in 2018.

AFFILIATES

Entek

Entek aims to form a balanced production portfolio with renewable energy investments and to build on its strength by establishing sustainable, long-term business models through distributed energy solutions.

Entek, the electricity production company of Koç Group, currently operates eight hydroelectric power plants (HEPPs) located in Karaman, Samsun, Mersin and Kahramanmaraş with total 265 MW, and a natural gas cycle plant of 157 MW in Kocaeli, which all add up to 422MW of installed capacity.

Entek considers the buyer market situation – created as asset prices reached reasonable levels in recent years – as an opportunity to grow in the electricity market. Accordingly, in September 2017, Entek submitted the highest bid to the Privatization Administration and was granted operating rights of the 178-MW Menzelet and Kılavuzlu HEPPs for 49 years.

Following the bid process, the necessary approvals were obtained, and Menzelet and Kılavuzlu HEPPs were taken over by Menzelet Kılavuzlu Elektrik Üretimi A.Ş., wholly owned by Entek, and put into operation on 9 March 2018.

Entek carries out direct distributions through its wholly-owned affiliate Eltek. With long years of experience and knowhow gained in the electricity market, Eltek operates in the field of wholesale energy trading in the bilateral agreements market, and supplies electricity at affordable prices to Koç Group companies as well as consumers outside the group.

Entek prioritizes renewable energy investments, paying special attention to the diversity of production sources with the aim of becoming a leading power generation company in terms of capacity. The company aims to form a balanced production portfolio structure and increase its market share in the coming years.

Entek carries out activities to establish sustainable, long-term business models by focusing on distributed energy solutions with the objective of taking part in every stage of the energy chain. In this manner, Entek aims to increase the energy efficiency of its customers both within and outside Koç Group, to help them with on-site production and consumption, and to add value to all its stakeholders through smart energy solutions.

Opet Aygaz Gayrimenkul

Opet Aygaz Gayrimenkul, with 21 stations countrywide, focuses on reinforcing the market presence of Aygaz.

Opet Aygaz Gayrimenkul A.Ş. was founded in 2013 to invest in properties that can be operated as fuel or autogas stations at various locations across Turkey. The company, an equal partnership between Aygaz A.Ş. and Opet Petrolcülük A.Ş., owns 21 stations as of 2018 yearend.

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

Enerji Yatırımları (EYAŞ)

Enerji Yatırımları A.Ş. (EYAŞ) was founded in 2005 to acquire 51% of the shares of Tüpraş, Turkey's largest industrial corporation, from the Privatization Administration. Aygaz holds a 20% stake in Enerji Yatırımları A.Ş. As the pioneering producer in the refinery industry in Turkey, Tüpraş operates in refining, distribution, oil and petroleum products, and maritime transport. With an annual crude oil processing capacity of 28.1 million tons, Tüpraş is the 7th largest refinery company in Europe.

Human Resources

Aygaz has maintained its industry-leading position for 57 years, thanks to its highly qualified human resource that values participation, awareness, digitalization and innovation.

Average training time per person

39.2

person*hours

Aygaz believes that the most important resource behind its success and leadership is its employees. Aygaz manages its team of creative, skilled and enthusiastic people according to its human resources policy, built on the motto of its founder Vehbi Koç, "Our human resource is our most important asset," and based on modernity, transparency, and equality principle, and the benefits of all stakeholders.

As of 2018 yearend, Aygaz employs 1,325 people in average, the workforce consisting of 688 office employees and 637 field employees. At Aygaz, 12% of employees are female, and 88% are male. The average age of employees is 38.7 while tenure average is 9.5 years. People with undergraduate and graduate degrees account for 42% of all employees. This ratio reaches 77% in office employees.

Right candidate for the right position

Aygaz carries out various promotional activities, enhanced with the Koç Group employer brand approach, to attract competent employees, and applies selection and placement processes. The events hosted at universities to reach young people who will define the vision and form the foundations of the future are an important part of these activities. Aygaz also organizes employer brand activities through a number of university and communication channels to instill constructive and pioneering corporate culture in young people, to inform them about the industry and Koç Group, and ultimately to win skilled young employees.

The selection and placement processes carried out for the purpose of attracting qualified human resource to Aygaz include group interviews with participation from all management levels, case studies, presentations, foreign language assessments, numerical/verbal/personality inventories, and reference checks. Employees who are selected with great care and diligence based on "the right candidate for the right position" and "equality at work" principles start their careers at Aygaz with a comprehensive, interactive and digital orientation program that includes introduction to Aygaz Group and visits to dealers, terminals and plants.

Mutual feedback and continuous focus on development

Aygaz considers the continuous development of its human resource with mutual feedback a priority in its organizational structure, allocates resources for the personal development of its employees, and encourages them for this purpose. The 360-Degree Competency Assessment System offers the employees an opportunity to receive feedback from different levels and functions including superiors and peers, to evaluate themselves and to plan their personal development, from employees to managers.

The Mentoring program, implemented in line with Koç Group policies, gives the employees an opportunity to expand their vision in regard to their career and development plans. In 2018, 12 employees benefited from this program, which was based on mutual communication and development, and in which participants exchanged recommendations. With the "Reverse Mentoring" program, which was first offered in 2018, mentorship is provided to senior executives in management levels of various functions by young and junior employees about such topics as the expectations of younger generations, needs in the new age and digitalization.

Recognition and rewarding processes that promote competence and merit

"Aygaz'ın Yıldızları" (The Stars of Aygaz), the recognition and rewarding process of Aygaz, which was renewed and relaunched in 2018, is a nomination and reward system that focuses on recognizing and rewarding the selfless work of employees beyond their job descriptions, as well as employees that make a difference in their current positions within the framework of open communication and equality principles, and promotes competence and merit. Employees are nominated in seven different star categories: Stars Focusing on People, Stars Encouraging Development, Transforming Stars,

In 2018, the recognition and rewarding program of Aygaz was renewed and relaunched as "The Stars of Aygaz" and 223 employees were rewarded as part of the program.

The objective of the communication plan prepared annually at Aygaz is to build an internal communication culture that embraces different regions and generations, employee expectations and new generation needs.

Value Adding Stars, Result Getting Stars, Collaborating Stars and Stars focusing on Customers. The candidates are evaluated at regular intervals by nine different functions' committees based on these seven categories. Candidates deemed worthy of rewards are determined at the relevant functions' committee meetings. In 2018, 223 employees were rewarded as part of this program.

Performance management based on objective criteria

Aygaz adopts the principle of spreading the company targets across all employees starting from senior management as the basis of its performance management system in order to assess employee performance objectively. Accordingly, the performance system aims to reward the creation of sustainable values instead of short-term returns, and uses objective and numerical criteria for assessment.

Sustainable efficiency through employee loyalty

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

Aygaz evaluates the feedback received from its internal customers every year in order to maximize employee loyalty and satisfaction on all levels. Accordingly, the company has been conducting surveys to measure satisfaction and loyalty through an independent research firm since 1996. The outputs of these surveys are used to analyze the strengths and development areas, review business processes and human resources policies, create action plans, and ensure sustainable loyalty.

Focus on continuous training and development

Aygaz places continuous training and development at the core of the human resources system, and aims to expand employees' vision and to support their technical skills, knowledge, competencies and personal development. With the help of the competency assessment system, employees are able to plan their development based on feedback from their superiors and peers, and also identify their development needs through manager-employee interviews conducted as part of the performance process, and define a short and long-term training and development plan. In addition to technical training, Aygaz also provides employees with training for personal development. One of the priority training topics is improving the foreign language skills of employees. Accordingly, all employees who wish to improve themselves are offered online, classroom and one-to-one English language education. Thanks to the Koç Academy System, employees can also take trainings anytime, anywhere in electronic medium.

Taking its cue from Koç Group's management and leadership competencies, Aygaz implemented AygazLEAD, which contains various modular training programs to improve the leadership skills of managers. AygazLEAD is a five-module program – prepared in line with today's needs and strategies – that focuses on a number of current topics, such as leadership skills, feedback, situational leadership, innovation, coaching, and digital world trends. The program includes the opportunity to practice with simulations and individual activities that participants can follow after training. Furthermore, Aygaz offers the opportunity to attend Koç Holding Leadership Programs, Koç University Executive MBA, and Modular and Technical MBA programs.

“My Career Journey” program, which was launched to raise both personal and systematic awareness and build “personal leadership culture”

with a holistic perspective, and the "Development in the Field" program to train sales leaders specialized in their fields, aim to make a difference in the relationship management and professional lives of the employees.

With "The Seven Habits of Effective People" training as part of Personal Development, designed for office workers who are not in management positions, seven habits that enable the person to be productive are addressed individually, aiming for the participants to learn how to become more effective in work, private and social life. In order to support the personal development of Aygaz field employees, "Rhythm at Work" workshops are organized. In 2018, 650 employees took these trainings, which aim to ensure better understanding of one other, encourage communication and increase team work.

According to the 2018 training report, the average training time per employee reached 39.2 person*hours with the investments made in employee development.

Internal communication culture based on cooperation and solidarity

The objective of the communication plan prepared annually at Aygaz is to build an internal communication culture that embraces different regions and generations, employee expectations and new generation needs. In the annual employee engagement survey, the communication plans are reviewed, renewed and kept up-to-date based on feedback received from employees.

The activities carried out within this scope include business results sharing meetings, region and facility visits, service award ceremonies, sports festival, picnics, "BizBize" talks and health month events. Additionally, company trips are organized for employees to discover different regions/cultures, spend time together outside of workplace and strengthen relationships. The goal of "Out of Office" events, accompanied by management level employees, that appeal to various hobbies is to strengthen communication and encourage cooperation among employees from different functions and levels.

Key human resources policies at Aygaz

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

WHAT MAKES US A PART OF LIFE

is the energy we generate to make every day easier with different solutions where needed since day one.


AYGAZ

Quality, Environment, Occupational Health and Safety

Aygaz manages all business processes with sustainability awareness, while efficient use of natural resources and protection of the environment and stakeholders are the company's strategic priorities.

Aygaz continues to work on improving and expanding the scope of its Total Quality Management approach, which was adopted in early 1990s.

Aygaz highly values the importance of product and service quality and customer satisfaction, and carries out its operations focused on sustainability and environmental sensitivity. As part of the efforts to achieve this balance, management systems have been integrated as a priority. The extensive work on occupational health and safety, and the value attached to environmentally sensitive business processes, innovation, intellectual property rights, product, service and system quality, and the management systems, all contribute to further strengthening the leading position of Aygaz in industry.

Integrated management of business processes

Aygaz continues to work on improving and expanding the scope of its Total Quality Management approach, which was adopted in early 1990s. The Integrated Management Systems are applied to ensure that all systems regarding quality, environment, occupational health and safety, customer complaints, energy and information security are managed in an integrated manner under one roof. Integrated Management Systems Policy was revised in 2018 to respond to latest needs. All Aygaz employees are required to implement the integrated Management Systems Policy. The handbook, created to provide information and guidance, is kept up to date and made available for all at www.aygaz.com.tr. In 2018, the trainings of internal auditors were updated and inspections were conducted according to the sampling model within the scope of Integrated Management Systems. In this context, one third of the locations operating in similar activities were selected as sample and a total of 34 internal auditors inspected 47 business units.

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

In 2018, meetings were held to assess whether ISO 27001 Information Security Management System and Integrated Management Systems are carried out in accordance with their respective objectives, and their effectiveness and alignment with strategic goals have been evaluated.

Occupational health and safety activities

Aygaz operates at 12 locations including the Head Office, Gebze Facility and Plants, all holding OHSAS 18001 Occupational Health and Safety Management System Certification. In 2018, works started for transitioning to the ISO 45001 Occupational Health and Safety Standard, to be observed in compliance with other management systems. The company also took part in the activities of Koç Holding Occupational Health and Safety Coordination Board and attended Occupational Health and Safety Platform meetings.

In 2018, total 1,017 person*hours of occupational health, environment and quality trainings were provided to the employees of Aygaz and subcontractors working at the filling and production plants in order to raise awareness on occupational health and safety, and to build a firmer foundation for this corporate culture. Following the trainings, fire drills were executed to make sure that the learned content was internalized. Furthermore, occupational safety specialists and workplace physicians at all facilities also provide occupational health and safety trainings while fire and emergency drills are held regularly.

Aygaz operates at 12 locations, all holding OHSAS 18001 Occupational Health and Safety Management System Certification.

47

Business units inspected by 34 internal auditors

A Security Management System has been set up at all Aygaz locations within the scope of the Regulation on the Prevention of Major Accidents and Reducing Their Impact, and inspected during internal audits.

Environmentally sensitive business processes

For Aygaz, which manages all of its business processes with sustainability awareness, the efficient use of natural resources and the protection of the environment is a strategic priority. Aygaz aims to contribute positively to urban air quality with its environmentally sensitive product portfolio. Aygaz operates in 12 locations, including Head Office, and Gebze Plant and filling facilities, and is the holder of ISO 14001: 2015 Environmental Management System Certificate. Total 531 person*hours of training focused on environmentally sensitive business process was delivered within the scope of environment and waste management pursuant to applicable legislation at terminal offices and filling facilities.

In 2018, electricity consumption in the Head Office, terminal offices, filling facilities, distribution centers and Gebze Plant decreased by 10% year on year, resulting in approximately 18.9 M kWh. The effect of the projects on 2018 was savings of 280 K kWh in electricity and 680 K kWh in natural gas, while the annual effect amounted to 452 kWh in electricity and 680 kWh in natural gas savings. A total of 92 TEP in energy savings and 330 tons of CO_2 emission reduction were achieved on annual basis. In 2018, 14 energy efficiency projects were implemented.

Communication related to environmental sensitivity

As part of the Earth Day activities, a video was created, featuring messages by the children of Aygaz employees about protecting the environment. The video was shared via different channels. The Environmental Newsletter, first released in 2017, was issued in four editions in 2018. Moreover, as part of 2018 World Environment Week

In 2018, 14 energy efficiency projects were implemented at Aygaz.

activities, a talk was hosted with Bünyamin Sürmeli, the Weather Man, on “A Future with No Seasons/Climate Change” to draw attention to climate change and raise awareness among employees.

Turkey’s first sustainability report

In 2002, Aygaz became the first company in Turkey to publish a sustainability report, and since then continued to regularly share its sustainability performance with stakeholders. Starting in 2008, the report is updated every other year in line with the Global Reporting Initiative (GRI) principles. Aygaz fulfils all responsibilities in terms of working conditions, human rights and transparent corporate governance within the framework of the Global Compact signed by Koç Holding, and strives to minimize the environmental impact of its production, services and products. Aygaz carries out the activities in this regard by implementing policies integrated into its management philosophy. This is also included in the Koç Group Sustainability Report. In 2018, the company’s participation in the FTSE4Good Emerging Markets Index continued.

A broad portfolio of intellectual property

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

Integrated Management Systems Policy

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

- Being a pioneering and innovative company in the industry,
- Promoting high quality and safety standards, offering the best products and services,
- Upholding ethical values,
- Seizing strategic growth opportunities,
- Working in compliance with regulations and standards,
- Ensuring that work processes are managed efficiently and developed continuously,
- Prioritizing customer perception, sustainable customer satisfaction and loyalty, and offering applicable solutions with Customer Complaint Management Commitment,
- Ensuring and improving optimal stakeholder satisfaction in accordance with corporate governance principles by seeking stakeholders’ opinions,
- Maintaining the successful level of employee loyalty and satisfaction through regular measurements,
- Carrying out activities to support innovation, digitalization and climate change strategies,
- Working with respect toward the community and the environment, creating a healthy and safe work environment, and developing preventive approaches against possible occupational diseases and injuries,
- Reducing potential negative environmental impact resulting from products and operations by conducting lifecycle analyses,
- Prioritizing energy efficiency in plants, building design and procurement processes,
- Preventing pollution, reducing waste, and ensuring proper disposal of waste by recycling as a priority,
- Considering possible environmental impact, and occupational health and safety risks when making investments,
- Informing the community regarding its operations.

All employees at Aygaz A.Ş. are responsible for applying and building on the principles of the Integrated Management Systems Policy, and providing the necessary resources.

operational activities. The patent portfolio of Aygaz is periodically reviewed and commercial valuation of the patents is carried out.

Corporate innovation culture

As the most innovative company in the industry, Aygaz supports the creativity and entrepreneurship of its employees within the scope of innovation processes. Accordingly, an Innovation Management Process has been launched to consider the opinions of employees and transform every idea that will create value for stakeholders into benefits.

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

With the Aythink Idea Collecting Platform, which was launched in 2016, a structure was created to steer the innovative direction of the corporate culture toward the future. With the In-house Entrepreneurship activity organized three times, 813 ideas submitted to Aythink were evaluated and project teams were created from the owners of selected ideas. Project teams that learned the “Lean Startup” method transformed their ideas into a business model using the “Business Model Canvas”. Project teams that identified the problems by contacting the customers tested the solution prototypes they developed with the customers again. In the past two years, 28 innovation projects have been undertaken and 16 have received investment to move on to the pilot stage.

In addition to the Aythink platform, Design Thinking workshops were held by bringing together all stakeholders in the areas identified for the year to create value as a whole within the company. Workshops were attended by dealers, customers, university students and company employees. At the end of this activity, 364 business ideas emerged and business models were created.

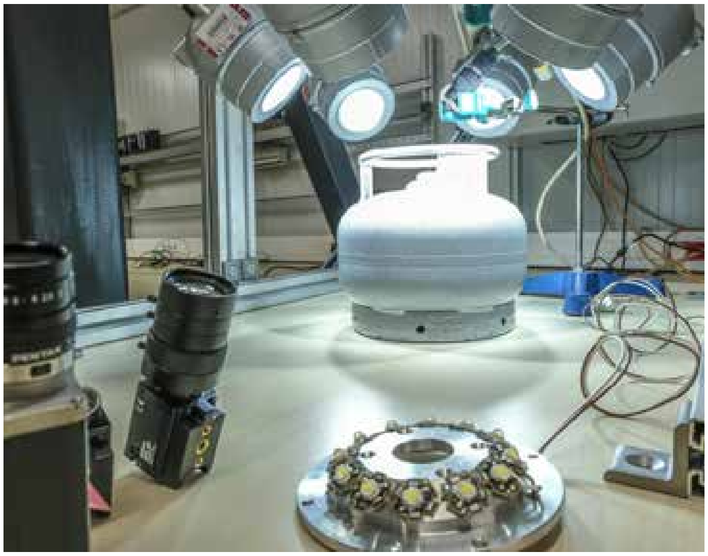
Measuring the innovation and entrepreneurship climate

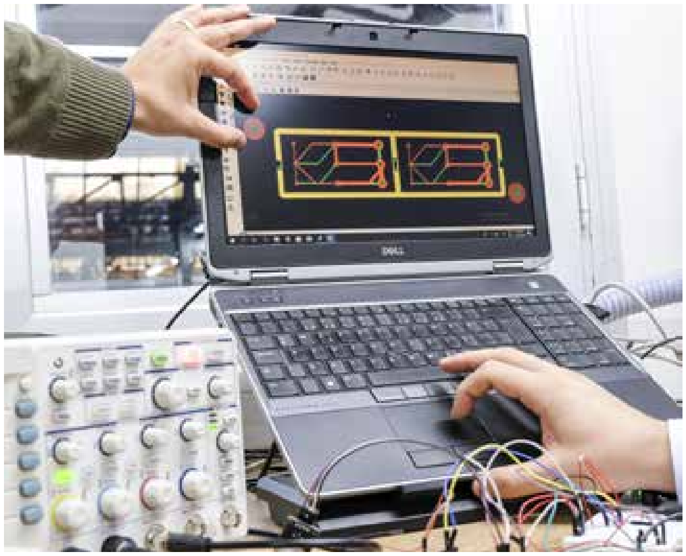
As in every process, measurement is also important in innovation. Therefore, a survey is conducted every other year to determine how much innovation is internalized within the organization and to measure the “innovation and entrepreneurship climate”. With the concept of “Aklınla Bin Yaşa” (Good Thinking) where a question about the innovative corporate culture is asked every month, employees are encouraged to think about the concept of innovation. Furthermore, the project team members' project management skills are improved through immersive activities while the new generation co-working space created within the company and called “Arı Kovanı” (Beehive) offers an opportunity to experience co-working.

Aygaz pays attention to the fact that internationally successful companies achieve innovation not only with internal resources but also by working in tandem with all stakeholders, and subscribes to angel investor networks to seize cooperation and investment opportunities with startups in their ecosystems.

Research & Development

Leading the industry in R&D with 32 national and international patents to its name, Aygaz introduced another first and launched its R&D Center in 2018.





Aygaz follows the latest technological developments closely and carries out R&D activities with the aim of developing innovation-focused new technologies. After laying out the groundwork from the beginning of 2018, Aygaz took the first step toward launching its R&D Center by filing an application with the Ministry of Industry and Technology for it. After evaluations and on-site inspections, the commission decision was announced on October 16, 2018, and the R&D Center became official.

The R&D Center, located within the Gebze Plant, aims to contribute to a cleaner world by working on and developing innovations to expand the use of LPG, which is referred to as the "Fuel of the Future" by the World LPG Association (WLPGA), and to increase its efficiency.

Aygaz reflects its innovation-focused philosophy on all R&D activities and aims at developing new products powered by LPG, improving LPG product quality, ensuring digitalization with smart products, increasing efficiency through automation systems, and researching alternative fuels and clean energy sources with projects carried out at the center.

The R&D Center operates with a team of 18, all experts in their specific fields, and houses an Engine and Fuel Technologies Laboratory, a Chemicals Laboratory, an Automation and Design Laboratory, an Embedded Systems Laboratory, a Manufacturing Workshop, and Prototype and Test Lines.

Greenodor Project: A first in the world

One of the studies carried out at the R&D Center is the Greenodor project, which is a first in the world. LPG, which is a colorless and odorless gas, is normally odorized with sulfur components to be perceived in case of leakage. However, non-flammable sulfur oxides are among the major air pollutants, remaining in the atmosphere for 40 days.

The Aygaz R&D Center is working toward minimizing the use of sulfur in odorizing LPG through a patented project that happens to be a first in the world. With a significant part of the work completed, the center has already registered the trademark in ten countries and is now turning the fuel of the future into an important tool in the fight against climate change by eliminating the use of sulfur as an odorant in autogas and cylinder gas with the Greenodor project.

WHAT KEEPS US GOING WITH DETERMINATION

is the never-ending energy we feel as we pave the way to the future with the awareness that we still have a long way to go.


BiRiZ.
EŞiTiZ.
AYGAZ
otogaz+
Şiddete Karşı Sıfır Tolerans!
Yalnız Değiliz!

Social Responsibility

Aygaz contributes to social development through environment, culture and arts, health and sports projects that take ownership of our heritage and also invest in the future.

Since the very beginning, Aygaz has always been a pioneer and leader of progress and development in all the industries in which it operates as well as social issues, and regarded it as a responsibility to add value to the lives of customers it serves. Going beyond, Aygaz has also implemented several projects with the mission of contributing to the cultural development of the community. Projects continue in line with this mission. Aygaz adopts a corporate citizenship approach and fulfills its responsibilities toward the community in harmony with all its stakeholders, pioneering and leading projects that respect the heritage and invest in the future in a wide range of areas including the environment, social development, culture and arts, health and sports.

CULTURE AND ARTS

Aygaz Library

The Aygaz Library Project, conceived by Aygaz with the aim of bringing together the cultural and historic heritage of its geography with writing and imparting them onto future generations, has become a wealth of reference in the culture and arts world for arts enthusiasts, scholars and university students. Launched in 1996, the Aygaz Library currently features 15 books on various topics including the following: Nemrut, The Mountain of the Gods (Tanrılar Dağı Nemrut), The Photographers of Constantinople (Dersaadetin Fotoğrafçıları), The Treasures of Troia (Troia Hazineleri), The Beginning of the Second Constitutional Era (II. Meşrutiyetin İlk Yılı), Dynasty and Camera - Portraits from the Ottoman Court (Hanedan ve Kamera), and Kat'ı - Cut Paper Works and Artists in the Ottoman World (Kat'ı: Osmanlı Dünyasında Kağıt Oyma Sanatı ve Sanatçıları). In 2018, Your Excellency's Obedient Servant, a book featuring a selection of hand-written letters by some of the leading figures that made their mark on the course of history was added to the Aygaz Library.

Publishing Ottoman era diplomatic documents in book form

The History of Ottoman Diplomacy Project is one of the many cultural activities of Aygaz. With this project, documents and information derived from the Ottoman archives are published in book form. With six more books published in 2018, the total number of published works now stands at 66.

Sagalassos Ancient City excavations

Excavations at the Sagalassos Ancient City, located at the foothills of the Taurus Mountains, with the first settlement dating back to 4200 BC, have been supported by Aygaz since 2005. During the restoration works in 2018, the agora floor, covering an area of approximately 3,500 square meters was prioritized while research and documentation also continued.

The restoration work carried out in the Upper Agora in 2018 focused on all necessary documentation and analyses to preserve the floor coverings. The findings of the excavations, going on since the 1990s were studied, and papers were drafted on the results. The works that focused on Tychaion and Prytaneion monuments in 2018 will continue in the next excavation season.

Ancient City and Castle of Van and Tumulus excavations

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

spanning an area of 95 hectares that includes the Ancient City and Castle of Van and Tumulus.

More archaeological data is revealed every passing year, providing important information about the chronology of the region. As a result of the careful and meticulous works, a compelling finding was uncovered this year. A human's right foot print cast in mudbrick, dating back 2500 years, was preserved and made it to this day. This foot print, approximately size 4, is likely dated to Late Iron Age / Post Urartu period. Another important discovery was a group of burials in hocker position. One of these burials, which is thought to be female, was very rich in findings. The 12 glass bracelets found on the arm of the skeleton, which is thought to be an adult female from the Middle ages, are indicative of the period's glass craft.

İstanbul Theater Festival sponsorship

Aygaz has been supporting the theater for many years. As the co-sponsor of the Istanbul Theater Festival, which presents various international plays to the Turkish audience, Aygaz has continued its support since 2004 and sponsored the 22nd edition in 2018. This year, Aygaz also sponsored a student project within the scope of the festival and introduced young people to the theater, leading young generations to see examples of modern theater.

ENVIRONMENT

What will the weather be like tomorrow?

The project titled "What will the weather be like tomorrow?" launched in 2010 in collaboration Aygaz and the Regional Environmental Center (REC), continued with the support of the Ministry of Environment and Forestry. Meanwhile, educational programs are offered at the Rahmi M. Koç Museum since 2012. The Climate Change Awareness Workshop hosted in the museum's "Discovery Globe" was attended by 13,553 students from 310 schools in 2018. Thus far, 85,846 students from 1,950 schools have attended these workshops.

HEALTH

Diabetic Children's Camp

Aygaz has always been closely interested in public health issues and supported the Diabetic Children's Camp, organized by the Child and Adolescent Diabetics Association since 2004. The 26th camp was organized at the DSI İznik Recreational Facilities with the participation of 96 diabetic children. This camp is one of Turkey's first health camps dedicated solely to children, and aims to teach diabetic children to become self-sufficient while having fun and making new friends. Having hosted over 2,000 children and adolescents in its 26-year long history, the Diabetic Children's Camp sets a great example for other health camps.

SPORTS

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

The support extended to Turkish sports continued in 2018 as Aygaz became a sponsor of the Fenerbahçe Sports Club Professional Football A Team.

FOR MY COUNTRY

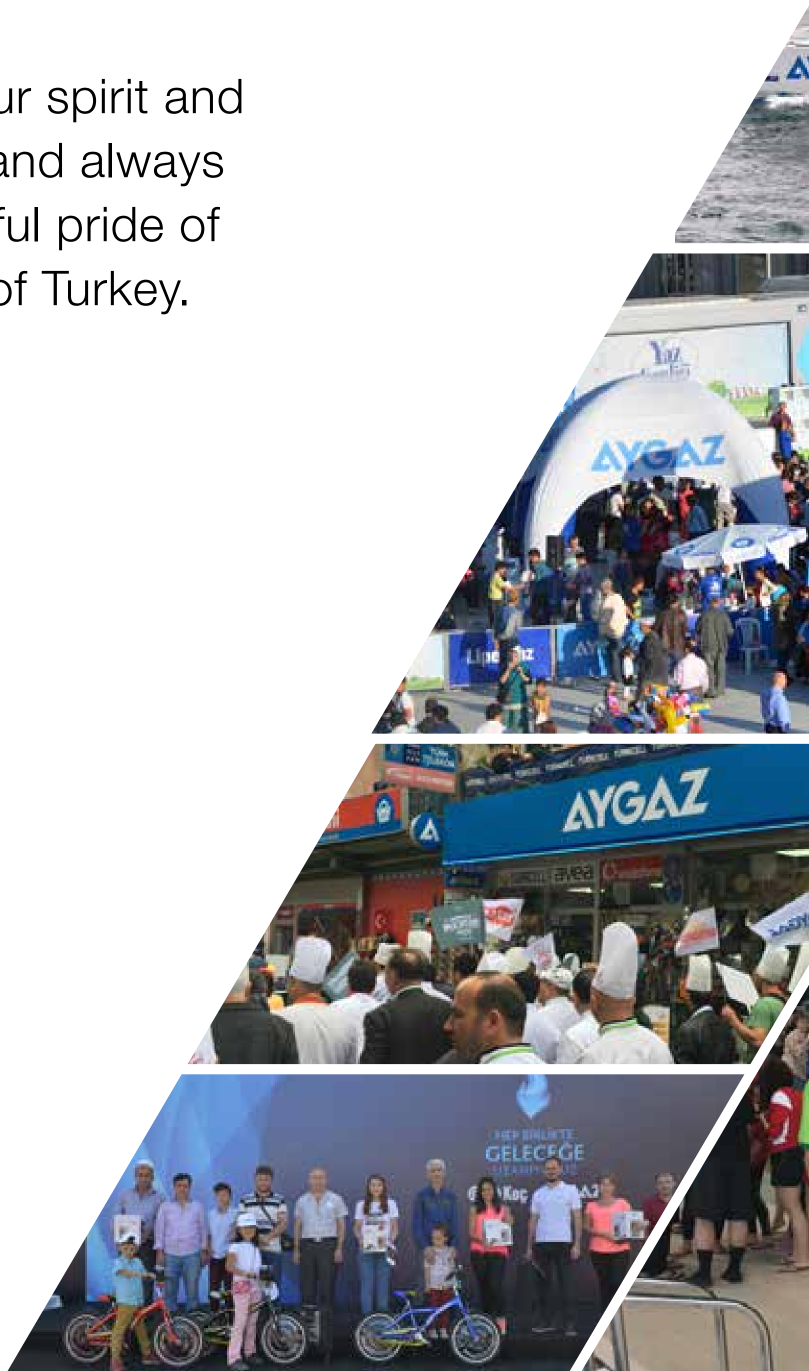
Women's Empowerment Project

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

The support extended to the Domestic Violence help line of the Turkish Federation of Women's Associations, of which Aygaz is a corporate sponsor since 2016, continued in 2018 as part of the project. The help line received nearly 55,000 calls, with over 30,000 concerning domestic violence.

WHAT MAKES US GROW TOGETHER WITH OUR COUNTRY

is the energy that has kept our spirit and excitement alive since 1961 and always enabled us to share the rightful pride of the position we hold with all of Turkey.




AYGAZ

Risk Management and Internal Control

The objective of corporate risk management at Aygaz is to identify potential risks and opportunities ahead of time, and to reach business goals by systematically developing strategies and actions.

Aygaz aims to maximize the value created for its shareholders and other stakeholders by managing corporate risks in line with the company's strategies and goals. Accordingly, internal and external risks are identified and analyzed, risk management strategies are defined, updated processes and action plans are evaluated, and concurrent opportunities are identified with these systematic policies.

Risk management that considers balanced growth and return is applied in accordance with international standards and practices, as well as policies approved and strategic targets set by the Board of Directors, which takes into account feedback from departments and the Risk Management Committee in particular. Given the financial, operational and legal risks encountered due to the nature of the industry, risks are managed -within the framework of corporate risk management- with a systematic and proactive approach integrated with risk assessments spread across the company and constantly updated with the processes. Making this practice a part of corporate culture and implementing it throughout the entire company is essential in terms of business operations. With effective risk monitoring, these risks are prioritized according to their probabilities and possible impacts, and managed accurately.

Managing risks

Financial risks arising from uncertainties and fluctuations particularly in the foreign exchange rates, interest rates, liquidity and commodity prices are identified, evaluated, and relevant instruments are used to mitigate risks when necessary.

Foreign exchange risks originate from purchases in foreign currencies regarding business activities or foreign currency loans utilized for liquidity purposes. This risk is mitigated by the "natural hedge" that is created by reflecting exchange rate fluctuations on product sales prices while the ratio of foreign exchange position (exposed to currency risk after natural hedge) to equity is constantly monitored. Foreign exchange position is effectively managed by efforts to eliminate it. The risks are restricted and kept within targeted limits by forward or derivative transaction agreements when necessary.

The interest rate risk shows its effects on rate-sensitive assets and liabilities. The negative effects of interest rate risk are eliminated by balancing financial debts in terms of fixed/variable interest rates and short term/long term maturities.

Liquidity risk is managed by closely monitoring current and projected cash flows and ensuring maturity match between assets and liabilities. Net working capital is closely monitored to preserve short-term liquidity, and sufficient level of cash and cash-like assets are maintained against potential capital market fluctuations. Consequently, working capital needs and liquidity risks are minimized. 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. Available cash and non-cash credit lines are determined with the banks.

In terms of commodity risks, derivative transactions are performed on inventory retained for natural hedge in order to limit the impact of price fluctuations in international markets.

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

Collaterals (letters of credit, performance bonds, pledges, credit insurance, and other such instruments) are required to mitigate collection risks and the risks are checked on transaction basis. The payments are received via banking systems. Moreover, the use of various payment systems facilitates collection and reduces 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 return for its shareholders, and to prevent the company and stakeholders against losses arising from unexpected circumstances. The most significant indicators taken into account for this purpose are the ratios of Net Financial Debt/EBITDA, Total Financial Debts/Equity, Current Ratio and Liquidity Ratio, as well as maturity structure of Financial Debt and Net Working Capital. With all these indicators maintained within the required limits, Aygaz achieves the capital structure and debt capacity to conduct its business in a healthy manner. The Board of Directors is informed through internal reports, which are prepared by the management and presented to the Risk Management Committee periodically. Operational, legal and strategic risks are evaluated by related units, and the decisions made by the executive management are monitored by the Board of Directors through this committee. The Board of Directors also receives information about corporate risk management activities carried out within the scope of strategic planning and management processes through the executive management and the Risk Management Committee. For protection against any losses that may arise due to operational or other risks, various insurances are in place including the coverages for subsidiaries. All transferable risks are delegated to third parties with insurance policies. Operational risks are monitored by the relevant departments of the company and reported to senior management at regular intervals.

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

Activities of the Risk Management Committee

Risk Management Committee has been established with the aim of ensuring compliance with Article 378 of the Turkish Commercial Code No. 6102 and Corporate Governance Communiqué of the Capital Markets Board (CMB) as well as effective functioning of the Board committees, and carries out activities for early detection and effective management of risks that may jeopardize the company's existence, development and continuity, taking necessary measures against these risks and managing risks. The committee is chaired by independent Board Member Şadan Kaptanoğlu Dikici, appointed by the Board of Directors' resolution dated 26 March 2018, and the other member of the committee is Board Member Dr. Bülent Bulgurlu.

The committee, which convened seven times in 2018, assesses the risk management process at Aygaz and the principles and data of risk reporting, evaluates the periodical reports prepared within this scope, and offers recommendations regarding the necessary measures to be taken against the issues that do not comply with the limits defined in the risk management process. The reports and committee assessments are presented to the Board of Directors.

Internal Control System and Internal Audit

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

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

The Internal Audit Department conducts effective and regular internal controls to ensure the integrity, consistency, reliability, timeliness and security of the information provided by the accounting and financial reporting system. In 2018, the Company's terminals, plants and distribution facilities throughout Turkey underwent routine and/or necessary financial and operational inspections.

The department also analyzes processes, reviews the results of the audit activities conducted for issues considered risky, addresses the complaints and other issues communicated to the company through various channels, and reports its findings to the executive management. The department follows through the action plans related to the reported issues and how they are resolved.

Investor Relations

In investor relations, Aygaz establishes communication between the company and its existing and potential stakeholders based on mutual trust and provides regular and trustworthy information.

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

Investor relations activities

Investor Relations Department aims at increasing company value for existing shareholders, and also attracting new and potential investors by promoting the company. For this purpose, the department held one-to-one meetings with nearly 100 investors visiting the Aygaz Head Office or participating in teleconference sessions.

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

The number of analysts that follow Aygaz and publish regular reports was 11 in 2018. In almost all of their reports, these brokers have expressed their expectations about the share value of Aygaz as parallel to or higher than the BIST 100 Index.

In 2018, Investor Relations department answered various inquiries coming from several investors and analysts by phone and e-mail, and contacted them during financial reporting periods. Shareholders generally inquire information about the sales volume, market shares, profitability, share value, investments, turnover, subsidiaries, dividend payments and future targets of

Aygaz creates shareholder value through

LPG: Main field of activity with sustainable operational margins and efficiency focus

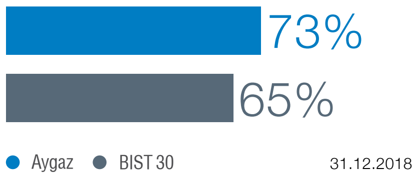
Regular dividend distribution

Investor relations and corporate governance practices in international standards

Share Information

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

Foreign Share in Free Float (%)



Corporate Governance Rating Score

Shareholders	: 9,53
Stakeholders	: 9,92
Public Disclosure and Transparency	: 9,30
Board of Directors	: 9,16
Total	**: 9,40**

Aygaz. Over 100 inquiries were received in 2018, and replied in written, verbal or electronic form.

Company presentations are always kept up-to-date. An earnings release report is published after the financial results are announced. Other information documents are available at www.aygaz.com.tr website under the Investor Relations section. Since 2018, guidance is also started to be provided in the presentations.

Operating in Turkey under license from the Capital Markets Board (CMB) to conduct corporate governance rating activities, SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. confirmed the corporate governance rating score of Aygaz as 9.36 in 2017, and upgraded it as 9.40 on 22 June 2018.

As of November 2018, Aygaz is listed on the BIST Sustainability Index, which consists of companies with the highest corporate sustainability performance that are traded on Borsa İstanbul (BIST).

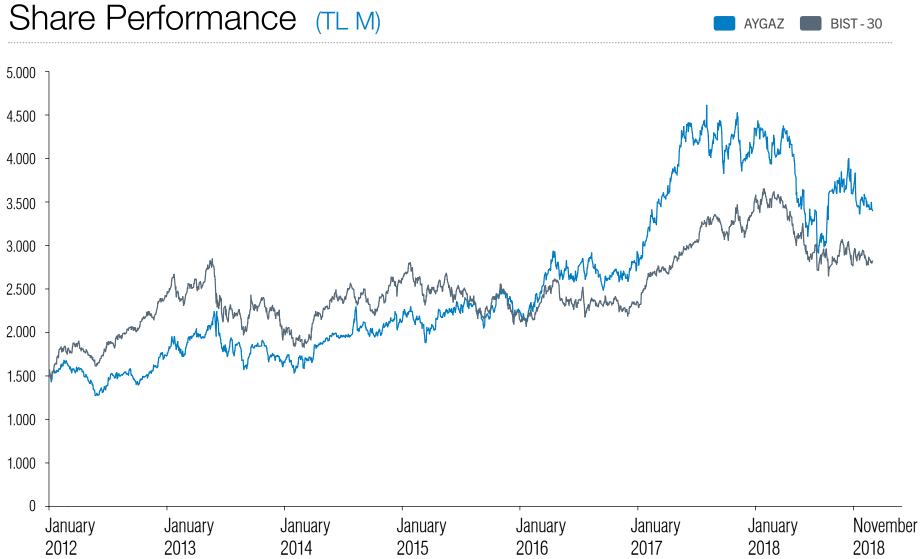
Share performance

In a year of fluctuations and uncertainties in the global economy, the exchange rate spikes seen in August 2018 caused a regression in domestic demand, an increase in costs and a decrease in growth figures in Turkey. With the FED and ECB announcing interest rate hike and balance sheet reduction plans, the liquidity abundance in the markets started to shrink. In January 2018, after the BIST 100 index recorded its all-time high, the downward trend continued, and BIST 100 closed the year with a decline of 21%, and BIST 30 with 20%. Lowest and highest Aygaz share price were TL 9.71 and TL 14.78, and the share price dropped 22% in line with the performance of BIST 100. The company's market value is TL 3.4 billion as of 31 December 2018.

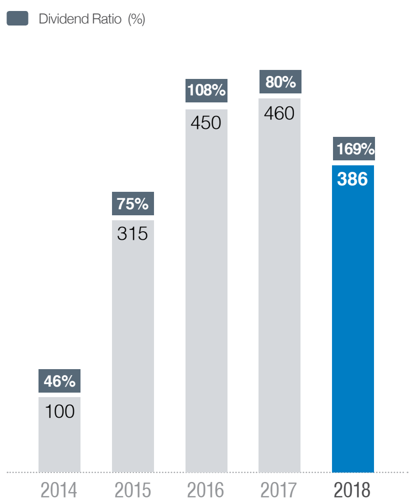
Dividend distribution

Aygaz aims to create high shareholder value, and follows a consistent dividend policy that balances both the company's and the shareholders' interests. With TL 386 million as dividend from 2018 profit to be submitted to the General Assembly for approval, the dividend distribution ratio is 169% and the total dividend of the last five years has reached TL 1.7 billion.

Share Performance (TL M)



Total Dividend (TL M)



- **CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT**
- **LEGAL DISCLOSURES**
- **BOARD OF DIRECTORS**
- **EXECUTIVE MANAGEMENT**
- **PROPOSAL OF THE BOARD OF DIRECTORS FOR PROFIT DISTRIBUTION**
- **STATEMENTS OF INDEPENDENCE OF THE INDEPENDENT BOARD MEMBERS**
- **PROFIT DISTRIBUTION POLICY**
- **REMUNERATION POLICY FOR THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT**

Corporate Governance Principles Compliance Report

SECTION I - Corporate Governance Principles Compliance Declaration

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

Aygaz fully complies with mandatory principles of the Corporate Governance Communiqué II-17.1, and has adopted a majority of the non-mandatory principles. Although the company aims to fully comply with the non-mandatory Corporate Governance Principles, full compliance has not yet been achieved due to difficulties regarding implementation of some principles, the current debate both on domestic and international platforms toward their adoption and some principles failing to align with the existing structure of the market and the company. The company is currently working on the principles that have yet to be fully complied with, and plans to adopt them upon completion of the administrative, legal and technical infrastructure work that would contribute to the company's effective management. The comprehensive efforts undertaken within the framework of Corporate Governance Principles and the principles that have yet to be adopted under relevant sections and the resulting conflicts of interest, if any, are explained below.

The Corporate Governance practices in 2018 have been carried out in compliance with the Capital Markets Law that includes Capital Markets Board (CMB) regulations on corporate governance principles and the communiqués pursuant to this law. Prior to the general assembly meeting, independent board members were nominated and publicly announced, and general assembly meeting was organized with due process. At the Ordinary General Assembly Meeting in 2018, the Board of Directors were elected, and in the ensuing process the Board committees, which currently operate effectively, were formed in accordance with regulations. Remuneration policy was determined for Board members and senior executives, and presented to the shareholders at the general assembly meeting. Through the information document prepared for the General Assembly, related information such as privileged shares, voting rights, organizational changes, résumés of the nominees for Board membership, remuneration policy for the Board of Directors and senior executives and all reports and information that must be drafted and disclosed about related parties as mandated by the principles were made available for investors three weeks prior to the General Assembly meeting. The corporate website and annual report were also reviewed and necessary changes were made toward full compliance with the principles.

Necessary work will be carried out by considering legislative developments and implementations for full compliance with the principles in the upcoming period.

The non-mandatory Corporate Governance Principles, which have yet to be complied with, are listed below. Aygaz has not experienced any conflicts of interest due to not fully complying with the said principles.

- Regarding principle 1.5.2, minority rights are not granted for shareholders holding less than one-twentieth of the share capital according to the Articles of Association, and rights are granted pursuant to general legislative provisions.
- Regarding principle 4.3.9, a target ratio and time have not yet been determined for the number of female members in the Board of Directors, and relevant assessment on this topic is currently ongoing. Detailed information on this topic is provided in section 5.1.
- Regarding principle 4.4.5, the company has continuing practices in place for many years about how the Board meetings are conducted however, a written process has not yet been implemented in the organization.
- Regarding principle 4.5.5, members are assigned to the Board committees in accordance with applicable regulations, considering the expertise and experience of the individuals. Some Board members are assigned to multiple committees, supporting communication among different committees on related matters and increasing collaboration possibilities.
- Regarding principle 4.6.1, a specific performance appraisal on Board level has not been conducted.
- Regarding principle 4.6.5, payments made to Board members and executives with administrative responsibilities are documented at the Ordinary General Assembly and in the notes to the consolidated financial statements and disclosed to the public in line with the general practices.

Aygaz A.Ş. demonstrates the importance of complying with corporate governance principles and its commitment to implementing them as a continuous and dynamic process by receiving Corporate Governance Rating scores and remaining in the Corporate Governance Index. Operating in Turkey under license from the Capital Markets Board (CMB) to conduct corporate governance rating activities, Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. updated last year's rating of 9.36 to 9.40 on 22 June 2018. Corporate Governance Rating Score is determined under four main categories weighted by different degrees within the framework of the CMB resolution regarding the issue. The increase in the score were noted in the main topics "Public Disclosure and Transparency" and "Stakeholders". Improvements made in the English content on the corporate website and the fact that the loss, which the Board members may cause to the company for the failings during their performance of duties, is covered by insurance was included in the annual report and disclosed to the public on the Public Disclosure Platform (PDP) were evaluated as positive developments. With its current corporate governance rating, Aygaz has been one of the companies to hold the highest corporate governance scores in Turkey as of the rating date.

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

"Corporate Governance Compliance Reports" have been prepared and published on the company's corporate web site (www.aygaz.com.tr) and within annual reports since the General Assembly meeting of 2005. Corporate Governance Compliance Report (URF) and Corporate Governance Information Form (KYBF) prepared according to the new reporting format pursuant to CMB's resolution no. 2/49 dated 10 January 2019 will be disclosed to the public on the Public Disclosure Platform separately within the period stipulated by CMB. The relevant section will be found on www.kap.org.tr under the company information of Aygaz A.Ş. with the heading 'Corporate Governance'. Since this is the first year of this regulation, the Corporate Governance Compliance Report, prepared in the format pursuant to Capital Market Board's resolution no. 2/35 dated 27 January 2014 is presented in the following pages.

Corporate Governance Committee

Kutsan Çelebican	Yağız Eyüboğlu	Ferda Erginoğlu
Committee Chairman	Committee Member	Committee Member

SECTION II – Shareholders

2.1. Investor Relations Department

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

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

Shareholders generally request information and make inquiries on the profitability, share value, investments, turnover, subsidiaries, and dividend payments of Aygaz as well as the withholding tax on dividends. More than 100 information requests were received in 2018 and replied verbally, electronically and in writing. Furthermore, nearly 100 meetings were held with domestic and foreign corporate investors and brokerage house analysts. Presentations prepared for this purpose are available for all investors on the corporate website.

The report including all of the activities carried out throughout the year was submitted to Corporate Governance Committee and Board of Directors on 22 February 2019.

2.2. Exercise of Shareholders' Right to Obtain Information

The "Investor Relations" section on the corporate website is continuously updated to offer shareholders easier usability and access to more information. In 2018, the Board of Directors introduced amendments to the Aygaz A.Ş. Disclosure Policy by considering the organizational practices, and also changed the principles regarding disclosure of future guidance. The Board of Directors resolved that future guidance would be announced through investor presentations and/or earnings releases (earnings release reports) and/or quarterly interim reports or material disclosures, when needed, and the policy was published on the corporate website.

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

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

2.3. General Assembly Meetings

The Ordinary General Assembly meeting, where the activities of the 2017 reporting period were reviewed and released was held open to public on 21 March 2018 at the head office of the company in Büyükdere Caddesi, No: 145/1 Zincirlikuyu, Şişli, Istanbul with a shareholder attendance rate of 85 percent. Six Members of the Board of Directors, auditors and senior executives attended the General Assembly meeting. Individual shareholders and members of the press were also present in the meeting. The venue of the General Assembly, its agenda and a sample power of attorney were announced to the public 21 days prior to the meeting via Turkish Trade Registry Gazette (TTRG) and material disclosures made via the Public Disclosure Platform (PDP). These details can be accessed by searching for Disclosures on PDP, or selecting the year in the relevant section on the corporate website at: https://www.aygaz.com.tr/yatirimci-iliskileri/ozel-durum-aciklamaları.

The 2017 annual report, auditor's report, independent audit report, financial statements and notes, profit distribution proposal of the Board of Directors, General Assembly information document and annexes were made available for shareholders to review at the company head office and on the corporate website 21 days prior to the General Assembly meeting. The profit distribution proposal was announced via the Public Disclosure Platform (PDP). Shareholders have not made any requests with regard to the agenda. The questions that shareholders directed during the General Assembly were answered by Members of the Board of Directors and senior management.

The annual Ordinary General Assemblies authorize Chairman and Members of the Board of Directors to conduct businesses in the same field as the company personally or on behalf of others and to become partners of such companies and carry out other transactions pursuant to articles 395 and 396 of the Turkish Commercial Code. Within the framework of this authority, Board Members are allowed to take on other duties outside the company without any limitations.

At the Ordinary General Assembly meeting in 2018, information was provided regarding the donations and grants paid in 2017 as a separate agenda item and the donation limit for 2018 was set at 0.2% (two thousandth) of the previous year's revenues while no changes were made to the company's existing donation practices.

Some shareholders with management control, Members of the Board of Directors, executives with administrative responsibilities, their spouses and blood relatives to the second degree and in laws carry out administrative duties as Members of Board of Directors in some other Koç Group companies including the ones that operate in similar field. In 2018, there has been no transaction that required disclosure pursuant to Article 1.3.6 of the Corporate Governance Communiqué.

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

2.4. Voting Rights and Minority Rights

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

2.5. Dividend Rights

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

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

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

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

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

Pursuant to Corporate Governance Principles, Profit Distribution Policy published on the corporate website and in the annual report was presented to shareholders at the General Assembly meeting on 21 March 2018. The company paid in cash a gross total dividend of TL 460 million in 2018.

2.6. Transfer of Shares

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

SECTION III – Public Disclosure and Transparency

3.1. Corporate Website and Content

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

3.2. Annual Report

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

SECTION IV - Stakeholders

4.1. Informing Stakeholders

Company stakeholders are informed regularly on matters that concern them. Company employees are informed at internal communication meetings. Field employees at the Aygaz Gebze Plant and seamen working on vessels are members of trade unions organized in related lines of work. These workers are informed through union representatives. Regional or general dealer meetings are held every year. During the meetings in 2018, dealers were informed about the company's activities, and their requests and suggestions were received. Individual and group meetings are held with the suppliers where a mutual exchange of information takes place.

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

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

4.2. Stakeholder Participation in Management

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

4.3. Human Resources Policy

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

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

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

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

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

In the recruitment and placement process at Aygaz, which aims to attract qualified human resources to the company, group interviews are held with participation from all management levels. Case studies, presentations, foreign language tests, numerical/verbal/personality inventories, reference checks are also part of the process.

Aygaz Group has in place a Performance Management System for all employees. As an objective and balanced system, it forms a part of the competent and established corporate culture and has become a best practice. The performance management system aims to communicate the company targets to all employees, measure the success of employees in realizing their goals, and plan their future development by assessing their competencies. Performance is monitored with target cards and assessed according to objective criteria. The purpose of the performance management system is to reward the creation of sustainable values rather than short-term return.

Aygaz allocates significant amount of resources for the personal development of its employees and encouraged them for this purpose. The 360-degree competence assessment system provides the employees with the opportunity to receive feedback from several people in different levels and functions, including their superiors and peers, perform self-assessments and plan their personal development.

As a demonstration of how the company values its employees, Aygaz has been conducting employee satisfaction and loyalty surveys since 1996. With these studies, employees' commitment is evaluated and the study results as well as employees' opinions communicated via various channels are taken into consideration to create action plans.

A Collective Group Labor Agreement has been signed between the Turkish Employers Association of Metal Industries (MESS), the employers union in the metal industries of which the company is a member, and the Turkish Metal Union on 30 January 2018 for the period from 1 September 2017 to 31 August 2019 covering the workers at the Gebze plant. A Collective Labor Agreement was signed on 15 June 2017 with the Turkish Seafarer's Union for the period from 1 January 2017 to 31 December 2018 covering the seafaring employees. This agreement has expired on 31 December 2018, and the negotiations are ongoing at the time of this report's publication. In accordance with the Collective Labor Agreement, no representatives other than designated union representatives have been assigned within the company to maintain relations with the employees. Relations with the union are carried out by the Human Resources Department.

4.4. Code of Ethics and Social Responsibility

Aygaz has always been an exemplary company with its integrity, reputation, reliability, ethical conduct and its culture of compliance with laws and regulation throughout its over half a century long history. In performing their duties, employees of Aygaz, a Koç Group company, are obligated to comply with the "Koç Group Goals and Principles".

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

Aiming to ensure that ethical values are extended to all employees with the same effectiveness and passed onto the next generations, Aygaz published its "Code of Ethics and Implementation Principles" in written form in 2010.The Board of Directors, upon the proposal of the Corporate Governance Committee, determined Aygaz A.Ş. Code of Ethics and Implementation Principles Policy in 2018, taking into consideration the practices within the organization and Koç Group Code of Ethics and Implementation Principles. This policy has been made available on the corporate website for investors. An Ethics Committee has been established to better evaluate any violations and ensure alignment of practices. The Ethics Committee is composed of the General Manager, Senior Executives, Human Resources Manager and Legal Counsel.

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

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

SECTION V – Board of Directors

5.1. Composition and Election of the Board of Directors

The Aygaz Board of Directors is composed of 9 members in total with 1 Chairman, 1 Vice Chairman and 7 members, 3 of which are independent. All Members of the Board of Directors were elected in the General Assembly on 21 March 2018 to serve until the Ordinary General Assembly Meeting to be held to review the financial results for 2018. Résumés of the Board Members and the General Manager are included in the annual report.

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

Board Member Name Surname	Independence Status	Duties on the Board and Committees	Duties Outside the Company
Rahmi M. Koç	Non-independent	Chairman of the Board and Executive Committee	Koç Holding A.Ş. Honorary President and Board Member in Koç Group Companies
Ömer M. Koç	Non-independent	Vice Chairman of the Board and Member of Executive Committee	Chairman of the Board of Directors in Koç Holding A.Ş. and Board Member in Koç Group Companies
Alexandre F. J. Picciotto	Non-independent	Board Member and Executive Committee Member	Orfim General Manager and Board Member in various companies
Dr. Bülent Bulgurlu	Non-independent	Board Member and Member of Risk Management Committee	Board Member in Koç Holding A.Ş. and Koç Group Companies
Levent Çakıroğlu	Non-independent	Board Member	Koç Holding A.Ş. CEO, Board Member in Koç Holding A.Ş. and Koç Group Companies
Yağız Eyüboğlu	Non-independent	Board Member and Member of Corporate Governance Committee	Koç Holding A.Ş. Energy Group President and Board Member in Koç Group Companies
Dr. Şadan Kaptanoğlu Dikici	Independent	Board Member, Chairwoman of Risk Management Committee	Kaptanoğlu Denizcilik Tic. A.Ş. Board Member
Kutsan Çelebican	Independent	Board Member, Chairman of Audit Committee and Chairman of Corporate Governance Committee	Koç Holding A.Ş. Independent Board Member
Kemal Ege Cansen	Independent	Board Member and Member of Audit Committee	

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

At Aygaz, Corporate Governance Committee carries out the duties of the Nomination Committee. In 2018, 3 independent candidates were nominated and they all submitted their statements of independence to the Corporate Governance Committee. The Corporate Governance Committee and the Board of Directors evaluated the declarations and résumés of Independent Board Members during their respective meetings on 22 January 2018 and determined that all met the criteria specified in Corporate Governance Principles, and it was decided that all should be nominated as independent member candidates. As of 2018 operating period no situations that would eliminate independence arose.

Ensuring diversity on the Board of Directors in terms of knowledge, experience and perspective contributes positively to operations of the company and increases the efficiency of the Board's activities. In this context, having female members is a means of achieving representation on the Board of Directors and Aygaz continues to work on determining a target ratio for female members on the Board. Currently, there is 1 female member on the Board of 9 directors.

5.2. Operating Principles of the Board of Directors

The agenda of the Board of Directors is determined according to the company's needs upon evaluation of activities. The General Manager and the Assistant General Manager in charge of finance inform and maintain communication with the Board of Directors. Convening as the company's activities require, the Board of Directors held 3 meetings in 2018 to address strategic issues and 25 resolutions in total were passed including those that fall under the scope of paragraph 4 of Article 390 of the Turkish Commercial Code.

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

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

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

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

In 2018, all the Board Committees have fulfilled the responsibilities and duties that were expected of them pursuant to Corporate Governance Principles and operating principles of their own and convened in accordance with their work plans. The results of the meetings held throughout the year and information about the works of the committees were presented to the Board of Directors. The opinion of the Board of Directors in this respect is that the benefits expected of Board Committees' efforts are obtained.

The Audit Committee, which has been formed within the statutory period, performs the duties set out by the Capital Markets Board Communiqué. The committee audits and supervises the company's accounting system, disclosure of financial information to the public, independent audit and the functioning and efficiency of the internal control mechanism of the group. Selection of the independent audit firm, drafting independent audit agreements, starting the independent audit process and works of the independent audit firm at all stages are carried out under the supervision of the Audit Committee. The Audit Committee convenes at least four times a year and more frequently when required as it must report in writing, along with its own assessments, to the Board of Directors on whether the annual and interim financial statements to be disclosed to the public comply with the accounting principles followed by the group and fully reflected the financial position of the company after conferring with the responsible executives of the group and independent auditors. The committee has convened 7 times in 2018. The responsibilities of the Audit Committee together with the company management are to execute both internal and external audit with due diligence and to ensure the compliance of records, operations and reporting with applicable laws, rules and regulations and with principles set out by CMB and IFRS. In 2018, independent Board Member Kutsan Çelebican was appointed Chairman of Audit Committee and Kemal Ege Cansen as Committee Member.

Independent board Member Kutsan Çelebican is the Chairman of the Corporate Governance Committee established to monitor compliance of the company with Corporate Governance Principles and inspect the grounds for the principles yet to be implemented. Yağız Eyüboğlu was appointed Committee Member. Pursuant to article 11 of CMB's Corporate Governance Communiqué (II-17.1), which entered into effect on 3 January 2014, Assistant General Manager, Finance was appointed Senior Executive Responsible for Investor Relations Department and Member of the Corporate Governance Committee. Accordingly, Ferda Erginoğlu, Assistant General Manager, Finance, serves as Member of the Corporate Governance Committee. The duties of Remuneration and Nomination Committees are assumed by the Corporate Governance Committee, which convened 6 times during 2018.

The Risk Management Committee was established to provide the Board of Directors with suggestions and recommendations regarding the identification, assessment and calculation of the impact and likelihood of all strategic, operational, financial and miscellaneous risks that may affect the company. Further, managing in accordance with the corporate risk-taking profile, reporting and taking into consideration the decision making mechanisms of such risks as well as the creation and integration of effective internal control systems are also among the committee's purposes. In 2018, independent Board Member Şadan Kaptanoğlu Dikici was appointed Chairwoman and Dr. Bülent Bulgurlu as Member of the Risk Management Committee, which convened 7 times in 2018.

The Board of Directors resolved on 4 May 2012 that the activities of the Investment and Business Development Committee, established on 15 July 2010 to generate ideas and strategies for the company, ensure coordination among relevant departments and accordingly determine the special areas within the company's field of operation, design and plan new projects and investments, as well as oversee the management of adopted strategies and projects, should be expanded in a way to provide the Board of Directors with support in all matters, and renamed the Executive Committee. The Executive Committee convenes as frequently as required by the activities of the company. In 2018, the Committee convened once a month, 12 times in total; Mustafa Rahmi Koç was the Chairman of the Committee with Mehmet Ömer Koç, Yıldırım Ali Koç, Alexandre F.J. Picciotto and Caroline Nicole Koç serving as Members.

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

5.4. Risk Management and Internal Control Mechanism

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

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

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

5.5. The Company's Strategic Goals

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

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

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

5.6. Financial Benefits

The company's Remuneration Policy for the Members of the Board of Directors and Senior Executives, which includes all rights, benefits and wages provided for Members of the Board of Directors and senior executives, was amended considering Corporate Governance Committee's proposal within the context of Capital Markets Board's Corporate Governance Communiqué II-17.1 dated 3 January 2014. The new policy was approved by the Ordinary General Assembly on 31 March 2014. Disclosed to the public through the company's annual report and corporate web site and most recently approved by shareholders at the Ordinary General Assembly on 21 March 2018, this policy is also on the agenda Ordinary General Assembly that will be held on 20 March 2019 to review the 2018 activities to be presented to the shareholders of the company. The total payments made to Members of the Board of Directors and Senior Executives within the framework of the Remuneration Policy is assessed by the Corporate Governance Committee and the Board of Directors every year. The total payments made to the Members of the Board of Directors and Senior Executives are disclosed to the public through financial statement notes in accordance with general practices. There are strictly no transactions that may lead to conflicts of interest such as loans, utilization of credit and provision of guarantees for the benefit of our Board Members or Executives.

Legal Disclosures

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

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

Capital and Shareholding Structure

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

The shareholding structure as of 31 December 2018 is shown in the following table:

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

* Temel Ticaret ve Yatırım A.Ş. belong to the members of the Koç Family.

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

Distribution of Duties of Board Members and Changes

There have been no changes during the reporting period in the Members of the Board of Directors who were elected to serve until the next Ordinary General Meeting of Shareholders on 21 March 2018. By the Board of Directors resolution of 26 March 2018, the Committees of the Board of Directors have been designated as follows:

Audit Committee: Kutsan Çelebican (Chairman), Kemal Ege Cansen (Member)

Corporate Governance Committee: Kutsan Çelebican (Chairman), Yağız Eyüboğlu (Member), Ferda Erginoğlu (Member)

Risk Management Committee: Dr. Şadan Kaptanoğlu Dikici (Chairwoman), Dr. Bülent Bulgurlu (Member)

Executive Committee: Mustafa Rahmi Koç (Chairman), Mehmet Ömer Koç (Member), Yıldırım Ali Koç (Member), Alexandre François Julien Picciotto (Member), Caroline Nicole Koç (Member)

The Board of Directors has reached 25 unanimous resolutions in 2018. It has been noted that all the committees worked efficiently throughout the year. Details about the work of the committees can be found in Article 5.3 of the Corporate Governance Principles Compliance Report and the working principles of the committees are available on the corporate website.

Lawsuits and Sanctions

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

Public Audits and Special Audits

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

Regarding the administrative process that was initiated by EMRA in association with the product audits conducted at 4 plants in 2013, administrative decisions including the revoking of licenses, administrative fines and sequestration were made by EMRA; the storage licenses of four plants cancelled within this scope were reinstated in a short period upon the applications filed. Because of the administrative sanction decisions made by EMRA after these audits, the Company has filed lawsuits for cancellation of administrative actions as well EMRA filing lawsuits for sequestration of which the relevant administrative processes and lawsuits are still ongoing. The 4 lawsuits filed by EMRA against the Company demanding sequestration have resulted in our favor.

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

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

Related Company Report Drafted as per Article 199 of the Turkish Commercial Code

Pursuant to Article 199 of the Turkish Commercial Code 6102, which entered into force on 1 July 2012, Aygaz A.Ş. Board of Directors is obligated to issue within the first quarter of the current year, a report on the relations of the company with its controlling shareholder and the subsidiaries of the controlling shareholder in the previous year and include the conclusion of such a report in its annual report. The necessary explanations regarding the transactions are included in note 31 of the financial statement. The report dated 22 February 2019, prepared by Aygaz A.Ş. Board of Directors, states: "It has been concluded that, with respect to all the transactions of Aygaz A.Ş. with the controlling shareholder, ultimate controlling shareholder and the subsidiaries of the controlling shareholder in 2018, in each transaction a proper counter-gain was obtained according to the circumstances and conditions known by us when the transaction was carried out or the measure was taken or avoided and that there is no measure taken or avoided that can cause the company to incur any losses and that there is no transaction or measure that necessitates balancing within this framework."

Other Issues

The debt instruments, which were issued within the issuance ceiling following the favorable decision no. 7/313 of the Capital Markets Board on 13 March 2015 in response to the application in line with the Board of Directors' resolution dated 16 February 2015, in the amounts of TL 100,000,000, TL 75,000,000 and TL 60,000,000 matured on 16 March 2017, 26 January 2018 and 26 March 2018, respectively.

Within the issuance ceiling approved by Capital Markets Board decision no. 13/396 dated 23 March 2017 following the application in line with the Board of Directors' resolution dated 14 February 2017,

(i) The long-term bonds (TRSAYGZ41916 ISIN) for nominal TL 85,000,000 with 728-day maturity, fixed interest, coupon payment every six months and principal payment at maturity with value date 11 April 2017, the following transactions were completed:

- First coupon payment of TL 5,525,000 on 10 October 2017,
- Second coupon payment of TL 5,525,000 on 10 April 2018, and
- Third coupon payment of TL 5,525,000 on 9 October 2018.

(ii) The long-term bonds (TRSAYGZE1914 ISIN) for nominal TL 50,000,000 with 728-day maturity, fixed interest, coupon payment every six months and principal payment at maturity with value date 20 October 2017, following transactions were completed:

- First coupon payment of TL 3,480,000 on 20 April 2018, and
- Second coupon payment of TL 3,480,000 on 19 October 2018.

(iii) The long-term bonds (TRSAYGZ12024 ISIN) for nominal TL 75,000,000, issued upon the Board of Directors resolution dated 13 November 2017 and following the Capital Markets Board favorable decision no. 43/1440 dated 27 November 2017, with redemption date 24 January 2020, bonds, following transactions were completed:

- First coupon payment of TL 5,655,000 on 27 July 2018, and
- Second coupon payment of TL 5,655,000 on 25 January 2019.

The Board of Directors resolved on 16 November 2018 to issue debt instruments with a total nominal value up to TL 300,000,000 within the period of the issuance limit by way of selling to qualified investors and/or private placement once or multiple times domestically without public offering, and the relevant application was approved by Capital Markets Board's decision no. 63/1427 dated 13 December 2018.

The Corporate Governance Rating score of our company was confirmed as 93.64 (9.36) by SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. as of 22 June 2017, and upgraded to 93.99 (9.40) for 2018. The material event disclosure on this matter was made on 22 June 2018. The current corporate governance rating agreement between our company and SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş., which is officially licensed to conduct rating services in compliance with Capital Markets Board Corporate Governance Principles, will remain valid until 23 February 2020.

SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. has determined the (National) long-term credit rating score of our company as (TR) AAA, (National), and the short-term credit rating score as (TR) A1+ and its outlook as stable on 22 June 2018.

Aygaz A.Ş. has been listed among the companies included in the BIST (Borsa Istanbul) Sustainability Index in the period from November 2018 to October 2019.

With the Board of Directors decision dated 13 February 2019 in consultation with the Audit Committee and in compliance with the guidelines set out by Turkish Commercial Code 6102 and Capital Markets Law 6362, PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. was selected to audit the financial statements of our company for the 2019 accounting period and to conduct other activities within the scope of relevant regulations under these laws, to be presented for approval of the General Assembly.

At the extraordinary general assembly meeting of our subsidiary Entek, in which we hold 49.62% of shares, it has been resolved to increase the company's capital from TL 538,500 thousand up to TL 950,000 thousand by a total of TL 411,500 thousand with TL 411,095 thousand to be paid in cash and TL 404,835 thousand to be covered by the internal resources. The company's Board of Directors participated in the said capital increase, and the right of preference amounting to TL 203,974 thousand was fully paid in cash on 1 March 2018.

At the extraordinary general assembly meeting of Koç Finansal Hizmetler A.Ş., in which we hold 1.97% of shares, on 6 June 2018, it has been resolved to increase the company's capital from TL 3,011,275 thousand up to TL 6,400,400 thousand by a total of TL 3,389,325 thousand to be paid in cash. The company participated in the said capital increase, and the right of preference amounting to TL 66,660 thousand was fully paid in cash on 18 June 2018.

On 20 December 2018, at the extraordinary general assembly meeting of Enerji Yatırımları A.Ş. (EYAŞ), in which Koç Holding holds 77% of shares and Aygaz A.Ş. 20% of shares, the Board of Directors resolved to decrease the company's capital of TRL 3,347,000 thousand by TL 1,000,000 thousand down to TL 2,347,000 thousand. Following the general assembly, once the necessary announcements and registration procedures are finalized according to articles 473 and 474 of the Turkish Commercial Code, the amount subject to decrease is expected to be paid in cash to shareholders of EYAŞ in April 2019 at the latest.

After evaluating similar practices and developments in the industry, the Board of Directors resolved on 7 January 2019 to open a branch office in London to engage in LPG trade with the aim of increasing trade volume with third parties in international markets, supporting the company's import, export and transit operations by monitoring the opportunities in global markets more closely, and creating additional value from the supply chain. Branch opening process is ongoing.

Profit Distribution Policy and Dividends Paid During the Year

The profit distribution policy, which is published in the Corporate Governance Compliance Report and on the corporate website, was revised at the company's Board of Directors meeting on 5 March 2014 and took its present form as follows: "The Company distributes profit in accordance with the provisions of the Turkish Commercial Code, Capital Markets Regulations, Tax Laws and other applicable laws and regulations, and within the scope of the relevant provisions of the company's Articles of Association. In line with Corporate Governance Principles, a balanced and consistent policy is adopted considering the interests of both shareholders and the company.

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

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

Pursuant to General Assembly resolution on 21 March 2018, the company has paid in cash a gross total dividend of TL 460 million starting from 29 March 2018.

Amendments to the Articles of Association During the Reporting Period

No amendments were made to the Articles of Association during the reporting period.

Employee and Worker Movements and Collective Labor Agreement Practices

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

A Collective Labor Agreement was signed on 15 June 2017 with the Turkish Seamen's Union for the period from 1 January 2017 to 31 December 2018 covering the seafaring employees. This agreement expired on 31 December 2018, and the negotiations for the new period are ongoing at the time of this report's publication.

Our employees are regularly and periodically provided with social rights in accordance with the law. Provisions for seniority pay at the end of employment and leave obligations amounted to TL 42,926 thousand (2017: TL 38,455 thousand).

Donations and Grants

At the Ordinary General Assembly Meeting held in 2018, information was provided as a separate agenda item about the donations and grants paid in 2017 and the donation upper limit for 2018 was set at 0.2% (two thousandth) of the previous year's revenues. No change has been made in the ongoing donation practices. Of the total TL 3,467,991.52 in donations and grants in 2018, TL 1,800,000.00 was donated to Rahmi Koç Museum and Culture Foundation, TL 700,000.00 to Vehbi Koç Foundation, TL 414,991 to Koç University, and the balance to various other institutions and organizations. The upper limit for donations in 2019 will be determined by the general assembly.

Forward Looking Statements

Regarding 2019
Sales volume:
Cylinder gas: 295 thousand - 310 thousand tons
Autogas: 695 thousand - 735 thousand tons

Market shares:
Cylinder gas: 41.5% - 43.5%
Autogas: 21.4% - 22.6%

Board of Directors

RAHMİ M. KOÇ
Chairman of the Board of Directors

A graduate of Johns Hopkins University in Business Administration, Rahmi M. Koç joined Koç Group in 1958 at Otokoç. He became Chief Executive Officer of Koç Holding in 1980 and was named Chairman of the Board of Directors in 1984, a position he held until 2003 when he became the Honorary Chairman. Apart from Koç Holding, he also serves as a Member/Chairman on the Boards of Directors at other Koç Group companies. His responsibilities in various capacities at numerous institutions and organizations include: Vice Chairman of the Board of Trustees at Vehbi Koç Foundation, Honorary Chairman of the Board of Trustees at Koç University, Founder and Chairman of the Board at Rahmi M. Koç Museum and Cultural Foundation, Chairman of the Board of the VKV American Hospital, Founding Member and Honorary Chairman of the Turkish Marine and Environment Protection Association/TURMEPA, Honorary Chairman of Turkish Industry and Business Association's (TÜSİAD) Advisory Board, Member of the Advisory Board of the Turkish Employers Association, Co-Chairman of the Business Advisory Council for South East Europe, Honorary Trustee of The Metropolitan Museum of Art, and Founding Chairman of the Global Relations Forum. Mr. Koç has been awarded Honorary Doctorate degrees by Johns Hopkins University, Eskişehir Anadolu University, Izmir Ege University, Ankara Bilkent University, Ovidius University of Constanta and Aydın Adnan Menderes University. Rahmi M. Koç has been recognized with distinguished awards, medals and honors including "Outstanding Service Award" by the President of Turkish Republic, "Grosses Verdienst Kreutz" by the German Government, Order of High Merit of the Italian Republic, Order of Merit of the Austrian Government, (Honorary) Commander of the Most Excellent Order of the British Empire (CBE), "Officier dans l'Ordre National de la Legion D'Honneur" by the French Government and "Responsible Capitalism Lifetime Achievement Award" by the international affairs organization FIRST. Rahmi M. Koç, together with the Koç Family, has received the Hadrian Award granted by the World Monuments Fund, Carnegie Medal of Philanthropy and BNP Paribas Philanthropy Award. He has previously served as President of the International Chamber of Commerce, President of the Turkish Greek Business Council, Member of the Allianz Aktiengesellschaft International Advisory Board, Member of the JP Morgan International Council and Member of the International Advisory Board of the US Council on Foreign Relations. He continues to serve as Aygaz A.Ş. Chairman 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 and completed his MBA at Columbia University in 1989. After working at Ramerica International Inc., he joined the Koç Group in 1990. He held various senior positions at Koç Holding including Finance Coordinator, Vice President and President of the Energy Group. He became Member of the Board of Directors in 2004 and Vice Chairman in May 2008. In February 2016, he was appointed as the Chairman of the Board of Directors of Koç Holding. He serves as the Vice President of TÜSİAD High Advisory Council, Chairman of Tofaş, Tüpraş and Yapı Kredi Kültür Sanat Yayıncılık Board of Directors and Member of the Board of Directors at other Koç Group companies. He is also the Chairman of Turkish Educational Foundation Board of Trustees and Chairman of the Board of Directors of Geyre Foundation. Ömer M. Koç has served on the Aygaz A.Ş. Board of Directors as a member since 1996 and Vice Chairman since 2001.

ALEXANDRE F.J. PICCIOTTO
Member of the Board of Directors

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

DR. BÜLENT BULGURLU
Member of the Board of Directors

Bülent Bulgurlu graduated from Ankara Engineering and Architectural Faculty, and later earned his Ph.D. at the Norwegian University of Science and Technology. He started his career in 1972 as a Construction Engineer at Elliot Strömme A/S in Oslo. Joining Garanti İnşaat in 1977 as Field Engineer, Dr. Bulgurlu worked as Planning and Construction Manager, Site Coordination and Construction Manager, Assistant General Manager, General Manager and Executive Director at Garanti Koza. He has worked at Koç Holding since 1996 as President of the Tourism and Services Group, President of the Tourism and Construction Group, and President of the Consumer Durables and Construction Group. He served as CEO at Koç Holding from May 2007 to April 2010. He has been a Member on Koç Holding's Board of Directors since May 2007. Apart from Koç Holding, he also serves as a Member on the Boards at several other Koç Group companies. He is also a member of TÜSİAD and the Turkish Marine and Environment Protection Association/TURMEPA. He 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 Faculty of Political Sciences, Business Administration Department and earned his master's degree at University of Illinois. He started his career as an Assistant Analyst at the Ministry of Finance in 1988, where he worked as a Senior Analyst from 1991 to 1997. He served as Assistant Manager of Financial Crimes Investigation Board between from 1997 to 1998, meanwhile he taught as a Part Time Instructor at Bilkent University. Mr. Çakıroğlu joined Koç Group in 1998 as Koç Holding's Financial Group Coordinator. He was the General Manager of Koçtaş (2002 -2007), and the CEO of Migros (2007 – 2008). He was assigned as the CEO of Arçelik in 2008 and also became President of the Durable Goods Group at Koç Holding in April 2010. Çakıroğlu has been appointed the CEO of Koç Holding in April 2015. In addition to his role as the CEO, Mr. Çakıroğlu is also a Member of the Board of Directors at Koç Holding since April 2016. Levent Çakıroğlu is also Chairman of the Board of Directors of Arçelik- LG, and Türk Traktör, as well as the Vice Chairman of Otokar and a Member on the Boards of several other Koç Group companies. Çakıroğlu 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 a BA degree in Economics in 1991. He went on to earn an MBA at Koç University in 1996. Mr. Eyüboğlu began his professional career as a Management Trainee at Arçelik in 1991. Starting in 1993, he worked at Koç Holding for more than 10 years, as Auditor, Senior Internal Auditor, Assistant Financial Coordinator and Financial Coordinator, respectively. From 2004 to 2009, he served as CFO at Arçelik, CEO and Board Member at Beko Elektronik, Assistant to the President of the Foreign Trade and Tourism Group at Koç Holding, and Human Resources Director at Koç Holding. From 2009 to October 2015, he was the General Manager at Aygaz. In October 2015, he was appointed Deputy President of the Energy Group at Koç Holding and since April 2016 he has been serving as President of Energy Group. Mr. Eyüboğlu currently serves as a Board Member at several Koç Holding companies, and sectoral non-governmental organizations. He has been serving on the Aygaz Board of Directors since 2016.

KUTSAN ÇELEBİCAN

Member of
the Board of Directors

Kutsan Çelebican received his university degree from Ankara University, Faculty of Political Sciences. In 1969, he started his professional career on the Tax Inspectors Board at the Ministry of Finance, and worked as the Ministry of Finance's Deputy Director General of Treasury from 1979 to 1982. He was later appointed to the World Bank (International Bank of Reconstruction and Development) as Deputy Executive Director. In 1987, he joined Koç Group and worked as Finance Coordinator, Vice President and President of Financing Group, respectively until his retirement in December 2001. He ran his own financial consultancy business for a while. In addition to his memberships in the Educational Volunteers Foundation of Turkey (TEGV), Financial Analysts Foundation, Chamber of Sworn-in Certified Public Accountants of Istanbul, and TÜSİAD, Mr. Çelebican is a Board Member at Koç Holding. Mr. Çelebican has been serving as an Independent Member on the Aygaz Board of Directors since March 2018.

KEMAL EGE CANSEN

Member of
the Board of Directors

Kemal Ege Cansen studied Business Administration at the Middle East Technical University, and went on to earn his MBA degree at the Wharton School at University of Pennsylvania in 1966. He worked as an Assistant General Manager at Arçelik, Industrial Affairs Coordinator at Koç Holding, Vice Chairman of the Board of Directors at Puro-Fay, Executive Partner at Soyer Hafriyat ve İnşaat, Consultant for Anadolu Group (1986-2019) and Executive Director at Anadolu Endüstri Holding, and Vice Chairman of the Board of Directors at Turkish Bank A.Ş. Ege Cansen also writes on economy and joins programs as a commentator in the media. He taught "Business Economics" at Marmara University's Faculties of Engineering, and Administrative Sciences (1987-2000). He was a member of Koç University's Board of Trustees until the end of 2017. He has been serving as an Independent Member on the Aygaz Board of Directors since March 2018.

DR. ŞADAN KAPTANOĞLU DİKİCİ

Member of
the Board of Directors

Şadan Kaptanoğlu studied philosophy at Istanbul University's Faculty of Literature, and later attended London City College, Department of Maritime. She completed her graduate studies at City University Cass Business School in Maritime, Finance and Trade, and then earned her Ph.D. at Montfort University. Ms. Kaptanoğlu worked as the General Director of her family business, H. İ. Kaptanoğlu Maritime Group until January 2014. She currently serves on the Board of Directors' at Kaptanoğlu Denizcilik Tic. A.Ş. In addition to her role as Vice President of Board of Directors at IMEAK Chamber of Shipping, Ms. Şadan Kaptanoğlu is also on the Board of Trustees at Piri Reis University. In May 2016, she was appointed Chairman of the Board of Directors at Turkish Marine Environment Protection Association/TURMEPA. Currently the Vice President of Intermepa, Ms. Şadan Kaptanoğlu was elected President of the Baltic and International Maritime Council (BIMCO) by a majority of votes at the General Assembly in 2018, becoming the first woman appointed to this office. Ms. Kaptanoğlu is also the President of the Turkey chapters of Lloyd's Register (Lloyd's Register Gözetim Ltd.) and RINA (Rina Denizcilik ve Belgelendirme Ltd.) In 2008, Ms. Kaptanoğlu was named "Young Person of the Year" at the London Seatrade Awards. She has been serving as an Independent Member on the Aygaz Board of Directors since March 2018.

Executive Management

GÖKHAN TEZEL
General Manager

Gökhan Tezel began his career in 1993 as a Finance Specialist at Tofaş, where he was appointed Finance Manager in 1998. He served as General Manager at Koç Fiat Kredi Tüketici Finansmanı A.Ş (2006-2009). Mr. Tezel was appointed General Manager of Aygaz in October 2015 where he had previously served as Assistant General Manager (Finance) since 2009. Mr. Tezel, who is a Member of the Board of World LPG Association (WLPGA), also serves as President of LPG Assembly of the Union of Chambers and Commodity Exchanges of Turkey, and Chairman of the Market Development Committee of World LPG Association.

FERDA ERGİNOĞLU
Assistant General Manager
Finance

Ferda 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 served as Financial Coordinator at Koç Holding from 2006 to 2015. On November 2, 2015, he was appointed Assistant General Manager (Finance) at Aygaz A.Ş.

ALİ KIZILKAYA
Assistant General Manager
Technical Affairs and Investments

Ali Kızılkaya began his career in 1988 as a Training Engineer at Bilar A.Ş. 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. Mr. Kızılkaya was appointed the Aliağa Terminal Manager in 2008, and since

FİKRET COŞAR
Assistant General Manager
Sales

Fikret Coşar began his career as a Sales Specialist at Çukurova Import and Export in 1988. He then joined Aygaz A. Ş. in 1991 and worked as Diyarbakır Cylinder LPG Sales Supervisor . Mr. Coşar was appointed Diyarbakır Sales Manager in 1998. From 1999 to 2010, he served as Cylinder LPG Assistant Sales Manager for the Thrace Region, as Çukurova Regional Sales Manager and Marmara Regional Sales Manager, respectively. In 2010, Mr. Coşar became the General Manager at Akpa A. Ş., and in January 2016, he was appointed Assistant General Manager - Sales at Aygaz A.Ş.

RIDVAN UÇAR
Assistant General Manager
Marketing and Innovation

Rıdvan Uçar began his career in 1991 at TUBİTAK, and became a Project Engineer at Aygaz in 1996. He then served as Bulk LPG Marketing Specialist, Marketing Manager and Marketing Group Manager, respectively. In 2008, Mr. Uçar was appointed Assistant General Manager - Marketing. He served Aygaz Doğal Gaz (an Aygaz subsidiary) as the General Manager from 2010 to 2018. Mr. Uçar he was appointed Assistant General Manager - Marketing and Innovation at Aygaz A.Ş. in March 2018.

AHMET ERCÜMENT POLAT
Director
Cylinder Gas Sales

Ercüment Polat joined Aygaz in 1995, and served as a Sales Engineer, Regional Sales Supervisor, and Autogas & Bulk LPG Regional Sales Manager, respectively. Mr. Polat joined Akpa (an Aygaz subsidiary) in 2004 as Branch Manager, and later served as the General Manager from 2008 to 2010. After working as the Marketing Director at Aygaz from 2010 to 2018, he was appointed Director - Cylinder Gas Sales in January 2018.

ŞENOL ZAFER POLAT
Director
Autogas Sales

Şenol Zafer Polat began his career in 1994 as a Construction Site Control Engineer and joined Aygaz in 1996 as a Project Marketing Engineer. From 1997 to 2010, he served as Cylinder Gas, Autogas and Bulk Gas Sales Manager in the Thrace, İstanbul and Marmara regions, and later as Central Anatolia Regional Sales Manager. From 2010 to 2016 he served as Aegean Region Cylinder Gas Sales Manager, first at Mogaz, then Aygaz. In 2016, Mr. Polat began to serve as Planning and Business Development Manager for Cylinder Gas, and in 2018 June he was appointed Director - Autogas Sales.

NURETTİN DEMİRTAŞ
Director
Affiliates and Accounting

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

AYŞE ABAMOR BİLGİN
Director
Supply Chain

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

Proposal of the Board of Directors for Profit Distribution

Dear Shareholders,

Upon review of the Consolidated Financial Statements for the accounting period of January 1-December 31, 2018 and the Independent Audit Report issued by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.,

It has been ascertained in accordance with TFRS/TAS, that total assets of the Company in the Consolidated Balance Sheet amounted to TL 5,013,223,000.00 and that the parent company earned TL 228,383,000.00 in consolidated net profit after tax and TL 430,989,654.17 net profit according to the TPL records from its activities in 2018.

Accordingly, it has been resolved not to set aside 5% general legal reserves for 2018 as required under article 519 of the Turkish Commercial Code since the amount of general legal reserve in TPL records has already reached 20% of the capital as of 31.12.2018.

It has been established that in compliance with the Capital Market Law and Capital Markets Board regulations, distributable profit earned for the period was TL 228,383,000.00; and that the amount of TL 231,850,991.52, resulting from the addition of TL 3,467,991.52 in donations made to foundations and associations within the year, made up the basis for first dividend; and furthermore that TPL records indicate TL 674,031,444.24 as total distributable profit, including that of the reporting period.

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

- TL 115,925,495.76 to be paid to shareholders as first dividend,
- TL 93,059,049.69 to be paid to shareholders as secondary dividend,
- TL 177,015,454.55 to be paid to shareholders as profit share from retained earnings, and
- TL 37,100,000.00 to be set aside as the General Legal reserve

and the total amount of TL 386,000,000.00 as the sum of the dividend payable to the shareholders to be fully paid in cash.

Upon the General Assembly's acceptance of the profit distribution proposal detailed above, it has been resolved that TL 386,000,000.00 for dividends payable to the shareholders based on our TPL records and TL 37,100,00.00 for General Legal Reserve be paid out from the current year and the balance TL 7,886,654.17 be set aside as extraordinary reserves;

- A gross/net cash dividend at the rate of 128.66667% and the amount of TL 1.286667 per share with a nominal value of TL 1 to be paid out to fully obligated corporations and our limited taxpayer shareholders who earn dividends through an office in Turkey or a permanent representative,
- A gross cash dividend at the rate of 128.66667% and the amount of TL 1.286667 per share with a nominal value of TL 1 and net 109.36667% and net amount of TL 1.093667 to be paid out to other shareholders,

and dividend payout to start on 28 March 2019. The proposal detailed above is presented for your approval.

Yours sincerely

Rahmi M. Koç
Chairman of the Board

Statements of Independence of the Independent Board Members

DECLARATION OF INDEPENDENCE JANUARY 16, 2019

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

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

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

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

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

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

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

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

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

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

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

Kutsan ÇELEBİCAN

DECLARATION OF INDEPENDENCE JANUARY 16, 2019

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.

Kemal Ege CANSEN

DECLARATION OF INDEPENDENCE JANUARY 16, 2019

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

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

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

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

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

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

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

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

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

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

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

Şadan KAPTANOĞLU DİKİCİ

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.

AYGAZ ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018

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

Independent Audıtor's Report

To the General Assembly of Aygaz Anonim Şirketi

A) Audit of the Consolidated Financial Statements

1- Opinion

We have audited the accompanying consolidated financial statements of Aygaz Anonim Şirketi (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements and a summary of significant accounting policies and consolidated financial statement notes.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

2- Basis for Opinion

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

3- Key Audit Matters

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

Key audit matters	*How the subject was handled during the audit*
Financial investments The Company has a 1,97% stake in Koç Finansal Hizmetler A.Ş. (KFS) and is accounted for at fair value, as available for sale financial asset, in the accompanying consolidated financial statements in accordance with TFRS. As of 31 December 2018, KFS financial investment is recognized at fair value of TL 285.647 thousand in the accompanying consolidated financial statements and the related fair value study is performed by an independent expert company (Note 2.25 and Note 5). We focused on this matter in our audit due to the following reasons: - KFS financial investment carried at fair value is material to the consolidated financial statements and the related fair value study requires specialist involvement. - The fair value model includes current and future management estimates (ie. cost of equity-discount rate, growth rates and inflation expectations) where realization of such management estimates in the future includes inherent uncertainties.	- The expertise of the company, who carried out the valuation study, is assessed in accordance with SIA 500. - Valuation methods and technical data used in the valuation report prepared by the expert company are examined with the support of our experts. - The mathematical accuracy of the calculations used in the valuation models are tested. - Data from external sources, such as "market value" and "similar acquisitions", used in the valuation models are compared to the relevant independent data sources. - The reasonableness of the key management estimates used in the modeling (ie. cost of equity-discount rate, growth rates and inflation expectations) is evaluated with the support of our specialists. - Future revenue estimates used in modeling are compared with KFS's budget and long term strategic plans. - It is checked whether the fair value of KFS financial investment, in the Group's consolidated financial statements as at 31 December 2018, is within the recommended fair value range in the specialist valuation report or not. Based on the above procedures performed we had no material finding on the financial investments.

4- Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
The Group management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with TFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

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

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

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

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

B) Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2018 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.

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

3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 13 February 2019.

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

Ediz Günsel, SMMM
Partner

İstanbul, 13 February 2019

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

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

(Convenience translation of financial statements originally issued in Turkish)

Assets	Notes	Current period (Audited) December 31, 2018	Prior period (Audited) December 31, 2017
Current assets		**1.617.539**	1.587.534
Cash and cash equivalents	4	**648.010**	593.172
Trade receivables		**440.048**	576.679
-Trade receivables from related parties	*31*	***30.461***	*39.354*
-Trade receivables from third parties	*8*	***409.587***	*537.325*
Other receivables		**3.047**	7.353
-Other receivables from third parties	*9*	***3.047***	*7.353*
Derivative financial instruments	7	**25.939**	9.097
Inventories	11	**348.309**	323.579
Prepaid expenses	19	**127.562**	64.577
Assets related to current year tax		**8.248**	2.701
Other current assets	18	**16.376**	10.376
Non-current assets		**3.395.684**	3.378.686
Financial investments	5	**287.096**	317.124
Trade receivables		**8.835**	8.441
-Trade receivables from third parties	*8*	***8.835***	*8.441*
Other receivables		**99**	81
-Other receivables from third parties	*9*	***99***	*81*
Derivative financial instruments	7	**37.245**	22.743
Investments accounted under equity method	12	**2.304.799**	2.273.331
Property, plant and equipment	13	**686.530**	677.927
Intangible assets		**21.354**	19.280
-Other intangible assets	*14*	***21.354***	*19.280*
Prepaid expenses	19	**49.124**	59.074
Deferred tax asset	29	**602**	685
Total assets		**5.013.223**	4.966.220

The accompanying accounting policies and notes between the pages 94 and 160 form an integral part of these consolidated financial statements.

AYGAZ ANONIM SIRKETI AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

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

(Convenience translation of financial statements originally issued in Turkish)

Liabilities	Notes	Current period (Audited) December 31, 2018	Prior period (Audited) December 31, 2017
Short term liabilities		**1.484.031**	1.278.810
Short-term financial borrowings	6	**78.596**	84.784
Current portion of long term financial borrowings	6	**492.351**	304.820
Trade payables		**559.653**	670.034
- Trade payables to related parties	*31*	***145.271***	*165.911*
- Trade payables to third parties	*8*	***414.382***	*504.123*
Liabilities for employee benefits	10	**48.357**	53.191
Other payables		**1.511**	1.577
- Other payables to related parties	*31*	***1.052***	*863*
- Other payables to third parties	*9*	***459***	*714*
Derivative financial instruments	7	**-**	214
Deferred income	20	**8.676**	2.483
Current income tax liabilities		**837**	2.076
Short-term provisions		**205.754**	45.455
-Other provisions	*17*	***205.754***	*45.455*
Other current liabilities	18	**88.296**	114.176
Long term liabilities		**1.026.782**	764.347
Long-term financial borrowings	6	**830.068**	583.666
Other payables		**106.114**	97.603
- Other payables to third parties	*9*	***106.114***	*97.603*
Long-term provisions		**42.926**	38.455
-Provisions for employee benefits	*16*	***42.926***	*38.455*
Deferred tax liabilities	29	**47.674**	44.623
Equity		**2.502.410**	2.923.063
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		**125.268**	716
Gains (losses) on the revaluation and/or reclassification		**125.042**	1.187
-Gains (losses) remeasurement from defined benefit plans		***2.789***	*1.187*
-Gains (losses) on financial assets measured at fair value through other comprehensive income	*21*	***122.253***	-
Share of other comprehensive income of investments accounted for using equity method that will not be reclassified to profit or loss		**226**	(471)
Other comprehensive income or expenses to be reclassified to profit or loss		**(213.318)**	99.893
Gains (losses) on hedge		**7.631**	-
-Gains (losses) on cash flow hedges		***7.631***	-
Gains (losses) on the revaluation and/or reclassification		**-**	213.653
-Gains (losses) on financial assets measured at fair value through other comprehensive income	*21*	***-***	*213.653*
Share of other comprehensive income of investments accounted for using equity method that will be reclassified to profit or loss		**(220.949)**	(113.760)
Restricted reserves	21	**294.210**	249.509
Retained earnings		**1.703.805**	1.631.864
Net profit for the period		**228.383**	577.019
Equity attributable to equity holders of the parent		**2.502.410**	2.923.063
Total equity and liabilities		**5.013.223**	4.966.220

The accompanying accounting policies and notes between the pages 94 and 160 form an integral part of these consolidated financial statements.

AYGAZ ANONIM SIRKETI AND ITS SUBSIDIARIES

CONSOLIDATED PROFIT OR LOSS STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2018

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

(Convenience translation of financial statements originally issued in Turkish)

	Notes	(Audited) January 1 - December 31, 2018	(Audited) January 1 - December 31, 2017
Revenue	22	**9.554.441**	8.469.276
Cost of sales (-)	22	**(8.920.093)**	(7.728.139)
Gross profit		**634.348**	741.137
General administrative expenses (-)	23	**(201.664)**	(204.627)
Marketing, expenses (-)	23	**(310.756)**	(285.377)
Research and development expenses (-)	23	**(3.431)**	(3.652)
Other operating income	25	**331.668**	158.314
Other operating expenses (-)	25	**(379.582)**	(141.071)
Operating profit		**70.583**	264.724
Income from investment activities	26	**27.397**	22.235
Loss from investment activities (-)	26	**(1.740)**	(5.430)
Profit/losses from investments accounted under equity method	12	**281.440**	388.611
Operating profit before financial income (expense)		**377.680**	670.140
Financial income	27	**165.251**	89.728
Financial expense (-)	28	**(293.170)**	(139.105)
Profit from continuing operations before tax		**249.761**	620.763
Tax income (expense), continuing operations			
-Current tax expense for the period (-)	29	**(15.871)**	(42.517)
-Deferred tax income (expense)	29	**(5.507)**	(1.227)
Profit for the period		**228.383**	577.019
Distribution of profit for the period			
Equity holders of the parent	21	**228.383**	577.019
Earnings per share (TL)	30	**0,761277**	1,923397
Diluted earnings per share (TL)	30	**0,761277**	1,923397

The accompanying accounting policies and notes between the pages 94 and 160 form an integral part of these consolidated financial statements.

AYGAZ ANONIM SIRKETI AND ITS SUBSIDIARIES

CONSOLIDATED OTHER COMPREHENSIVE INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2018

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

(Convenience translation of financial statements originally issued in Turkish)

	Notes	(Audited) January 1 - December 31, 2018	(Audited) January 1 - December 31, 2017
Profit for the period		**228.383**	577.019
Other comprehensive income			
Not to be reclassified to profit or loss		**(89.101)**	1.509
- Gains (losses) remeasurement on defined benefit plans		***1.602***	*1.063*
Gains (losses) on financial assets measured at fair value through other comprehensive income			
- Gains (losses) on financial assets measured at fair value through other comprehensive income		***(96.213)***	-
Share of other comprehensive income of investments accounted for using equity method that will not be reclassified to profit or loss			
- Gains (losses) from re-measurement on defined benefit plans of investments using equity method		***697***	*446*
Taxes relating to other comprehensive income not to be reclassified to profit (loss)			
- Gains (losses) on financial assets measured at fair value through other comprehensive income, tax effect	*29*	***4.813***	-
To be reclassified to profit or loss		***(99.558)***	*55.566*
Gains (losses) on cash flow hedges			
- Gains (losses) on cash flow hedges		***9.784***	-
Gains (losses) on financial assets measured at fair value through other comprehensive income			
- Gains (losses) on financial assets measured at fair value through other comprehensive income		***-***	*59.100*
Share of other comprehensive income of investments accounted for using equity method that will be reclassified to profit or loss			
- Gains (losses) from cash flow hedging of investments using equity method		***(109.009)***	*(864)*
- Gains (losses) from translation of foreign currency of investments using equity method		***1.820***	*285*
Taxes relating to other comprehensive income to be reclassified to profit (loss)			
- Gains (losses) on financial assets measured at fair value through other comprehensive income, tax effect	*29*	***-***	*(2.955)*
- Gains (losses) on cash flow hedges, tax effect	*29*	***(2.153)***	-
Other comprehensive income / (expense) (after taxation)		**(188.659)**	57.075
Total other comprehensive income		**39.724**	634.094
Distribution of total comprehensive income			
Equity holders of the parent		**39.724**	634.094

The accompanying accounting policies and notes between the pages 94 and 160 form an integral part of these consolidated financial statements.

AYGAZ ANONIM SIRKETI AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2018

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

(Convenience translation of 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 capita	Adjustment to share capital due to cross-ownership (-)	Gains (losses) on remeasurement of defined benefit plans	Gains (losses) on financial assets measured at fair value through other comprehensive income	Share of other comprehensive income of investments accounted for using equity method that will not be reclassified to profit or loss	Profit or loss relating to avoidance of risk of cash flow	Gains (losses) on financial assets measured at fair value through other comprehensive income	Share of other comprehensive income of investments accounted for using equity method that will be reclassified to profit or loss	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, 2017	300.000	71.504	(7.442)	124	-	(917)	-	157.508	(113.181)	203.549	1.713.648	415.670	2.740.463	1.094	2.741.557
Transfers	-	-	-	-	-	-	-	-	-	45.960	369.710	(415.670)	-	-	-
Total comprehensive income (expense)	-	-	-	1.063	-	446	-	56.145	(579)	-	-	577.019	634.094	-	634.094
Net income	-	-	-	-	-	-	-	-	-	-	-	*577.019*	*577.019*	-	*577.019*
Other comprehensive income (expense)	-	-	-	*1.063*	-	*446*	-	*56.145*	*(579)*	-	-	-	*57.075*	-	*57.075*
Dividend paid	-	-	-	-	-	-	-	-	-	-	(450.000)	-	(450.000)	-	(450.000)
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1.494)	-	(1.494)	(1.094)	(2.588)
Balance as of December 31, 2017	300.000	71.504	(7.442)	1.187	-	(471)	-	213.653	(113.760)	249.509	1.631.864	577.019	2.923.063	-	2.923.063
Audited															
Balance as of January 1, 2018	300.000	71.504	(7.442)	1.187	-	(471)	-	213.653	(113.760)	249.509	1.631.864	577.019	2.923.063	-	2.923.063
Adjustments to changes in accounting policies	-	-	-	-	213.653	-	-	(213.653)	-	-	(377)	-	(377)	-	(377)
Adjustments to mandatory changes in accounting policies (Note 2.4)	-	-	-	-	*213.653*	-	-	*(213.653)*	-	-	*(377)*	-	*(377)*	-	*(377)*
Transfers	-	-	-	-	-	-	-	-	-	44.701	532.318	(577.019)	-	-	-
Total comprehensive income (expense)	-	-	-	1.602	(91.400)	697	7.631	-	(107.189)	-	-	228.383	39.724	-	39.724
Net income	-	-	-	-	-	-	-	-	-	-	-	*228.383*	*228.383*	-	*228.383*
Other comprehensive income (expense)	-	-	-	*1.602*	*(91.400)*	*697*	*7.631*	-	*(107.189)*	-	-	-	*(188.659)*	-	*(188.659)*
Dividend paid (Note 21)	-	-	-	-	-	-	-	-	-	-	(460.000)	-	(460.000)	-	(460.000)
Balance as of December 31, 2018	300.000	71.504	(7.442)	2.789	122.253	226	7.631	-	(220.949)	294.210	1.703.805	228.383	2.502.410	-	2.502.410

The accompanying accounting policies and notes between the pages 94 and 160 form an integral part of these consolidated financial statements.

AYGAZ ANONIM SIRKETI AND ITS SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2018

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

(Convenience translation of financial statements originally issued in Turkish)

	Notes	Audited January 1 - December 31, 2018	Audited January 1 - December 31, 2017
Cash flows from operating activities		**233.275**	251.238
Net income from continuing operations		**228.383**	577.019
Adjustments related with the reconciliation of net profit (loss) for the period		**106.665**	(196.561)
-Adjustments for depreciation and amortization expenses	13,14	**89.580**	87.520
-Adjustments for impairment loss (reversal)		**1.841**	1.263
-Adjustments for provisions		**169.355**	22.384
-Adjustments for dividend (income) expense	26	**(604)**	(296)
-Adjustments for interest income	27	**(69.689)**	(46.290)
-Adjustments for interest expense	28	**184.994**	98.488
-Adjustments for unrealized foreign exchange differences		**35.712**	9.408
-Adjustments for fair value losses (gains) on derivative financial instruments		**(23.927)**	(8.884)
-Adjustments for undistributed profits of investments accounted under equity method	12	**(281.440)**	(388.611)
-Adjustments for tax (income) expenses	29	**21.378**	43.744
-Adjustments for losses (gains) on disposal of non-current assets	26	**(25.053)**	(16.509)
-Other adjustments for reconciliation of profit (loss)		**4.518**	1.222
Changes in working capital:		**(74.531)**	(76.423)
-Change in blocked deposits		**(1.943)**	-
-Adjustments for decrease (increase) in trade receivables		**134.019**	(106.908)
-Adjustments for decrease (increase) in other operating receivables		**(1.712)**	(8.418)
-Adjustments for decrease (increase) in inventories		**(24.730)**	(139.512)
-Decrease (increase) in prepaid expenses		**(53.708)**	(14.005)
-Adjustments for increase (decrease) in trade payables		**(110.381)**	199.303
-Increase (decrease) in liabilities for employee benefits		**(4.834)**	9.939
-Adjustments for increase (decrease) in other operating payables		**(17.435)**	(16.818)
-Increase (decrease) in deferred income		**6.193**	(4)
Cash flows from operating activities		**260.517**	304.035
-Payments related to provisions for employee benefits	16	**(4.585)**	(5.230)
-Tax returns (payments)		**(22.657)**	(47.567)
Cash flows from investing activities		**2.220**	(55.663)
Cash outflows from the acquisition of additional subsidiary shares		**-**	(2.588)
Cash outflows from the acquisition of additional shares or participation in share capital increase of investment of associates or joint ventures	1, 12	**(203.974)**	(50.000)
Cash outflows from increase in share capital of financial investments	5	**(66.660)**	-
Cash inflows from the sale of property, plant and equipment and intangible assets		**32.467**	20.822
Cash outflows from the purchase of property, plant and equipment and intangible assets	13,14	**(107.671)**	(111.684)
Dividends received		**348.058**	87.787
Cash flows from financing activities		**(197.202)**	(170.765)
Proceeds from borrowings	6	**655.981**	495.453
Repayments of borrowings	6	**(309.175)**	(176.148)
Dividends paid		**(460.000)**	(450.000)
Interest paid		**(154.369)**	(85.075)
Interest received		**70.361**	45.005
Net increase (decrease) in cash and cash equivalents before currency translation differences		**38.293**	24.810
Effect of currency translation differences		**14.602**	634
Net increase (decrease) in cash and cash equivalents		**52.895**	25.444
Cash and cash equivalents at the beginning of the period	4	**593.172**	567.728
Cash and cash equivalents at the end of the period	4	**646.067**	593.172

The accompanying accounting policies and notes between the pages 94 and 160 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, 2018

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

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

1. ORGANIZATION AND OPERATIONS OF THE COMPANY

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

The Company is registered at the Capital Markets Board of Turkey ("CMB") and as of December 31, 2018, 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 2018 is 688 white-collar (2017: 706) and 637 blue-collar (2017: 683) totaling to 1.325 (2017:1.389).

Subsidiaries

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

		Ownership interest (%)			
Subsidiaries	Place of incorporation and Operation	**December 31, 2018**	December 31, 2017	**Voting power right**	Principal activity
Anadoluhisarı	Turkey	**%100**	100%	**100%**	Shipping
Kandilli	Turkey	**%100**	100%	**100%**	Shipping
Kuleli	Turkey	**%100**	100%	**100%**	Shipping
Kuzguncuk	Turkey	**%100**	100%	**100%**	Shipping
Akpa	Turkey	**%100**	100%	**100%**	Marketing
Aygaz Doğal Gaz Toptan Satış A.Ş.	Turkey	**%100**	100%	**100%**	Natural gas
Aygaz Doğal Gaz İletim A.Ş.	Turkey	**%100**	100%	**100%**	Natural gas
ADG Enerji	Turkey	**%100**	100%	**100%**	Natural gas

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

Main activity of Aygaz Doğal Gaz Toptan Satış A.Ş. and Aygaz Doğal Gaz İletim A.Ş. (together "Aygaz Doğal Gaz") is to purchase natural gas from domestic and/or overseas suppliers, selling natural gas to domestic and/or overseas customers and make related arrangements for the modulation, storing of natural gas and building necessary facilities. On January 25, 2017 the Company has acquired the shares which is equivalent to the 0,85% of total shares of Aygaz Doğal Gaz Toptan Satış A.Ş with the nominal value of TL 280 thousand for TL 2.548 thousand in cash and the shares which is equivalent to the 0,41% of total shares of Aygaz Doğal Gaz İletim A.Ş with the nominal value of TL 37 thousand for TL 40 thousand in cash from non-controlling interest. As a result of this acquisition, the Company has 100% of shares of its subsidiaries.

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

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

1. ORGANIZATION AND OPERATIONS OF THE COMPANY (CONTINUED)

Within July 2010, the Company has restructured its shipping operations under new legal entities, and established Anadoluhisarı Tankercilik A.Ş. ("Anadolu Hisarı"), Kandilli Tankercilik A.Ş. ("Kandilli"), Kuleli Tankercilik A.Ş. ("Kuleli") and Kuzguncuk Tankercilik A.Ş. ("Kuzguncuk") with an effective ownership interest of 100%. The main activities of these companies are to purchase, build or rent vessels and to operate them in domestic and/or overseas transportation of crude oil, petroleum products, liquid petroleum gas, natural gas and solid, liquid and liquefied products. On October 13, 2017, the vessel named "Kuleli" which is used for the transportation of LPG, with net book value of TL 589 thousand was sold for USD 3.500 thousand in cash by Kuleli Tankercilik A.Ş - the Company's subsidiary.

Enram Su ve Çevre Yatırımları A.Ş. has decided to change its trade name as ADG Enerji Yatırımları A.Ş. ("ADG Enerji") in its Extraordinary General Meeting held on March 20, 2014. 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. ADG Enerji has decided to decrease its share capital through share cancellation from TL 26.100 thousand to TL 500 thousand in its Extraordinary General Meeting held on December 14, 2017. The TL 25.600 thousand capital reduction has been paid in cash to the Company on March 9, 2018.

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, 2018**	December 31, 2017	**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.

Entek Elektrik Üretimi A.Ş. ("Entek"), the electricity generation company of Koç Group, operates one natural gas cycling plant with capacity of 157 MW in Kocaeli and six hydroelectric power plants in Karaman, Samsun and Mersin with capacity of 87 MW in total reaching aggregate capacity of 244 MW. Entek won tender for the privatization of Menzelet and Kılavuzlu hydropower plants with the capacity of 178 MW with the highest bid for the operating rights of them for 49 years in September 2017. The total installed capacity of Entek Group reached 422 MW. The power plants owned by Menzelet Kılavuzlu Elektrik Üretimi A.Ş., a 100% owned subsidiary of Entek, has been started to be operated in the first quarter of 2018. During the Extraordinary General Assembly held on February 9, 2018 of the Company's 49,62% subsidiary, Entek, it was resolved to increase the paid-in capital of the Entek by TL from TL 538.500 thousand to TL 950.000 thousand. TL 405 thousand will be paid out of the Entek's internal funds and TL 411.095 thousand will be paid in cash. The corresponding amount which is TL 203.974 thousand has been paid in cash on March 1, 2018 (Note 12).

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

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

1. ORGANIZATION AND OPERATIONS OF THE COMPANY (CONTINUED)

Joint ventures

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

		Ownership interest (%)			
Joint venture	Place of incorporation and operation	**December 31, 2018**	December 31, 20173	**Voting power right**	Principal activity
Opet Aygaz Gayrimenkul A.Ş.	Turkey	**50,00%**	50,00%	**50,00%**	Real Estate

Opet Aygaz Gayrimenkul A.Ş. was established on September 20, 2013 as a joint venture with 50% equal shares by the Company and Opet Petrolcülük A.Ş., which is the Company's business partner, operating in distribution of fuel products. Its main activity is to establish, purchase, operate and rent fuel and LPG stations.

Opet Aygaz Gayrimenkul A.Ş. has decided to increase share capital from TL 150.000 thousand to TL 250.000 thousand in its Extraordinary General Meeting held on June 22, 2017. For the increased share amount of TL 100.000 thousand, the Company has agreed to pay TL 50.000 thousand corresponding to its shares in cash and free from collusion. TL 12.500 thousand, TL 12.500 thousand and TL 25.000 thousand has been paid in cash on June 28, 2017, July 13, 2017 and August 28, 2017 respectively (Note 12).

Approval of consolidated financial statements

The consolidated financial statements as of and for the year ended December 31, 2018 are approved in the Board of Directors meeting held on February 13, 2019. These consolidated financial statements will be finalized following their approval in the General Assembly.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Financial reporting standards

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

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

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

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.2 Consolidation principles

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.3 New and revised Turkey Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at 31 December 2018

IFRS 9, "Financial instruments"; effective from annual periods beginning on or after
1 January 2018. This standard replaces the guidance in IAS 39. It includes the requirements on the classification and measurement of financial assets and liabilities; also covers an expected credit risk modelling that will replace the current incurred impairment loss model. The Group accounted the effect of related standart on the consolidated financial statements as a result of its pre-assesment
(Note 2.4).

IFRS 15, "Revenue from contracts with customers"; effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and comparability of revenue in financial statements globally. The amendments do not have an impact on the Group's consolidated financial position and performance.

Amendments to IFRS 15, "Revenue from contracts with customers"; effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard. The amendments do not have an impact on the Group's consolidated financial position and performance.

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

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

IFRIC 22, "Foreign currency transactions and advance consideration"; effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice. The amendments do not have an impact on the Group's consolidated financial position and performance.

b) Standards, amendments and interpretations effective after 1 January 2019

Amendments to IFRS 9, 'Financial instruments'; effective from annual periods beginning on or after 1 January 2019. This amendment confirms that when a financial liability measured at amortized cost is modified without resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39. The amendments do not have an impact on the Group's consolidated financial position and performance.

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

IFRS 16, 'Leases'; effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control and the use of an identified asset for a period of time in exchange for consideration. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

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

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

IFRIC 23, 'Uncertainty over income tax treatments'; effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes' are applied where there is uncertainty over income tax treatments. The IFRIC 23 had previously clarified only some uncertainties of IAS 12. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is an uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

Annual improvements 2015-2017; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

- IFRS 3, 'Business combinations', – a company re-measures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11, 'Joint arrangements', – a company does not re-measure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23, 'Borrowing costs' – a company treats any borrowing made to prepare the qualifying asset for its intended use or sale as part of general borrowings.

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

Amendments to IAS 1 and IAS 8 on the definition of material; effective from annual periods beginning on or after 1 January 2020. These amendments to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' and consequential amendments to other IFRSs:

- use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in IAS 1 about immaterial information.

Amendments to IFRS 3 - definition of a business; effective from annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

The Group will evaluate the effect of the amendments below and apply from effective date.

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

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

2.4 Comparative information and reclassifications on prior period financial statements

First time adoption of IFRS 9 "Financial assets"

The Group assessed the cumulative effect of initial application of IFRS 9 "Financial Instruments" which replaced "IAS 39 Financial Instruments: Recognition and Measurement" retrospectively within the frame of exemption of adoption which is written in the section number 7.2.15 as of the date of first time adoption which is 1 January 2018 and accounted this cumulative effect under "Adjustments to changes in accounting policies" as opening balance of retained earnings. Since the Group applied this method, the restatement is not required on the comparative information of financial statements.

The effect of amendments regarding the application of IFRS 9 on condensed consolidated financial statements dated on January 1, 2018 is as follows:

	Previously reported December 31, 2017	Effect of IFRS 9	After amendments December 31, 2017
Total trade receivables,net	585.120	(471)	**584.649**
Deferred tax liabilities, net	43.938	(94)	**43.844**
Retained earnings	1.631.864	(377)	**1.631.487**

The respective effect is related to the expected credit loss provision for trade receivables.

In accordance with the amendments applied within the frame of IFRS 9, any gain or loss from revaluation of financial assets carried at fair value through other comprehensive is accounted under other comprehensive income not to be classified to profit or loss.

The changes in the classification of financial assets and liabilities in accordance with IFRS 9 are explained below. Those reclassification differences do not have any impact on the measurement of financial instruments except for financial investments.

Financial assets	Prior classification in accordance with IAS 39	New classification in accordance with IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss
Financial investments	Available for sale	Fair value through other comprehensive income

Financial liabilities	Prior classification in accordance with IAS 39	New classification in accordance with IFRS 9
Derivative financial instruments	Fair value through profit or loss	Fair value through other comprehensive income
Borrowings	Amortized cost	Amortized cost
Trade payables	Amortized cost	Amortized cost

2.5 Offsetting

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

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

2.6 Revenue recognition

When a performance obligation is satisfied by transferring promised goods or services to a customer, the Group recognises the revenue as the amount of the transaction price that is allocated to that performance obligation. The goods or services are transferred when the control of the goods or services is delivered to the customers. Returns, discounts and provisions are reduced from the related amount.

Group recognises revenue based on the following five principles:

(a) Identification of customer contracts
(b) Identification of performance obligations
(c) Determination of the transaction price in the contracts
(d) Allocation of transaction price to the performance obligations
(e) Recognition of revenue when the performance obligations are satisfied

Group recognises revenue from its customer when all of the the following criteria are met:

(a) The parties have approved the contract (written or orally or in accordance with other customer business practices) and are committed to perform their respective obligations,
(b) Group can identify the right of parties related to goods and services,
(c) Group can identify the payment terms of goods and services to be transferred,
(d) The contract has commercial substance,
(e) It is probable that Group will collect the consideration to which it will be entitled in exchange for the goods and services that will be transferred to the customer. In evaluating whether collectabilitiy of a consideration is probable, the entity shall consider only the customer's abilitity and intention to pay the consideration when it is due.

Revenue is recognised 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

The accounting policy of Special Consumption Tax (SCT) on imported LPG which is required to be paid after the declaration made to the Republic of Turkey, Ministry of Finance is applied to be included in revenues and cost of goods sold (Gross profit and net income is not impacted by this record). For the year ended December 31, 2018, SCT on imported LPG included in revenues and the cost of goods sold is amounting to TL 1.543.946 thousand (January 1- December 31 2017: TL 2.284.740 thousand).

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 recognised when the shareholders' rights to receive payment have been established.

(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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.7 Inventories

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

2.8 Property, plant and equipment

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

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised 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 recognised in profit or loss.

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

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

2.9 Intangible assets

Intangible assets acquired separately

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

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

Trade rights and licenses

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

Computer software

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

2.10 Impairment of assets

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

2.11 Borrowing costs

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

2.12 Financial instruments

2.12.1 Financial assets

Reclassification and re-measurement

Financial assets are classified into the following specified categories: financial assets as 'at fair value at amortised cost', 'at fair value through profit or loss' (FVTPL),', 'at fair value through other comprehensive income'. The classification is made considering the purpose of acquisition of financial asset and its expected cash flows, at the time of acquisition.

Financial assets carried at amortised cost

Financial assets measured at amortised cost", are the financial assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount standing, not have an active market and non-derivatives financial assets. "Cash and cash equivalents", "Trade receivables" are classified as financial assets measured at amortised cost using the effective interest method.

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

Impairment of financial assets

Group has applied simplified approach and used impairment matrix for the calculation of impairment on its receivables carried at amortized cost, since they do not comprise of any significant finance component. In accordance with this method, if any provision provided to the trade receivables as a result of a specific events, Group measures expected credit loss from these receivables by the life-time expected credit loss. The calculation of expected credit loss is performed based on the past experience of the Group and its expectations for the future indications.

Trade receivables

The Group has chosen "practical expedient" explained in IFRS 9 for the calculation of the impairment of trade receivables (with maturities less than one year) that do not contain a significant financing component and accounted at amortized cost. Accordingly, the Group measured the loss allowance for trade receivables at an amount equal to lifetime expected credit losses when trade receivables are not impaired for any reasons. The Group uses a provision matrix in the calculation of expected credit losses. Provision rate is calculated based on the overdue days of trade receivables and the rates are revised each reporting period if necessary. The change in expected credit losses is recognised in operational expense/income in consolidated income statement.

Financial assets measured at fair value

Assets that are held by the management for collection of contractual cash flows and for selling the financial assets are measured at their fair value. If the management do not plan to dispose these assets in 12 months after the balance sheet date, they are classified as non-current assets. Group make a choice for the equity instruments during the initial recognition and elect profit or loss or other comprehensive income for the presentation of fair value gain and loss:

i) Financial assets measured at fair value through profit or loss

Financial assets carried at fair value through profit or loss comprise of "derivative instruments" in the statement of financial position. Derivative instruments are recognized as asset when the fair value of the instrument is positive, as liability when the fair value of the instrument is negative. Group's financial instruments at fair value through profit or loss consist of forward contracts, currency swaps and cross currency fixed interest rate swap.

ii) Financial assets measured at fair value through other comprehensive income

Financial assets carried at fair value through other comprehensive income comprise of "financial assets" in the statement of financial position. When the financial assets carried at fair value through other comprehensive income are sold, fair value gain or loss classified in other comprehensive income is classified to retained earnings.

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.

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

Loans and receivables

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

Cash and cash equivalents

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

2.12.2 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 recognised 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 recognised under financing income (expense).

Cash flow hedges

Hedges of exposures to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit and loss are designated as cash flow hedges by the Group.

Changes in the fair value of derivatives, designated as cash flow hedges and qualified as effective, are recognised in equity as "hedge reserves". Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously recognised under equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts recognised under equity are transferred to the consolidated income statement in the period in which the hedged firm commitment or forecasted transaction affects the consolidated income statement

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

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

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or losses previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains until the forecast transaction or firm commitment affects profit or loss.

2.12.3 Recognition and de-recognition of financial instruments

All purchases and sales of financial assets are recognised 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 de-recognised 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 recognised to the extent of the Group's continuing involvement in the consolidated financial statements.

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

2.13 Business combinations

Before January 1, 2010 business combinations carried out by the Group has accounted for using the acquisition method according to before revised IFRS 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 recognised in general administrative expenses.

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

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

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 recognised at IFRS 3 fair values on the date of acquisition. Acquired company is consolidated in profit or loss statement starting from the date of acquisition.

Partial share sale and purchase transactions settled with minority shareholders

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

2.14 Foreign currency transactions

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

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

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

Exchange differences are recognised 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 recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

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

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

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

2.15 Earnings per share

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

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

2.16 Subsequent events

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

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

2.17 Provisions, contingent liabilities, contingent assets

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the consolidated financial statements and are disclosed as contingent assets or liabilities.

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

2.18 Related parties

a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity,
- (ii) has significant influence over the reporting entity,
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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

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

b) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

- (i) Entity and Company are members of the same Group,
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member),
- (iii) Both entities are joint ventures of the same third party,
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity,
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity,
- (vi) The entity is controlled or jointly controlled by a person identified in (a),
- (vii) A person identified in (a) (ii) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

2.19 Segmental information

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

2.20 Taxation and deferred tax

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

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

<u>Corporate tax</u>

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.

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

Deferred tax

Deferred tax is recognised 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 recognised for all taxable temporary differences and deferred tax assets are recognised 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 recognised 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 recognised 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 fore-seeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised 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 fore-seeable 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.

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

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

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

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

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

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

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

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

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

2.21 Employment benefits

Defined benefit plan:

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

Defined contribution plan:

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

2.22 Statement of cash flows

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

2.23 Share capital and dividends

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

2.24 Research and development expenses

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

Development costs previously recognised as expense cannot be capitalized in a subsequent period. Development costs that have been capitalized are amortized from the commencement of the commercial production of the product on a straight-line basis. As of December 31, 2018, the Group has no capitalized research and development expenses (December 31, 2017: None).

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

2.25 Critical accounting estimates and assumptions

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

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

b) The Group Management uses market values for quoted equity items traded in active markets, while determining fair values of financial asset measured at fair value through other comprehensive income. 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.

Financial asset measured at fair value through other comprehensive income of the Group includes shares of Koç Finansal Hizmetler A.Ş. (KFS), an unlisted company and the majority shareholder of Yapı ve Kredi Bankası with 81,8%. Since the shares of Yapı ve Kredi Bankası are traded in Istanbul Stock Exchange, the fair value of shares of KFS are determined by using several valuation methods such as the existing market value of Yapı ve Kredi Bankası, dividend discount model, comparison method considering recent similar local or international acquisitions realized. In this valuation, the market value is weighted as 75%, the dividend discount model is 15% and the market model involving similar acquisitions is 10%. In the dividend discount model, 22,3% cost of equity-discount rate on Turkish Lira based (2017: 18%) and 10,6% of long-term growth rate (2017: 5%) were taken into consideration. The average result of the minimum and maximum values of the calculations made using these methods were recorded as the fair value (Note 5).

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.)

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, 2018 and 2017, assets and liabilities according to industrial segments are as follows:

					December 31, 2018
	Gas and petroleum products	Electricity	Other	Consolidation adjustments	Total
Assets					
Current assets	1.457.467	-	184.598	(24.526)	1.617.539
Non-current assets	2.956.387	448.501	273.720	(282.924)	3.395.684
Total assets	4.413.854	448.501	458.318	(307.450)	5.013.223
Liabilities					
Short term liabilities	1.446.764	-	61.805	(24.538)	1.484.031
Long term liabilities	1.021.426	-	15.413	(10.057)	1.026.782
Equity	1.945.664	448.501	381.100	(272.855)	2.502.410
Total liabilities and equity	4.413.854	448.501	458.318	(307.450)	5.013.223
Investments accounted under equity method	1.718.736	448.501	137.562	-	2.304.799

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

(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)

As of December 31, 2018 and 2017, profit and loss statement according to industrial segments are as follows:

	January 1 - December 31, 2018				
	Gas and petroleum products	**Electricity**	**Other**	**Consolidation adjustments**	**Total**
Revenue	9.167.870	-	620.212	(233.641)	9.554.441
Cost of sales (-)	(8.619.449)	-	(534.285)	233.641	(8.920.093)
Gross profit	548.421	-	85.927	-	634.348
General administrative expenses (-)	(185.837)	-	(19.834)	4.007	(201.664)
Marketing expenses (-)	(289.214)	-	(21.542)	-	(310.756)
Research and development expenses (-)	(3.431)	-	-	-	(3.431)
Other operating income	319.793	-	17.453	(5.578)	331.668
Other operating expenses (-)	(368.410)	-	(11.694)	522	(379.582)
Operating profit	21.322	-	50.310	(1.049)	70.583
Income from investment activities	429.280	-	471	(402.354)	27.397
Loss from investment activities (-)	(1.740)	-	-	-	(1.740)
Profit/losses from investments accounted under equity method	373.157	(96.049)	4.332	-	281.440
Operating profit before financial income (expense)	822.019	(96.049)	55.113	(403.403)	377.680
Financial income	139.100	-	26.151	-	165.251
Financial expense (-)	(284.635)	-	(8.535)	-	(293.170)
Profit from continuing operations before tax	676.484	(96.049)	72.729	(403.403)	249.761
Tax income (expense), continuing operations					
Current tax expense for the period (-)	(9.696)	-	(6.175)	-	(15.871)
Deferred tax income (expense)	(5.399)	-	(108)	-	(5.507)
Profit for the period	661.389	(96.049)	66.446	(403.403)	228.383

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

The depreciation and amortization expense for the industrial segmental assets as of December 31, 2018 and 2017 is as follows:

	January 1 - December 31, 2018	January 1 - December 31, 2017
Gas and petroleum products	**79.897**	77.374
Other	**9.683**	10.146
	89.580	87.520

(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, 2018 and 2017 are as follows:

	January 1 - December 31, 2018	January 1 - December 31, 2017
Gas and petroleum products	**102.884**	109.961
Other	**4.787**	1.723
	107.671	111.684

4. CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017
Cash on hand	**223**	462
Cash at banks	**589.377**	546.687
- Demand deposits	***39.010***	*21.984*
- Time deposits	***550.367***	*524.703*
Receivables from credit card transactions	**58.410**	46.023
Total cash and cash equivalents	**648.010**	593.172

As of December 31, 2018 the Group's TL time deposits amounting to TL 344.731 thousand with maturities of 2 days and interest rates of 22,50-24,33%. USD time deposits amounting to USD 39.088 thousand (TL 205.636 thousand) with maturities of 2 days and interest rate of 3,40 % (As of December 31, 2017 the Group's TL time deposits amounting to TL 360.525 thousand have maturities of 4-46 days and interest rates of 14-14,85%; USD time deposits amounting to USD 43.527 thousand (TL 164.178 thousand) have a maturity of 4-5 days and an interest rate of 3%).

The amount of cash and cash equivalents shown in the statement of cash flow as of December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Cash and cash equivalents	**648.010**	593.172
Less: Blocked deposits (*)	**(1.943)**	-
	646.067	593.172

(*) The amount consists of the cash collaterals given to Istanbul Clearing, Settlement and Custody Bank Inc.-Takasbank in accordance with the procedure with respect to central transportation services provided by Takasbank in the Organized Natural Gas Market operated by Energy Exchange Istanbul (EXIST).

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

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

5. FINANCIAL INVESTMENTS

The Group's long-term financial assets identified as available-for-sale financial assets are as follows as of December 31, 2018 and 2017:

	December 31, 2018		December 31, 2017	
	Participation amount	**Participation rate %**	Participation amount	Participation rate %
Financial assets measured at fair value through other comprehensive income:				
Koç Finansal Hizmetler A.Ş.(*)	***285.647***	***1,97***	*315.200*	*1,97*
Financial assets measured at fair value through profit or loss:				
Ram Dış Ticaret A.Ş.	***420***	***2,50***	*875*	*2,50*
Tanı Pazarlama ve İletişim Hizmetleri A.Ş.	***540***	***10,00***	*540*	*10,00*
Tat Gıda Sanayi A.Ş.	***53***	***0,08***	*73*	*0,08*
Other	***436***	***-***	*436*	*-*
	287.096		317.124	

(*) During the extraordinary general assembly meeting held on June 6, 2018 of Koç Finansal Hizmetler A.Ş. in which having a 1,97% stake, it was resolved to increase the paid-in capital of by TL 3.389.325 thousand from TL 3.011.275 thousand to TL 6.400.600 thousand. The Company participated in this capital increase by exercising its pre-emptive rights corresponding to TL 66.660 thousand that was paid in cash on June 18, 2018.

6. FINANCIAL BORROWINGS

As of December 31, 2018 and 2017 the Group's short-term financial borrowings are as follows:

	December 31, 2018	December 31, 2017
TL-denominated short-term bank borrowings (*)	**78.596**	84.784
Total short-term bank borrowings	**78.596**	84.784
Short-term portion and interest accruals of TL-denominated long-term bank borrowings	**275.038**	100.414
Short-term portion and interest accruals of USD-denominated long-term bank borrowings	**67.592**	48.381
Short-term portion of long-term bond issued (**)	**149.721**	156.025
Total short-term portion of long-term financial borrowings	**492.351**	304.820

(*) As of December 31, 2018, the Group has interest free loan amounting to TL 5.981 thousand (December 31, 2017: TL 10.453 thousand). TL 3,645 thousand of total amount was used for custom expenses payment and amounting to TL 2.336 thousand was used for SSI payments. Group has short term bank loans amounting to TL 40.456 thousand with a maturity of June 12, 2019 and TL 32.159 thousand with a maturity of October 17, 2019 The average fixed interest rate of these loans is 30,13%.

(**) On April 11, 2017, October 20, 2017 and January 26, 2018 the Group has issued a fixed rate bond with a nominal value of TL 85.000 thousand, with a maturity of 728 days and half-yearly coupon payments, a fixed rate bond with a nominal value of TL 50.000 thousand, with a maturity of 728 days and half-yearly coupon payments, 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, 2018, net present value of the issued bonds are TL 218.794 thousand (TL 69.073 thousand of this amount is shown as long term bond issued) and their effective interest rates are 13,46%, 14,45% and 15,70% 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, 2018, the details of short-term bank borrowings are as follows:

Currency	Average effective interest rate per annum (%)	Original amount	TLamount
TL	-	5.981	5.981
TL	30,13	72.615	72.615
			78.596

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

Currency	Average Effective interest rate per annum (%)	Original amount	TLamount
TL	-	10.453	10.453
TL	13,19	74.331	74.331
			84.784

As of December 31, 2018 and 2017 the Group's long-term financial borrowings are as follows:

	December 31, 2018	December 31, 2017
TL-denominated long-term bank borrowings	621.581	314.510
USD-denominated long-term bank borrowings	139.414	147.104
Total long-term bank borrowings	760.995	461.614
Long-term bonds issued	69.073	122.052
Total long-term bonds	69.073	122.052
Total long-term financial borrowings	830.068	583.666

As of December 31, 2018 the details of long-term bank borrowings are as follows:

Currency	Effective interest rate per annum (%)	Original amount	TLamount
TL	20,35	896.619	896.619
USD	6,10	39.348	207.006
Short-term portion of long-term loans and interest accruals			(342.630)
			760.995

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

Currency	Effective interest rate per annum (%)	Original amount	TLamount
TL	15,67	414.924	414.924
USD	4,30	51.827	195.485
Short-term portion of long-term loans and interest accruals			(148.795)
			461.614

(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, 2018 and 2017 the Group's movements of financial borrowings are as follows:

	2018	2017
As of January, 1	973.270	630.510
Proceeds from new financial borrowings	655.981	495.453
Repayments of principals	(309.175)	(176.148)
Changes in interest accruals	30.625	13.413
Currency translation differences	50.314	10.042
As of December, 31	**1.401.015**	973.270

7. DERIVATIVE FINANCIAL INSTRUMENTS

As of December 31, 2018 and 2017, the Group's derivative financial instruments are as follows:

	December 31, 2018		December 31, 2017	
	Contract amount	Fair value assets (liabilities)	Contract amount	Fair value assets (liabilities)
Forward transactions (*)	-	-	60.941	(214)
Foreign currency swap contracts (**)	26.100	24.830	26.100	9.097
Commodity hedge (***)	41.245	1.109	-	-
Total short-term derivative financial instruments	**67.345**	**25.939**	87.041	8.883

	December 31, 2018		December 31, 2017	
	Contract amount	Fair value assets (liabilities)	Contract amount	Fair value assets (liabilities)
Foreign currency swap contracts (**)	39.150	37.245	65.250	22.743
Total long-term derivative financial instruments	**39.150**	**37.245**	65.250	22.743

(*) As of December 31, 2018 the Group has no forward transaction (As of December 31, 2017 the Group has entered into forward transaction with a maturity of 19 days and nominal value amounting to USD 16.000 thousand).

(**) 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%. USD 9.000 thousand of principal payments made in 2018.

(***) As of December 31, 2018 the Group has Commodity swap transaction which is made for the quantity of 20.000 metric tonne of propane (Sonatrach FOB Bethioua). The relevant contract month of the transaction is February 2019 and the weighted average fixed price is USD 392/per metric tonne.

8. TRADE RECEIVABLES AND PAYABLES FROM THIRD PARTIES

The Group's trade receivables from third parties as of December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Trade receivables	390.652	517.416
Notes receivables	46.873	45.535
Allowance for doubtful receivables (-) (*)	(27.938)	(25.626)
Total current trade receivables	**409.587**	537.325

(*) TL 540 thousand of provision for doubtful receivables consists of expected credit loss provisions.

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

8. TRADE RECEIVABLES AND PAYABLES FROM THIRD PARTIES (CONTINUED)

	December 31, 2018	December 31, 2017
Notes receivable	**8.835**	8.441
Total non-current trade receivables	**8.835**	8.441

Movement of allowance for doubtful receivables	**2018**	2017
As of January 1st in accordance with IAS 39	**25.626**	23.667
Effect of IFRS 9 (Note:2.4)	**471**	-
As of January 1 st recalculated in accordance with IFRS 9	**26.097**	23.667
Increases during the period	**2.364**	2.087
Collections	**(523)**	(128)
As of December 31st	**27.938**	25.626

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, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Trade payables	**414.382**	504.123
Total short-term trade payables	**414.382**	504.123

9. OTHER RECEIVABLES AND PAYABLES FROM THIRD PARTIES

The Group's other receivables from third parties as of December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Guarantees and deposits given	**191**	6.015
Other receivables	**2.856**	1.338
Total other current receivables	**3.047**	7.353

	December 31, 2018	December 31, 2017
Guarantees and deposits given	**99**	81
Total other non-current receivables	**99**	81

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

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

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

As of December 31, 2018 and 2017, other payables to third parties of the Group are as follows:

	December 31, 2018	December 31, 2017
Deposits and guarantees taken	**459**	714
Total other short-term payables	**459**	714

	December 31, 2018	December 31, 2017
Cylinder deposits received	**106.114**	97.603
Total other long-term payables	**106.114**	97.603

10. LIABILITIES FOR EMPLOYEE BENEFITS

As of December 31, 2018 and 2017, liabilities for employee benefits of the Group are as follows:

	December 31, 2018	December 31, 2017
Payables to personnel	**27.021**	28.658
Employee's income tax payable	**16.616**	17.238
Social security liabilities	**4.720**	7.295
Total liabilities for employee benefits	**48.357**	53.191

11. INVENTORIES

	December 31, 2018	December 31, 2017
Raw materials	**170.663**	198.909
Goods in transit	**156.125**	107.218
Trade goods	**5.812**	4.968
Finished goods	**12.861**	9.931
Work in process	**3.077**	2.782
Allowance for impairment on inventory	**(229)**	(229)
Total inventories	**348.309**	323.579

As of December 31, 2018, the inventories compromise of 117.213 tons of LPG (December 31, 2017: 119.858 tons).

Movement of allowance for impairment on inventory of the Group is as follows:

	2018	2017
As of January 1st	**229**	1.053
Provision no longer required	**-**	(824)
As of December 31st	**229**	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)

12. EQUITY INVESTMENTS

The details of carrying values and consolidation rates subject to equity accounting of equity investments are as follows:

	December 31, 2018		December 31, 2017	
	Participation amount	Participation Rate	Participation amount	Participation Rate
EYAŞ	1.718.736	%20,00	1.787.658	20,00%
Entek	448.501	%49,62	352.443	49,62%
OAGM	137.562	%50,00	133.230	50,00%
	2.304.799		2.273.331	

The movement of equity investments is as follows:

	2018	2017
As of January 1st	2.273.331	1.922.344
Shares of profit/(loss)	281.440	388.611
Shares of other comprehensive income/(loss) (***)	(106.492)	(133)
Dividend income (*)	(347.454)	(87.491)
Participation in share capital increase of equity investment (**)	203.974	50.000
As of December 31st	2.304.799	2.273.331

(*) EYAŞ dividend income.

(**) Capital increase of Entek (2017: Capital increase of OAGM) (Note 1).

Shares of profit (loss) of equity investments:

	January 1 - December 31, 2018	January 1 - December 31, 2017
EYAŞ	373.157	378.111
Entek (***)	(96.049)	7.114
OAGM	4.332	3.386
	281.440	388.611

(***) The related balance also consists of the net loss for the period amounting to TL 18,9 million and impairment loss amounting to TL 74,7 million of Ayas Enerji Üretimi ve Ticaret A.Ş. (Ayas), joint venture of Entek which is the Group's equity investment.
Ayas was established on April 10, 2002 and the energy generation license for the thermal power plant with the capacity of 625 MW in Adana was obtained on April 30, 2009 for 49 years. The share purchase agreement for the transfer of 50% of Ayas shares to Entek was signed between the Armed Forces Pension Fund ("OYAK") and Entek on December 15, 2011. The share transfer was completed on May 22, 2012 as a result of obtaining the necessary permissions from the official authorities.
A lawsuit has been filed in 2011 for the cancellation of the generation license granted to Ayas with a demand of the stay of execution by the environmental organizations against Energy Market Regulatory Authority (EMRA) and the case is still ongoing. The trial was realized on December 25, 2018 and the declarations by the parties were made. Court's decision about the case is awaited and no certain evaluation can be made by the Group regarding the outcome of the case for the time being. While the lawsuit has been expected to be finalized since 2012 for the company to start operations; on the other hand, considering the factors such as the decline in commodity prices and rise in the financing costs, it is obvious that the economic return of the project is below the expectations and it is no longer feasible to continue the investment with the initial planned conditions and hence the entire carrying value of Ayas was impaired.

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

12. EQUITY INVESTMENTS (CONTINUED)

Shares of other comprehensive gains (losses) of equity investments:

	January 1 - December 31, 2018	January 1 - December 31, 2017
EYAŞ (*)	**(94.625)**	(173)
Entek	**(11.867)**	40
	(106.492)	(133)

(*) The Group uses investment loans amounting to USD 982.082 thousand, which is equivalent to TL 5.166.635 thousand (USD 1.271.539 thousand / TL4.796.118 thousand in 31 December 2017) as prevention against USD/TL spot foreign exchange risk of USD denominated export revenue, which is highly probable to be realized. Based on the outcome of effectiveness test performed on related process, the Group has considered that the process is fully effective and therefore applied cash flow hedge accounting. As of 31 December 2018, TL 2.575.965 thousand (31 December 2017: 1.477.564) of foreign exchange loss that arose from investment loans is classified under equity "Cash flow hedge gains (losses)" which has no effect on current year income statement. As of 31 December 2018, the foreign exchange loss amounting to TL 887,216 thousand corresponding to the export income of investment loans denominated in USD has been transferred to the fo.eign exchange loss in the income statement from "Cash flow hedge gains (losses)" account under equity. Moreover, as of 31 December 2018, foreign exchange loss of these loans in 2018 amounting to TL 1.958.617 were added to the "Cash flow hedge gains (losses)" account under equity.

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, 2018**	December 31, 2017
Total assets	**44.453.140**	43.150.924
Total liabilities	**(30.089.903)**	(28.128.926)
Non-controlling interest	**(5.769.557)**	(6.083.709)
Net assets	**8.593.680**	8.938.289
Group's ownership	**20%**	20%
Group's share in associates' net assets	**1.718.736**	1.787.658

Consolidated profit or loss statement	**January 1 - December 31, 2018**	January 1 - December 31, 2017
Revenue	**88.552.170**	53.948.110
Profit for the period	**1.865.785**	1.890.553
Group's share in associates' profit for the period	**373.157**	378.111

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

12. EQUITY INVESTMENTS (CONTINUED)

Financial information on Entek which is accounted in the Group's financial statements according to equity pick-up method is set out below:

Consolidated balance sheet	**December 31, 2018**	December 31, 2017
Total assets	**2.474.691**	987.124
Total liabilities	**(1.570.820)**	(276.840)
Net assets	**903.871**	710.284
Group's ownership	**49,62%**	49,62%
Group's share in associates' net assets	**448.501**	352.443

Consolidated profit or loss statement	**January 1 - December 31, 2018**	January 1 - December 31, 2017
Revenue	**498.353**	341.253
Profit (Loss) for the period	**(193.570)**	14.336
Group's share in associates' profit for the period	**(96.049)**	7.114

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, 2018**	December 31, 2017
Total assets	**511.396**	505.645
Total liabilities	**(236.272)**	(239.185)
Net assets	**275.124**	266.460
Group's ownership	**50%**	50%
Group's share in associates' net assets	**137.562**	133.230

Consolidated profit or loss statement	**January 1 - December 31, 2018**	January 1 - December 31, 2017
Revenue	**25.221**	22.142
Profit for the period	**8.664**	6.772
Group's share in associates' profit for the period	**4.332**	3.386

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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

	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, 2018	16.006	160.107	75.457	1.691.823	225.707	74.485	26.713	10.103	2.280.401
Additions	-	-	53	1.193	3.631	1.154	403	101.197	107.631
Transfers (*)	500	8.181	5.271	67.020	2.225	8.717	352	(99.463)	(7.197)
Disposals	-	(1.363)	(6.487)	(19.595)	(1.214)	(4.465)	(2.530)	-	(35.654)
Ending balance as of December 31, 2018	16.506	166.925	74.294	1.740.441	230.349	79.891	24.938	11.837	2.345.181
Accumulated depreciation									
Opening balance as of January 1, 2018	-	64.997	53.020	1.313.275	97.092	48.513	25.577	-	1.602.474
Charge of the period	-	5.870	1.899	54.825	14.100	6.900	823	-	84.417
Disposals	-	(891)	(4.869)	(17.528)	(802)	(1.700)	(2.450)	-	(28.240)
Ending balance as of December 31, 2018	-	69.976	50.050	1.350.572	110.390	53.713	23.950	-	1.658.651
Net book value as of December 31, 2018	16.506	96.949	24.244	389.869	119.959	26.178	988	11.837	686.530

(*) TL 7.197 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.)

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, 2017	16.204	144.540	72.569	1.644.688	260.059	64.085	26.907	16.793	2.245.845
Additions	-	-	-	320	1.153	623	567	109.021	111.684
Transfers (*)	-	16.396	2.944	74.960	3.640	13.157	50	(115.711)	(4.564)
Disposals	(198)	(829)	(56)	(28.145)	(39.145)	(3.380)	(811)	-	(72.564)
Ending balance as of December 31, 2017	16.006	160.107	75.457	1.691.823	225.707	74.485	26.713	10.103	2.280.401
Accumulated depreciation									
Opening balance as of January 1, 2017	-	60.258	51.115	1.285.082	120.725	45.246	25.181	-	1.587.607
Charge of the period	-	5.492	1.961	53.021	14.879	6.852	912	-	83.117
Disposals	-	(753)	(56)	(24.828)	(38.512)	(3.585)	(516)	-	(68.250)
Ending balance as of December 31, 2017	-	64.997	53.020	1.313.275	97.092	48.513	25.577	-	1.602.474
Net book value as of December 31, 2017	16.006	95.110	22.437	378.548	128.615	25.972	1.136	10.103	677.927

(*) TL 4.564 thousand under "Construction in progress" under the account property, plant and equipment has been classified to intangible fixed assets.

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

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

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As of December 31, 2018 and 2017, the details of depreciation expenses are as follows:

	January 1 - December 31, 2018	January 1 - December 31, 2017
Cost of sales and services rendered	**70.371**	69.246
General and administrative expenses	**8.145**	8.039
Capitalized on cylinders	**3.145**	2.613
Selling, marketing and distribution expenses	**2.756**	3.219
	84.417	83.117

14. INTANGIBLE ASSETS

	Rights	**Total**
Acquisition costs		
Opening balance as of January 1, 2018	**61.187**	**61.187**
Additions	**40**	**40**
Transfers (*)	**7.197**	**7.197**
Ending balance as of December 31, 2018	**68.424**	**68.424**
Accumulated amortization		
Opening balance as of January 1, 2018	**41.907**	**41.907**
Charge for the period	**5.163**	**5.163**
Ending balance as of December 31, 2018	**47.070**	**47.070**
Carrying value as of December 31, 2018	**21.354**	**21.354**

(*) TL 7.197 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, 2017	56.623	56.623
Additions	-	-
Transfers (*)	4.564	4.564
Ending balance as of December 31, 2017	61.187	61.187
Accumulated amortization		
Opening balance as of January 1, 2017	37.504	37.504
Charge for the period	4.403	4.403
Ending balance as of December 31, 2017	41.907	41.907
Carrying value as of December 31, 2017	19.280	19.280

(*) TL 4.564 thousand under "Construction in progress" under the account property, plant and equipment has been classified to intangible fixed assets.

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

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

14. INTANGIBLE ASSETS (CONTINUED)

As of December 31, 2018 and 2017, the details of amortization expenses of intangible assets are as follows:

	January 1 - December 31, 2018	January 1 - December 31, 2017
General and administrative expenses	**5.163**	4.403
	5.163	4.403

15. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Guarantees given as of December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Letter of guarantees given for gas purchase	**866.327**	818.621
Other letter of guarantees given	**24.009**	36.854
Total guarantees given	**890.336**	855.475

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 an 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 a liability related with the environmental pollution cases as of the consolidated balance sheet date.

National inventory reserve liability:

Due to to the liability of the storage of national petroleum stocks, petroleum products and LPG distributor license owners should hold a minimum of twenty days' average reserves at their own or other licensed storages, either together or separately. On the other hand, within the decision of National Petroleum Reserves Commission numbered 2018/2 on June 18, 2018, petroleum products and LPG distributor license owners should be able to use ten days' average reserves on condition of return it until December 31, 2018.

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

15. CONTINGENT ASSETS AND CONTINGENT LIABILITIES (CONTINUED)

The details of the Company's and its subsidiaries' guarantees given or contingent liabilities on the behalf of each other, related parties, parent company or third parties within the context of business operations or other purposes are as follows:

	December 31, 2018				December 31, 2017			
	TL Equivalent of Euro	TL Equivalent of USD	TL	Total TL	TL Equivalent of Euro	TL Equivalent of USD	TL	Total TL
A. CPMBs given on behalf of the Company's legal personality	66.776	256	611.767	678.799	51.680	7.295	647.544	706.519
B. CPMBs given in favor of subsidiaries included in full consolidation (*)	-	211.537	-	211.537	-	95.576	53.380	148.956
C. CPMBs given by the Company for the liabilities of 3rd parties in order to run ordinary course of business	-	-	-	-	-	-	-	-
D. Other CPMBs								
i. CPMBs given in favor of parent company	-	-	-	-	-	-	-	-
ii. CPMBs given in favor of companies not in the scope of B and C above	-	-	-	-	-	-	-	-
iii. CPMBs given in favor of third party companies not in the scope of C above	-	-	-	-	-	-	-	-
Total amount of CPMBs	66.776	211.793	611.767	890.336	51.680	102.871	700.924	855.475

(*) As of December 31, 2018 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 998 thousand (December 31, 2017: TL 633 thousand).

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

16. LONG-TERM PROVISION FOR EMPLOYEE BENEFITS

Details of long-term provisions for employee benefits as of December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Retirement pay provision	**34.554**	30.351
Vacation pay liabilities	**8.372**	8.104
Total long-term provision for employee benefits	**42.926**	38.455

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 5.434,42 (December 31, 2017: TL 4.732,48) for each year of service at December 31, 2018.

The liability is not funded, as there is no funding requirement.

In accordance with Turkish Labour Code, employment termination benefit is the present value of the total estimated provision for the liabilities of the personnel who may retire in the future. The provision made for present value of determined social relief is calculated by the prescribed liability method. All actuarial profits and losses are accounted in the other comprehensive income statement.

TFRS require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. The Group makes a calculation for the employment termination benefit by applying the prescribed liability method, by the experiences and by considering the personnel who become eligible for pension. This provision is calculated by expecting the present value of the future liability which will be paid for the retired personnel.

Accordingly, the following actuarial assumptions were used in the calculation of the total provision.

	2018	2017
Net discount rate (%)	**5,65**	4,95
Turnover rate related to the probability of retirement (%)	**94,27-98,47**	94,02-97,39

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation.

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

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

The movement of retirement pay provision for the period ended December 31, 2018 and 2017 is as follows:

	2018	2017
As of January 1st	**30.351**	28.282
Increases during the period	**10.771**	8.616
Actuarial (gain) loss	**(1.983)**	(1.317)
Payments during the period	**(4.585)**	(5.230)
As of December 31st	**34.554**	30.351

17. OTHER SHORT-TERM PROVISIONS

	December 31, 2018	December 31, 2017
Provision for price revision (*)	**178.610**	-
Provision for lawsuit	**8.874**	7.714
Provision for EMRA contribution	**6.029**	5.100
Provision for selling and marketing expenses	**4.762**	5.451
Provision for warranty expenses	**4.260**	4.133
Provision for other operating expenses	**3.219**	23.057
Total other short-term provisions	**205.754**	45.455

(*) As communicated to Aygaz Doğal Gaz Toptan Satış A.Ş., a Subsidiary of the Company, by Akfel Gaz Sanayi ve Ticaret A.Ş. ("Akfel"), from which natural gas is supplied; the price revision arbitration process initiated by Gazprom Export LLC ("Gazprom"), which Akfel has imported natural gas, was concluded against Akfel and effective from 1 January 2017, the import price would be adjusted in favor of Gazprom and in this context, it was decided to abolish the discount applied to Akfel and to reflect the change in import price to natural gas price applied to Aygaz Doğal Gaz Toptan Satış A.Ş. in accordance with the contract signed between Akfel and Aygaz Doğal Gaz Toptan Satış A.Ş. It was also notified that, the price determination mechanism in the contract will be revised according to the arbitration decision and the related amount of the debt and related invoices will be sent separately to Aygaz Doğal Gaz Toptan Satış A.Ş. as the contract price is updated retrospectively as of 1 January 2017. The amount of total debt was conveyed to Aygaz Doğal Gaz Toptan Satış A.Ş. by Akfel, however related invoices were not delivered yet as of the date of this report. As of 31 December 2018, total provision of USD 33.949 thousand (TL 178.610 thousand), USD 15.368 thousand for 2017 and USD 18.582 thousand for 2018, has been recognised in the consolidated financial statements. TL 97.760 thousand of the related amount has been accounted for under "cost of sales" and the remaining TL 80.850 thousand of the total amount has been accounted for under "other operating expenses" accounts (Note 25).

Movement of provision for other operating expenses	**2018**	2017
As of January 1st,	**23.057**	9.963
Payments during the period	**(15.170)**	(2.121)
Provision no longer required	**(7.091)**	-
Increases during the period	**2.423**	15.215
As of December 31,	**3.219**	23.057

(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

	December 31, 2018	December 31, 2017
Deferred VAT	10.115	5.668
Fuel used in shipping operations	2.957	2.625
Income accrual	189	646
Other current assets	3.115	1.437
Total other current assets	16.376	10.376

	December 31, 2018	December 31, 2017
Taxes and funds payable	85.791	111.840
Other liabilities	2.505	2.336
Total other current liabilities	88.296	114.176

19. PREPAID EXPENSES

As of December 31, 2018 and 2017, the details of Group's prepaid expenses in current assets are as follows:

	December 31, 2018	December 31, 2017
Prepaid expenses	41.668	40.600
Advances given(*)	85.894	23.977
Total prepaid expenses	127.562	64.577

(*) According to the decision of EMRA Board, as of 2017, a storage obligation (%6 of imports) is imposed on the natural gas importing companies. This liability is reflected to the company in accordance with the contract signed with Akfel Gaz. The gas has been invoiced to Akfel and stored by Akfel Gaz in the Botaş Silivri Warehouse. As of December 31, 2018 25 mcm of this stored gas is accounted as "Advances Given" in balance sheet.

As of December 31, 2018 and 2017, the details of Group's prepaid expenses in non-current assets are as follows:

	December 31, 2018	December 31, 2017
Prepaid expenses	49.124	59.074
Total prepaid expenses	49.124	59.074

As of December 31, 2018 total amount of TL 34.421 thousand (2017: TL 36.546 thousand) presented as prepaid expenses under current assets and total amount of TL 48.509 thousand (2017: TL 58.647 thousand) presented as prepaid expenses under non-current assets are prepayments and investment contribution margin for dealer agreements.

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

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

20. DEFERRED INCOME

Deferred income	December 31, 2018	December 31, 2017
Advances taken	5.001	604
Prepaid income	3.675	1.879
Total deferred income	**8.676**	2.483

21. SHARE CAPITAL

As of December 31, 2018 and 2017 the share capital held is as follows:

Shareholders	Participation rate	December 31, 2018	Participation rate	December 31, 2017
Temel Ticaret ve Yatırım A.Ş.	5,77%	17.324	5,77%	17.324
Koç Family Members	4,76%	14.265	4,76%	14.265
Total Koç Family Members and companies owned by Koç Family Members	**10,53%**	**31.589**	10,53%	31.589
Koç Holding A.Ş.	40,68%	122.054	40,68%	122.054
Liquid Petroleum Gas Development Company ("LPGDC") (*)	24,52%	73.546	24,52%	73.546
Publicly held (*)	24,27%	72.811	24,27%	72.811
Nominal capital	**100,00%**	**300.000**	100,00%	300.000
Inflation adjustment (**)		71.504		71.504
Adjusted capital		**371.504**		371.504

(*) TL 2.725.041,31 under publicly held shares (0,91% participation rate on the share capital) belong to Hilal Madeni Eşya Ticaret Sanayi ve Yatırım A.Ş., a 100% owned subsidiary of LPGDC.

(**) "Adjustment to share capital" represents the restatement effect of cash and cash equivalent contributions to share capital measured in accordance with the TAS/TFRS promulgated by the POA. "Adjustment to share capital" has no use other than being transferred to paid-in share capital.

Restricted reserves assorted from the profit

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. The second legal reserve is 10% of dividend distributed exceeding %5 of paid-in share capital. According to Turkish Commercial Code, legal reserves may only be used as long as it does not exceed 50% of the paid capital. It may not be used under any circumstances.

The details of the restricted reserves are stated below:

	December 31, 2018	December 31, 2017
Legal reserves	281.741	237.241
Gain on sale of subsidiary share that will be added to capital	12.469	12.268
	294.210	249.509

(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, 2018 amounts to TL 893.713 thousand. (December 31, 2017: TL 915.341 thousand). TL 209.043 thousand of such sources from inflation adjustment differences and TL 10.639 thousand from other capital reserves are subject to tax when they are distributed.

Dividends paid

In the Ordinary General Meeting held on March 21, 2018, the Company decided to reserve TL 44.500 thousand as legal reserves and distribute TL 460.000 thousand gross dividends from the net distributable income of 2017. According to this decision, the Company has begun dividend payments on March 29, 2018.

Non-controlling interest:

	2018	2017
As of January 1st	-	1.094
Non-controlling interest on current year profit	-	-
Acquisition of shares from non-controlling interest	-	(1.094)
As of December 31st	-	-

Gains and losses on financial assets measured at fair value through other comprehensive income:

Gains and losses from the revaluation and reclassification are related to financial assets and their details are as follows:

	December 31, 2018	December 31, 2017
Koç Finansal Hizmetler A.Ş.	122.253	213.653
	122.253	213.653

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

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

21. SHARE CAPITAL (CONTINUED)

Currency translation adjustment

Currency translation adjustment as of December 31, 2018 represents the Company's share of currency translation adjustment of equity investment.

Financial risk hedging reserve:

The Group implements a cash flow hedge strategy against the cash flow risk arising from changes in market interest rates and foreign exchange rate for the transactions of its bank loans in USD with the floating interest rates. As a result of the effectiveness test performed in this context, the Group has determined that the entire transaction is effective. Until the cash flows of the related loan are realised, the gains or losses are accounted under cash flow hedge gains (losses) in equity and there is no effect on income statement. Exchange differences arising during principal payments are transferred from the cash flow hedge gains (losses) account in equity to the foreign exchange gains (losses) in the income statement.
The hedging gains (losses) of EYAŞ, which is an investment accounted by the equity method of the Group, are disclosed in Note 12.

22. REVENUE AND COST OF SALES

Revenue	January 1 - December 31, 2018	January 1 - December 31, 2017
Domestic sales	8.475.901	7.852.893
Export sales	1.477.562	1.002.048
Sales returns (-)	(10.811)	(16.549)
Sales discounts (-)	(388.211)	(369.116)
Total revenue, net	9.554.441	8.469.276
Sales of goods and services	8.044.723	7.161.990
Sales of merchandises	1.509.718	1.307.286
Revenue	9.554.441	8.469.276

	January 1 - December 31, 2018	January 1 - December 31, 2017
Cost of goods sold and services rendered:		
Raw materials used	7.159.923	6.223.501
Production overheads	123.244	127.184
Personnel expenses	75.648	71.285
Depreciation expenses	70.371	69.246
Change in work in process inventories	(295)	(819)
Change in finished goods inventories	(2.930)	(3.394)
	7.425.961	6.487.003
Cost of merchandises sold	1.494.132	1.241.136
Total cost of sales	8.920.093	7.728.139

(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

	January 1 - December 31, 2018	January 1 - December 31, 2017
General administrative expenses	**201.664**	204.627
Marketing expenses	**310.756**	285.377
Research and development expenses	**3.431**	3.652
Total	**515.851**	493.656

a) Detail of general administrative expenses

	January 1 - December 31, 2018	January 1 - December 31, 2017
Personnel expenses	**99.501**	99.913
Depreciation and amortization expenses	**13.308**	12.442
Consultancy expenses	**13.225**	15.445
Information technology expenses	**12.910**	10.464
Insurance expenses	**7.801**	8.320
Transportation expenses	**7.301**	6.709
Tax expenses	**6.844**	5.233
Maintenance expenses	**5.401**	4.551
Attendance fees	**3.875**	3.501
Lawsuit, consultancy and auditing expenses	**3.834**	3.453
Communication expenses	**3.761**	3.439
Donation and aids	**3.189**	7.328
Rent expenses	**2.540**	2.556
Public relations activities expenses	**1.909**	1.796
Post office expenses	**1.261**	1.613
Other administrative expenses	**15.004**	17.864
Total general administrative expenses	**201.664**	204.627

b) Detail of marketing expenses

	January 1 - December 31, 2018	January 1 - December 31, 2017
Transportation, distribution and warehousing expenses	**159.487**	135.439
Sales expenses	**64.609**	68.584
Personnel expenses	**45.370**	42.933
Advertising and promotion expenses	**22.987**	21.215
Transportation expenses	**9.832**	8.856
License expenses	**5.690**	5.100
Depreciation and amortization expenses	**2.756**	3.219
Other marketing expenses	**25**	31
Total marketing expenses	**310.756**	285.377

(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, 2018	January 1 - December 31, 2017
Outsourced research and development expenses	3.431	3.652
Total research and development expenses	3.431	3.652

24. EXPENSES RELATED TO THEIR NATURE

	January 1 - December 31, 2018	January 1 - December 31, 2017
Transportation, distribution and warehousing expenses	159.487	142.846
Personnel expenses	144.871	135.439
Sales expenses	64.609	68.584
Advertising and promotion expenses	22.987	21.215
Transportation expenses	17.133	15.565
Depreciation and amortization expenses	16.064	15.661
Consultancy expenses	13.225	15.445
Information technology expenses	12.910	10.464
Insurance expenses	7.801	8.320
Tax expenses	6.844	5.233
License expenses	5.690	5.100
Maintenance expenses	5.401	4.551
Attendance fees	3.875	3.501
Lawsuit, consultancy and auditing expenses	3.834	3.453
Communication expenses	3.761	3.439
Outsourced research and development expenses	3.431	3.652
Donation and aids	3.189	7.328
Rent expenses	2.540	2.556
Public relations activities expenses	1.909	1.796
Other	16.290	19.508
Total	515.851	493.656

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

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

25. OTHER OPERATING INCOME/EXPENSES

Other operating income for the years ended as of December 31, 2018 and 2017 are as follows:

	January 1 - December 31, 2018	January 1 - December 31, 2017
Foreign exchange gains arising from trading activities	172.153	57.255
Income generated from maturity differences of sales	111.175	59.014
Provisions no longer required	21.556	5.472
Income from port services	6.002	3.721
Rent income	5.133	3.888
Gain on sale of scrap	3.839	4.395
LPG pipeline usage income	3.299	1.565
Demurrage income	732	5.767
Other income and profits	7.779	17.237
Total other operating income	331.668	158.314

Other operating expenses for the years ended as of December 31, 2018 and 2017 are as follows:

	January 1 - December 31, 2018	January 1 - December 31, 2017
Foreign exchange losses arising from trading activities	196.953	71.054
Provision for price revision (Note 17)	80.850	-
Expenses from maturity differences of purchases	69.215	43.873
Fair value differences on forward transactions	16.015	214
Demurrage expenses	5.727	170
Provision expenses	3.512	17.005
Goodwill expenses	982	1.003
Other expenses and losses	6.328	7.752
Total other operating expenses	379.582	141.071

26. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

	January 1 - December 31, 2018	January 1 - December 31, 2017
Income from sales of property, plant and equipment	26.793	21.939
Dividend income from financial investments	604	296
Total income from investment activities	27.397	22.235

	January 1 - December 31, 2018	January 1 - December 31, 2017
Expenses from sales of property, plant and equipment	1.740	5.430
Total expenses from investment activities	1.740	5.430

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

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

27. FINANCIAL INCOME

Financial income for the years ended as of December 31, 2018 and 2017 are as follows:

Financial income	January 1 - December 31, 2018	January 1 - December 31, 2017
Foreign exchange gains	74.848	34.340
Interest income	69.689	46.290
Fair value differences on swap transactions	20.714	9.098
Total	165.251	89.728

28. FINANCIAL EXPENSE

Financial expense for the years ended as of December 31, 2018 and 2017 are as follows:

Financial expense	January 1 - December 31, 2018	January 1 - December 31, 2017
Interest expenses	184.994	98.488
Foreign exchange losses	108.176	40.617
Total	293.170	139.105

29. TAX ASSETS AND LIABILITIES

	December 31, 2018	December 31, 2017
Current tax liability		
Current corporate tax provision	15.871	42.517
Less: Prepaid taxes and funds	(23.282)	(43.142)
Current tax liability	(7.411)	(625)

Tax expenses	January 1 - December 31, 2018	January 1 - December 31, 2017
- Current corporate tax provision	(15.871)	(42.517)
- Deferred tax	(5.507)	(1.227)
Total	(21.378)	(43.744)

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

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

29. TAX ASSETS AND LIABILITIES (CONTINUED)

Corporate tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective rate of tax in 2018 is 22% (2017: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate in 2018 is 22% (2017: 20%). Losses are allowed to be carried 5 years maximum to be deducted from the taxable profit of the following years. Tax carry back is not allowed.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Deferred tax

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between the financial statements as reported for TAS/TFRS purposes issued by POA and financial statements prepared in accordance with the tax legislation. These differences arise from the differences in accounting periods for the recognition of income and expenses in accordance with TAS/TFRS and tax legislation.

In accordance with the regulation numbered 7061, published in Official Gazette on December 5, 2017, "Law Amending Certain Tax Laws and Certain Other Laws", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of December 31, 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards (December 31, 2017: 20%).

Deferred tax (assets)/liabilities:	**December 31, 2018**	December 31, 2017
Depreciation/amortization differences of property, plant and equipment and other intangible assets	**44.033**	40.646
Revaluation of financial assets measured at fair value through other comprehensive income	**6.434**	11.245
Provision for employment termination benefits	**(6.676)**	(5.846)
Valuation of inventories	**(4.585)**	238
Other	**7.866**	(2.345)
	47.072	43.938

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

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

29. TAX ASSETS AND LIABILITIES (CONTINUED)

In Turkey, since the companies cannot declare consolidated tax refund, subsidiaries with deferred tax assets and subsidiaries with deferred tax liabilities cannot be netted off and are shown separately.

			December 31, 2018			December 31, 2017
			Deferred tax			Deferred tax
	Assets	**Liabilities**	**Net**	Assets	Liabilities	Net
Aygaz A.Ş.	**(18.249)**	**64.981**	**46.732**	(15.744)	59.373	43.629
Akpa A.Ş.	**(1.114)**	**512**	**(602)**	(890)	205	(685)
Aygaz Doğal Gaz	**(659)**	**1.601**	**942**	(555)	1.549	994
	(20.022)	**67.094**	**47.072**	(17.189)	61.127	43.938

Movement of deferred tax assets and liabilities are as follows:

Movement of deferred tax (assets)/liabilities :	**2018**	2017
As of January 1st	**43.938**	39.502
Change to the profit or loss:	**5.507**	1.227
Change to the equity:	**(2.373)**	3.209
- *Effect of changes in accounting policies*	***(94)***	-
- *Effect of gains (losses) re-measurement on defined benefit plans*	***381***	*254*
- *Effect of gains (losses) on financial assets measured at fair value through other comprehensive income*	***(4.813)***	*2.955*
- *Effect of gains (losses) on cash flow hedges*	***2.153***	-
As of December 31st	**47.072**	43.938

Tax reconciliation :

	January 1 - December 31, 2018	January 1 - December 31, 2017
Profit before tax	**249.761**	620.763
Income tax rate	**%22**	%20
Expected tax expense	**(54.947)**	(124.153)
Tax effects of:		
- revenue that is exempt from taxation (investments accounted under equity method)	**61.917**	77.722
- income not subject to tax	**13.167**	8.719
- tax rate differences	**3.277**	95
- expenses that are not deductible in determining taxable profit	**(5.564)**	(1.621)
- tax losses	**(39.294)**	(5.254)
- other	**66**	748
Tax expense in the statement of profit or loss	**(21.378)**	(43.744)

30. EARNINGS PER SHARE

	January 1 - December 31, 2018	January 1 - December 31, 2017
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	**228.383**	577.019
Earnings per thousand shares (TL)	**0,761277**	1,923397

(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

A company is defined as a related party of the Company, if one of the companies has control power on the other company or has a significant impact on financial and administrative decisions of the other company. The Company is controlled by Koç Holding, Koç Family or entities owned by Koç Family. In financial statements, shareholder companies, shareholders and financial investments and other Group companies' assets are shown as related parties. As of December 31, 2018; dividends payable amounting to TL 1.052 thousand (December 31, 2017: TL 863 thousand) is reflected within other payables to related parties which are excluded from Koç Group under short-term liabilities at the consolidated balance sheet.

				December 31, 2018
		Receivables		Payables
Balances with related parties	**Trade**	**Non-trade**	**Trade**	**Non-trade**
Group companies (*)				
Demir Export A.Ş.	15.901	-	-	-
Türkiye Petrol Rafinerileri A.Ş.	6.922	-	64.272	-
Ford Otomotiv Sanayi A.Ş.	1.681	-	91	-
Demir Export A.Ş. - Fernas İnşaat A.Ş. Adi Ortaklığı	1.431	-	-	-
Ram Dış Ticaret A.Ş.	1.104	-	449	-
Arçelik A.Ş.	402	-	-	-
Körfez Hava Ulaştırma A.Ş.	363	-	-	-
Opet Petrolcülük A.Ş.	354	-	52.925	-
Tofaş Türk Otomobil Fabrikası A.Ş.	337	-	-	-
Zer Merkezi Hizmetler ve Ticaret A.Ş. (**)	-	-	9.011	-
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	-	5.621	-
Otokoç Otomotiv Tic. ve San. A.Ş.	-	-	3.349	-
Other	1.965	-	2.936	-
Shareholders				
Koç Holding A.Ş.	-	-	6.617	-
Investments accounted under the equity method				
Entek Elektrik Üretimi A.Ş.	1	-	-	-
	30.461	-	145.271	-

				December 31, 2017
		Receivables		Payables
Balances with related parties	Trade	Non-trade	Trade	Non-trade
Group companies (*)				
Türkiye Petrol Rafinerileri A.Ş.	12.920	-	88.413	-
Demir Export A.Ş.	12.402	-	8	-
Ford Otomotiv Sanayi A.Ş.	1.968	-	-	-
Arçelik A.Ş.	1.205	-	-	-
Demir Export A.Ş. - Fernas İnşaat A.Ş. Adi Ortaklığı	966	-	-	-
Tofaş Türk Otomobil Fabrikası A.Ş.	879	-	-	-
Körfez Hava Ulaştırma A.Ş.	781	-	-	-
Opet Petrolcülük A.Ş.	295	-	40.375	-
Ram Dış Ticaret A.Ş.	-	-	13.651	-
Zer Merkezi Hizmetler ve Ticaret A.Ş. (**)	-	-	6.758	-
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	-	4.439	-
Otokoç Otomotiv Tic. ve San. A.Ş.	-	-	2.654	-
Other	1.921	-	3.971	-
Shareholders				
Koç Holding A.Ş.	-	-	5.642	-
Investments accounted under the equity method				
Entek Elektrik Üretimi A.Ş.	6.017	-	-	-
	39.354	-	165.911	-

(*) 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)

				January 1 - December 31, 2018
Transactions with related parties	**Purchases (Goods)**	**Sales (Goods)**	**Purchases (Service)**	**Sales (Service)**
Group companies (*)				
Türkiye Petrol Rafinerileri A.Ş.	1.023.954	254.846	6.310	2.067
Opet Petrolcülük A.Ş.(**) (***)	313.193	5.145	122.328	-
Ram Dış Ticaret A.Ş.	36.452	-	117	-
Zer Merkezi Hizmetler ve Ticaret A.Ş.	15.867	41	19.051	-
Otokoç Otomotiv Tic. ve San. A.Ş.	144	379	969	-
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	18	100	10.730	-
Arçelik A.Ş.	1	3.914	-	-
Körfez Hava Ulaştırma A.Ş.	-	13.742	-	-
Demir Export A.Ş.	-	71.444	-	-
Ford Otomotiv Sanayi A.Ş.	-	24.564	-	-
Tat Gıda Sanayi A.Ş.	-	44	-	-
Setur Servis Turistik A.Ş.	-	80	4.214	-
Tanı Pazarlama ve İletişim Hizmetleri A.Ş.	-	13	2.740	-
Other	6.943	32.918	3.956	-
Shareholders				
Koç Holding A.Ş. (****)	-	62	13.608	-
Temel Ticaret ve Yatırım A.Ş.	-	4	3	-
Koç Family Members	-	103	-	-
Investments accounted under the equity method				
Entek Elektrik Üretimi A.Ş.	-	25.004	2.321	-
	1.396.572	432.403	186.347	2.067

				January 1 - December 31, 2017
Transactions with related parties	Purchases (Goods)	Sales (Goods)	Purchases (Service)	Sales (Service)
Group companies (*)				
Türkiye Petrol Rafinerileri A.Ş.	970.425	439.566	3.814	-
Opet Petrolcülük A.Ş.(**) (***)	225.417	3.634	108.402	-
Arçelik A.Ş.	2	13.033	-	-
Ram Dış Ticaret A.Ş.	34.739	-	55	-
Zer Merkezi Hizmetler ve Ticaret A.Ş.	20.725	97	20.418	-
Otokoç Otomotiv Tic. ve San. A.Ş.	5	604	708	-
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	202	59	8.254	-
Tanı Pazarlama ve İletişim Hizmetleri A.Ş.	-	10	2.773	-
Ford Otomotiv Sanayi A.Ş.	-	20.021	-	-
Demir Export A.Ş.	-	51.958	7	-
Tat Gıda Sanayi A.Ş.	-	12.320	-	-
Setur Servis Turistik A.Ş.	-	59	8.520	-
Other	4.995	30.655	3.233	-
Shareholders	-	52	15.602	-
Koç Holding A.Ş. (****)	-	3	-	-
Temel Ticaret ve Yatırım A.Ş.	-	62	-	-
Koç Family Members				
Investments accounted under the equity method	8	67.307	4.289	-
Entek Elektrik Üretimi A.Ş.				
	1.256.518	639.440	176.075	-

(*) Group companies include Koç Group companies.

(**) Commission expense regarding LPG sold at Opet stations as of December 31, 2018 is TL 120.847 thousand (December 31, 2017 – TL 107.826 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 22.235 thousand has been made to Opet in 2018 in consideration of 5 years sale agreement on average to be paid to Aygaz Dealers making auto gas sales at Opet stations (2017: TL 30.856 thousand).

(****) Billed remuneration for services such as finance, law, planning, tax and senior management provided by Koç Holding, the main shareholder, to Group companies, service expenses including personnel and senior management as a result of arrangement of 1st Serial Number of General Communique About Transfer Pricing Through Hidden Income Distribution's "11- In Group Services".

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

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

31. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

	January 1 - December 31, 2018			
Tangible asset and rent transactions with related parties	**Rent income**	**Rent expense**	**Tangible and intangible asset purchases**	**Tangible asset sales**
Group companies (*)				
Opet Petrolcülük A.Ş.	573	20	33	-
Otokoç Otomotiv Tic. ve San. A.Ş.	-	8.436	4.093	396
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	-	9.153	-
Zer Merkezi Hizmetler ve Ticaret A.Ş.	-	-	65	-
Türkiye Petrol Rafinerileri A.Ş.	-	-	-	17.800
Arçelik A.Ş.	-	-	78	-
Other	-	-	149	-
Shareholders				
Koç Family Members	-	754	-	-
Temel Ticaret ve Yatırım A.Ş.	-	800	-	-
	573	10.010	13.571	18.196

	January 1 - December 31, 2017			
Tangible asset and rent transactions with related parties	Rent income	Rent expense	Tangible and intangible asset purchases	Tangible asset sales
Group companies (*)				
Opet Petrolcülük A.Ş.	566	25	-	-
Otokoç Otomotiv Tic. ve San. A.Ş.	-	6.963	883	211
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	-	7.424	1
Zer Merkezi Hizmetler ve Ticaret A.Ş.	-	-	384	-
Türkiye Petrol Rafinerileri A.Ş.	-	16	-	-
Arçelik A.Ş.	-	-	65	-
Other	-	1	-	6
Shareholders				
Koç Family Members	-	670	-	-
Temel Ticaret ve Yatırım A.Ş.	-	703	-	-
	566	8.378	8.756	218

(*) Group companies include Koç Group companies.

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

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

31. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

			January 1 - December 31, 2018	
Financial and other transactions with related parties	**Financial income**	**Financial expense**	**Other income**	**Other expense**
Group companies (*)				
Yapı Kredi Bankası A.Ş.	117.393	49.160	-	-
Vehbi Koç Vakfı	-	-	-	711
Opet Petrolcülük A.Ş.	-	-	72	-
Türkiye Petrol Rafinerileri A.Ş.	-	-	533	-
Ram Dış Ticaret A.Ş.	-	-	550	364
Tat Gıda Sanayi A.Ş.	-	-	22	-
Rahmi Koç Müzesi	-	-	-	1.800
Koç Üniversitesi	-	-	-	415
Other	-	-	360	75
	117.393	49.160	1.537	3.365

			January 1 - December 31, 2017	
Financial and other transactions with related parties	Financial income	Financial expense	Other income	Other expense
Group Companies (*)				
Yapı Kredi Bankası A.Ş.	55.191	17.113	-	-
Vehbi Koç Vakfı	-	-	-	6.503
Opet Petrolcülük A.Ş.	-	-	-	1.020
Ram Dış Ticaret A.Ş.	-	-	275	351
Tat Gıda Sanayi A.Ş	-	-	21	-
Zer Merkezi Hizmetler ve Ticaret A.Ş.	-	-	14	272
Rahmi Koç Müzesi	-	-	-	10
Koç Üniversitesi	-	-	-	360
Other	-	-	3	413
	55.191	17.113	313	8.929

Cash at banks	**December 31, 2018**	December 31, 2017
Group companies (*)		
Yapı Kredi Bankası A.Ş.	545.618	389.735

Credit card receivables	**December 31, 2018**	December 31, 2017
Group companies (*)		
Yapı Kredi Bankası A.Ş.	58.286	44.220

Bank loans	**December 31, 2018**	December 31, 2017
Grup şirketleri (*)		
Yapı Kredi Bankası A.Ş.	90.613	24.331

(*) Group companies include Koç Group companies.

Benefits to Top Management:

The Company has determined senior manager squad as Board of Directors' members, General Manager, Vice General Managers and Directors directly reporting to General Manager.

Benefits to top management personnel includes salaries, premiums, SSI employer's contribution, employer's contribution of unemployment insurance and the attendance fees of board of directors.

As of December 31, 2018, total benefit provided to senior management of the Company is TL 41.496 thousand (December 31, 2017: TL 36.723 thousand). TL 1.581 thousand of total amount is consist of payments to senior management due to their leave, the remaining amount is consist of short-term benefits. (December 31, 2017: None).

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

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS

a) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or rearrange capital structure, the Company can return back capital to shareholders, issue new shares and sale assets in order to decrease debt requirement.

The Group controls its capital using the net financial debt/total equity ratio parallel to other companies in the sector. This ratio is the calculated as net debt divided by the equity amount. Net debt is calculated as total financial borrowings amount less cash and cash equivalents.

Risk management is applied based on the policies approved by the Board of Directors by treasury department. 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, 2018	December 31, 2017
Total short-term and long-term borrowings	**1.401.015**	973.270
Less: Cash and cash equivalents	**(648.010)**	(593.172)
Net financial debt	**753.005**	380.098
Total shareholder's equity	**2.502.410**	2.923.063
Net financial debt/equity ratio	**%30,1**	%13,0

b) Financial risk factors

The risks of the Group resulted from the 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 is monitored by the Group according to the customer's credibility is evaluated continuously.

Trade receivables consist of many customers that operate in various industries and locations. Credit risk of the receivables from counterparties is evaluated perpetually.

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

(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, 2018	**Related party**	**Third party**	**Related party**	**Third Party**	**Deposits in banks**	**Credit card receivables**
Maximum exposed credit risk as of reporting date (*)	**30.461**	**418.422**	**-**	**3.146**	**589.377**	**58.410**
- The part of maximum risk under guarantee with collateral etc.	-	**223.988**	**-**	**-**	**-**	**-**
A. Net book value of financial assets that are neither past due nor impaired	**30.461**	**356.959**	**-**	**3.146**	**589.377**	**58.410**
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	-	**62.003**	**-**	**-**	**-**	**-**
- The part under guarantee with collateral etc.	-	**3.313**	**-**	**-**	**-**	**-**
D. Net book value of impaired assets	-	-	**-**	**-**	**-**	**-**
- Past due (gross carrying amount)	-	**27.398**	**-**	**-**	**-**	**-**
- Impairment (-)	-	**(27.398)**	**-**	**-**	**-**	**-**
- The part of net value under guarantee with collateral etc.	-	**-**	**-**	**-**	**-**	**-**
E. Expected credit loss (-)	-	**(540)**	**-**	**-**	**-**	**-**

(*) Amounts show the maximum credit risk as of balance sheet date, without considering the guarantees or other items increasing credit security.

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

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

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk of financial instruments

	Receivables					
	Trade receivables		Other receivables			
December 31, 2017	Related party	Third party	Related party	Third Party	Deposits in banks	Credit card receivables
Maximum exposed credit risk as of reporting date (*)	39.354	545.766	-	7.434	546.687	46.023
- The part of maximum risk under guarantee with collateral etc.	-	366.075	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	39.354	501.072	-	7.434	546.687	46.023
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	-	44.694	-	-	-	-
- The part under guarantee with collateral etc.	-	6.256	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross carrying amount)	-	25.626	-	-	-	-
- Impairment (-)	-	(25.626)	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E. Expected credit loss (-)	-	-	-	-	-	-

(*) Amounts show the maximum credit risk as of balance sheet date, without considering the guarantees or other items increasing credit security.

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

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

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (CONTINUED)

December 31, 2018	**Trade receivables**	**Other receivables**	**Deposits in banks**	**Derivative instruments**	**Other**	**Total**
Past due 1-30 days	**51.477**	-	-	-	-	**51.477**
Past due 1-3 months	**7.700**	-	-	-	-	**7.700**
Past due 3-12 months	**2.544**	-	-	-	-	**2.544**
Past due 1-5 years	**282**	-	-	-	-	**282**
Total past due	**62.003**	-	-	-	-	**62.003**
The part under guarantee with collateral	**3.313**	-	-	-	-	**3.313**

December 31, 2017	Trade receivables	Other receivables	Deposits in banks	Derivative instruments	Other	Total
Past due 1-30 days	37.530	-	-	-	-	37.530
Past due 1-3 months	6.648	-	-	-	-	6.648
Past due 3-12 months	232	-	-	-	-	232
Past due 1-5 years	284	-	-	-	-	284
Total past due	44.694	-	-	-	-	44.694
The part under guarantee with collateral	6.256	-	-	-	-	6.256

(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, 2018

Contractual maturity analysis	Book value	Total cash flow 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(*)	1.401.015	1.764.830	182.896	434.995	1.146.939	-
Trade payables	559.653	559.653	559.653	-	-	-
Liabilities for employee benefits	48.357	48.357	48.357	-	-	-
Other payables	107.625	107.625	1.511	-	-	106.114
Other liabilities	88.296	88.296	88.296	-	-	-
	2.204.946	2.568.761	880.713	434.995	1.146.939	106.114

Derivative instruments (*)	Carrying value	Total cash flow according to contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Derivative cash inflows		168.890	41.244	52.909	74.737	-
Derivative cash outflows		(118.705)	(40.135)	(34.085)	(44.485)	-
Derivative instruments, net	63.184	50.185	1.109	18.824	30.252	-

(*) 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, 2017						
Contractual maturity analysis	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Short term and long term borrowings(*)	973.270	1.142.488	257.876	151.516	733.096	-
Trade payables	670.034	670.034	670.034	-	-	-
Liabilities for employee benefits	53.191	53.191	53.191	-	-	-
Other payables	99.180	99.180	1.577	-	-	97.603
Other liabilities	114.176	114.176	114.176	-	-	-
	1.909.851	2.079.069	1.096.854	151.516	733.096	97.603

Derivative instruments (*)	Carrying value	Total cash flow according to contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Derivative cash inflows		188.407	60.350	38.217	89.840	-
Derivative cash outflows		(177.049)	(60.941)	(37.538)	(78.570)	-
Derivative instruments, net	31.626	11.358	(591)	679	11.270	-

(*) The amounts are cash flows based on contract, which have not been discounted.

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

December 31, 2018		Total TL equivalent	TL equivalent of USD	TL equivalent of Euro	TL equivalent of other
1.	Trade receivables	75.344	72.588	2.756	-
2.a	Monetary financial assets	207.243	206.415	659	169
2.b	Non-monetary financial assets	-	-	-	-
3.	Other	2.540	2.441	99	-
4.	**Current assets**	285.127	281.444	3.514	169
5.	Trade receivables	-	-	-	-
6.a	Monetary financial assets	-	-	-	-
6.b	Non-monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	**Non-current assets**	-	-	-	-
9.	**Total assets**	285.127	281.444	3.514	169
10.	Trade payables	(355.212)	(353.592)	(1.540)	(80)
11.	Financial liabilities	(67.592)	(67.592)	-	-
12.a	Other monetary financial liabilities	(178.610)	(178.610)	-	-
12.b	Other non-monetary financial liabilities	(1.291)	(1.291)	-	-
13.	**Current liabilities**	(602.705)	(601.085)	(1.540)	(80)
14.	Trade payables	-	-	-	-
15.	Financial liabilities	(139.414)	(139.414)	-	-
16.a	Other monetary financial liabilities	-	-	-	-
16.b	Other non-monetary financial liabilities	-	-	-	-
17.	**Non-current liabilities**	(139.414)	(139.414)	-	-
18.	**Total liabilities**	(742.119)	(740.499)	(1.540)	(80)
19.	Net asset/liability position of off balance sheet asset and liabilities (19a-19b)	118.370	118.370	-	-
19.a	Total derivative assets	118.370	118.370	-	-
19.b	Total derivative liabilities	-	-	-	-
20.	**Net foreign currency asset/liability position (9+18+19)**	(338.622)	(340.685)	1.974	89
21.	**Net foreign currency asset/liability position of monetary items (1+2a+5+6a+10+11+12a+14+15+16a)**	(458.241)	(460.205)	1.875	89
22.	Fair value of derivative instruments held for hedging	-	-	-	-
23.	Hedged foreign currency assets	-	-	-	-
24.	Hedged foreign currency liabilities	-	-	-	-
25.	Export	1.506.236	1.488.788	17.448	-
26.	Import	4.700.470	4.691.371	8.450	649

(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, 2017		Total TL equivalent	TL equivalent of USD	TLequivalent of Euro	TLequivalent of other
1.	Trade receivables	80.040	75.617	4.423	-
2.a	Monetary financial assets	165.189	164.662	396	131
2.b	Non-monetary financial assets	-	-	-	-
3.	Other	386	312	74	-
4.	Current assets	245.615	240.591	4.893	131
5.	Trade receivables	-	-	-	-
6.a	Monetary financial assets	-	-	-	-
6.b	Non-monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	Non-current assets	-	-	-	-
9.	Total assets	245.615	240.591	4.893	131
10.	Trade payables	(425.698)	(423.268)	(2.326)	(104)
11.	Financial liabilities	(48.381)	(48.381)	-	-
12.a	Other monetary financial liabilities	-	-	-	-
12.b	Other non-monetary financial liabilities	(105)	(105)	-	-
13.	Current liabilities	(474.184)	(471.754)	(2.326)	(104)
14.	Trade payables	-	-	-	-
15.	Financial liabilities	(147.104)	(147.104)	-	-
16.a	Other monetary financial liabilities	-	-	-	-
16.b	Other non-monetary financial liabilities	-	-	-	--
17.	Non-current liabilities	(147.104)	(147.104)	-	-
18.	Total liabilities	(621.288)	(618.858)	(2.326)	(104)
19.	Net asset/liability position of off balance sheet asset and liabilities (19a-19b)	179.165	179.165	-	-
19.a	Total derivative assets	179.165	179.165	-	-
19.b	Total derivative liabilities	-	-	-	-
20.	Net foreign currency asset/liability position (9+18+19)	(196.508)	(199.102)	2.567	27
21.	Net foreign currency asset/liability position of monetary items (1+2a+5+6a+10+11+12a+14+15+16a)	(375.954)	(378.474)	2.493	27
22.	Fair value of derivative instruments held for hedging	-	-	-	-
23.	Hedged foreign currency assets	-	-	-	-
24.	Hedged foreign currency liabilities	-	-	-	-
25.	Export	1.022.953	1.007.742	15.211	-
26.	Import	3.145.959	3.131.351	13.697	911

Group's consolidated assets and liabilities denominated in foreign currency are as follows:

	December 31, 2018	December 31, 2017
Assets	285.127	245.615
Liabilities	(742.119)	(621.288)
Net asset/liability position	**(456.992)**	(375.673)
Derivative instruments net position	118.370	179.165
Net foreign currency asset/liability position	**(338.622)**	(196.508)
Inventories under the natural hedge (*)	320.769	262.730
Net foreign currency position after the natural hedge	**(17.853)**	66.222

(*) The Group manages its foreign currency risk by regularly considering and reflecting the foreign exchange rate changes in the determination of product prices (natural hedge). As of December 31, 2018, the Group has LPG amounting to TL 320.769 thousand (December 31, 2017: TL 262.730 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)

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, 2018
		Income/Expense		**Equity**
	Foreign exchange appreciation	**Foreign exchange depreciation**	**Foreign exchange appreciation**	**Foreign exchange depreciation**
10% fluctuation of USD rate				
USD net asset/liability	**(46.021)**	**46.021**	**(46.021)**	**46.021**
Secured portion from USD risk	**11.837**	**(11.837)**	**11.837**	**(11.837)**
USD net effect	**(34.184)**	**34.184**	**(34.184)**	**34.184**
10% fluctuation of Euro rate				
Euro net asset/liability	**188**	**(188)**	**188**	**(188)**
Secured portion from Euro risk	**-**	**-**	**-**	**-**
Euro net effect	**188**	**(188)**	**188**	**(188)**
Total	**(33.996)**	**33.996**	**(33.996)**	**33.996**

				December 31, 2017
		Income/Expense		Equity
	Foreign exchange appreciation	Foreign exchange depreciation	Foreign exchange appreciation	Foreign exchange depreciation
10% fluctuation of USD rate				
USD net asset/liability	(37.847)	37.847	(37.847)	37.847
Secured portion from USD risk	17.917	(17.917)	17.917	(17.917)
USD net effect	(19.930)	19.930	(19.930)	19.930
10% fluctuation of Euro rate				
Euro net asset/liability	249	(249)	249	(249)
Secured portion from Euro risk	-	-	-	-
Euro net effect	249	(249)	249	(249)
Total	(19.681)	19.681	(19.681)	19.681

(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, 2018.
Currency forward agreements as of December 31, 2017 are summarized at the table below:

					December 31, 2018
Maturity	Parity	Type of contract	Transactions	Total amount	Currency
19 days	3,6347-3,9290	Forward	Sells TL, Buys USD	16.000	USD

Swap agreements

As of December 31, 2018 the Group has swap agreement amounting to TL 65.250 thousand with fixed interest rate of 13,415% in return for USD 22.500 thousand with a floating interest rate of six-month USDLIBOR +2,4% (2017: USD 31.500 thousand). Swap transaction has half-yearly interest payments and principal payments amounting to USD 9.000 thousand have been made in 2018 (2017: None). The maturity date of last principal repayments is June 24, 2021.

Commodity swap

As of December 31, 2018 the Group has Commodity swap transaction which is made for the quantity of 20.000 metric tonne of propane (Sonatrach FOB Bethioua). The relevant contract month of the transaction is February 2019 and the weighted average fixed price is USD 392/per metric tonne.

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, 2018	December 31, 2017
Instruments with fixed interest rate		
Time deposits	**550.367**	524.703
Borrowings and bonds issued	**1.188.028**	707.190
Instruments with variable interest rate		
Borrowings and bond issued	**207.006**	255.627

If the interest rates in terms of all the currency units higher/lower by 100 basis points and all other variables held constant, profit before taxation would have been higher/lower by TL 319 thousand as of December 31, 2018 (2017: TL 463 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)

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (CONTINUED)

Financial instrument categories and fair values

December 31, 2018	**Financial assets at amortized cost**	**Loans and receivables**	**Financial assets measured at fair value through other comprehensive income**	**Financial assets measured at fair value through profit loss**	**Financial liabilities at amortized cost**	**Book value**	**Note**
Financial assets							
Cash and cash equivalents	648.010	-	-	-	-	648.010	4
Trade receivables	-	448.883	-	-	-	448.883	8,31
Other financial assets	-	-	285.647	1.449	-	287.096	5
Other receivables	-	3.146	-	-	-	3.146	9
Financial liabilities							
Short-term and long-term borrowings	-	-	-	-	1.401.015	1.401.015	6
Trade payables	-	-	-	-	559.653	559.653	8,31
Liabilities for employee benefits	-	-	-	-	27.021	27.021	10
Other payables	-	-	-	-	107.625	107.625	9,31
Other liabilities	-	-	-	-	2.505	2.505	18

December 31, 2017	Financial assets at amortized cost	Loans and receivables	Financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value through profit loss	Financial liabilities at amortized cost	Book value	Note
Financial assets							
Cash and cash equivalents	593.172	-	-	-	-	593.172	4
Trade receivables	-	585.120	-	-	-	585.120	8,31
Other financial assets	-	-	315.200	1.924	-	317.124	5
Other receivables	-	7.434	-	-	-	7.434	9
Financial liabilities							
Short-term and long-term borrowings	-	-	-	-	985.435	973.270	6
Trade payables	-	-	-	-	670.034	670.034	8,31
Liabilities for employee benefits	-	-	-	-	28.658	28.658	10
Other payables	-	-	-	-	99.180	99.180	9,31
Other liabilities	-	-	-	-	2.336	2.336	18

(*) The Group believes that the carrying value of its financial instruments is at fair value.

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

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

32. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy table

The fair values of financial assets and financial liabilities are determined as follows:

- First level: The fair value of financial assets and financial liabilities are determined with reference to actively traded market prices;
- Second level: Other than market prices specified at first level, the fair value of financial assets and financial liabilities are evaluated with reference to inputs that used to determine directly or indirectly observable price in market;
- Third level: The fair value of financial assets and financial liabilities are evaluated with reference to inputs that used to determine fair value but not relying on observable data in the market.

Level classifications of financial assets and liabilities at fair value are as follows:

Financial assets/liabilities		**Level of fair value as of reporting date**		
	December 31, 2018	**1st Level**	**2nd Level**	**3rd Level**
Financial assets measured at fair value	**287.096**	**53**	**286.067**	**976**
Derivative financial instruments	**63.184**	**-**	**63.184**	**-**

Financial assets /liabilities		Level of fair value as of reporting date		
	December 31, 2017	1st Level	2nd Level	3rd Level
Financial assets measured at fair value	317.124	73	316.075	976
Derivative financial instruments	31.626	-	31.626	-

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.

33. SUBSEQUENT EVENTS

None.

34. OTHER SIGNIFICANT ISSUES AFFECTING THE FINANCIAL STATEMENTS OR THE OTHER ISSUES REQUIRED FOR CLARIFICATION OF FINANCIAL STATEMENTS

None.

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