IMPORTANT NOTICE

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the offering circular (the "**Preliminary Offering Circular**") attached to this electronic transmission, and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Preliminary Offering Circular. In accessing the attached Preliminary Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access. You acknowledge that this electronic transmission and the delivery of the attached document is confidential and intended only for you and you agree you will not forward, reproduce, copy, download or publish this electronic transmission or the attached document (electronically or otherwise) to any other person.

THE ATTACHED PRELIMINARY OFFERING CIRCULAR IS IN PRELIMINARY FORM ONLY, IS NOT COMPLETE AND CONTAINS INFORMATION THAT IS SUBJECT TO COMPLETION AND CHANGE. THE PRELIMINARY OFFERING CIRCULAR IS NOT AN OFFER TO SELL THE OFFER SHARES (AS DEFINED IN THE ATTACHED PRELIMINARY OFFERING CIRCULAR) AND THE COMPANY IS NOT SOLICITING OFFERS TO BUY THE OFFER SHARES IN ANY JURISDICTION WHERE SUCH OFFER OR SALE IS NOT PERMITTED.

Confirmation of your representation: By accessing the attached Preliminary Offering Circular, you have confirmed to the Managers and the Company (each, as defined in the attached Preliminary Offering Circular) that (i) you have understood and agree to the terms set out herein, (ii) (a) you and the electronic mail address you have given to us are not located in the United States, its territories and possessions or (b) you are a person that is a "qualified institutional buyer" ("**QIB**") within the meaning of Rule 144A under the United States Securities Act of 1933, as amended (the "**Securities Act**"), (iii) you consent to delivery by electronic transmission, (iv) you will not transmit the attached Preliminary Offering Circular (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person and (v) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to purchase the Offer Shares described in the attached Preliminary Offering Circular.

You are reminded that the attached Preliminary Offering Circular has been delivered to you on the basis that you are a person into whose possession the attached Preliminary Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver the attached Preliminary Offering Circular, electronically or otherwise, to any other person and in particular to any address located in the United States (its territory and possessions, any state of the United States and the District of Columbia ("**United States**" or "**U.S.**")). Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

Restrictions: NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF THE OFFER SHARES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

ANY OFFER SHARES BEING SOLD HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN OR WITHIN THE UNITED STATES EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QIB THAT IS ACQUIRING SUCH OFFER SHARES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM, IF AVAILABLE, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

THE ATTACHED PRELIMINARY OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. DISTRIBUTION OR REPRODUCTION OF THE ATTACHED PRELIMINARY OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS.

Under no circumstances shall the attached Preliminary Offering Circular constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Offer Shares described in the attached Preliminary Offering Circular in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The attached Preliminary Offering Circular and the offer, when made, are only addressed to and directed at persons in member states of the European Economic Area ("**EEA**") who are "qualified investors" ("**Qualified Investors**") within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC and amendments thereto, including Directive 2010/73/EU, to the extent implemented in the relevant member state of the EEA) and any implementing measure in each relevant member state of the EEA (the "**Prospectus Directive**"). The attached Preliminary Offering Circular may only be communicated, or caused to be communicated, to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000, as amended, does not apply and may be distributed in the United Kingdom only to persons who are Qualified Investors and who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"), or (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the Order (all such persons, collectively, "**Relevant Persons**"). In the United Kingdom, the attached Preliminary Offering Circular is directed only at Relevant Persons. The attached Preliminary Offering Circular must not be acted or relied on (i) in the United Kingdom, by persons who are not Relevant Persons and (ii) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors. Any investment or investment activity to which the attached Preliminary Offering Circular relates is available only to (i) in the United Kingdom, Relevant Persons and (ii) in any member state of the EEA other than the United Kingdom, Qualified Investors, and will be engaged in only with such persons.

The attached Preliminary Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Managers, any person who controls any of the Managers or the Company, any director, officer, employee or agent of any of them or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Preliminary Offering Circular distributed to you in electronic format and the hard copy version of the Preliminary Offering Circular. By accessing the linked document, you consent to receiving it in electronic form.

You are reminded that this document has been made available to you solely on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located, and you may not nor are you authorized to deliver this document, electronically or otherwise, to any other person.

Nothing in this electronic transmission constitutes, and may not be used in connection with, an offer of securities for sale to persons other than the specified categories of institutional buyers described above and to whom it is directed, and access has been limited so that it shall not constitute a general solicitation. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

None of the Managers, or any of their respective affiliates, or any of their respective directors, officers, employees or agents accepts any responsibility whatsoever for the contents of this document or for any statement made or purported to be made by it, or on its behalf, in connection with the issuer or the offer. The Managers and any of their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of such document or any such statement. No representation or warranty, express or implied, is made by any of the Managers or any of their respective affiliates as to the accuracy, completeness, reasonableness, verification or sufficiency of the information set out in this document.

The Managers are acting exclusively for the Company and the Selling Shareholders and no one else in connection with the offer. They will not regard any other person (whether or not a recipient of this document) as their client in relation to the offer and will not be responsible to anyone other than the Company and the Selling Shareholder for providing the protections afforded to their clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

You are responsible for protecting against viruses and other destructive items. Your receipt of this electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended ("**MiFID II**"); (b) Articles 9 and 10 of Commission Delegated

Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the "**MiFID II Product Governance Requirements**"), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any "manufacturer" (for the purposes of the Product Governance Requirements) may otherwise have with respect thereto, the Offer Shares the subject of the Offering have been subject to a product approval process, which has determined that such Offer Shares are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the "**Target Market Assessment**"). Notwithstanding the Target Market Assessment, distributors should note that: the price of the Offer Shares may decline and investors could lose all or part of their investment; the Offer Shares offer no guaranteed income and no capital protection; and an investment in the Offer Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Offer. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the Joint Bookrunners will only procure investors who meet the criteria of professional clients and eligible counterparties. For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Offer Shares. Each distributor is responsible for undertaking its own target market assessment in respect of the Offer Shares and determining appropriate distribution channels.

SUBJECT TO COMPLETION, DATED JANUARY 22, 2018

PRELIMINARY OFFERING CIRCULAR **CONFIDENTIAL**

Enerjisa Enerji A.Ş.

(incorporated in and operating under the laws of the Republic of Turkey)

Up to 21,259,241,400 Offer Shares

This Offering Circular contains information regarding the offering of Enerjisa Enerji A.Ş. ("**Enerjisa**", the "**Company**", "**us**" "**we**" or "**our**"), a joint stock company organized under the laws of the Republic of Turkey ("**Turkey**"), by Hacı Ömer Sabancı Holding A.Ş. ("**Sabancı Holding**") and DD Turkey Holdings S.A.R.L. ("**E.ON Turkey**"), (an indirect subsidiary of E.ON SE, together with all of its affiliated undertakings. "**E.ON**"), together the "**Selling Shareholders**" of a total of up to 21,259,241,400 shares of the Company, nominal value Turkish Lira ("**Turkish Lira**" or "**TL**") 0.01 per share (the "**Offer Shares**"). The offering consists of (i) an international offering of up to 18,070,355,100 Offer Shares outside the United States and Turkey to certain institutional investors in offshore transactions in reliance on Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and in the United States only to qualified institutional buyers ("**QIBs**") as defined in, and in reliance on, Rule 144A under the Securities Act ("**Rule 144A**"), or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act (the "**International Offering**") and (ii) a domestic offering of up to 3,188,886,300 Offer Shares to retail and institutional investors in Turkey in reliance on Regulation S under the Securities Act and Capital Markets Law No. 6362 of Turkey (the "**Capital Markets Law**") and relevant regulations of the Capital Markets Board of Turkey (*T.C. Başbakanlık Sermaye Piyasası Kurulu*) (the "**CMB**") (the "**Domestic Offering**" and, together with the International Offering, the "**Offering**"), in each case, subject to the approval of the CMB. The allocation of the Offer Shares between the International Offering and the Domestic Offering is subject to change in accordance with applicable Turkish regulations. See "*Plan of Distribution*". This Offering Circular pertains only to the International Offering and will not be approved by the CMB or any other supervisory authority. The Domestic Offering is being made pursuant to a separate Turkish language offering document (*izahname*) prepared in accordance with Turkish regulations (the "**Domestic Prospectus**"). Prospective investors proposing to purchase the Offer Shares in the Domestic Offering should procure the Domestic Prospectus from authorized institutions in due course.

In addition, 2,362,137,800 additional existing shares of the Company (the "**Additional Shares**") may be sold by the Selling Shareholders on the Closing Date (as defined below) for the purpose of covering over-allotments. References in this Offering Circular to "Offer Shares" include, unless the context requires otherwise, the Additional Shares. Ak Yatırım Menkul Değerler A.Ş. ("**Ak Yatırım**" or the "**Domestic Lead Manager**"), as the stabilization manager (the "**Stabilization Manager**"), may, after consultation and in coordination with the Global Coordinators (as defined below), effect transactions with a view to supporting the market price of the Offer Shares on Borsa İstanbul A.Ş. ("**Borsa İstanbul**"). See "*Plan of Distribution—Over-allotment and Stabilization*".

No public trading market currently exists for any of the Offer Shares. We have applied for listing of the Offer Shares on Borsa İstanbul under the symbol "ENJSA". Trading in the Offer Shares on Borsa İstanbul is expected to commence on or about February 8, 2018. No application has been, or is currently intended to be, made for the Offer Shares to be admitted to listing or dealt with on any other stock exchange.

Investing in the Offer Shares involves risks. You should read the entire document and, in particular, "*Risk Factors*" before making an investment decision with respect to the Offer Shares.

Offer Price Range: TL [●] to TL [●] per round lot of 100 Offer Shares

The Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States except to QIBs in accordance with Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, or outside the United States in accordance with Regulation S. Prospective investors that are QIBs are hereby notified that the seller of the Offer Shares may be relying upon the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfers of the Offer Shares, see "*Plan of Distribution—Selling Restrictions*" and "*Transfer Restrictions*".

The Offer Shares in the International Offering are offered by Citigroup Global Markets Limited ("**Citigroup**"), HSBC Bank plc ("**HSBC**" and, together with Citigroup, the "**Global Coordinators**"), Merrill Lynch International ("**BofA Merrill Lynch**") and Deutsche Bank A.G., London Branch ("**Deutsche Bank**" and, together with the Global Coordinators and BofA Merrill Lynch, the "**Joint Bookrunners**"), when, as and if delivered to and accepted by it, and subject to its right to reject orders in whole or in part. Citigroup, HSBC, BofA Merrill Lynch, Deutsche Bank, and Ak Yatırım are each herein referred to as a "**Manager**" and collectively as the "**Managers**". The Managers expect to deliver the Offer Shares to investors by means of book-entry registration with accounts maintained by Merkezi Kayıt Kuruluşu A.Ş. (the "**Central Registry Agency**"), the custody center for Borsa İstanbul, against payment in İstanbul, Turkey on or about February 7, 2018 (the "**Closing Date**").

Senior Global Coordinator

Citigroup

Global Coordinator

HSBC

Senior Global Bookrunner

BofA Merrill Lynch

Global Bookrunner

Deutsche Bank

Domestic Lead Manager

Ak Yatırım

The date of this Offering Circular is [●], 2018.


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IMPORTANT INFORMATION

In this Offering Circular, unless the context otherwise suggests, "Enerjisa", the "Company", "we", "our" and "us" refer to Enerjisa Enerji A.Ş.

This Offering Circular is being furnished by us in connection with an offering exempt from the registration requirements of the Securities Act and applicable state securities laws in the United States solely for the purpose of enabling a prospective investor to consider the purchase of the Offer Shares offered hereby. Delivery of this Offering Circular to any other person or any reproduction of this Offering Circular, in whole or in part, without our consent and the consents of the Joint Bookrunners is prohibited.

The International Offering is being made solely on the basis of this Offering Circular. Any decision to purchase the Offer Shares in the International Offering must be based solely on the information contained in this Offering Circular. In making an investment decision, you must rely on your own examination and analysis of the information regarding the Company, the terms of the Offering, including the merits and risks involved, and the financial and other information in this Offering Circular. Neither the delivery of this Offering Circular nor any sale made hereunder shall under any circumstances imply that there has been no change in our affairs or that the information set forth in this Offering Circular is correct as of any date subsequent to the date hereof. See "*Risk Factors*".

No person is or has been authorized to give any information or make any representation not contained in this Offering Circular in connection with the International Offering and, if given or made, such information or representation must not be relied upon as having been so authorized. No representation or warranty, express or implied, is made or given by or on behalf of the Joint Bookrunners (or any of their respective parents or subsidiary undertakings or the subsidiary undertakings of any such parent undertakings or any of such person's directors, officers or employees) as to the accuracy, completeness or fairness of the information or opinions contained in this Offering Circular. Further, nothing contained in this Offering Circular is, or shall be relied upon as a promise or representation in this respect, whether as to the past or the future and no responsibility or liability is accepted by any such person for such information or opinions. Accordingly, none of the Joint Bookrunners assumes any responsibility for its accuracy, completeness or fairness and accordingly disclaims, to the fullest extent permitted by applicable law, any and all liability, whether arising in tort, contract or otherwise, which it might otherwise be found to have in respect of this Offering Circular or any such statement.

We have not authorized any person to give any information or make any representation not contained in this Offering Circular in connection with the International Offering and, if given or made, such information or representation must not be relied upon as having been authorized by us, Sabancı Holding, E.ON Turkey, E.ON, or the Managers. You should not assume that the information contained in this Offering Circular is accurate as of any date other than the date on the front of this Offering Circular and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by us, Sabancı Holding, E.ON Turkey, E.ON, the Managers or any of their affiliates or advisors as to the past, present or future. No representation or warranty, express or implied, is made or given by or on behalf of the Managers or any of their respective parent or subsidiary undertakings or the subsidiary undertakings of any such parent undertakings or any of such person's directors, officers or employees or any other person as to the accuracy, completeness or fairness of the information or statements contained in this Offering Circular and no responsibility or liability is accepted by any person for such information or statements. Accordingly, the Managers disclaim, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which we or they might otherwise be found to have in respect of this Offering Circular or any such statement.

We accept responsibility for the completeness and accuracy of the information contained in this Offering Circular. To the best knowledge and belief of the members of the Company's board of directors, who have taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is accurate and complete in all material respects and no material facts, the omission of which would make misleading any statements of fact or opinion herein, have been omitted.

This Offering Circular does not constitute an offer to sell or a solicitation of an offer to purchase the Offer Shares by any person in any jurisdiction where it is unlawful for such person to make such an offer or solicitation. The Offer Shares are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under applicable securities laws and regulations. Prospective investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time. The distribution of this Offering Circular and the offering or sale of the Offer Shares in certain jurisdictions is restricted by law. This

Offering Circular may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorized or is unlawful. Accordingly, neither this Offering Circular nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular may come are required by us and the Managers to inform themselves about and to observe such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Further information with regard to restrictions on offers and sales of the Offer Shares and the distribution of this Offering Circular is set out under "*Plan of Distribution—Selling Restrictions*" and "*Transfer Restrictions*". None of us, Sabancı Holding, E.ON Turkey, E.ON, or the Managers is making any representation to any offeree or purchaser of the Offer Shares regarding the legality of an investment therein by such offeree or purchaser.

The Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered, sold, pledged or otherwise transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. The Offer Shares are being offered and sold outside the United States in reliance on Regulation S and within the United States only to QIBs in reliance on Rule 144A. Prospective purchasers are hereby notified that the seller of the Offer Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or pursuant to another exemption from, or transaction not subject to, the registration requirement of the Securities Act. For a description of these and certain further restrictions on offers, sales and transfers of the Offer Shares and the distribution of this Offering Circular, see "*Plan of Distribution—Selling Restrictions*" and "*Transfer Restrictions*". Neither the U.S. Securities and Exchange Commission, nor any state securities commission or any other regulatory authority has approved or disapproved the Offer Shares nor have any of the foregoing authorities passed upon or endorsed the merits of this Offering or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense in the United States.

The Managers will be acting exclusively for us and no one else in connection with the Offering and will not regard any other person (whether or not a recipient of this Offering Circular) as their client in relation to the Offering and will not be responsible to anyone other than us for providing the protections afforded to their respective clients or for providing advice in relation to the Offering or any transaction or arrangement referred to in this Offering Circular.

In connection with the Offering, the Managers and any of their respective affiliates acting as investors for their own account may take up the Offer Shares and in that capacity may retain, purchase or sell for their own account the Offer Shares and any of our securities or related investments and may offer or sell the Offer Shares, such securities or other investments otherwise than in connection with the Offering. Accordingly, references in this Offering Circular to the Offer Shares being offered or placed should be read as including any issue, offering or placement of the Offer Shares to the Managers and any of their respective affiliates acting in such capacity. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

None of us, Sabancı Holding, E.ON Turkey, E.ON, or the Managers, or any of their respective representatives, is making any representation to any offeree or purchaser of the Offer Shares regarding the legality of an investment in the Offer Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser. You should not construe anything in this Offering Circular as legal, business, investment or tax advice. You should consult your own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Offer Shares needed to make your investment decision and to determine whether it is legally permitted to purchase the Offer Shares offered hereby under applicable legal investment or similar laws or regulations. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

Prospective investors also acknowledge that (i) they have not relied on the Managers or any person affiliated with such Managers in connection with any investigation of the accuracy of any information contained in this Offering Circular or their investment decision, (ii) they have relied only on the information contained in this Offering Circular, and (iii) no person has been authorized to give any information or to make any representation concerning Enerjisa or the Offer Shares (other than as contained in this Offering Circular) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us, Sabancı Holding, E.ON Turkey, E.ON, or the Managers.

The Domestic Prospectus has been prepared for use in the Domestic Offering in accordance with the relevant Turkish regulations and is expected to be approved by the CMB on or about February 2, 2018 pursuant to the provisions of the Capital Markets Law. Such approval does not constitute a guarantee by the CMB with respect to the Offer Shares, the Company or the accuracy of the statements in the Domestic Prospectus and such approval cannot be regarded as an investment recommendation regarding the Offer Shares. Neither Borsa İstanbul nor the CMB has approved the Offer Price (including the Offer Price Range), nor does either have any authority over the determination of the Offer Price (including the Offer Price Range). Neither this Offering Circular nor any other offering material related to the International Offering may be used in connection with the offering to the retail and institutional investors in Turkey for the purpose of the sale of Offer Shares. Prospective investors proposing to purchase the Offer Shares in the Domestic Offering should procure a Domestic Prospectus from an authorized institution.

It is expected that the offer price will be within the Offer Price Range. The Offer Price Range is indicative only and may change during the course of the Offering. The Offer Price Range disclosed in the Domestic Prospectus may be decreased through public disclosure without prior approval of the CMB and not by amendment to the Domestic Prospectus. This may occur either before or after commencement of the domestic bookbuilding period. The initial offer price for the Offer Shares will be agreed between the Managers, the Company and the Selling Shareholders, following a bookbuilding process. Among the factors to be considered in determining the offer price, in addition to prevailing market conditions, will be the Company's historical performance, estimates of its business potential and earnings prospects, an assessment of the Company's management and consideration of the above factors in relation to the market valuation of companies in related businesses. The offer price may differ significantly from any prices prevailing in over-the-counter transactions or price quotations that have historically been available. See "*Plan of Distribution—The Offering*" for further information.

The information in this preliminary Offering Circular, which is in draft form, is subject to updating, completion, revision, verification and amendment. The final Offering Circular will be published in due course. This Offering Circular has been prepared solely in connection with the International Offering to certain institutional investors outside of Turkey. The final Domestic Prospectus in connection with the Domestic Offering will be published in due course. Although it is intended that the Domestic Prospectus be approved by the CMB as a prospectus, this Offering Circular has not been so approved. Similarly, although it is intended that the Domestic Prospectus be made available to the public in Turkey, this document has not been made so available. Recipients of this preliminary Offering Circular who intend to purchase the Offer Shares in the International Offering are reminded that any such subscription or purchase may only be made on the basis of the information contained in the final Offering Circular and any supplementary prospectus, which may be different from the information contained in this preliminary Offering Circular. No reliance may be placed for any purpose whatsoever on the completeness, accuracy or fairness of the information contained in this preliminary Offering Circular.

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended ("**MiFID II**"); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the "**MiFID II Product Governance Requirements**"), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any "manufacturer" (for the purposes of the Product Governance Requirements) may otherwise have with respect thereto, the Offer Shares the subject of the Offering have been subject to a product approval process, which has determined that such Offer Shares are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the "**Target Market Assessment**"). Notwithstanding the Target Market Assessment, distributors should note that: the price of the Offer Shares may decline and investors could lose all or part of their investment; the Offer Shares offer no guaranteed income and no capital protection; and an investment in the Offer Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Offer. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the Joint Bookrunners will only procure investors who meet the criteria of professional clients and eligible counterparties. For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Offer Shares. Each distributor is responsible for undertaking its own target market assessment in respect of the Offer Shares and determining appropriate distribution channels.

STABILIZATION

The Selling Shareholders have agreed to allocate the gross proceeds from the sale of up to 2,362,137,800 Additional Shares, amounting to approximately 11.11% of the total gross proceeds of the Offer Shares (the "**Stabilization Funds**") to Ak Yatırım, as Stabilization Manager, to conduct price stabilization activities. The Stabilization Manager may, after consultation and in coordination with the Global Coordinators, use the Stabilization Funds to effect transactions with a view to supporting the market price of the Offer Shares on Borsa İstanbul for a limited period after the Offer Price is announced at levels higher than those which might otherwise prevail. In accordance with the regulations of the CMB, stabilizing activities may be carried on for a maximum period of 30 days following the first trading date (the "**Stabilization Period**") and may be affected only on Borsa İstanbul. Orders can be given only to stop a decline in the share price, may not be given at prices above the Offer Price and must otherwise comply with the regulations of the CMB and Borsa İstanbul. Such transactions must be brought to an end at the expiry of the Stabilization Period or, if earlier, once the Stabilization Funds have been fully utilized. No representation is made as to the magnitude or effect of any such stabilizing or other transactions and any such activities or transactions would not constitute a guarantee of any share price. The Stabilization Manager is not obliged to engage in stabilization activities and may, upon providing notice on the Public Disclosure Platform, discontinue any of these activities at any time. Any stabilization action must be conducted by the Stabilization Manager, or persons acting on behalf of the Stabilization Manager, in accordance with all applicable laws and rules. See "*Plan of Distribution—Over-allotment and Stabilization*".

CERTAIN DEFINITIONS

Certain terms used in this Offering Circular, including all capitalized terms and certain technical and other items, are defined and explained in "*Glossary*" beginning on page G-1 of this Offering Circular. For reference, certain key regulatory, technical and other terms are also set out in "*Key Operational and Industrial Terms*" beginning on page 1 of this Offering Circular.

NOTICES TO INVESTORS

Neither Enerjisa nor the Managers, nor any of their respective representatives, is making any representation to any offeree or purchaser of the Offer Shares regarding the legality of an investment in the Offer Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser. Prospective investors should not construe anything in this Offering Circular as legal, business or tax advice. Each prospective investor should consult its own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Offer Shares needed to make its investment decision and to determine whether it is legally permitted to purchase the Offer Shares offered hereby under applicable legal investment or similar laws or regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

This Offering Circular does not constitute an offer to sell or a solicitation of an offer to purchase the Offer Shares by any person in any jurisdiction where it is unlawful for such person to make such an offer or solicitation. The distribution of this Offering Circular and the International Offering or sale of the Offer Shares in certain jurisdictions is restricted by law. The Offer Shares are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under applicable securities laws and regulations. This Offering Circular may not be used for, or in connection with, and does not constitute any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorized or is unlawful. Accordingly, neither this Offering Circular nor any advertisement or any other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular may come are required by us and the Joint Bookrunners to inform themselves about and to observe such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Further information with regard to restrictions on offers and sales of the Offer Shares and the distribution of this Offering Circular is set out under "*Plan of Distribution—Selling Restrictions*" and "*Transfer Restrictions*". Neither we nor the Joint Bookrunners are making any representation to any offeree or purchaser of the Offer Shares regarding the legality of an investment in the Offer Shares by such offeree or purchaser.

Notice to Prospective Investors in the United States

The Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered, sold, pledged or otherwise transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirement of the Securities Act and in compliance with any applicable state securities laws. The Offer Shares are being offered and sold outside the United States in reliance on Regulation S and within the United States only to QIBs in reliance on Rule 144A or pursuant to another exemption from, or transaction not subject to, the registration requirement of the Securities Act. Prospective purchasers are hereby notified that the seller of the Offer Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Offer Shares and the distribution of this Offering Circular, see "*Plan of Distribution—Selling Restrictions*" and "*Transfer Restrictions*".

Neither the U.S. Securities and Exchange Commission, nor any state securities commission or any other regulatory authority has approved or disapproved the Offer Shares nor have any of the foregoing authorities passed upon or endorsed the merits of this Offering or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense in the United States.

Notice to Prospective Investors in the European Economic Area and the United Kingdom

This Offering Circular and the International Offering are only addressed to and directed at persons in member states of the European Economic Area ("**EEA**") who are "qualified investors" ("**Qualified Investors**") within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC and amendments thereto, including Directive 2010/73/EU, to the extent implemented in the relevant member state of the EEA) and any implementing measure in each relevant member state of the EEA (the "**Prospectus Directive**"). This Offering Circular may only be communicated, or caused to be communicated, to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000, as amended, does not apply and may be distributed in the United Kingdom only to persons who are Qualified Investors and who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"), or (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the Order (all such persons, collectively, "**Relevant Persons**"). In the United Kingdom, this Offering Circular is directed only at Relevant Persons. This Offering Circular must not be acted or relied on (i) in the United Kingdom, by persons who are not Relevant Persons and (ii) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors. Any investment or investment activity to which this Offering Circular relates is available only to (i) in the United Kingdom, Relevant Persons and (ii) in any member state of the EEA other than the United Kingdom, Qualified Investors, and will be engaged in only with such persons.

This Offering Circular has been prepared on the basis that all offers of the Offer Shares in the Offering will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of Offer Shares. Accordingly, any person making or intending to make any offer within the EEA of the Offer Shares which are the subject of the Offering contemplated herein should only do so in circumstances in which no obligation arises for us or the Joint Bookrunners to produce a prospectus for such offer. None of Enerjisa or the Joint Bookrunners has authorized or does authorize the making of any offer of the Offer Shares through any financial intermediary, other than offers made by the Joint Bookrunners which constitute the final placement of Offer Shares contemplated herein.

Each person in a member state of the EEA which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), who receives any communication in respect of, who acquires any Offer Shares or to whom any offer is made under the Offering, will be deemed to have represented, acknowledged and agreed that it is a Qualified Investor and, in the case of any Offer Shares acquired by it as a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Offer Shares acquired by it in the Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than Qualified Investors or in circumstances in which the prior consent of the Joint Bookrunners has been given to the offer or resale or, where the Offer Shares have been acquired by it on behalf of persons in any Relevant Member State other than Qualified Investors, the offer of such Offer Shares to it is not treated under the Prospectus Directive as having been made to such persons. Enerjisa, the Joint Bookrunners, their respective affiliates and other persons will rely (and Enerjisa acknowledges that the Joint Bookrunners, their affiliates and other persons will rely) upon the truth and accuracy of the foregoing representations, acknowledgements and agreements. Notwithstanding the above, a person who is not a Qualified Investor and who has notified the Joint Bookrunners of such fact in writing may, with the consent of the Joint Bookrunners, be permitted to purchase the Offer Shares. The Joint Bookrunners may rely on the truth and accuracy of the foregoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance. Recipients must not distribute, publish, reproduce or disclose this Offering Circular (in whole or in part) to any other person.

Any person making or intending to make any offer within the EEA of the Offer Shares which are the subject of the offering contemplated in this Offering Circular should only do so in circumstances in which no obligation arises for Enerjisa, any member of Sabancı Holding, E.ON Turkey, E.ON, or the Joint Bookrunners to produce a prospectus for such offer. None of Enerjisa, any member of Sabancı Holding, E.ON Turkey, E.ON or the Joint Bookrunners has authorized or does authorize the making of any offer of the Offer Shares through any financial intermediary, other than offers made by the Joint Bookrunners which constitute the final placement of the Offer Shares contemplated herein.

Notice to Prospective Investors in Hong Kong

The Offer Shares may not be offered or sold in Hong Kong by means of any document other than: (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong); (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder; or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the Offer Shares may be issued or may be in the possession of any person for the purpose of issue (in each case, whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the Offer Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in the Dubai International Financial Centre

In the Dubai International Financial Centre (the "**DIFC**"), no offer of the Offer Shares may be made to or by any person in the DIFC unless such offer is an "Exempt Offer" for the purposes of the Markets Rules (the "**MKT**") Module of the Rulebook issued by the Dubai Financial Services Authority (the "**DFSA**"). Persons into whose possession the Offer Shares may come must inform themselves about the nature of the Offer Shares as restricted securities and observe any applicable restrictions in any relevant jurisdiction on the distribution of this Offering Circular and the International Offering, purchase and sale of the Offer Shares. The DFSA has no responsibility for reviewing or verifying any documents in connection with the Offer Shares and has not approved this Offering Circular nor has taken steps to verify the information set forth in, and has no responsibility for, this Offering Circular.

Switzerland

The Offer Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("**SIX**") or on any other stock exchange or regulated trading facility in Switzerland. This Offering Circular has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland.

Neither this Offering Circular nor any other offering or marketing material relating to the Offer Shares or the Offering may be publicly distributed or otherwise made publicly available in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Offering, the Company or the Offer Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Offering Circular will not be filed with, and the offer of Offer Shares will not be supervised by, the Swiss Financial Market Supervisory Authority, and the offer of Offer Shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("**CISA**"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Offer Shares.

Notice to Prospective Investors in Japan

The Offer Shares offered in this Offering Circular have not been registered under the Securities and Exchange Law of Japan. The Offer Shares have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except: (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law; and (ii) in compliance with any other applicable requirements of Japanese law.

Notice to Prospective Investors in Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Offer Shares may not be circulated or distributed, nor may the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than: (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"); (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with, the conditions of any other applicable provision of the SFA, in each case, subject to compliance with conditions set forth in the SFA.

Where the Offer Shares are purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

- where no consideration is or will be given for the transfer; or
- where the transfer is by operation of law.

FORWARD LOOKING STATEMENTS

This Offering Circular contains "forward looking statements" which relate to, without limitation, our plans, objectives, goals, strategies, targets, future operational performance and anticipated developments in the electricity distribution and retail markets and the performance of the Turkish and global economies and include, without limitation, targets with respect to regulated asset base, adjusted EBITDA plus CAPEX reimbursements, net income, net debt divided by adjusted EBITDA *plus* CAPEX imbursements, CAPEX outperformance, OPEX outperformance and theft and loss. These forward looking statements are in some cases characterized by words such as "anticipate", "estimate", "believe", "intend", "plan", "predict", "may", "will", "would", "should", "continue", "expect" and similar expressions, but these expressions are not the exclusive means of identifying such statements. Such forward looking statements involve known and unknown risks, uncertainties and other important factors that could cause circumstances or our actual results, performance or achievements to be materially different from any future circumstances, results, performance or achievements expressed or implied by such statements. Such forward looking statements are inherently based on numerous assumptions regarding, among other things:

- changes in laws, regulations (including regulated tariffs) and governmental policies to which our business is subject;
- our ability to successfully manage regulatory requirements if stricter than expected regulatory measures are imposed in relation to the distribution and retail sale of electricity;
- our ability to meet competitive pressures;
- our ability to make accurate forecasts;
- our ability to successfully implement our strategy;
- our ability to achieve our financial and operating targets;
- expectations regarding liberalization of the electricity retail market in Turkey;
- expected growth in the electricity distribution and retail sale business and in the demand for electricity;
- the impact of the economic, social, demographic, urban and political conditions and developments in the Başkent, Ayedaş or Toroslar regions;
- our ability to make the CAPEX necessary for the running of our business and to sustain our CAPEX, OPEX or theft and loss efficiency;
- our ability to maintain transfer of operating rights and licenses; and
- the effects of political developments in Turkey and uncertainty regarding global and Turkish macroeconomic environments.

This list of important factors is not exhaustive. When assessing forward looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward looking statements will be achieved. Such forward looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

The forward looking statements contained in this Offering Circular are based on the beliefs of our management, as well as the assumptions made by and information currently available to our management. Although we believe that the expectations reflected in such forward looking statements are reasonable at this time, we cannot assure you that such expectations will prove to be correct. Given these uncertainties, you are cautioned not to place any undue reliance on such forward looking statements. Important factors that could cause actual results to differ materially from our expectations are contained in cautionary statements in this Offering Circular, including, without limitation, in conjunction with the forward looking statements included in this Offering Circular and specifically under the section entitled "*Risk Factors*" or the underlying assumptions. If any of these risks and uncertainties materialize, or if any of our underlying assumptions prove to be incorrect, our actual results of operations or financial condition could differ materially from that described herein as anticipated, believed, estimated or expected. Under no circumstances should the inclusion of such forward looking statements in this Offering Circular be regarded as a representation or warranty by us or the Managers or any other person with respect to the achievement of the results set out in such statements.

All subsequent written and oral forward looking statements attributable to us are expressly qualified in their entirety by reference to these cautionary statements. Subject to the requirements of the CMB and Borsa İstanbul or as required by applicable law, we do not intend, and we do not assume any obligation, to update any forward looking statement contained in this Offering Circular.

AVAILABLE INFORMATION

For so long as any of the Offer Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted Offer Shares or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act to facilitate resales of the Offer Shares pursuant to Rule 144A.

NO INCORPORATION OF WEBSITE

The contents of our website or the websites of any member of Sabancı Holding or E.ON do not form a part of this Offering Circular.

ENFORCEABILITY OF CIVIL JUDGMENTS

We are a joint stock company incorporated in and operating under the laws of Turkey. All of our assets are located in Turkey.

The courts of Turkey will not enforce a judgment obtained in a court established in a country other than Turkey unless:

- there is in effect a treaty between such country and Turkey providing for reciprocal enforcement of court judgments;
- there is a provision in the laws of such country that provides for the enforcement of judgments of the Turkish courts; or
- there is de facto enforcement in such country of judgments rendered by Turkish courts.

There is no treaty between the United States and Turkey or the United Kingdom and Turkey providing for reciprocal enforcement of judgments. There is no *de facto* reciprocity between Turkey and the United States or the state of New York, except that the courts of New York have rendered at least one judgment in the past confirming *de facto* reciprocity between Turkey and the state of New York. Turkish courts have also rendered at least one judgment in the past confirming *de facto* reciprocity between Turkey and the United Kingdom. However, since *de facto* reciprocity is decided by the relevant Turkish court on a case-by-case basis, there is uncertainty as to the enforceability of court judgments obtained in the United States or the United Kingdom by Turkish courts. Moreover, there is uncertainty as to the ability of a shareholder to bring an original action in Turkey based on United States federal or any other non-Turkish securities laws.

In addition, Turkish courts will not enforce any judgment obtained in a court established in a country other than Turkey if:

- the defendant was not duly summoned or represented or the defendant's fundamental procedural rights were not observed and the defendant brings an objection before the Turkish court against the request for enforcement on either of these grounds;
- the judgment in question was rendered with respect to a matter within the exclusive jurisdiction of Turkish courts;
- the judgment is incompatible with a judgment of a court in Turkey between the same parties and relating to the same issues or, as the case may be, with an earlier foreign judgment on the same issue and enforceable in Turkey;
- the judgment is not of a civil nature;
- the judgment is clearly against public policy rules of Turkey;
- the court rendering the judgment did not have jurisdiction to render such judgment;
- the judgment is not final and binding with no further recourse for appeal or similar revision process under the laws of the country where the judgment has been rendered; or
- the judgment was rendered by a foreign court which treated itself as competent even though it had no actual relationship with the parties or the subject matter at hand and the defendant brings an objection before the Turkish court against the request for enforcement on this ground.

Furthermore, to be enforceable under the laws of Turkey, the submission to the jurisdiction of the courts of a foreign jurisdiction should indicate the competent courts with sufficient precision. Therefore, lack of precision while submitting to the jurisdiction of the competent court of a foreign jurisdiction may render the choice of laws of a foreign jurisdiction unenforceable.

As a result, it may not be possible to:

- effect service of process outside Turkey upon any of the directors and members of senior management named in this Offering Circular; or
- enforce, in Turkey, court judgments obtained in courts of jurisdictions other than Turkey against the Company or any of the directors and members of senior management named in this Offering Circular in any action, including, without limitation, actions under the civil liability provisions of federal securities laws of the United States.

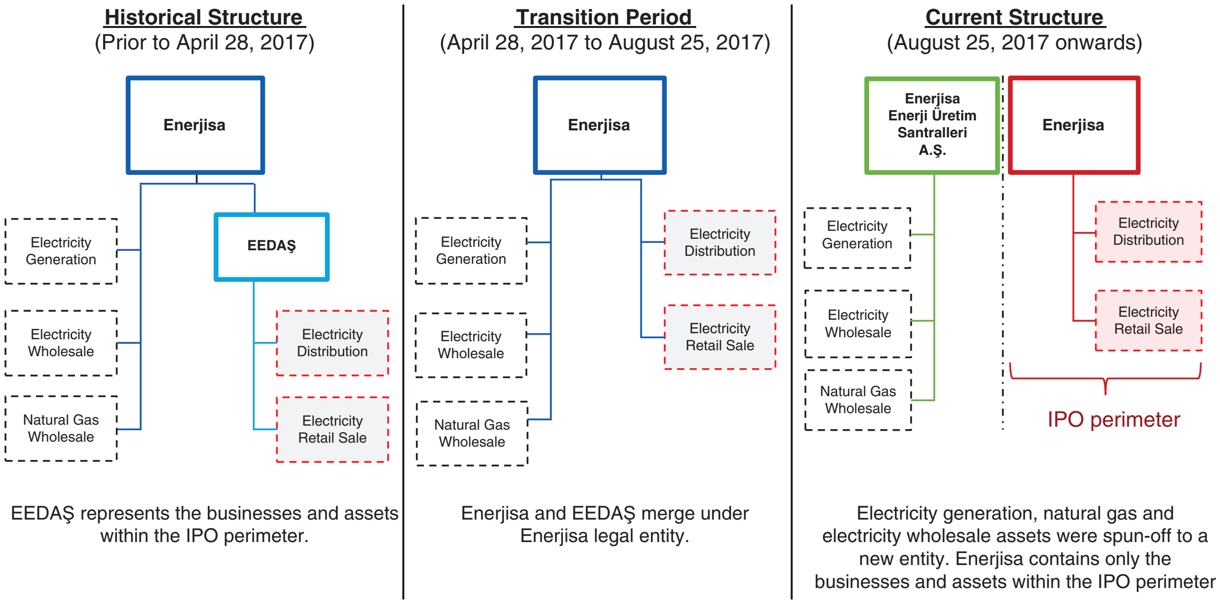
In addition, it may be difficult or impossible, to enforce, in original actions brought in courts in jurisdictions located outside the United States, liabilities predicated upon securities laws of the United States.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

On August 25, 2017, we completed a corporate reorganization of our operations. Prior to such corporate reorganization, the Enerjisa legal entity held our electricity distribution and retail sale operations through our 100.0% subsidiary, Enerjisa Elektrik Dağıtım A.Ş. ("**EEDAŞ**"). The Enerjisa legal entity also held electricity generation, electricity wholesale and natural gas wholesale assets, all of which are outside the initial public offering ("**IPO**") perimeter. On April 28, 2017, EEDAŞ merged with Enerjisa and then dissolved without liquidation, leaving Enerjisa as the surviving entity. On August 25, 2017, our electricity distribution, electricity wholesale and natural gas wholesale assets were spun-off. Therefore, the IPO perimeter only includes Enerjisa's electricity distribution and electricity retail sale assets and businesses. For a detailed discussion of the corporate reorganization, see "*Business—Corporate Reorganization*".

Below is a summary of the corporate actions and the impact on the business and assets subject to this Offering.



Financial Statements

As a result of the corporate reorganization, this Offering Circular includes financial statements of both Enerjisa and EEDAŞ for different periods in order to present the operations within the IPO perimeter during the relevant periods. The Financial Statements (as defined below) included in this Offering Circular have been used as the basis for the discussion and analysis under "*Management's Discussions and Analysis of Results of Operations and Financial Condition*" and in this Offering Circular. Unless otherwise indicated, the financial information presented in this Offering Circular is extracted or derived from the Financial Statements.

The Enerjisa Annual Financial Statements (as defined below) as of and for the years ended December 31, 2014, 2015 and 2016 are provided in the appendix of this Offering Circular only for information purposes, and upon the request of the CMB due to regulatory requirements for inclusion of the TFRS version of such financial statements in the Domestic Prospectus. Such financial statements are not representative of the IPO perimeter because they include the electricity generation, electricity wholesale and natural gas wholesale businesses during such historical periods.

The below chart sets forth the (i) Interim Financial Statements (as defined below), (ii) the Annual Financial Statements (as defined below), and (iii) Enerjisa Annual Financial Statements (as defined below) provided in this Offering Circular.

	EEDAŞ	Enerjisa
Financial Statement Period	IFRS	
December 31, 2014	✓	✓[1]
December 31, 2015	✓	✓[1]
December 31, 2016	✓	✓[1]
September 30, 2016		✓[2]
September 30, 2017		✓

(1) Provided only for information purposes and upon the request of the CMB due to regulatory requirements for inclusion of the TFRS version of such financial statements in the Domestic Prospectus. Such financial statements are not representative of the IPO perimeter because they include the electricity generation, electricity wholesale and natural gas wholesale businesses during such historical periods.
(2) The financial statements as of and for the nine months ended September 30, 2016 of Enerjisa, which are presented for the purpose of comparison to September 30, 2017, comprise the financial statements of EEDAŞ (See "*—Interim Financial Statements*").

Interim Financial Statements

Enerjisa's audited interim consolidated financial statements as of and for the nine months ended September 30, 2017, and Enerjisa's audited interim consolidated financial statements as of and for the nine months ended September 2016 (which comprise the financial statements of EEDAŞ) (the "**Interim Financial Statements**") included in this Offering Circular beginning on page F-[●] have been prepared and presented in Turkish Lira in accordance with International Financial Reporting Standards ("**IFRS**"), promulgated by the International Accounting Standards Board ("**IASB**"), and the interpretations issued by the International Accounting Standards Committee and Standing Interpretations Committee of IASB.

The Interim Financial Statements include: (i) our audited consolidated financial statements as of and for the nine months ended September 30, 2017 and (ii) comparative audited consolidated financial statements of EEDAŞ for the nine months ended September 30, 2016. We consider Enerjisa to be the successor of EEDAŞ, and our audited consolidated financial statements as of and for the nine months ended September 30, 2017 represent substantially the same business and assets as the comparative audited consolidated financial statements of EEDAŞ as of and for the nine months ended September 30, 2016. Accordingly, the financial statements of EEDAŞ for the nine months ended September 30, 2016 have been used as comparatives to financial statements of Enerjisa for the nine months ended September 30, 2017.

The significant IFRS accounting policies applied in our (or EEDAŞ', for comparative results for the nine months ended September 30, 2016) interim financial statements contained in this Offering Circular are applied consistently with the other IFRS financial statements contained in this Offering Circular. In making an investment decision, prospective investors must rely on their own examination of the information regarding Enerjisa (or EEDAŞ, for comparative results as of and for the nine months ended September 30, 2016), the terms of the Offering and the financial and other information in this Offering Circular.

The Interim Financial Statements included in this Offering Circular have been audited by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (member of Ernst & Young Global Limited), independent auditors, ("**EY**"), as stated in their report appearing herein.

Annual Financial Statements

We consider Enerjisa as the successor of EEDAŞ and, the Annual Financial Statements represent substantially the same business and assets as the Interim Financial Statements.

The audited consolidated financial statements of EEDAŞ as of and for the years ended December 31, 2014, 2015 and 2016 (the "**Annual Financial Statements**" and, together with Interim Financial Statements, the "**Financial Statements**") included in this Offering Circular beginning on page F-[●] have been prepared and presented in Turkish Lira in accordance with IFRS, promulgated by the IASB, and the interpretations issued by the International Accounting Standards Committee and Standing Interpretations Committee of IASB.

The significant IFRS accounting policies applied in the Annual Financial Statements are applied consistently with the other IFRS financial statements contained in this Offering Circular, including the Interim Financial

Statements. In making an investment decision, prospective investors must rely on their own examination of the information regarding EEDAŞ, the terms of the Offering and the financial and other information in this Offering Circular.

The Annual Financial Statements have been audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (member of Deloitte Touche Tohmatsu Limited), independent auditor ("**Deloitte**"), as stated in their reports included elsewhere in this Offering Circular.

Enerjisa Annual Financial Statements

The audited financial statements of Enerjisa as of and for the years ended December 31, 2014, 2015 and 2016 (the "**Enerjisa Annual Financial Statements**") included in this Offering Circular beginning on page F-[●] have been prepared and presented in Turkish Lira in accordance with IFRS, promulgated by the IASB, and the interpretations issued by the International Accounting Standards Committee and Standing Interpretations Committee of IASB. Enerjisa Annual Financial Statements are included in this Offering Circular, as the TFRS versions of such financial statements are included in the Domestic Prospectus, upon request of the CMB. See "*—Turkish Financial Reporting Standards compliant Financial Statements*".

Investors should be aware that, in addition to the businesses and assets within the IPO perimeter, the Enerjisa Annual Financial Statements as of and for the years ended December 31, 2014, 2015 and 2016 also consolidates the electricity generation, electricity wholesale and natural gas wholesale businesses and assets which, although held under the Enerjisa legal entity during such periods, are not within the IPO perimeter.

Therefore, the Enerjisa Annual Financial Statements as of and for the years ended December 31, 2014, 2015 and 2016 should not be relied upon as being representative of the businesses and assets within the IPO perimeter and are provided in the appendix of this Offering Circular only for information purposes, and upon the request of the CMB for inclusion of the TFRS version of such financial statements in the Domestic Prospectus. The Enerjisa Annual Financial Statements included in this Offering Circular have been audited by Deloitte.

Turkish Financial Reporting Standards compliant Financial Statements

Under the Communiqué on the Principles regarding Financial Reporting in Capital Markets (II-14.1), all public companies in Turkey are required to prepare and present financial statements in accordance with Turkish Financial Reporting Standards ("**TFRS**") and Turkish Accounting Standards ("**TAS**"), promulgated by the Public Oversight Accounting and Auditing Standards Authority (*Kamu Gözetimi, Muhasebe ve Denetim Standartları Kurumu*) ("**POAASA**").

In connection with the Domestic Offering and in accordance with the CMB requirements, we have made public (i) our audited consolidated financial statements as of and for the nine months ended September 30, 2017 (the "**Interim TFRS Financial Statements**"), and (ii) the audited consolidated financial statements of EEDAŞ as of and for the years ended December 31, 2014, 2015 and 2016 (the "**Annual TFRS Financial Statements**") and, together with the Interim TFRS Financial Statements, (the "**TFRS Financial Statements**"), which have been prepared and presented in accordance with TFRS and TAS, in the Turkish language. The Interim TFRS Financial Statements include: (i) our audited consolidated financial statements as of and for the nine months ended September 30, 2017; and (ii) comparative audited consolidated financial statements of EEDAŞ for the nine months ended September 30, 2016.

The Annual TFRS Financial Statements included in the Domestic Prospectus have been audited by Deloitte and the Interim TFRS Financial Statements included in the Domestic Prospectus have been audited by EY, independent auditors, as stated in their report appearing therein.

As noted above, upon the request of the CMB, the Domestic Prospectus also includes (as an appendix) Enerjisa's consolidated audited financial statements as of and for the years ended December 31, 2014, 2015 and 2016 (the "**Enerjisa Annual TFRS Financial Statements**") prepared and presented in accordance with TFRS and TAS, in the Turkish language. The Enerjisa Annual TFRS Financial Statements included in the Domestic Prospectus have been audited by Deloitte.

The accounting principles of TFRS are identical to those of IFRS promulgated by the IASB and the interpretations issued by the IFRIC, except as follows:

- the format for presentation of financial statements are regulated by the POAASA; and

- through its official communiques, the POAASA has eliminated certain alternative accounting options available under IFRS.

Statutory Financial Statements

We maintain our books of account and prepare our statutory financial statements in Turkish Lira and in accordance with the requirements of the Turkish Commercial Code (Law No. 6102) (the "**TCC**") and Turkish tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance of Turkey ("**Local GAAP**"). Such statutory financial statements are prepared on a solo basis for us and for each of our subsidiaries, as Local GAAP accounts do not recognize consolidation.

Although, as per Turkish capital markets regulations, we will continue to report our financial results in accordance with TFRS, our Local GAAP financial statements, the accounting standards and methodology of which significantly differ from TFRS or IFRS, are material for certain regulatory reasons. For example,

- As EMRA's reporting requirements are subject to Local GAAP, we are required to report our capital expenditures figures under Local GAAP to EMRA to be taken into consideration in determining our regulated asset base. See "*Management's Discussions and Analysis of Results of Operations and Financial Condition—Capital Expenditures*".
- Based on CMB regulations, the amount of our distributable earnings, which is taken into consideration for the calculation of dividends, is the lesser of that amount in (i) our Local GAAP financial statements and (ii) our TFRS financial statements. See "*Dividends and Dividend Policy*".

Disclosure of Financial Statements following the Offering

Turkish capital markets legislation does not require listed companies to prepare financial statements in accordance with IFRS or to disclose such financial statements. However, certain listed companies prepare and disclose financial statements prepared in accordance with IFRS. Following the Offering, we intend to prepare financial statements in accordance with both in IFRS and TFRS.

Non-IFRS Financial Measures

We have included certain measures in this Offering Circular that are not measures of performance under IFRS, TFRS or any other generally accepted accounting principles. Certain of these measures are termed "non-IFRS measures" because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS. These non-IFRS measures include, (i) EBIT, (ii) EBITDA, (iii) EBITDA margin, (iv) net debt, (v) adjusted revenue, (vi) adjusted EBITDA, (vii) adjusted EBITDA margin, (viii) adjusted EBITDA plus CAPEX reimbursements, (ix) free cash flow, (x) net working capital, and (xi) adjusted net working capital. The non-IFRS financial measures included in this Offering Circular are unaudited supplementary measures that are not required by, or presented in accordance with, IFRS.

These measures are used by our management to monitor the underlying performance of the business and operation, in presentations to our Board of Directors and as a basis for strategic planning and forecasting, as well as monitoring certain aspects of its operating cash flow and liquidity. We believe that these and similar measures are used widely by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. For the definitions of such non-IFRS financial measures and the reconciliation of these non-IFRS measures to the relevant figures in the financial statements, see "*Summary Historical Financial and Operational Data—Other Financial and Operational Data,*" and "*Selected Historical Financial and Operational Data—Other Financial and Operational Data*".

Prospective investors should not place undue reliance on the non-IFRS measures presented herein and should not consider them as:

- an alternative to operating profit or net profit as determined in accordance with generally accepted accounting principles, or as measures of operating performance;
- an alternative to cash flows from operating, investing or financing activities, as determined in accordance with generally accepted accounting principles, or as a measure of our ability to meet liquidity needs; or
- an alternative to any other measures of performance under generally accepted accounting principles.

Since all companies do not calculate these measures in an identical manner, our presentation may not be consistent with similar measures used by other companies. These measures have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under IFRS. As a result, prospective investors should not place undue reliance on this data.

Market and Industry Information

This Offering Circular contains historical market data and forecasts that have been obtained from industry publications, market research and other publicly available information. Certain information regarding market size, market share, market position, growth rates, economic performance, and other industry data pertaining to us and our business contained in this Offering Circular consist of estimates based on data reports compiled by professional organizations and on data from government and other external sources. Certain of the information contained in this Offering Circular in "*Exchange Rates*", "*Risk Factors*", "*Regulatory Overview*", "*Market Overview*", "*Business*", "*Management's Discussion and Analysis of Results of Operations and Financial Condition*" and "*The Turkish Securities Market*" has been extracted from summaries of information and data publicly released by official sources in Turkey, including the Türkiye Cumhuriyeti Merkez Bankası (*Central Bank of Turkey*) (the "**Central Bank**"), Energy Market Regulatory Authority (*T.C. Enerji Piyasası Düzenleme Kurumu*) ("**EMRA**"), Türkiye Elektrik Dağıtım A.Ş. (the "**TEDAŞ**"), Türkiye Elektrik İletim A.Ş. (the "**TEİAŞ**"), Türkiye İstatistik Kurumu (*Turkish Statistical Institute*) ("**Turkstat**"), Eurostat, World Bank, International Monetary Fund ("**IMF**"), The Economist Intelligence Unit ("**EIU**"), and the CMB and other sources as specified in this Offering Circular.

Where information from the third party sources has been used in this Offering Circular, the source of such information has been identified. We confirm that information provided from the sources referred to in this Offering Circular has been accurately reproduced and, as far as we are aware and have been able to ascertain from information published by such sources, no facts have been omitted, which would render the reproduced information inaccurate or misleading. We have not, however, independently verified the information in industry publications, market research or other publicly available information provided by third parties, although we believe the information contained therein to be from a reliable source. None of Enerjisa, the Selling Shareholders or any of the Managers represents that this information is accurate.

In some cases, there is no readily available external information (whether from trade and business organizations and associations, government bodies or other sources) to validate market-related analyses and estimates, requiring us to rely on internally developed estimates. Although we believe our internal estimates to be reasonable, such estimates have not been verified by any independent sources and there can be no assurance as to their accuracy or that a third party using different methods to assemble, analyze or compute market data would obtain the same results. Finally, behavior, preferences and trends in the marketplace may change.

With regard to both third party and internally derived market and industry information, we do not intend, and do not assume any obligation, to update industry or market data set forth in this Offering Circular. As a result, you should be aware that data in this Offering Circular and estimates based on such data may not be reliable indicators of future market performance or our future results.

Currency Presentation

In this Offering Circular, references to "**TL**" are to Turkish Lira, references to "**U.S. dollar**" and "**USD**" are to United States dollars and references to "**euro**" or "**EUR**" are to the currency of the member states of the European Union (the "**EU**") participating in the European Economic and Monetary Union.

Rounding Adjustments

Certain figures included in this Offering Circular have been subject to rounding adjustments. Accordingly, the figures shown for the same item presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

For the purposes of the discussion and analysis in the "*Management's Discussion and Analysis of Results of Operations and Financial Condition*" section, the percentages in certain tables above 100.0% or below (100.0%) have been identified as "n/m" (i.e., not meaningful).

Exchange Rate Information

The official Turkish Lira buying rate announced by the Central Bank on January 19, 2018 for euro and U.S. dollars respectively was TL [●] = EUR 1.00 and TL [●] = USD 1.00. We do not make any representation that the Turkish Lira, euro or U.S. dollar amounts in this Offering Circular have been, could have been or could be converted into any currency at any particular rate or at all. You should read "*Exchange Rates*" for historical information regarding the Central Bank exchange rates between the Turkish Lira and the euro and U.S. dollars. For a discussion of the effects of fluctuating exchange rates on us, see "*Exchange Rates*", "*Risk Factors*" and "*Management's Discussion and Analysis of Results of Operations and Financial Condition*".

EXCHANGE RATES

Turkish Lira has historically been and continues to be a volatile currency. Although until February 2001 it was a stated policy of the Central Bank to devalue Turkish Lira in line with the domestic inflation rate, the Central Bank has since adopted a floating exchange rate policy.

The table below sets forth the high, low, period average and period end exchange rates for U.S. dollars announced by the Central Bank, expressed as the number of Turkish Lira per U.S. dollar, for the periods indicated.

Year ended December 31,	High	Low	Period average(1)	Period end(2)
2014	2.3671	2.0711	2.1882	2.3189
2015	3.0599	2.2778	2.7183	2.9076
2016	3.5344	2.7928	3.0218	3.5192
2017	3,9594	3,3965	3,6487	3,7719
2018 (through January 19)	[●]	[●]	[●](3)	[●]

Source: Central Bank, Bloomberg

(1) Represents the average of the daily Central Bank exchange rates for the relevant period. Averages were computed by using the average of the Central Bank's U.S. dollar buying rates on the last business day of each month during the relevant period.

(2) Represents the Central Bank's indicative U.S. dollar buying rate announced on the preceding business day of the period end, as the period end falls on a half working day and the Central Bank does not announce indicative exchange rates on half working days.

(3) The period average for 2018 is a daily average of the Central Bank's U.S. dollar buying rates and footnote (1) does not apply to this

The table below sets forth the high and low exchange rates for U.S. dollars announced by the Central Bank, expressed as the number of Turkish Lira per U.S. dollar, for the periods indicated.

	High	Low
2016		
January	3.0496	2.9181
February	2.9671	2.9044
March	2.9612	2.8334
April	2.8591	2.8150
May	2.9826	2.7928
June	2.9515	2.8799
July	3.0727	2.8834
August	3.0213	2.9230
September	2.9959	2.9286
October	3.0998	3.0004
November	3.4403	3.0981
December	3.5344	3.3669
2017		
January	3.8779	3.5338
February	3.7874	3.5689
March	3.7522	3.5931
April	3.7263	3.5583
May	3.6128	3.5317
June	3.5412	3.5000
July	3.6310	3.5168
August	3.5435	3.4410
September	3.5720	3.3965
October	3.8174	3.5521
November	3.9594	3.7754
December	3.9390	3.7719
2018		
January (through January 19)	[●]	[●]

Source: Central Bank, Bloomberg

The Central Bank exchange rate for U.S. dollars on January 19, 2018 was TL [●] = USD [●].

The table below sets forth the high, low, period average and period end exchange rates for euro announced by the Central Bank, expressed as the number of Turkish Lira per euro, for the period indicated.

Year ended December 31,	High	Low	Period average(1)	Period end(2)
2014	3.2053	2.7535	2.8987	2.8207
2015	3.4684	2.6234	3.0202	3.1776
2016	3.7764	3.1613	3.3276	3.7099
2017	4,6878	3,7086	4,1196	4,5155
2018 (through January 19)	[●]	[●]	[●](3)	[●]

Source: Central Bank, Bloomberg

(1) Represents the average of the daily Central Bank exchange rates for the relevant period. Averages were computed by using the average of the Central Bank's euro buying rates on the last business day of each month during the relevant period.
(2) Represents the Central Bank's indicative euro buying rate announced on the preceding business day of the period end, as the period end falls on a half working day and the Central Bank does not announce indicative exchange rates on half working days.
(3) The period average for 2018 is a daily average of the Central Bank's euro buying rates and footnote (1) does not apply to this.

The table below sets forth the high and low exchange rates for euro announced by the Central Bank, expressed as the number of Turkish Lira per euro, for the periods indicated.

	High	Low
2016		
January	3.3329	3.1838
February	3.3154	3.2189
March	3.2319	3.1613
April	3.2487	3.1882
May	3.3750	3.1908
June	3.2992	3.2044
July	3.3867	3.1984
August	3.3686	3.2954
September	3.3608	3.2803
October	3.4264	3.3454
November	3.6434	3.3993
December	3.7764	3.6304
2017		
January	4.1421	3.7086
February	4.0733	3.7719
March	3.9943	3.8222
April	3.9568	3.8787
May	4.0203	3.8546
June	4.0030	3.9100
July	4.1471	4.0126
August	4.1920	4.1021
September	4.2023	4.0796
October	4.4468	4.1924
November	4.6878	4.3942
December	4.6832	4.5086
2018		
January (through January 19)	[●]	[●]

Source: Central Bank, Bloomberg

The Central Bank exchange rate for euro on January 19, 2018 was TL [●] = EUR 1.00.

These rates are provided solely for the convenience of the reader. No representation is made that the U.S. dollar or euro amounts could have been converted into Turkish Lira at the rates shown or at any other rate for such periods or on such dates. Exchange rates for the Turkish Lira historically have been and continue to be volatile. For currency exchange rates used in the preparation of the financial statements, see "*Presentation of Financial and Other Information*".

KEY OPERATIONAL AND INDUSTRIAL TERMS

1st tariff implementation period . . . . . . regulated tariff implementation period set by EMRA covering between September 1, 2006, and December 31, 2010

2nd tariff implementation period . . . . . regulated tariff implementation period set by EMRA covering between January 1, 2011, and December 31, 2015

3rd tariff implementation period . . . . . regulated tariff implementation period set by EMRA covering between January 1, 2016, and December 31, 2020, which is the current tariff implementation period

4th tariff implementation period . . . . . . regulated tariff implementation period which will begin on January 1, 2021, and is expected to cover the five year period until December 31, 2025

AYEDAŞ . . . . İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş., the distribution company, 100.0% owned by Enerjisa

Ayedaş region . . . . the region covering the Asian part of the İstanbul province, where AYEDAŞ is the authorized distribution company and AYEPSAŞ is the incumbent retail company

AYEPSAŞ . . . . İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş., the retail company, 100.0% owned by Enerjisa

Başkent EDAŞ . . . . Başkent Elektrik Dağıtım A.Ş., the distribution company, 100.0% owned by Enerjisa

Başkent EPSAŞ . . . . Enerjisa Başkent Elektrik Perakende Satış A.Ş., the retail company, 100.0% owned by Enerjisa

Başkent region . . . . the region covering Ankara, Kastamonu, Bartın, Zonguldak, Karabük, Çankırı and Kırıkkale provinces, where Başkent EDAŞ is the authorized distribution company and Başkent EPSAŞ is the incumbent retail company

corporate customers . . . . customers consuming equal to or more than 400 MWh per year

Corporate Reorganization . . . . separation of the conventional electricity generation and wholesale (upstream) businesses from the more customer centric distribution and retail (downstream) businesses through the (i) acquisition of EEDAŞ by Enerjisa, (ii) spin-off of upstream and downstream businesses, and (iii) transfer of solar power business to the Enerjisa Generation and Trading Company in 2017

distribution connection point . . . . connection points located at the premises of end-users, used for connection to Enerjisa's distribution networks

Distribution Tariff . . . . regulated distribution tariff which is determined by EMRA, including (i) the cost of operating and maintaining the distribution network, (ii) reimbursement of CAPEX and return on RAB (related to WACC), (iii) cost of supplying energy for theft and loss and general illumination, (iv) transmission fees (calculated through transmission tariffs), (v) fixed meter reading fees, (vi) meter replacement costs, and (vii) other costs

eligible customers	(i) customers consuming equal to or more than the eligibility limit determined by EMRA (i.e., 2.4 MWh per year for 2017, reducing to 2.0 MWh per year for 2018), (ii) customers in the premises connected to transmission lines (i.e., lines with 36 kV and above high voltage level) and (iii) customers in organized industrial zones, irrespective of their consumption level
EMRA	Energy Market Regulatory Authority (*T.C. Enerji Piyasası Düzenleme Kurumu*)
end-users	users connected to Enerjisa's distribution networks, including the customers of other retail companies
EPİAŞ	Enerji Piyasaları İşletme A.Ş., the organized marketplace and market operator for spot transactions and balancing operations, along with settlement and reconciliation of market participants
free customers	eligible customers who purchase electricity from Enerjisa in free market conditions (i.e., not under the regulated Retail Energy Sales Tariff)
GWh	gigawatt hour, which is equal to 10^6 kWh
imbalance costs	costs incurred as a result of the balancing mechanism (i.e., the mechanism to ensure that the total electricity demand and generation in Turkey match each other) where the costs of imbalance management by EPİAŞ are reflected on generation and retail companies
inactive customers	customers that were not invoiced due to lack of customer usage for the twelve-month period immediately prior to that date
ineligible customers	customers consuming less than the relevant eligibility limit (i.e., 2.4 MWH per year for 2017, reducing to 2.0 MWh per year for 2018) save for premises connected to transmission lines or located in organized industrial zones
kWh	the power transmitted in kilowatts multiplied by the time in hours, which is commonly used as a billing unit to measure the electricity delivered to end-users by electric utilities
MWh	megawatt hour, which is equal to 10^3 kWh
National Tariff	regulated national tariff which is determined by EMRA on a quarterly basis, composed of, among other components, the Retail Energy Sales Tariff and the Distribution Tariff
profit margin	profit for the period divided by revenue for the same period
regulated customers	ineligible customers and eligible customers who purchase electricity from Enerjisa through the regulated Retail Energy Sales Tariff
residential and SME customers	customers consuming up to 400 MWh per year
Retail Energy Sales Tariff	regulated retail sales tariff which is determined by EMRA, including (i) energy procurement costs, (ii) gross profit margin (which is currently set at 2.38% for the period between 2016 and 2020), and (iii) other market costs and costs associated with the provision of the retail services

SAIDI	system average interruption duration indices
SAIFI	system average interruption frequency indices
TETAŞ	Türkiye Elektrik Ticaret ve Taahhüt A.Ş., the government owned electricity trade and contracting corporation
TOR Agreements	transfer of operating right agreements
Toroslar EDAŞ	Toroslar Elektrik Dağıtım A.Ş., the distribution company, 100.0% owned by Enerjisa
Toroslar EPSAŞ	Enerjisa Toroslar Elektrik Perakende Satış A.Ş., the retail company, 100.0% owned by Enerjisa
Toroslar region	the region covering the Adana, Gaziantep, Hatay, Kilis, Mersin and Osmaniye provinces, where Toroslar EDAŞ is the authorized distribution company and Toroslar EPSAŞ is the incumbent retail company
TWh	terawatt hour, which is equal to 10^9 kWh
WACC	weighted average cost of capital
YEKDEM	renewable energy resources support mechanism, the subsidization mechanism to support renewable energy generation in Turkey

SUMMARY

This summary highlights selected information from this Offering Circular and may not contain all of the information that is important to you. You should carefully read the entire Offering Circular, including the statements in "Risk Factors" and the Financial Statements and the notes thereto, before making an investment decision.

Overview

With approximately 10.5 million distribution connection points (representing approximately 25.6% of the connection points in Turkey) and approximately 9 million customers (representing approximately 22% of the customers purchasing electricity in Turkey) as of December 31, 2016, we are the leading downstream electricity company in Turkey engaged in the distribution and retail sales of electricity in the Başkent region (which includes Turkey's capital, Ankara), the Ayedaş region (which covers the Asian side of Turkey's largest city, İstanbul) and the Toroslar region (which includes large industrial centers such as Mersin, Adana and Gaziantep), as well as in the retail sales of electricity to eligible customers in all other regions of the country.

We operate our business operations through two segments: distribution and retail. Our distribution companies, namely Başkent EDAŞ, AYEDAŞ, and Toroslar EDAŞ, run the distribution networks in the three distribution regions of Başkent, Ayedaş, and Toroslar, respectively, to facilitate the distribution of electricity which is sold to end-users (whether by our or other retail companies) through the distribution networks, whereas our retail companies conduct retail sales of electricity to customers.

For the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, our revenue was TL 8,064,421 thousand, TL 9,153,614 thousand, TL 9,103,380 thousand, TL 6,919,414 thousand, and TL 8,591,508 thousand, respectively. For the year ended December 31, 2014, our loss for the period was TL 276,714 thousand (3.4% loss margin). For the years ended December 31, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, our profit for the period was TL 336,302 thousand (3.7% profit margin), TL 377,393 thousand (4.1% profit margin), TL 421,813 thousand (6.1% profit margin), and TL 453,966 thousand (5.3% profit margin), respectively.

Distribution

Distribution is defined as the transmission of electricity over lines with voltage levels of less than 36 kV. Regulated by EMRA, the electricity distribution network of Turkey is separated into 21 distribution regions, each of which is run by private operators following the privatization process carried out between 2009 and 2013. As of December 31, 2016, there were approximately 41.1 million users connected to distribution networks across Turkey, and we had approximately 10.5 million users connected to our distribution networks operated by our distribution companies (Source: *EMRA*).

We manage, monitor, plan and perform all network and customer related operations for all three of our distribution regions on a centralized basis. As part of our network management activities we conduct research and development activities. This enables us to better standardize network management processes, prepare centralized procedures, determine key performance indicators (such as compliance with the standards of EMRA, SAIDI and SAIFI targets, theft and loss targets, technical & commercial and supply reliability standards set by EMRA), plan system improvements, implement, control and monitor local networks, and conduct customer related activities for all three distribution regions.

Retail

We conduct our retail operations through three retail companies, namely Başkent EPSAŞ, the incumbent retail company in the Başkent region, AYEPSAŞ, the incumbent retail company in the Ayedaş region, and Toroslar EPSAŞ, the incumbent retail company in the Toroslar region.

Along with our positions as the incumbent retail companies to regulated customers in our respective distribution regions, our retail companies are also able to sell electricity to eligible customers as well as across Turkey without any regional restriction. We believe that our retail business benefits from its attractive combination of incumbent regions, with a favorable mix of residential, industrial and commercial customers in both rural and urban areas. With approximately 32.9 TWh and 25.5 TWh sales (for the sales prior to January 1, 2017, including the sales to the customers under Enerjisa Electricity Wholesale Company's portfolio, which were transferred to our portolio in January 1, 2017) for the year ended December 31, 2016 and for the nine months ended September 30, 2017, respectively, we are the leading electricity retail company in Turkey in terms of volume.

As of December 31, 2016 and September 30, 2017, we had a total of approximately 9.0 million and approximately 9.1 million customers (including approximately 1.0 million and 0.9 million inactive customers, respectively). We believe that our position as the market leader in terms of the number of customers provides us with a competitive advantage through economies of scale and strong brand recognition. With a combined regional population of 20.6 million people as of December 31, 2016, the Başkent, Ayedaş and Toroslar regions represented approximately 25.8% of Turkey's total population, illustrating the magnitude of our regional reach.

Our Key Strengths

We believe that we have a number of key strengths including the following:

- Clear market leadership;
- Supportive and transparent regulatory framework;
- Strong historical growth with an untapped potential; and
- Established sponsors dedicated to superior governance.

Our Strategy

Our goal is to grow profitably and create shareholder value by continuing to expand our high quality networks in our distribution regions and expanding the reach of our retail operations to the whole country, whilst focusing on customer needs.

We intend to implement the following strategic initiatives to achieve this objective:

- Expand our leadership position in Turkish electricity distribution and retail businesses;
- Capitalize on the investment opportunities presented by the Turkish market and regulatory framework;
- Capitalize on the liberalization opportunity in the Turkish electricity retail market;
- Focus on operational and financial efficiency with a long-term management perspective; and
- Develop new revenue lines from new products and services.

THE OFFERING

Issuer	Enerjisa Enerji A.Ş.
Offering	Up to 10,629,620,700 Offer Shares are being offered by Sabancı Holding and up to 10,629,620,700 Offer Shares are being offered by E.ON Turkey. In addition, up to 1,181,068,900 Additional Shares may be sold by Sabancı Holding and up to 1,181,068,900 Additional Shares may be sold by E.ON Turkey on the Closing Date for the purpose of covering over-allotments.
International Offering	Up to 18,070,355,100 Offer Shares are being offered in the International Offering. The Offer Shares are being offered and sold (i) outside the United States and Turkey to certain institutional investors in offshore transactions in reliance on Regulation S and (ii) in the United States only to QIBs in reliance on Rule 144A.
Domestic Offering	Up to 3,188,886,300 Offer Shares are being offered in the Domestic Offering to retail and institutional investors in Turkey in reliance on Regulation S and the Capital Markets Law and relevant regulations of the CMB. The Domestic Offering will be open from February 8, 2018 to February 9, 2018 and will be conducted pursuant to an intermediary and consortium agreement with a syndicate of Turkish financial institutions led by Ak Yatırım. The allocation of the Offer Shares between the International Offering and the Domestic Offering is subject to change in accordance with applicable Turkish regulations. See "*Plan of Distribution—The Offering*".
Share Capital	Our current issued share capital consists of 118,106,896,712 ordinary shares, all of which are fully paid, issued and outstanding, with a nominal value of TL 0.01 per share. The board of directors of Enerjisa (the "**Board of Directors**") has the right to increase the share capital up to TL 4,000,000,000. The Offer Shares have the rights described under "*Description of Share Capital*".
Stabilization	In connection with the Offering, the Selling Shareholders have agreed to provide Ak Yatırım, as Stabilization Manager, the Stabilization Funds to effect, after consultation and in coordination with the Global Coordinators, transactions with a view to supporting the market price of the Offer Shares on Borsa İstanbul, as described in more detail under "*Plan of Distribution—Over-allotment and Stabilization*".
Offer Price Range	TL [●] to TL [●] per round lot of 100 Offer Shares. The Offer Price Range may be decreased through public disclosure without prior approval of the CMB. See "*Plan of Distribution*".
Use of Proceeds	We will not receive any proceeds from the Offering, all of which will be paid to the Selling Shareholders, after deducting the underwriting commissions to be paid to the Managers, other estimated fees and expenses (including regulatory filing and registration expenses) and any applicable taxes incurred in connection with the Offering. See "*Use of Proceeds*".

Lock-up Arrangements	We have agreed that, subject to certain exceptions, for a period of 180 days from the date when the Offer Shares are first traded on the Borsa İstanbul, neither the Company nor any of its affiliates nor any person acting on its or their behalf will, without the prior written consent of the Global Coordinators, which consent shall not be unreasonably withheld or delayed, (i) directly or indirectly, issue, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any of our shares, or any securities convertible into or exercisable or exchangeable for our shares, or file any registration statement under the Securities Act or any similar document with any other securities regulator, stock exchange, or listing authority with respect to any of the foregoing; (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of our shares, whether any such transaction described herein or above is to be settled by delivery of our shares or other securities, in cash or otherwise; or (iii) publicly announce such an intention to effect any such transaction. See "*Plan of Distribution—Lock-up Arrangements*".
	The Selling Shareholders have agreed that, subject to certain exceptions, for a period of 180 days from the date when the Offer Shares are first traded on the Borsa İstanbul, neither the Selling Shareholders nor any of their respective affiliates nor any person acting on its or their behalf will, without the prior written consent of the Global Coordinators, which consent shall not be unreasonably withheld or delayed, (i) directly or indirectly, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any of the Company's shares or any securities convertible into or exercisable or exchangeable for the Company's shares or request or demand that the Company file any registration statement under the Securities Act or any similar document with any other securities regulator, stock exchange or listing authority with respect to any of the foregoing; or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Company's shares, whether any such transaction described herein or above is to be settled by delivery of the Company's shares or such other securities, in cash or otherwise. See "*Plan of Distribution—Lock-up Arrangements*".
	In addition, under a mandatory lock-up requirement imposed by Turkish capital markets regulations, the Selling Shareholders may not (i) sell any of its shares on Borsa Istanbul below the Offer Price or (ii) execute any transaction which may result in the sale of its shares on exchange at a price lower than the Offer Price within a period of one year after commencement of trading in the Offer Shares on Borsa Istanbul. Persons buying shares through off-exchange transactions after the commencement of trading are subject to the same restriction, and the Selling Shareholders are obligated to make disclosure in accordance with the CMB regulations relating to disclosure of material events, in case of any sale or transfer (wholly or partially) of such shares in compliance with this restriction. See "*The Turkish Securities Market—Disclosure of Material Events*" *and* "*Plan of Distribution—Lock-up Arrangements*".

Transfer Restrictions .... The Offer Shares will be subject to certain restrictions on transfer as described in more detail under "*Transfer Restrictions*".

Disclosure of Beneficial Interests in Shares .... Persons becoming direct or indirect holders of 5.0%, 10.0%, 15.0%, 20.0%, 25.0%, 33.0%, 50.0%, 67.0% or 95.0% or more of the issued share capital or voting rights of a public company in Turkey are required to notify the Public Disclosure Platform of such acquisition and, thereafter, to notify the Public Disclosure Platform of their transactions in the shares or voting rights of such company when the total number of the shares or voting rights they hold falls below or exceeds such thresholds. The name of the investor, date of the transaction, the nominal value of the shares subject to the transaction and the value of the transaction, the ratio of the shares in the share capital of the public company prior to and following the transaction should be included in the notice sent to the Public Disclosure Platform. The system is operated and managed by the Central Registry Agency.

With respect to the disclosure to be made following the purchase of the Offer Shares in the Offering, the CMB regulations require that persons who purchase 5.0% or more of the shares offered in a public offering and persons having access to information that might affect the share price (whether or not they purchase 5.0% or more of the shares offered in a public offering) be disclosed to the CMB and Borsa İstanbul by the lead manager of the domestic underwriting consortium. With regard to such persons, as a matter of market practice, Ak Yatırım, as the domestic bookrunner, will disclose the following information to the public through the Public Disclosure Platform:

(i) name;

(ii) field of activity;

(iii) nationality;

(iv) whether the person has purchased or holds the shares on behalf of a client or as a depositary; and

(v) the nominal value of the purchased shares.

For additional information, see "*Description of Share Capital*".

Dividends .... Holders of the Offer Shares will be entitled to receive dividends payable, if any, on the Offer Shares in respect of the year ended December 31, 2017 and any dividends payable in subsequent years. Pursuant to our dividend policy, we target cash dividend distribution in an amount of 60.0% of the net profit recorded under our consolidated and audited annual financial statements which are prepared in accordance with IFRS, excluding any exceptional items (e.g., fair value changes). This policy will also be evaluated subject to our investment and financial policies and needs, unexpected or extraordinary economic developments, any changes and developments in the applicable laws and regulations, and our long term strategies. See "*Dividends and Dividend Policy*" and "*Taxation*".

Voting Rights .... Holders of the Offer Shares are entitled to one vote per Offer Share on all matters submitted to a vote of our shareholders. Following the Offering, 41.0% of our shares will continue to be owned by Sabancı

	Holding, and 41.0% of our shares will continue to be owned by E.ON Turkey (40.0% and 40.0%, respectively, assuming all Additional Shares are sold). See "*Principal and Selling Shareholders*" and "*Description of Share Capital—Voting Rights*".
Taxation	For a discussion of certain tax considerations relevant to an investment in the Offer Shares, see "*Taxation*".
Proposed Listing and Trading	We have applied for listing of the Offer Shares on Borsa İstanbul under the symbol "ENJSA". No public trading market currently exists for the Offer Shares. Trading of the Offer Shares on Borsa İstanbul is expected to commence on or about February 8, 2018. All dealings in the Offer Shares before the commencement of trading will be on a "when issued" basis and will be of no effect if listing does not take place. Such dealings will be at the sole risk of the parties concerned. No application has been, or is currently intended to be, made for the Offer Shares to be admitted to listing or dealt with on any other stock exchange.
Settlement and Delivery	Payment for the Offer Shares is expected to be in Turkish Lira in same-day funds. If you do not maintain a custody account in Turkey, you are required to open a custody account with a Turkish depositary that is a member of the Central Registry Agency to make payments in Turkish Lira and receive the Offer Shares. You must provide details of such custody accounts to the Managers no later than February 5, 2018. The Offer Shares will be delivered to your Turkish custody account on or about the Closing Date by means of book-entry registration, subject to timely and satisfactory provision of account details. See "*Plan of Distribution—Subscription, Settlement and Trading*".
Identification Number for the Offer Shares	ISIN: [●]
Senior Global Coordinator	Citigroup Global Markets Limited
Global Coordinator	HSBC Bank plc
Senior Global Bookrunner	Merrill Lynch International
Global Bookrunner	Deutsche Bank A.G., London Branch
Domestic Lead Manager	Ak Yatırım Menkul Değerler A.Ş.
Risk Factors	You should read "*Risk Factors*" for a discussion of factors that you should consider carefully before deciding to invest in the Offer Shares.

SUMMARY HISTORICAL FINANCIAL AND OPERATIONAL DATA

The tables below set forth our summary historical financial and other data as of the dates and for the periods indicated. The following summary historical financial and other data should be read in conjunction with, and is qualified in its entirety by reference to, the financial statements and other relevant information included elsewhere in this Offering Circular. The historical financial data contained herein have been derived from financial statements prepared and presented in accordance with IFRS. We consider our Company, Enerjisa, as the successor of EEDAŞ and the Annual Financial Statements represent substantially the same business and assets as the Interim Financial Statements. Similarly, the audited interim consolidated financial statements of Enerjisa as of and for the nine months ended September 30, 2017 represent substantially the same business and assets as the comparative audited interim consolidated financial statements of EEDAŞ for the nine months ended September 30, 2016. Thus, the below historical financial and other data for the years ended December 31, 2014, 2015 and 2016 pertain to EEDAŞ, and the below historical financial and other data for the nine months ended September 30, 2017 pertain to Enerjisa. Figures for the nine months ended September 30, 2016 also pertain to the audited interim consolidated financial statements of EEDAŞ, which have been used as comparatives to Enerjisa's audited interim consolidated financial statements as of and for the nine months ended September 30, 2017. You should read the following information in conjunction with "*Presentation of Financial and Other Information*", "*Management's Discussion and Analysis of Results of Operations and Financial Condition*" and the Financial Statements and the notes thereto included elsewhere in this Offering Circular. For a discussion of certain corporate reorganization transactions relevant to the presentation of the financial information contained in this Offering Circular, please also see "*Business—Corporate Reorganization*".

Audited Consolidated Statement of Profit or Loss

	Year ended December 31,			Nine months ended September 30,	
	2014	**2015**	**2016**	**2016[1]**	**2017**
	(Turkish Lira in thousands)				
Revenue	8,064,421	9,153,614	9,103,380	6,919,414	8,591,508
Cost of sales	(6,753,511)	(7,108,120)	(6,500,956)	(4,986,163)	(6,137,141)
Gross profit	**1,310,910**	**2,045,494**	**2,602,424**	**1,933,251**	**2,454,367**
General administrative expenses	(967,303)	(1,079,790)	(1,227,836)	(816,398)	(1,035,284)
Other income from operating activities	104,204	123,333	144,651	105,120	115,712
Other expenses from operating activities	(140,174)	(50,760)	(246,929)	(150,228)	(248,632)
Operating profit before finance income/ (expense)	**307,637**	**1,038,277**	**1,272,310**	**1,071,745**	**1,286,163**
Finance income	68,647	31,484	39,729	35,402	73,344
Finance expenses	(639,991)	(606,854)	(797,837)	(557,378)	(755,404)
Profit before tax from continuing operations	**(263,707)**	**462,907**	**514,202**	**549,769**	**604,103**
Tax expense from continuing operations	(13,007)	(126,605)	(136,809)	(127,956)	(150,137)
Profit for the period	**(276,714)**	**336,302**	**377,393**	**421,813**	**453,966**

(1) Figures for the nine months ended September 30, 2016 pertain to financial statements of EEDAŞ which have been used as comparatives to Enerjisa financial statements as of and for the nine months ended September 30, 2017.

Audited Summary Consolidated Statement of Cash Flows

	Year ended December 31,			Nine months ended September 30,	
	2014	2015	2016	2016[(1)]	2017
	(Turkish Lira in thousands)				
Cash and cash equivalents at the beginning of the period	**340,635**	**112,669**	**152,103**	**152,103**	**74,570**
Cash flows from operating activities	98,044	1,021,362	1,859,439	1,197,596	1,196,612
Cash flows from investing activities	(1,642,809)	(2,286,473)	(2,709,132)	(2,091,581)	(1,283,447)
Cash flows from financing activities	1,316,799	1,304,545	772,160	899,079	167,459
Increase/(decrease) in cash and cash equivalents	(227,966)	39,434	(77,533)	5,094	80,624
Cash and cash equivalents at the end of the period	**112,669**	**152,103**	**74,570**	**157,197**	**155,194**

(1) Figures for the nine months ended September 30, 2016 pertain to financial statements of EEDAŞ which have been used as comparatives to Enerjisa financial statements as of and for the nine months ended September 30, 2017

Audited Summary Consolidated Statement of Financial Position

	As of December 31,			As of September 30,
	2014	2015	2016	2017
	(Turkish Lira in thousands)			
Current assets	2,241,969	2,532,462	2,939,550	3,491,079
Non-current assets	10,521,490	11,488,597	12,191,898	13,506,806
Total assets	**12,763,459**	**14,021,059**	**15,131,448**	**16,997,885**
Current liabilities	3,294,155	4,580,790	4,950,759	4,215,754
Long-term liabilities	5,428,962	5,074,438	5,433,861	7,581,337
Equity	**4,040,342**	**4,365,831**	**4,746,828**	**5,200,794**
Total liabilities and equity	**12,763,459**	**14,021,059**	**15,131,448**	**16,997,885**

Other Financial and Operational Data

The table below sets forth our other financial and operational data which we believe is useful in understanding the performance of our business as of the dates and for the periods indicated. See "*Presentation of Financial and Other Information—Non-IFRS Financial Measures*".

	As of or for the year ended December 31,			As of or for the nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands, unless otherwise indicated)				
Other financial data					
Revenue	8,064,421	9,153,614	9,103,380	6,919,414	8,591,508
EBIT(1)	307,637	1,038,277	1,272,310	1,071,745	1,286,163
Of which: Distribution segment	*430,430*	*930,061*	*1,216,693*	*1,005,629*	*1,345,224*
Of which: Retail segment	*86,959*	*303,271*	*265,908*	*222,771*	*108,433*
Of which: Unallocated†	*(209,752)*	*(195,055)*	*(210,291)*	*(156,655)*	*(167,494)*
EBITDA(1)	516,300	1,257,705	1,490,248	1,233,378	1,458,102
Of which: Distribution segment	*430,430*	*940,826*	*1,225,968*	*1,010,980*	*1,353,892*
Of which: Retail segment	*86,959*	*303,271*	*265,908*	*222,771*	*114,105*
Of which: Unallocated†	*(1,089)*	*13,608*	*(1,628)*	*(373)*	*(9,895)*
EBITDA margin (%)(2)	6.4	13.7	16.4	17.8	17.0
Distribution EBITDA plus CAPEX reimbursements(3)	635,298	1,138,663	1,649,833	1,328,878	1,798,104
Net debt(4)	5,461,421	6,083,439	6,493,445	6,329,193	7,312,720
Adjusted financial data					
Adjusted revenue(5)	8,894,235	10,073,436	9,306,681	7,158,290	8,098,647
Adjusted EBITDA(6)	569,161	1,231,559	1,494,742	1,227,342	1,512,327
Of which: Distribution segment	*425,117*	*938,330*	*1,206,598*	*996,452*	*1,354,326*
Of which: Retail segment	*145,133*	*279,621*	*289,772*	*231,263*	*167,896*
Of which: Unallocated†	*(1,089)*	*13,608*	*(1,628)*	*(373)*	*(9,895)*
Adjusted EBITDA margin (%)(7)	6.4	12.2	16.1	17.1	18.7
Adjusted EBITDA plus CAPEX reimbursements(8)	779,342	1,431,892	1,937,977	1,559,768	1,956,105
Free cash flow(9)	(379,158)	2,062	444,066	320,631	(126,361)
Of which: Distribution segment(10)	*(432,386)*	*(422,697)*	*(121,706)*	*(22,038)*	*(233,250)*
Of which: Retail segment(11)	*47,813*	*419,987*	*322,573*	*323,759*	*172,437*
Operational metrics					
Initial allowed CAPEX(12)	525,918	572,606	903,094	677,320	751,155
Actual allowed CAPEX(13)	618,535	1,269,196	1,598,831	1,095,954	1,116,000
CAPEX reimbursements(14)	210,181	200,333	443,235	332,426	443,778
CAPEX outperformance (%)(15)	6.7	1.8	10.3	9.5	8.2
Total RAB(16)	1,435,151	2,661,560	3,913,785	3,521,338	5,013,175
OPEX outperformance (%)(17)	11.7	9.6	16.0	22.8	9.3
WACC (%)(18)	9.97	9.97	11.91	11.91	11.91
Other operational data					
Number of distribution connection points(19)	9,892,681	10,151,289	10,521,557	10,421,356	10,767,726
Electricity distribution volume (in TWh)(20)	36.4	38.4	39.7	29.4	31.3
Electricity retail sales volume (in TWh)(21)	37.2	39.6	32.9	25.2	25.5
Number of customers(22)	8,826,436	8,926,451	8,986,687	9,004,774	9,137,192
Of which: inactive customers	*1,102,095*	*1,075,399*	*991,701*	*1,018,894*	*862,748*
Retail churn ratio (%)(23)	0.9	3.0	2.9	2.4	1.0
Retail collection rate (%)(24)	98.0	98.9	99.1	99.1	99.3

† TOR agreements and other intangible assets represent allocation of acquisition prices of distribution companies and retail companies at Enerjisa level. Accordingly, such amounts are not allocated to our operational results in the related segments. Similarly, acquisition related financial expenses at Enerjisa solo level are not allocated.

(1) References to "**EBIT**" are to profit or loss for the period before finance income/expense and tax expense, and references to "**EBITDA**" are to profit or loss for the period before finance income/expense, tax expense and depreciation and amortization costs.

We present EBITDA because it is widely used by securities analysts, investors and other interested parties to evaluate the profitability of companies. EBITDA eliminates potential differences in performance caused by variations in capital structures (affecting net finance costs), tax positions (such as the availability of net operating losses against which to relieve taxable profits), the cost and age of tangible assets (affecting relative depreciation expense) and the extent to which intangible assets are identifiable (affecting relative amortization expense). EBITDA has limitations as an analytical tool. Some of these limitations are:

- it does not reflect our cash expenditures or future requirements for capital expenditure or contractual commitments;
- it does not reflect changes in, or cash requirements for our working capital needs;
- it does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and
- it is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows.

The following table shows the reconciliation of EBIT and EBITDA to profit for each period.

	Year ended December 31,			Nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
Profit for the period	**(276,714)**	**336,302**	**377,393**	**421,813**	**453,966**
Adjustments related to tax expense	13,007	126,605	136,809	127,956	150,137
Adjustments related to finance expense	639,991	606,854	797,837	557,378	755,404
Adjustments related to finance income	(68,647)	(31,484)	(39,729)	(35,402)	(73,344)
EBIT	**307,637**	**1,038,277**	**1,272,310**	**1,071,745**	**1,286,163**
Adjustments related to depreciation and amortization	208,663	219,428	217,938	161,633	171,939
EBITDA	**516,300**	**1,257,705**	**1,490,248**	**1,233,378**	**1,458,102**

(2) References to "**EBITDA margin**" are to EBITDA for the periods presented divided by revenue for the same period.

The following table shows the calculation of EBITDA margin for each period.

	Year ended December 31,			Nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
EBITDA	516,300	1,257,705	1,490,248	1,233,378	1,458,102
Revenue	8,064,421	9,153,614	9,103,380	6,919,414	8,591,508
EBITDA margin (%)	**6.4**	**13.7**	**16.4**	**17.8**	**17.0**

(3) The following table shows the reconciliation of EBITDA *plus* CAPEX reimbursements for each period, which is generated by our distribution companies.

	Year ended December 31,			Nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
Finance income	205,390	304,831	609,628	447,838	665,392
CAPEX outperformance	41,670	23,436	165,000	104,258	92,000
OPEX outperformance	78,228	70,018	146,453	156,482	71,187
Theft & loss outperformance	(60,061)	26,449	83,756	63,758	105,430
Tax correction	32,310	38,877	44,000	33,000	46,641
Theft accrual and collection	7,000	17,000	53,763	43,501	107,111
Other (non-cash including changes in fair value)	120,580	457,720	103,997	147,614	266,565
Distribution EBITDA	**425,117**	**938,330**	**1,206,598**	**996,452**	**1,354,326**
CAPEX reimbursements[1]	210,181	200,333	443,235	332,426	443,778
Distribution EBITDA plus CAPEX reimbursements	**635,298**	**1,138,663**	**1,649,833**	**1,328,878**	**1,798,104**

(1) For a discussion of CAPEX adjustments, see footnotes 8 and 15 below.

(4) References to "**net debt**" are to total borrowings and payables to Privatization Administration *less* cash and cash equivalents. See "*Management's Discussions and Analysis of Results of Operations and Financial Condition—Quantitative and Qualitative Disclosures about Market Risk—Capital Risk*".

We believe that net debt is a useful indicator of our indebtedness, financial flexibility and capital structure because it indicates the level of borrowings after taking account of cash and cash equivalents within our business that could be utilized to pay down the outstanding borrowings. We believe that net debt can assist securities analysts, investors and other parties to evaluate us. Net debt and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Accordingly, caution is required in comparing net debt as reported by us to net debt of other companies.

The following table shows a reconciliation of current and non-current borrowings to net debt.

	As of December 31, 2014	2015	2016	As of September 30, 2017
	(Turkish Lira in thousands)			
Total borrowings and payables to Privatization Administration	5,574,090	6,235,542	6,568,015	7,467,914
Cash and cash equivalents	(112,669)	(152,103)	(74,570)	(155,194)
Net debt	**5,461,421**	**6,083,439**	**6,493,445**	**7,312,720**

(5) References to "**Adjusted revenue**" are to revenue *plus* Enerjisa Electricity Wholesale Company related revenue adjustments *minus* pass through system usage revenue.

The following table shows the reconciliation of adjusted revenue for each period.

	Year ended December 31, 2014	2015	2016	Nine months ended September 30, 2016	2017
	(Turkish Lira in thousands)				
Revenue	8,064,421	9,153,614	9,103,380	6,919,414	8,591,508
Enerjisa Electricity Wholesale Company related revenue adjustments(1)	1,114,764	1,245,111	750,615	678,296	—(3)
System usage revenue(2)	(284,950)	(325,289)	(547,314)	(439,420)	(492,861)
Adjusted revenue	**8,894,235**	**10,073,436**	**9,306,681**	**7,158,290**	**8,098,647**

(1) Enerjisa Electricity Wholesale Company related revenue adjustments are made to reflect the effect of the transfer of large corporate customers to our retail companies' portfolios which were previously held under the customer portfolio of Enerjisa Electricity Wholesale Company. The customer portfolio transfer was completed on January 1, 2017. See "*Retail Operations—Overview*".
(2) System usage revenue represents the cost of using transmission lines which is charged by TEİAŞ and reflected to our customers on a pass through basis.
(3) As the customer portfolio transfer related to Enerjisa Electricity Wholesale Company was completed on January 1, 2017, we did not make any Enerjisa Electricity Wholesale Company related adjustment to our revenue for the nine months ended September 30, 2017.

(6) References to "**Adjusted EBITDA**" are to EBITDA *plus* Enerjisa Electricity Wholesale Company related EBITDA adjustments, adjustments related to finance income/cost on revenue cap and adjustments related to valuation differences arising from deposits and guarantees. We adjusted our EBITDA with Enerjisa Electricity Wholesale Company related EBITDA adjustments in order to present the years ended December 31, 2016 and prior on a consistent basis with the nine months ended September 30, 2017 since the transfer of the customer portfolio transfer related to Enerjisa Electricity Wholesale Company was only effective on January 1, 2017 and the historic financial statements were not restated to reflect the activities of Enerjisa Electricity Wholesale Company in prior periods. Adjusted EBITDA has similar limitations as an analytical tool to EBITDA as described above.

The following table shows the reconciliation of Adjusted EBITDA for each period.

	Year ended December 31, 2014	2015	2016	Nine months ended September 30, 2016	2017
	(Turkish Lira in thousands)				
Profit for the period	**(276,714)**	**336,302**	**377,393**	**421,813**	**453,966**
Enerjisa Electricity Wholesale Company related EBITDA adjustments(1)	15,547	(59,768)	(16,423)	(21,442)	—(2)
Adjustments related to tax expense	13,007	126,605	136,809	127,956	150,137
Adjustments related to finance expense	639,991	606,854	797,837	557,378	755,404
Adjustments related to finance income	(68,647)	(31,484)	(39,729)	(35,402)	(73,344)
Adjustments related to depreciation and amortization	208,663	219,428	217,938	161,633	171,939
Adjustments related to finance (income) / cost based on revenue cap regulation	(5,313)	(2,496)	(19,370)	(14,528)	434
Adjustments related to valuation differences arising from deposits and guarantees	42,627	36,118	40,287	29,934	53,791
Adjusted EBITDA	**569,161**	**1,231,559**	**1,494,742**	**1,227,342**	**1,512,327**

(1) Enerjisa Electricity Wholesale Company related EBITDA adjustments are made to reflect the effect of the transfer of large corporate customers to our retail companies' portfolios which were previously held under the customer portfolio of Enerjisa Electricity Wholesale Company. The customer portfolio transfer was completed on January 1, 2017. See "*Retail Operations—Overview*".
(2) As the customer portfolio transfer related to Enerjisa Electricity Wholesale Company was completed on January 1, 2017, we did not make any Enerjisa Electricity Wholesale Company related adjustment to our revenue for the nine months ended September 30, 2017.

(7) References to "**Adjusted EBITDA margin**" are to Adjusted EBITDA for the periods presented divided by adjusted revenue for the same period.

The following table shows the calculation of Adjusted EBITDA margin for each period.

	Year ended December 31,			Nine months ended September 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	(Turkish Lira in thousands)				
Adjusted EBITDA	569,161	1,231,559	1,494,742	1,227,342	1,512,327
Adjusted revenue	8,894,235	10,073,436	9,306,681	7,158,290	8,098,647
Adjusted EBITDA margin (%)	**6.4**	**12.2**	**16.1**	**17.1**	**18.7**

(8) Our regulated revenue generated from our distribution segment is mainly based on our allowed CAPEX and accumulated RAB derived from our CAPEX allowances throughout the concession period. Our regulated revenue consists of the related financial return (i.e., WACC), tax correction component, allowed OPEX, allowed research and development expenditures, theft and loss target and certain pass through items such as transmission fees and taxes. Given we operate our distribution regions under the concessions under the TOR Agreements, we follow the official interpretation of the IFRS Interpretations Committee on service concession agreements ("**IFRIC 12**") for financial reporting purposes. This guidance requires application of financial asset model in our Financial Statements. Accordingly,

- Accumulated CAPEX and related network investments are not recognized as fixed assets but as financial assets in our balance sheet (as the ownership of such assets belongs to TEDAŞ), and are derecognized from the financial statements; and
- CAPEX reimbursements, which is a component of our regulated revenue, is not recognized in the income statement as a revenue item but instead is recognized under "other cash inflows generated from operating activities" in our cash flow statement under our Financial Statements.

That said, representation of these distribution regions as well as accounting of CAPEX reimbursements is different between the financial asset model under IFRIC 12 and our statutory (Local GAAP) financial statements where (i) CAPEX is accounted for under tangible assets, and (ii) CAPEX reimbursements is recognized in the income statement as revenue and thus included in EBITDA. On the other hand, CAPEX reimbursement is a typical component of the regulated revenues in the regulated utilities business. Most of our peers (which are comparable regulated utility companies in various countries depending on the concession framework) recognize tangible assets or apply the intangible asset model under IFRIC 12, under which (i) CAPEX is recognized as intangible assets, and (ii) CAPEX reimbursements is recorded as revenues and thus included in EBITDA. This is not the case in our income statement under the Financial Statements where the regulated CAPEX reimbursements are not recognized under our revenue, according to the requirements of IFRIC 12 financial asset model, considering the concession framework applicable to us.

Thus, references to "**Adjusted EBITDA plus CAPEX reimbursements**" are to Adjusted EBITDA *plus* CAPEX reimbursements. Our Adjusted EBITDA is considered to represent net income before financial income/(expense), income taxes, depreciation and amortization, net of interest income related to revenue cap regulation, and valuation differences arising from deposits and guarantees *plus* Enerjisa Electricity Wholesale Company related adjustments. In that regards, our Adjusted EBITDA, as computed from our Financial Statements prepared under IFRS, does not include cash flows from CAPEX reimbursements. However, as similar regulated utility companies would include such cash flows in their EBITDA, we believe that Adjusted EBITDA *plus* CAPEX reimbursements is a better measure to reflect operational performance of our company and also increase comparability to other players in the regulated utility space. Thus:

- EBITDA is derived from the consolidated statement of profit or loss in our Financial Statements prepared under IFRS, including revenue recognition principles, as described in "*Management's Discussions and Analysis of Results of Operations and Financial Condition—Critical Accounting Policies—Revenue Recognition*".
- As IFRIC 12 financial asset model does not permit recognition of CAPEX reimbursement in the statement of profit or loss, CAPEX reimbursement is included in the consolidated statement of cash flows in our Financial Statements prepared under IFRS. See "*Management's Discussions and Analysis of Results of Operations and Financial Condition—Cash Flows—Cash Flows from Operating Activities*".

Our management believes that Adjusted EBITDA *plus* CAPEX reimbursements is a better measure for operational profitability than the EBITDA or Adjusted EBITDA reported above, and our management treats it as our key internal key performance indicator. Please note that Adjusted EBITDA *plus* CAPEX reimbursements figures shown are not a measure of financial performance under IFRS or any generally accepted accounting principles and should not be considered as alternative performance measures derived in accordance with IFRS.

The following table shows the reconciliation of Adjusted EBITDA *plus* CAPEX reimbursements for each period.

	Year ended December 31,			Nine months ended September 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	(Turkish Lira in thousands)				
Profit for the period	**(276,714)**	**336,302**	**377,393**	**421,813**	**453,966**
Adjustments related to tax expense	13,007	126,605	136,809	127,956	150,137
Adjustments related to finance expense	639,991	606,854	797,837	557,378	755,404
Adjustments related to finance income	(68,647)	(31,484)	(39,729)	(35,402)	(73,344)
Adjustments to the depreciation and amortization	208,663	219,428	217,938	161,633	171,939
Enerjisa Electricity Wholesale Company related EBITDA adjustments(1)	15,547	(59,768)	(16,423)	(21,442)	— (2)
Adjustments related to finance (income) / cost based on revenue cap regulation	(5,313)	(2,496)	(19,370)	(14,528)	434
Adjustments related to valuation differences arising from deposits and guarantees	42,627	36,118	40,287	29,934	53,791
Adjusted EBITDA	**569,161**	**1,231,559**	**1,494,742**	**1,227,342**	**1,512,327**
CAPEX reimbursements	210,181	200,333	443,235	332,426	443,778
Adjusted EBITDA *plus* CAPEX reimbursements	**779,342**	**1,431,892**	**1,937,977**	**1,559,768**	**1,956,105**

(1) Enerjisa Electricity Wholesale Company related EBITDA adjustments are made to reflect the effect of the transfer of large corporate customers to our retail companies' portfolios which were previously held under the customer portfolio of Enerjisa Electricity Wholesale Company. The customer portfolio transfer was completed on January 1, 2017. See "*Retail Operations—Overview*".

(2) As the customer portfolio transfer related to Enerjisa Electricity Wholesale Company was completed on January 1, 2017, we did not make any Enerjisa Electricity Wholesale Company related adjustment to our revenue for the nine months ended September 30, 2017.

(9) We believe free cash flow is meaningful to investors because it is a measure of our funds available for acquisition related payments, dividends to shareowners, share repurchases and debt repayment. The purpose of presenting free cash flow is to indicate the ongoing cash generation within our control after taking account of the necessary cash expenditures of maintaining our capital and operating structure (in the form of payments of interest, corporate taxation and capital expenditure).

This computation may not be comparable to that of similarly titled measures presented by other companies. Free cash flow does not reflect any restrictions on our transfer of cash and cash equivalents or any requirement to repay our borrowings and does not take into account cash flows that are available from disposals or the issue of shares. We therefore take such factors into account in addition to free cash flow when determining the resources available for acquisitions and for distribution to shareholders.

The following table shows the reconciliation of free cash flow for each period.

	Year ended December 31,			Nine months ended September 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	(Turkish Lira in thousands)				
Cash flows from operating activities	**98,044**	**1,021,362**	**1,859,439**	**1,197,596**	**1,196,612**
Tax payments	(48,225)	(73,307)	(145,032)	61,562	33,818
Cash flows from operating activities before tax	146,269	1,094,669	2,004,471	1,259,158	1,230,430
Cash flows from investing activities	(1,642,809)	(2,286,473)	(2,709,132)	(2,091,581)	(1,283,447)
Interest received	(58,692)	(31,484)	(39,729)	(35,402)	(73,344)
Payment to Privatization Administration	1,176,074	1,225,350	1,188,456	1,188,456	—
Cash flows from investing activities before interest	**(525,427)**	**(1,092,607)**	**(1,560,405)**	**(938,527)**	**(1,356,791)**
Free cash flow before interest and tax	**(379,158)**	**2,062**	**444,066**	**320,631**	**(126,361)**
Tax payments	(48,225)	(73,307)	(145,032)	(61,562)	(33,818)
Interest received	58,692	31,484	39,729	35,402	73,344
Interest paid	(654,757)	(405,744)	(641,584)	(518,984)	(597,445)
Free cash flow after interest and tax	**(1,023,448)**	**(445,505)**	**(302,821)**	**(224,513)**	**(684,280)**

(10) The following table shows the reconciliation of our distribution companies' free cash flow for each period.

	Year ended December 31,			Nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
Distribution EBITDA *plus* Capex reimbursements	635,298	1,138,663	1,649,833	1,328,878	1,798,104
Of which: Distribution EBITDA	*430,430*	*940,826*	*1,225,968*	*1,010,980*	*1,353,892*
Of which: CAPEX reimbursements	*210,181*	*200,333*	*443,235*	*332,426*	*443,778*
Other (non-cash including changes in fair value)	(43,000)	(379,513)	(147,987)	(121,898)	(212,500)
Finance income not yet cash effective	(70,798)	(124,540)	(264,824)	(189,236)	(337,517)
CAPEX outperformance	(41,670)	(23,436)	(165,000)	(104,258)	(92,000)
Changes in net working capital and VAT	(432,595)	12,789	574,996	21,521	(100,385)
Operating Cash Flow before interest and tax	47,235	623,963	1,647,018	935,007	1,055,702
Actual allowed CAPEX (nominal)	(618,535)	(1,269,196)	(1,598,831)	(1,096,000)	(1,116,000)
Actual allowed CAPEX (including CAPEX outperformance.)	(576,865)	(1,245,760)	(1,433,831)	(991,742)	(1,024,000)
Unpaid CAPEX and VAT	97,243	199,101	(91,481)	78,773	(264,952)
Cash-effective CAPEX	(479,621)	(1,046,660)	(1,525,312)	(912,969)	(1,288,952)
Free cash flow before interest and tax(distribution)	**(432,386)**	**(422,697)**	**(121,706)**	**(22,038)**	**(233,250)**

(11) The following table shows the reconciliation of our retail companies' free cash flow for each period.

	Year ended December 31,			Nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
Retail Adjusted EBITDA	145,133	279,621	289,772	231,263	167,896
Changes in the net working capital	(51,514)	186,313	67,894	109,899	29,722
Operating cash flow before interest and tax	**93,619**	**465,934**	**357,666**	**341,161**	**197,618**
CAPEX	(45,806)	(45,947)	(35,093)	(17,402)	(25,181)
Free cash flow before interest and tax (retail)	**47,813**	**419,987**	**322,573**	**323,759**	**172,437**

(12) References to **"initial allowed CAPEX"** are to the initial CAPEX amounts for the relevant annual period granted by EMRA at the beginning of the tariff implementation period to our distribution companies. See "*Regulatory Overview—Regulation and* Functioning *of the Electricity Distribution and Retail Sale Market—Distribution Tariff—OPEX Allowances*". Based on EMRA figures, for the year ended December 31, 2017, the initial allowed CAPEX was approximately TL 1 billion (nominal).

(13) References to "**actual allowed CAPEX**" are to total actual CAPEX expenses made by our distribution companies corresponding to the relevant annual period. Actual allowed CAPEX amounts include the initial allowed CAPEX amounts *plus* the CAPEX amounts (approved by EMRA) that exceed the initial allowed CAPEX amounts granted by EMRA, as a result of CAPEX front loading. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—OPEX Allowances*". For the year ended December 31, 2017, our management expects the actual allowed CAPEX to be approximately TL 1.8 billion (nominal).

(14) References to "**CAPEX reimbursements**" are to the regulated revenue stream that is a component of our regulated revenue, which is not recognized in the income statement as a revenue item but instead is recognized under "other cash inflows generated from operating activities" in our cash flow statement under our Financial Statements. Due to IFRIC 12, our distribution revenue under our Financial Statements differs from our regulated distribution revenue, as a result of (i) the differences in calculation methodology and revenue recognition relating to financial income and (ii) CAPEX reimbursements, which are not recognized as part of our distribution revenues in our Financial Statements. Due to the fact that the distribution network assets built as a result of our realized CAPEX are legally the property of TEDAŞ and not our distribution companies, under IFRS we do not book any reimbursement revenues in our income statement for the CAPEX reimbursements provided by EMRA. See "*Management's Discussions and Analysis of Results of Operations and Financial Condition—Presentation of Operating Results—Presentation of Revenue—Distribution Revenue*".

(15) By the end of a tariff year, if our distribution companies realize their mandated CAPEX (i.e., unit price investments for which calculations are based on regulated unit prices determined by EMRA) at a cost less than the unit prices determined by EMRA, then they will still have collected (and retained) the higher revenue through the regulated tariffs. References to "**CAPEX outperformance**" are to the percentage of (i) the amount of the unit price based actual CAPEX *less* unit price based actual allowed CAPEX to the (ii) unit price based actual allowed CAPEX of our distribution companies. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market——Distribution Tariff—CAPEX Outperformance*".

(16) References to "**Total RAB**" are to the total of the regulated asset bases of our distribution companies, which is determined after investments are subjected to unit cost benchmarking.

(17) References to "**OPEX outperformance**" are to the percentage of (i) realized OPEX *less* initial allowed OPEX to the (ii) initial allowed OPEX of our distribution companies. See "*Regulatory Overview—Regulation and Functioning of the* Electricity *Distribution and Retail Sale Market—Distribution Tariff—OPEX Outperformance*".

(18) References to "**WACC**" are to the regulatory weighted cost of capital which is applied annually by EMRA to the averages of unrecovered RAB at the beginning of the year and at the end of the year. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff*".

(19) References to "**distribution connection points**" are to the distribution connection points that our distribution companies use to distribute the electricity to our end-users which are located at the premises of such end-users. Distribution connection point numbers are used to determine the number of end-users that are connected to our distribution networks. These figures also include customers of other private

retail companies that are connected to our distribution networks to whom we only provide electricity distribution services through the Distribution Tariff. See “*Business—Distribution Operations—Distribution Connection Points*”.

(20) References to “**electricity distribution volume**” are to the total volume of the electricity distributed to the end-users by our distribution companies located in our distribution regions through the distribution connection points. These figures also include customers of other private retail companies that are connected to our distribution networks to whom we only provide electricity distribution services through the Distribution Tariff.

(21) References to “**electricity retail sales volume**” are to the total volume of the electricity sold to our customers by our retail companies in the relevant period, which is measured in TWh. These figures include the electricity sold to our regulated and free customers, including free customers located in regions other than our distribution regions. These figures also include our sales conducted through Enerjisa Electricity Wholesale Company for the years ended December 31, 2014, 2015, 2016. On January 1, 2017, we transferred the customer portfolio of Enerjisa Electricity Wholesale Company, which included certain large corporate customers, to our retail companies’ portfolios in order for our retail companies to encompass all of our customers, and to manage all our customers directly through Enerjisa.

(22) References to “**customers**” are to the total number of regulated and free customers served by our retail companies, including free customers located in the regions other than our distribution regions. This figure also includes the number of inactive customers that are the customers that were not invoiced during the last 12 months’ period.

(23) References to “**retail churn ratio**” are to the number of churned customers to the yearly average of eligible residential and SME customers (including regulated customers who have not used their eligibility right (right to become a free customer)). The yearly average is calculated as the relevant number as of January 1 *plus* the relevant number as of December 31 which is then *divided* by two.

(24) We monitor our collection capacity as the rate of collections over sales of electricity for the relevant period. Due to operational requirements, we define an unpaid invoice “mature” after a six-month period following the invoicing. We measure our collection rate on the basis of our capacity to collect mature invoices within 12 months following their maturity. Thus, references to “**retail collection rate**” are to the collected portion of the mature invoices to the total mature invoice amounts. For example, an invoice dated July 1, 2017 is deemed mature at January 1, 2018, and our ability to collect this mature invoice within the 12 months’ period of 2018 is reflected as our collection rate.

RISK FACTORS

Prior to making an investment decision, you should carefully consider all of the information in this Offering Circular, including, without limitation, the risks described below. The risks and uncertainties described below are those that we currently believe could materially affect us and any investment you make in us. If any of these events occur, the trading price of the Offer Shares could decline and you could lose all or part of your investment. Additional risks and uncertainties that do not currently exist, of which we are unaware or which we currently do not believe to be material may also become important factors that adversely affect us and your investment. You should refer to the other information set out in this Offering Circular, including our Financial Statements and the related notes thereto and the information in "Management's Discussion and Analysis of Results of Operations and Financial Condition". For additional information concerning Turkey, its economy and other related matters, see "Exchange Rates", "Business", "Regulatory Overview", "The Turkish Securities Market" and "Foreign Investment and Exchange Controls".

Risks Related to the Regulatory Environment

Any unfavorable changes in our regulated tariffs could have a material adverse effect on our business, financial condition, results of operations and prospects.

The substantial majority of our revenue is generated from our electricity distribution operations and retail sales to regulated customers, which are subject to regulated tariffs set by EMRA. For the year ended December 31, 2014, December 31, 2015 and December 31, 2016, and for the nine months ended September 30, 2016 and September 30, 2017, 96.0%, 86.7%, 82.6%, 83,9% and 79,9% of our revenue, respectively, was derived from our electricity distribution operations and retail sales to regulated customers.

Our retail companies sell electricity to regulated customers in our distribution regions, acting as incumbent retail companies, and to free customers both in and outside our distribution regions. For our regulated customers, we apply the National Tariff which is determined by EMRA on a quarterly basis. Among other components, the National Tariff is composed of a regulated distribution tariff (i.e., the Distribution Tariff) and a regulated retail sales tariff (i.e., the Retail Energy Sales Tariff). See "*Regulatory Overview—Summary Information Around Operations—Pricing*". We apply the Distribution Tariff to both regulated customers and free customers, and the Retail Energy Sales Tariff to our regulated customers. We do not, however, apply the Retail Energy Sales Tariff to free customers as the sales price for these customers are determined by the parameters based on free market conditions. With respect to our free customers, we determine prices based on current market conditions considering our cost basis and a certain profit margin target; however, the National Tariff also sets a natural price cap for our free retail energy sales prices.

EMRA determines the components of the National Tariff for each tariff implementation period, and the 3rd tariff implementation period covers the period between 2016 and 2020. However, the final values of the Distribution Tariff and Retail Energy Sales Tariff, which are reflected to end-users' invoices, are determined by EMRA on a quarterly basis, in order to reflect changes in market costs to tariffs.

Our distribution margins and retail sales margins generated from retail sales to regulated customers may be materially adversely affected by any change in the Distribution Tariff or the Retail Energy Sales Tariff's calculation methodology or in any component of such tariffs as described below:

Electricity distribution

Our revenue generated from our electricity distribution operations is completely dependent on the Distribution Tariff set by EMRA, which is calculated on the basis of allowed CAPEX and accumulated RAB, together with the related financial return (i.e., WACC), tax correction component, allowed OPEX, allowed research and development expenditures, theft and loss target and certain pass through items such as transmission fees and taxes.

EMRA calculates CAPEX allowance after its inspections of the master plans prepared by our distribution companies and additional research it deems necessary. EMRA calculates OPEX allowances based on our past performance (with our performance during 2013 and 2014 being the relevant reference point for the 3rd tariff implementation period) and theft and loss targets based on weighted average of past three years' actual theft and loss and gross distributed energy amounts and on previous years' gross distributed energy amount. See "*Regulatory Overview—Distribution Tariff*".

When the current tariff implementation period expires in 2020 or within the current tariff implementation period (only in the cases of (i) force majeure or (ii) when regulatory amendments and license amendments require changes in the current tariffs, and provided that such changes in the current tariffs is required by law) EMRA may decide to change the variables used in the calculation methodology and/or to decrease such parameters, which could result in a decrease in the revenue that is reimbursed through the Distribution Tariff. In such situations, we could experience smaller than expected increases or decreases in our regulated distribution revenue. Our distribution margins could also be adversely affected and we may be unable to meet the expected return targets that our management has set for capital expenditures, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Retail sale of electricity to regulated customers

Our revenue generated from retail sales of electricity to our regulated customers is dependent on the Retail Energy Sales Tariff set by EMRA. EMRA sets the National Tariff, on a quarterly basis, for our retail sales to regulated customers that we charge to regulated customers (as the incumbent retail company), and that mainly consists of the Distribution Tariff and Retail Energy Sales Tariff. EMRA calculates the National Tariff by taking into consideration the electricity distribution amount and demand forecasts.

To calculate the Retail Energy Sales Tariff, EMRA determines a revenue requirement for incumbent retail companies for the relevant tariff implementation period, and a regulated gross profit margin (which is currently set at 2.38% for the period between 2016 and 2020). In addition, EMRA determines operating expenses and doubtful expense compensation amounts, as well as other costs outside our control, all of which in turn become components of the Retail Energy Sales Tariff for retail sales to regulated customers. When the current tariff implementation period expires, or within the current tariff implementation period (only in the cases of (i) force majeure or (ii) when regulatory amendments and license amendments require changes in the current tariffs, and provided that such changes in the current tariffs is required by law) EMRA may decide to change the variables used in the calculation methodology and/or to decrease the revenue requirement that is applied to the Retail Energy Sales Tariff, resulting in smaller than expected increases or decreases in our revenue generated from retail sales to regulated customers. Should EMRA make any such unfavorable changes to the Retail Energy Sales Tariff or National Tariff, the margins we generate from retail sales to regulated customers could be adversely affected and we may be unable to meet the expected return targets that our management has set, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Retail sale of electricity to free customers

Unlike our revenue generated from retail sales of electricity to our regulated customers, our revenue generated from retail sales of electricity to our free customers is not a regulated revenue, as we do not apply the Retail Energy Sales Tariff to our free customers. However, the National Tariff acts as a natural ceiling to the price that we set for free customers. Therefore, any negative change in the National Tariff may also have an impact on our revenue generated from retail sales to free customers. For example, if the National Tariff decreases, free customers may choose to buy electricity from the incumbent retail companies authorized in the relevant regions, at the regulated tariff, instead of buying electricity from our retail companies and therefore our revenues and profit margins generated from retail sales to free customers (and therefore, our revenues and profit margins generated from retail sales) may decrease. On the other hand, we determine prices for our free customers based on electricity supply and demand in the market, typically at a discount to the National Tariff. If the National Tariff decreases or does not increase as we expect, or if the tariff is set at a level that will only result in low profitability for our retail sales to free customers, this could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our operations are subject to extensive laws and regulations and changes in such laws and regulations could have a material adverse effect on our business, financial condition and results of operations.

Our electricity distribution and retail sales operations are subject to extensive and complex Turkish laws and regulations, including but not limited to those governing the electricity market. Changes in these laws or regulations could have a material adverse effect on our business, financial condition, results of operations and prospects due to, among others:

- changes in the current tariff calculation methodology or in the variables, such as rates, mechanisms or ceilings for some tariff components, used to determine the tariffs for the distribution and retail sale of electricity;

- changes in laws and regulations relating to the grant, renewal, revocation or termination of electricity distribution and supply licenses;
- imposition of additional obligations on distribution and retail companies, such as additional technical obligations regarding investment plans, operational scope and principles for managing the electricity distribution network, retail sales activities, and additional insurance requirements;
- introduction of wider opportunities for decentralized, license exempt power generation (which allow certain facilities to generate energy based on renewable or conventional energy resources), which impose additional obligations (e.g., imposition of additional costs to support renewable energy generation, which may not be passed through to our customers) on our distribution and retail companies and have an impact on electricity demand; and
- imposition of new taxes or increase in current tax levels, in terms of customers, such as increase in levels of value added tax resulting in an increase in the final price to our customer of electricity, which may result in a decrease in demand for electricity.

If the laws and regulations that govern our business become more restrictive or unfavorable to us, we could also incur additional compliance costs or be subject to new limitations on how we operate, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

For example, on October 16, 2017, a draft communique was published by EMRA, which envisages a new tariff mechanism (i.e., last resort supply tariff) for eligible customers who purchase electricity from our retail companies through the regulated Retail Energy Sales Tariff. This tariff mechanism aims to encourage the eligible customers who currently purchase electricity from our retail companies through the regulated Retail Energy Sales Tariff to instead purchase electricity under the free market conditions. Enactment of this draft communique would encourage eligible customers who purchase electricity from our retail companies through the regulated Retail Energy Sales Tariff to switch to the free market, primarily because the last resort supply tariff is expected to be set at a higher price compared to the prices set under free market conditions. Therefore, competition between the retail companies would increase and this may adversely affect our financial performance, because other private suppliers may offer better terms than us for electricity supply and also may lead to a decrease in the volume of electricity supplied by us. Therefore, if the draft communique is enacted and if we are not able to compete successfully against our competitors, these competitive pressures could have a material adverse effect on our business, financial condition, results of operations and prospects. See "*Regulatory Overview—Draft Communiqué on the Last Resort Tariff Mechanism*".

If we fail or are unable to comply with applicable laws and regulations, we may be subject to administrative fines or penalties or lose our distribution and / or supply licenses, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our electricity distribution and retail sales operations are subject to extensive regulation by EMRA. The regulations issued by EMRA, among other matters, impose organizational and operational restrictions on, and requirements with respect to, our electricity distribution and retail sales activities and operations, such as (i) limitations on the distribution companies' ability to hold shares in other legal entities operating in the electricity market, (ii) limitations on our ability to hold shares in other legal entities operating in electricity distribution market, or (iii) limitations on the amounts of the tariffs charged to our customers and (iv) insurance requirements. See "*Regulatory Overview—Competition and Market Share Restrictions*". If we fail or are unable to comply with such restrictions or regulatory requirements or with any regulatory requirements set forth under the applicable electricity market laws and regulations, we may be subject to administrative fines or penalties as a result of customers complaints or otherwise which would have a material adverse effect on our business, financial condition, results of operations and prospects.

Furthermore, if EMRA determines that; (i) we regularly fail to comply with the applicable laws and regulations; (ii) our electricity market activities are unacceptably non-compliant with the relevant legislation; (iii) our breaches unacceptably diminish the quality of our services and we are incapable of fulfilling our obligations, EMRA may replace all or some of our board members upon a EMRA board decision. Additionally, if our distribution companies fail to provide distribution services or fulfill their obligations to realize necessary investments, EMRA may provide necessary financial resources to fulfill these obligations from the distribution companies' income or, if insufficient, from the shareholders' dividend income or the shareholders' assets as a last resort.

In addition, (i) any failure to comply with applicable laws and regulations where such failure causes material deficiencies in our electricity market activities or (ii) any default by our distribution and retail companies, could also lead to termination of our electricity distribution or supply licenses, before they are set to expire. Furthermore, if any of our distribution and retail companies fail to comply with EMRA's sanctions or fail to remedy its non-compliance with the applicable laws and regulations within the time period given by EMRA or repeat its non-compliance within two years, EMRA may cancel the applicable license. In addition to the above, (i) if our distribution and retail companies fail to maintain the necessary requirements to obtain their licenses or it is determined that our distribution and retail companies fail to have these requirements from the beginning, (ii) if EMRA determined that our distribution and retail companies' actions are fraudulent or misleading, or (iii) if our distribution and retail companies provide misleading information regarding the necessary requirements to obtain their licenses or fails to notify EMRA regarding any changes in such information, and if our distribution and retail companies do not remedy the deficiencies listed from (i) to (iii) within 30 days following the written notification of EMRA or if it is impossible to remedy such deficiencies, EMRA will cancel our distribution and retail companies' licenses. Any such termination would lead to termination of the transfer of operating right agreements ("**TOR Agreements**") and would require us to dispose of our operating rights to utilize the electricity distribution network and related assets and to cease our electricity distribution or retail sales operations, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

If the ongoing investigation by the Turkish Competition Authority results in an adverse finding, we may be subject to administrative fines and our reputation might be adversely affected.

Our business is subject to Turkish competition laws and regulations and we are subject to investigations by the Turkish Competition Authority for compliance with these laws and regulations. Given that the electricity market in Turkey is still in the process of liberalization, Turkish electricity market regulations, together with general competition regulations, also set forth certain non-competition requirements specific to companies active in the electricity market, including our distribution and retail companies in order to procure a transparent and competitive electricity market in Turkey. As a result, from time to time, the electricity distribution and retail sales market participants become subject to competition investigations in accordance with their positions in the electricity market.

In 2014, the Competition Authority initiated a preliminary examination against AYEDAŞ and AYEPSAŞ to determine whether AYEDAŞ and AYEPSAŞ had violated Article 6 of the Law No. 4054 on the Protection of Competition (the "**Competition Law**"), which prohibits abuse of dominant position. However, upon its examination, the Competition Authority determined not to initiate an investigation and resolved certain measures to be taken by AYEDAŞ and AYEPSAŞ, without issuing any fines or penalties. See "*Business—Legal Proceedings—Competition Board Investigations—Preliminary Examination against AYEDAŞ and AYEPSAŞ*".

On November 26, 2016 the Competition Authority initiated another preliminary examination, this time, against Enerjisa and its distribution and retail companies, together with two other unrelated groups active in the electricity market, to determine whether Enerjisa and its distribution and retail companies, and the other two other groups active in the electricity market had violated Article 6 of the Competition Law. As a result of this preliminary examination, in December 2016, the Competition Authority notified us of the Competition Board's (the ruling body of the Competition Authority) decision to proceed with a full investigation of, (i) whether our distribution companies and retail companies are acting in compliance with legal unbundling rules, (ii) whether the sales agreements executed between our customers and our retail companies are in compliance with competition rules, (iii) whether the necessary measures resolved in the previous preliminary examination initiated against AYEDAŞ and AYEPSAŞ in 2014 were taken and (iv) whether our distribution companies and retail companies are in abuse of dominant position. We received the Competition Board's investigation report on January 5, 2018 (the "**Investigation Report**"), which alleges that our distribution and retail companies have abused their dominant position and should be imposed administrative fines. As next steps, we plan to submit the second written defense statement against the allegations in the Investigation Report, which will be followed by the third written defense statement and oral hearing within the regulatory period.

As at the date of this Offering Circular, the investigation is still ongoing and, assuming no unexpected delays, we anticipate the matter will be concluded between the end of May and August 2018 (depending on the next procedural steps). If, at the end of the investigation, the Competition Board determines that we are abusing a dominant position, it may impose administrative fines against Enerjisa and our distribution and retail companies, up to a maximum of 10.0% of Enerjisa's and our distribution and retail companies' annual revenue for the fiscal year preceding its decision. In addition, we may be required to incur additional compliance costs or be required to defend against compensation claims (which under applicable regulation may be for treble damages) from interested third parties based on an adverse decision of the Competition Authority. To date, no provision has been recognized in our financial statements. In addition, as a result of any adverse ruling by the Competition Board, our reputation may also be harmed. Hence any adverse ruling by the Competition Board could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation.

We have been and will continue to be subject to audits by various regulators and any non-compliance detected upon such audits could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our activities are overseen by a number of Turkish regulators. EMRA is the regulatory authority that conducts audits and examinations over companies active in the electricity market and imposes sanctions for any violations of applicable laws and regulations. If we fail or are unable to comply with applicable laws and regulations, EMRA can initiate a pre-investigation or investigation against our distribution and retail companies. Following the completion of any such investigations, EMRA may, in addition to requiring us to cease any such non-compliance, impose administrative fines, both of which could have a material adverse effect on our business and results of operations. See "—*If we fail or are unable to comply with applicable laws and regulations, we may be subject to administrative fines or penalties or lose our distribution and / or supply licenses, which could have a material adverse effect on our business, financial condition, results of operations and prospects.*" In addition to EMRA, the Ministry of Energy and Natural Resources ("**MENR**") and Türkiye Elektrik Dağıtım A.Ş. (the "**TEDAŞ**") are authorized to perform audits over our distribution activities. MENR conducts audits over our distribution companies on an annual basis and submits its audit reports to EMRA so that EMRA can take any necessary actions in the event of non-compliance with applicable laws and regulations.

TEDAŞ, as the owner of the distribution facilities, is authorized to audit our distribution companies to confirm the accuracy of the general illumination invoices (i.e., invoices relating to our distribution companies' electricity supply services for illumination of public spaces such as streets, avenues and footbridges). For example, in 2014, TEDAŞ conducted an audit over the general illumination invoices issued by Başkent EDAŞ to the local municipalities and provincial special administrations and determined that Başkent EDAŞ overbilled the relevant municipalities and deducted TL 28 million from Başkent EDAŞ's future general illumination receivables. We have filed a lawsuit for the annulment of TEDAŞ's audit report and for a refund of the deduction but there can be no assurance that the lawsuit will be successful. TEDAŞ is currently conducting similar audits with respect to the invoicing activities performed by AYEDAŞ and Toroslar EDAŞ, and a corresponding deduction may also be imposed on AYEDAŞ and Toroslar EDAŞ. Although we have set aside provisions for such deduction and the audits conducted against AYEDAŞ and Toroslar (amounting to TL 43 million as of September 30, 2017), if such provisions turn out to be insufficient, this could have a material adverse effect on our distribution business, financial condition, results of operations and prospects.

We may also be subject to tax audits which may expose us to additional tax liabilities and compliance costs. Therefore, audits by the tax authorities could have a material adverse effect on our business, financial condition, results of operations and prospects.

If our distribution and supply licenses and the TOR Agreements are not renewed at the end of their terms, we will be required to cease our operations, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

Our distribution companies and retail companies are required to maintain electricity market licenses issued by EMRA to conduct our electricity distribution and retail sales operations in Turkey. Each of our distribution companies holds a distribution license (*dağıtım lisansı*) for their electricity distribution operations in their respective distribution regions, and each of our retail companies holds a supply license (*tedarik lisansı*) for their retail sales to our regulated customers in their respective regions, as an incumbent retail company, and for their retail sales to our free customers in Turkey. The distribution and supply licenses granted for the Ayedaş region and Toroslar region are valid until December 31, 2042, whereas the distribution and supply licenses granted for the Başkent region are valid until September 1, 2036.

Our distribution and retail companies are required to apply to EMRA for renewal of their licenses within a minimum of 12 months and a maximum of 15 months prior to the expiration of the relevant licenses. EMRA determines whether to renew the licenses for a minimum period of 10 years and a maximum period of 49 years. To renew their distribution and supply licenses, our distribution companies need to certify that they own the operating rights of the distribution network that are necessary for distribution operations and our retail companies need to certify that they own the operating rights of the regulated assets that are necessary for retail sales to regulated customers. However, since the terms of the TOR Agreements expire simultaneously at the end of the respective license periods, our distribution and retail companies are required to partake in a tender announced by the Turkish Privatization Administration (the "**Privatization Administration**") to renew the TOR Agreements and to be in the position to provide the required certification. Our distribution and retail companies may not be able to win such tenders and, therefore, renew the TOR Agreements. In such a case, our distribution and retail companies would not be able to renew their licenses and, therefore, we would be required to terminate our electricity distribution operations and/or retail sales to regulated customers. In addition, even if our distribution and retail companies win the tenders (and are able to certify that they own the operating rights of the relevant assets), EMRA may decide not to renew our distribution and/or supply licenses. Should this happen, we would be required to terminate our electricity distribution operations and/or retail sales to regulated customers and free customers, which could have a material adverse effect on our business, financial condition, results of operations and prospects. Under such circumstances, we would be entitled to receive reimbursement for our investments (i.e., for the outstanding accumulated RAB (if any)) according to the TOR Agreements; however, the calculation methodology or the timing of such reimbursement is not explicitly specified in the Turkish regulations or the TOR Agreements and such reimbursement amounts may, be insufficient.

Risks Related to Our Business and Industry

Our electricity retail sales business is expected to face an increase in competition, as the electricity retail market is expected to be liberalized.

The electricity retail sales market in Turkey has been going through a government-led process of liberalization since 2001. The liberalization process is still ongoing and along with such process our retail sales business (i.e., retail sales to free customers) may continue to face increasing competition from both existing market participants and also from new market entrants. For example, if the eligibility limit decreases in line with EMRA's goal of reducing the eligibility threshold to zero for complete market openness (since 2003, the eligibility limit has been gradually reduced by EMRA from 9,000 MWh per year in 2003 to 2.4 MWh per year in 2017, and 2.0 MWh per year in 2018), the number of free customers who are entitled to choose their electricity supplier would increase, thereby increasing competition in the supply of electricity to residential and SME (small and medium enterprises) customers. An increase in the number of market participants may adversely affect our financial performance due to the increase in competition from private suppliers who may offer better terms than us for electricity supply. In addition, increasing competition may lead to a decrease in the volume of electricity supplied by us. Therefore, if we are not able to compete successfully against current and future competitors or maintain our current position in the market, these competitive pressures could have a material adverse effect on our business, financial condition, results of operations and prospects.

Although increasing competition may have an adverse effect on our business, we believe that liberalization could also generate new growth opportunities in the retail sales market. Our growth opportunities are based on our ability to switch our regulated customers to free customers, which, to a large extent, depends on the liberalization process and decrease of the eligibility limit. In addition, our ability to reach more residential customers outside the Ayedaş, Başkent and Toroslar regions also depends on the liberalization process and decrease of the eligibility limit. Therefore, if the government does not decrease the eligibility limit and apply its liberalization targets in the short term as we envisage, this may delay the emergence of such growth opportunities in the electricity market, which in turn may have a material adverse effect on our business, financial condition, results of operations and prospects.

We are subject to risks related to our ability to meet our financial obligations, which could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation.

We meet the majority of our funding requirements through intercompany financing arrangements, between Enerjisa and our distribution companies and between Enerjisa and our retail companies, and external financing obtained from our related party Akbank and third party financial institutions, and CPI-indexed local corporate bonds issued by our distribution companies and by us. For example, we have utilized refinancing loans from third party financial institutions to repay the acquisition loans that we utilized to acquire the Ayedaş and Toroslar regions. As of September 30, 2017, the total amount of our financial liabilities arising from various loans (including the financial liabilities arising from issued bonds, but excluding our financial liabilities arising from the payment obligations that we undertook following the acquisition of the distribution regions, under the euro denominated loans utilized from EIB and World Bank by TEDAŞ) is TL 7,179,263 thousand. Our ability to meet our financial obligations in a timely manner depends on various factors, some of which are beyond our control, including economic conditions, electricity market conditions, regulatory developments, and availability of refinancing. Also, some of our financial obligations become due in the short-term due to their payment terms, whereas our revenue is derived over the long-term, since we receive CAPEX reimbursements over 10 years. Therefore, there may be a mismatch between the maturity profile of our revenue streams and payment terms of our financial obligations. If we are not able to minimize such maturity mismatches, and if we are not able to meet our financial obligations arising from the loan agreements in a timely manner, we would default on these obligations, which could lead the lenders to initiate legal proceedings against us and which could lead our debts to become due immediately. Also, if we fail to pay the interest or the principal amount with respect to our local corporate bonds, we would also default on these obligations. Any such defaults could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation.

Changes in the cost of electricity (i.e., electricity price) could have a material adverse effect on our business, financial condition, results of operations and prospects.

The effects of the changes in the electricity price depend on the consumption characteristics of our retail sales customers. For our retail sales to regulated customers, we are not directly affected by changes in the price of electricity because our retail companies pass almost all of the cost of electricity (including the energy consumption tax, TRT (Turkish Broadcasting Company) surcharge and energy fund surcharge) to regulated customers. However, we may still be indirectly affected by changes in the price of electricity because increases in the price of electricity may decrease demand for electricity from our customers, resulting in lower retail sales to regulated customers and reduced sales volumes. Our retail sales to free customers are directly affected by changes in the price of electricity. We may not be able to pass all of the cost of electricity to free customers due to the balance between electricity supply and demand, the level of competition and the level of National Tariff which sets a natural price cap for our free retail energy sales prices. For example, our margins generated from retail sales to free customers decreased in 2017, primarily due to an increase in the cost of electricity in spot market transactions, where National Tariff has not changed in line with the changes in cost basis.

As part of our electricity sourcing strategy, we categorize our customers in two main segments, namely (i) corporate and (ii) residential and SME. We generally source the electricity that we sell to our free customers through the over-the-counter market, at the volume contemplated by the sales agreements we have with these customers, where the price is fixed. Therefore, if our free customers consume more or less electricity than the forecasted volume, we may need to purchase electricity (in case of higher than forecasted demand) from or sell excess electricity (in case of lower than forecasted demand) to EPİAŞ, where electricity prices fluctuate. For our residential and SME customers, we aim to benefit from the changes in electricity prices through long and short positions in the spot and bilateral markets. As a result of such strategy for residential and SME customers, we are exposed to electricity price fluctuations in these markets.

Developments that could adversely affect the price of electricity include, among others, (i) the balance between electricity supply and demand and generation mix, (ii) adverse macroeconomic conditions in Turkey and global economic downturns, (iii) adverse political developments in Turkey, (iv) the introduction of new taxes or increases in taxes imposed on energy consumption (such as energy consumption tax) in Turkey, (v) over/under supply of electricity, (vi) development in commodity prices and (vii) weather and hydrologic conditions. Developments such as these may lead to increases in the price of electricity and decreases in the demand of electricity, without a corresponding increase in the sales price. As a result, our retail sales revenue may decrease, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Any increase in the cost of the electrical equipment, materials and labor costs we need for our capital expenditures, or any decrease in the unit prices set by EMRA for such costs, might have a material adverse effect on our business, financial condition, results of operations and prospects.

Our electricity distribution business requires a substantial amount of investments and capital expenditures. The CAPEX allowance defined for our distribution companies is one of the most important components of the Distribution Tariff set by EMRA, therefore of our regulated distribution revenue. When determining the Distribution Tariff under revenue cap methodology, EMRA sets CAPEX unit prices for some CAPEX items. Current unit prices provide our distribution companies the opportunity to procure materials at a lower cost than the unit prices set by EMRA and keep the difference between their actual costs and the CAPEX allowance set by the tariff. However, our investments and capital expenditures require a significant amount of electrical equipment and materials and labor costs, the cost of which depend on various factors beyond our control, including economic conditions in Turkey. For example, the costs of equipment and materials are often subject to risks related to fluctuations in the prices of such of equipment and materials due to fluctuations in the foreign exchange rates, variations in the supply and demand in the commodity markets or other economic factors. Also, labor costs may vary due to, among other things, changes in the minimum wage rates. If the costs of the necessary items exceed the unit prices set by EMRA, or if EMRA decreases the unit prices in the future, we may not be able to source materials we need at a cost lower than the unit prices set by the tariff. In either case, we will not be able to generate operational profit from unit price savings and we may incur material losses. Therefore, any negative developments with respect to the unit prices set by EMRA or the costs we incur for our capital expenditures would have a material adverse effect on our regulated distribution revenue and, therefore, on our business, financial condition, results of operations and prospects.

Our electricity retail sales business depends on forecasting, and any failure in accurate forecasting would have a material adverse effect on our business, financial condition, results of operations and prospects.

Our retail companies are required to make forecasts on electricity demand and consumption levels, energy costs and YEKDEM costs (i.e., the costs incurred by the retail companies (including our retail companies) as a result of a subsidization mechanism to support renewable energy generation). Furthermore, our retail companies are legally required to notify their electricity costs and revenue forecasts to EMRA.

EMRA uses these forecasts as parameters for determining the Retail Energy Sales Tariff, and inaccurate demand forecasting may have an impact on the cash flows of our retail companies, due to the application of the price equalization mechanism (i.e., the mechanism that was introduced to balance the inequalities and differences between the 21 distribution regions. In some regions, retail companies collect more regulated revenue than their regulated revenue cap, while in other regions, retail companies fail to reach their revenue caps. Reconciliation of over or under collections is made by EMRA through TETAŞ on a monthly basis, where TETAŞ collects the difference between the collected revenue and the revenue cap from those regions where the collection exceeds the revenue cap and distributes it to the regions where the collected revenue is lower than the revenue cap. Such application of price equalization mechanism may have an impact on the cash flows of our retail companies. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Markets—Price Equalization Mechanism*".

For our retail sales operations, if we fail to accurately forecast electricity demand, the revenue that our retail companies receive through their sales would be adversely affected as a result of application of the balancing mechanism. Pursuant to the applicable legislation, TEİAŞ and EPİAŞ are responsible for balancing the overall electricity demand and supply in Turkey, via operations that cover the electricity generation assets in Turkey. When the total electricity demand throughout Turkey does not match the total electricity generation, EPİAŞ notifies TEİAŞ to notify electricity generation companies to generate more or less electricity than their previously contracted and declared volumes. Such imbalance management operations incur additional costs in the system, which is reflected by EPİAŞ to our retail companies, on a pro-rata basis with the imbalance they have created in the overall system "**imbalance costs**".

In terms of retail sales to our regulated customers, our retail companies are compensated by an imbalance cost compensation mechanism for their imbalance costs. Such compensation mechanism provides our retail companies an opportunity to benefit from imbalance management operations via the compensation amounts better than the amounts defined in the system, if our retail companies outperform the country average in terms of imbalance management through efficient demand forecasting. See "*Regulatory Overview—Electricity Market Activities—Market Operation Activities*". Therefore, if our retail companies fail to accurately forecast the demand, we would not be able to generate additional revenues from imbalance management operations and, if we underperform the country average in terms of imbalance management, we may incur financial losses, which could have a material adverse effect on our business, financial condition, results of operations and prospects. Also, in terms of our retail sales to free customers, our retail companies may not be able to pass imbalance costs to free customers depending on their contracts and may incur financial losses, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

For our retail sales to free customers, our retail companies face electricity volume and price risks in case of an inaccurate demand forecasting for electricity supply to our free customers. This is because we generally source the electricity that we sell to our free customers through the over-the-counter market at the volumes estimated under the sales agreements we have with these customers, at the time we execute such sales agreements, where the price in the sales agreement is fixed. If our free customers consume less electricity than the volume forecasted under the sales agreements, we need to sell such excess electricity to the spot market, i.e., Enerji Piyasaları İşletme A.Ş. (the "**EPİAŞ**") where the electricity prices are subject to fluctuations. In such a case, if we sell excess electricity at a price that is lower than we originally paid to source it, we would incur losses, this could have a material adverse effect on our business, financial condition, results of operations and prospects. Additionally, if our free customers consume more than the volume forecasted under the sales agreements, we need to buy additional electricity from EPİAŞ. In such a case, if we purchase additional electricity at a price that is higher than the price received through the sales agreements and we may not be able to pass this cost to free customers, we would incur losses, and this could have a material adverse effect on our business, financial condition, results of operations and prospects.

Additionally, our retail companies forecast YEKDEM costs when determining the price under the sales agreements, executed with free customers, where the price in the sales agreement is fixed. The renewable energy resources support mechanism ("**YEKDEM**") was introduced by law in 2005, in order to incentivize the electricity generators utilizing or otherwise investing in renewable energy sources, such as wind, hydroelectric, solar, bio-waste, solid waste, and geothermal energy sources. Once a company is admitted to the YEKDEM mechanism, the renewable electricity generated by YEKDEM participant generators is purchased via a U.S dollar denominated purchase guarantee per kWh of the electricity generated, which is then sold on the organized wholesale market operated by EPİAŞ. As per the applicable law, the electricity market participants, including private suppliers and generators that sell energy to customers are obliged to bear the YEKDEM cost, where EPİAŞ, as the market operator, reflects such costs to suppliers serving end-users. Thus, the YEKDEM costs are reflected to all end-users throughout Turkey via private suppliers and retail companies, either through (i) the feed-in tariff item included in the Retail Energy Sales Tariff applied to the regulated customers, or (ii) the YEKDEM cost item included in the free market retail energy sales prices applied to the free customers. See "*Regulatory Overview—YEKDEM Mechanism*". The YEKDEM costs vary each month due to various factors, such as the amount of generated renewable energy and foreign exchange rate fluctuations. Our retail companies are able to pass such costs to regulated customers through the Retail Energy Sales Tariff and inaccurate forecasts do, therefore, not have a direct impact on retail sales to regulated customers. However, our retail companies may not be able to directly and completely pass through YEKDEM costs to free customers. Our retail companies execute fixed term agreements, generally for a period of one year, with our free customers and the prices determined under such sales agreements are based on YEKDEM cost forecasts, and the sourcing costs of such sales are determined at the time we execute such sales agreements. If our retail companies underestimate the YEKDEM costs, they would not be fully able to cover the YEKDEM costs as such costs were not reflected in the price set forth in the sales agreements executed with free customers. Therefore, any failure to accurately forecast YEKDEM costs could have a material adverse effect on our business, financial condition, results of operations and prospects.

Technological changes in the electricity market, including the use of self-generated electricity by our customers, may lead to decrease in users' dependency on our retail sales and distribution operations.

The technologies used in the energy industry are evolving rapidly and may have a negative impact on our electricity distribution and retail sale operations in the medium term. For example, decentralized power generation (license exempt generation) operations in Turkey have developed in recent years, which allow certain facilities to generate energy based on renewable or conventional energy resources (*e.g.*, solar energy generated from the solar panels installed on rooftops, small capacity interconnected storage facilities, and cogeneration facilities) and use the self-generated energy for their own energy needs. If decentralized power generation and related technologies continue to develop, an increasing number of our customers may begin to generate their own energy. This would decrease users' dependency on our retail companies, which could have a material adverse effect on our business, results of operations and prospects. Furthermore, technological developments can also result in increasing energy efficiency, contribute to lower electricity consumption and, therefore, lead to lower demand for electricity. Any such developments may also lead to a decrease in electricity sold to our customers negatively impacting our earnings from retail sale operations and to a decrease in the need for infrastructure investments in our distribution network, negatively impacting our earnings from reimbursement of CAPEX, therefore, from our distribution operations, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

Furthermore, our retail companies could incur additional costs due to the development of the renewable energy generation, similar to YEKDEM costs that our retail companies currently incur. Additionally, the amount of YEKDEM costs may increase as renewable energy generation increases, since the government may incur more costs as renewable energy generation needs increase. Also, additional costs may be imposed by the regulatory authorities on distribution or retail companies in order to provide further incentive to renewable energy generator companies, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

If we are unable to make the capital expenditures necessary for the running of our business, this could have a material adverse effect on our business and results of operations.

Our distribution companies primarily incur capital expenditures related to network investments (e.g., replacement and improvement investments), meter reading investments, network management investments, and environmental security and other obligatory investments. The time and costs involved in such activities can be affected by several factors, including receipt of requisite approvals and permits from relevant authorities, shortages of, or price increases with respect to, construction materials and the availability of suitable materials and equipment. Any of these factors may lead to delays in, or prevent the completion of our capital expenditures. Any delays in implementation or completion of our capital expenditures could also lead EMRA to impose sanctions, such as administrative fines, on us, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

Our distribution companies are also required to obtain provisional acceptance of TEDAŞ with respect to technical standards and the approval of EMRA with respect to compliance with applicable regulations for their realized investments (i.e., the investments recorded under the accountings) regarding capital expenditures. We may face delays in the receipt of provisional acceptance of TEDAŞ, which may require us to spend an extended period of time completing our investments. Also, if we fail to comply with the mandatory technical requirements, EMRA may not approve our investments and we may not be able to get the reimbursement from such investments (through Distribution Tariff), which would have a material adverse effect on our business, financial condition, results of operations and prospects.

If we are unable to obtain EMRA's approval for additional CAPEX, this could have a material adverse effect on our regulated distribution revenue and our business, financial condition, results of operations and prospects.

Our electricity distribution business requires a substantial amount of investments and capital expenditures. EMRA determines CAPEX allowance for our distribution companies and our distribution companies are required to make such capital expenditures within the 3rd tariff implementation period. We have historically made, and expect to continue to make, more capital expenditures than the initial CAPEX allowance granted by EMRA, in order to maintain continuity of supply and technical quality. Therefore, we regularly meet our CAPEX allowance targets before the current implementation period ends and when our CAPEX for the relevant implementation period reaches 80% of the initially allowed CAPEX, we apply to EMRA at certain pre-determined regulatory periods, for its approval to increase our initial CAPEX allowances to include the reimbursement of CAPEX overspending. EMRA evaluates whether the additional CAPEX allowance is necessary for future energy demands of each region, continuity of supply and technical quality, renewal of distribution assets and for compliance with technological requirements, legal obligations and general illumination requirements. If the regulation is amended to restrict the reimbursement of such CAPEX overspending or EMRA changes its historic and current practice of approving such CAPEX overspending, we may be required to recognize a loss in order to reverse a part of the previously recorded finance income receivable which was included in the financial assets in our balance sheet. In turn, we would not be able obtain the expected return from additional CAPEX overspending, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not be able to sustain our CAPEX and OPEX efficiency, and it would have a material adverse effect on our regulated distribution revenue, and our business, financial condition, results of operations and prospects.

As another key part of our business strategy, we aim to generate profit through our CAPEX and OPEX allowances. The CAPEX and OPEX allowances defined for our distribution companies are the most important components of our regulated distribution revenue. Our ability to sustain CAPEX and OPEX efficiency depends on our ability to procure electrical equipment, materials and labor costs we need for our capital expenditures at a lower cost than the unit prices set by EMRA and to procure operational services necessary for our operations at a lower cost than the prices set by EMRA. For the years ended December 31, 2016, December 31, 2015 and December 31, 2014 and the nine month ended September 30, 2017, 18.8%, 8.2%, 18.9%, and 9.0% of our Adjusted EBITDA and CAPEX reimbursement, respectively, was from the CAPEX and OPEX allowance. Historically, we were able to sustain our CAPEX and OPEX efficiency however we cannot assure you that we will be able to sustain this efficiency. Therefore, if we are unable to sustain CAPEX and OPEX efficiency, we would not be able to generate revenue from CAPEX and OPEX efficiency, which would have a material adverse effect on our regulated distribution revenue, our strategy and our business, financial condition, results of operations and prospects.

Operating an electricity distribution network is inherently risky and subject to hazards that could result in accidents or disruptions, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our electricity distribution operations are subject to certain inherent hazards and risks, such as:

- incidents, accidents, fires and explosions;
- electric arcs or other losses of electricity as a result of technical malfunctions;
- damage caused by third parties, including from construction and utilities equipment and other surface users;
- man-made disasters such as terrorism;
- damage to the underground and aerial lines, transformers and poles; and
- natural disasters, such as earthquakes, floods, storms, landslides and other adverse weather conditions and hazards.

These risks could result in death or personal injury to our customers, employees and third parties and/or damage to, or the destruction of, our electricity distribution network or related assets and, therefore, an interruption to our electricity distribution activities, which could have a material adverse effect on our business as well as our reputation. We are generally not able to predict the occurrence of these or similar events, and even if such events occur rarely, they may cause unanticipated accidents or disruptions in our electricity distribution activities. For the years ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2017, there are pending 18 death-related compensation claims in total in relation to accidents (including the accidents arising from our distribution network) that resulted in death of our customers. As of September 30, 2017 none of our employees had been convicted of criminal charges; however, as of the date of this Offering Circular, a number of criminal litigation were still pending against members of our management and employees and no assurance can be given that additional criminal litigation will not be brought in the future. In the event that members of our management or employees were convicted in any such cases, we and they could face fines or other penalties and adverse publicity, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation.

Furthermore, for the years ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2017, our distribution companies experienced a total of 12 death-related workplace accidents, most of which resulted from electric shock and traffic accidents. As of September 30, 2017, four out of 12 death-related workplace accidents resulted in lawsuits, whereas eight out of 12 death-related workplace accidents did not result in lawsuits as we settled with the relatives of deceased employees. As of September 30, 2017, there are four death-related workplace lawsuits that are still pending. As a result of such lawsuits, we may be subject to compensation claims and administrative fines, and our board members or managers may be subject to criminal charges and such lawsuits may have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation. See "—*We are subject to environmental, health and safety risks, which could have a material adverse effect on our business, financial condition, results of operations and prospects*".

While we believe we have maintenance and immediate support infrastructure to mitigate some effects of certain types of accidents or disruptions, such as the emergency units established to answer emergency calls for electrical leakage and other urgent service requests and we obtain insurance coverage for these risks, any substantial accidents or disruptions which our maintenance and immediate support infrastructure are insufficient to mitigate and any resulting losses which are uninsured or which exceed the applicable limits under our insurance policies, could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation.

We are exposed to counter-party credit risk in our retail sales and distribution business, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our retail companies are exposed to counter-party credit risk in respect of their regulated and free customers. We generally bill our retail sales customers on a monthly basis for their electricity consumption during the immediately preceding monthly period. We require security deposits from regulated customers and letters of guarantee or other form of securities from free customers to secure present and future bill payments. Additionally, we charge default interest in the amount of 1.4% monthly, in case of default of our customers. The amount of security deposits collected from regulated customers is determined by EMRA on an annual basis, ranging from TL 19.80 to TL 56.0 per kW for 2017. The security amounts collected from free customers are determined based on their past two to four months electricity consumption amount and as of September 30 2017, the total amount of securities and guarantees collected from free customers is TL 299,822,073. Although we collect security deposits and we receive doubtful compensation allowances for regulated customers within the scope of revenue requirement mechanism and we obtain other securities from free customers, there can be no assurance that such securities and doubtful compensation allowances provide adequate or sufficient coverage for all liabilities of such customers. As of September 30, 2017, our retail companies were party to several enforcement proceedings relating to the uncollectible receivables from our regulated and free customers which are amounting to TL 607,347,653 in total. If our security coverage or doubtful compensation allowances turn out to be insufficient, this could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our distribution companies are required to purchase electricity from Türkiye Elektrik Ticaret ve Taahhüt A.Ş. (the "**TETAŞ**") and EPİAŞ for the use of general illumination and theft and loss, and are exposed to counter-party credit risk in respect of their general illumination customers. From time to time, we may not be able to collect our receivables from our general illumination customers (i.e., municipalities and provincial special administrations that are in our distribution regions) and we may not be able to initiate enforcement proceedings against these customers, given that they are public entities. In addition to our general illumination customers, our distribution companies are also exposed to counter-party credit risk in respect of their distribution system users. As of September 30, 2017, our distribution companies were party to 21 enforcement proceedings relating to uncollectible receivables, from our system users which are amounting to TL 12,847 thousand in total. Our distribution companies collect securities from retail companies in order to secure present and future payments. For the year ended December 31, 2016, the total amount of securities collected from the retail companies by our distribution companies was TL 763,181 thousand (of which TL 501,851 thousand was from our retail companies). As of September 30, 2017 amount of such securities was TL 859,241 thousand (TL 434.707 thousand of such amount was collected from our retail companies). We make these collections in accordance with the distribution system usage agreements executed by and between our distribution companies and retail companies. Furthermore, our distribution companies receive reimbursements for overdue receivables from EMRA two years after the date when doubtful receivable has become due, provided that a legal action has been initiated against the counter-party with respect to receivables (i.e., the cash inflow occurs in two years but the revenue recognition is made when legal action has been initiated and such income is accrued). Therefore, uncollected receivables are returned to our distribution companies after a two-year period, and such receivables mostly have an adverse impact on our distribution companies' cash flows rather than their revenues. However, if our security coverage turns out to be insufficient, this could have a material adverse effect on our business, financial condition, results of operations and prospects, due to the difference between the maturity and reimbursement date of such receivables.

Any failure to comply with our transfer of operating rights agreements may lead TEDAŞ to take legal actions, which could have a material adverse effect on our business and financial condition.

Our distribution companies do not own the distribution network and the relevant distribution assets and facilities that they need for their operations. Similarly, our retail companies also do not own the relevant assets and facilities that they need for their operations. However, each of the distribution companies has signed TOR Agreements with TEDAŞ relating to the transfer of the operating rights of the distribution system, the distribution and retail sale facilities and other assets which are needed for the operation of our distribution and retail companies. After the legal unbundling of distribution and retail sales activities, the TOR Agreements were amended to transfer the relevant retail sale assets and facilities (e.g., customer service centers) operated by our distribution companies to our retail companies and to allow our retail companies to use such assets within the scope of their activities and our retail companies executed TOR Agreements relating to transfer of operating rights of such assets.

Breach of the TOR Agreements by our distribution or retail companies may result in termination of the TOR Agreements. TEDAŞ is also entitled to terminate the TOR Agreements in cases where insolvency or bankruptcy of our distribution or retail companies is proposed. The TOR Agreements terminate automatically in case of the bankruptcy of our distribution or retail companies or the termination of the distribution and/or the supply licenses of our distribution or retail companies. The TOR Agreements also automatically terminate if our distribution or retail companies do not meet the security requirements determined under the TOR Agreements. If TEDAŞ terminates any of the TOR Agreements, we would lose our distribution or supply license in relation to the relevant TOR Agreement and consequently our operating rights on the distribution or retail sales facilities subject to the relevant TOR Agreement. Also, if TEDAŞ terminates any of the TOR Agreements due to such reasons, we would not be entitled to receive reimbursement for our investments. Therefore, termination of any of the TOR Agreements would have a material adverse effect on our business, financial condition, results of operations and prospects.

The terms of the TOR Agreements will expire at the end of the respective license terms of each of our distribution companies and our retail companies. If we are not able to renew the TOR Agreements, we would also not be able to renew our distribution and supply licenses, since we must certify to EMRA that we own the operating rights of the relevant facilities that are necessary for our distribution operations and retail sales to regulated customers in order to renew our licenses. If this occurs, we would be required to terminate our electricity distribution operations and/or retail sales to regulated customers, although we would be able to continue to retail sales to free customers. If this were to occur, the investment costs which are not recouped by our distribution or retail companies through the regulated tariffs as of the end of the TOR Agreements will be reimbursed to our distribution or retail companies by TEDAŞ. However, the calculation methodology or the timing of such reimbursement is not explicitly specified in the Turkish regulations or the TOR Agreements and such reimbursement amounts may, be insufficient to cover investments we have made. Therefore, termination of the TOR Agreements would have a material adverse effect on our business, financial condition, results of operations and prospects.

Any material failure or breakdown in TEİAŞ's transmission network could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our distribution companies are required to execute connection and system utilization agreements with Türkiye Elektrik İletim A.Ş. (the "**TEİAŞ**") for transmission services. Our distribution and retail companies, therefore, depend on TEİAŞ for the transmission of electricity for our electricity distribution and retail sales activities. If we are unable to procure sufficient amounts of electricity for our electricity distribution and retail sales activities, as a result of a major breakdown and/or disruption in TEİAŞ's nationwide transmission network, our distribution and retail companies would be unable to distribute and sell electricity to our customers on a regular basis or in sufficient amounts, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Any failure of TETAŞ to provide sufficient energy could have a material adverse effect on our business.

Our retail companies are required by the Electricity Market Law, to procure electricity from TETAŞ, which is the first and only state-owned company that holds a supply license and is a key member in the wholesale market, for their regulated customers at the percentage determined by EMRA each year. For the year ended December 31, 2016 and for the nine months ended September 30, 2017 our retail companies procured approximately 74.1% and 86.2% of electricity volume they sold to regulated customers from TETAŞ. Our distribution companies are also required to procure electricity from TETAŞ for their theft and loss and general illumination needs. Each of our retail companies and distribution companies has executed energy sales agreements with TETAŞ for the procurement of their electricity needs. These agreements are renewed annually. From time to time, TETAŞ may revise the amount of electricity to be supplied to our distribution (for their theft and loss and general illumination needs) and retail companies, and may provide less electricity than contemplated in the energy sales agreements. In such a case, our distribution (for their theft and loss and general illumination needs) and retail companies have to source electricity from EPİAŞ, which exposes us to electricity price fluctuations in these markets and cash flow risks, since we make cash payments in advance to procure our electricity needs from these markets. Furthermore, the energy sales agreements will be terminated in the cases of (i) cancellation of the licenses of retail companies and distribution companies or deletion of the registration of the companies to EPİAŞ or as a market participant, and failure of the companies to remedy this situation within 15 days upon the other party's notice, or (ii) commencement of a bankruptcy or liquidation process against the distribution or retail companies or inability of the companies to pay its debts. If TETAŞ does not provide sufficient energy to our distribution and retail companies or if TETAŞ terminates the electricity sales agreements due to any of these reasons, our distribution and retail companies may be unable to procure sufficient electricity for their operations, or to procure electricity on terms favorable to us, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

Growth in our electricity retail sales business is closely linked to growth in demand for electricity, which in turn, depends on a number of factors largely beyond our control, and which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our businesses, in particular our retail sales business, are affected by general economic conditions in Turkey. To the extent economic downturns negatively affect consumption or industrial production, demand for electricity may decrease. A possible future economic downturn in Turkey could also lead to a decrease in demand for electricity and reduced demand for electricity may result in lower capacity utilization and reduced profitability.

Growth and trends in demand for electricity further depend on a number of factors largely beyond our control. These factors include, among others, sufficient electricity generation in Turkey, increased energy efficiency, decentralized power generation (license exempt generation), the development alternative energy sources such as renewable energy, the Turkish government's policy for the wider utilization of energy sources other than electricity for different applications (such as natural gas or heat pumps), the price of electricity in comparison to other energy sources, price of other energy sources, especially natural gas, the general political and economic situation in Turkey, international crises, seasonal fluctuations and environmental and health and safety legislation. Therefore, any decrease in demand for electricity in Turkey generally, and in the Başkent, Ayedaş and Toroslar regions in particular, could have a material adverse effect on our business, financial condition, results of operations and prospects.

We depend on our management and highly skilled employees, and any failure to retain or attract management or such employees could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our success, to a large extent, depends on the skills, experience and efforts of our management and highly skilled employees. For us to maintain our operational efficiency and customer satisfaction, we must attract, recruit, develop and retain the personnel necessary to provide the needed expertise across the entire spectrum of our electricity market operations. Our success depends on the continued services of our senior management, directors and other key personnel who have substantial experience in the electricity distribution and retail sales industry in Turkey. In addition, competition in the electricity distribution and retail sales industry for experienced management, engineers, technicians and industry experts is intense, and our ability to retain and motivate these key personnel as well as to recruit qualified and experienced new personnel may require us to offer higher compensation and other benefits to attract and retain such personnel, resulting in an increase in our operating costs. Any failure to retain or attract management, directors or key personnel could have a material adverse effect on our business, results of operations and prospects. Also, if any of our senior managers or key personnel were to join a competitor, we may lose know-how and key professionals and staff members, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not be able to find adequate funding sources to finance our capital expenditure investments and working capital needs.

We have significant financing needs due to the high level of cash requirements of our operations. In particular, our capital expenditures for our distribution operations are highly capital intensive. Therefore, in order to provide adequate financing to fund our cash requirements, we use both intercompany financing arrangements, between Enerjisa and its subsidiaries, and external financing from our related party Akbank and third party financial institutions. In addition, we have several outstanding consumer price index ("**CPI**") linked local corporate bonds issued by Enerjisa and Başkent EDAŞ that we have carried out under our issuance certificates approved by the CMB.

Our sources of funding and our ability to arrange adequate financing for our cash requirements depend on a number of factors, some of which are beyond our control, including economic conditions, regulatory developments and availability of financing. In addition, any downgrade of our or Turkey's credit ratings may negatively affect our ability to find available funds. In the event that we require additional funds to support our capital expenditure requirements or to refinance our borrowings, we may seek to raise additional funds through private or public financing or other sources. Furthermore, there may be a gap between maturities of our debt and the 10 year time horizon over which we receive our CAPEX reimbursements. That is, our financial obligations may become due in the shorter terms, whereas our revenue is derived over a 10 year period. Therefore, there may be a mismatch between the maturity profile of our revenue streams and our financial obligations. Although we believe that our funding sources are sufficient and historically we have not experienced any significant funding or refinancing difficulties, we may not be able to find long-term funding sources on terms favorable to us and we may not be able find adequate financing from domestic or international financial institutions or the terms of such financing or refinancing may not be on terms favorable to us, and this could have a material adverse effect on our business, financial condition, results of operations and prospects.

Since we and our distribution companies are party to collective bargaining agreements, labor unrest or increased direct labor and related benefit costs could have a material adverse effect on our business, financial condition, results of operations and prospects.

On September 1, 2015, EEDAŞ, AYEDAŞ, Başkent EDAŞ and Toroslar EDAŞ executed four separate collective bargaining agreements with Türkiye Enerji, Su ve Gaz İşçileri Sendikası (*Union of Turkish Energy, Water and Gas Employees*) ("**Tes-İş**"), which are effective until February 28, 2018 (the "**Collective Bargaining Agreements**"). As of September 30, 2017, 67.0% of our employees were members of Tes-İş. Although strikes and lock-outs are illegal for electricity distribution business and we believe that our relations with our employees are generally good, there can be no assurance that new collective bargaining agreements will be reached once the current Collective Bargaining Agreements expire or negotiations will be completed without union or works council actions or on terms satisfactory to us. Furthermore, any new collective bargaining agreement may include provisions that are stricter or unfavorable towards us, such as significant wage increases, side benefits or additional payment obligations, and that would require us to incur additional direct labor costs. We may also face demands for wage increases from, or other kinds of disputes with, our employees. Any such labor unrest and negotiations with the labor union as well as any future labor unrest could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our failure to adequately protect private customer information or allegations regarding unauthorized use of such information could damage our reputation and brand.

In the ordinary course of our business, we collect and store on our information technology ("**IT**") systems certain private information, such as names, telephone numbers, addresses, identity numbers and tax identity numbers of our customers. Therefore, we are subject to the Turkish data protection laws and regulations, mainly the Law on Protection of Personal Data (Law No. 6698) published in the Official Gazette dated April 7, 2016 and numbered 29677 (the "**Law on Protection of Personal Data**"). Any failure or interruption in, or breach of, security of the IT or back-up systems we use, including cyber security incidents such as data breaches, intrusions, know-how and data privacy infringements and leakage, could lead to delays or platform or software shutdowns, causing loss of critical data or the unauthorized disclosure or use of our customers' private information, which could result in legal actions, such as criminal proceedings, compensation claims or imposition of administrative fines. Because the techniques used to disrupt services and systems are rapidly changing, we may not be able to detect such attacks prior to their occurrence and may be unable to proactively implement preventative measures. Any failure or interruption in, or breach of, the IT systems resulting in a breach of data protection regulations could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation and brand.

Our retail companies' call centers that use customer information in their operations are also subject to the laws and regulations regarding e-commerce transactions, mainly the Law on Regulation of E-Commerce (Law No. 6563) published in the Official Gazette dated November 5, 2014 and numbered 29166 (the "**E-Commerce Law**"). The E-Commerce Law restricts our ability to use customer information that we obtain through call center interactions. Therefore, any violation of such restrictions could lead us to face customer complaints and claims. Such complaints may be time consuming and may lead us to incur costs and could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation, brand and customer relationships.

We may not be able to insure against all risks we face and may incur losses not covered by insurance, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our distribution companies rely on their insurance coverage to insure against damages and losses to the electricity distribution network and related assets. Additionally, our distribution companies' personnel are also exposed to risks and hazards, which may include significant personal injury or death, severe damage to, or destruction of, distribution grid, network and equipment. The Electricity Licensing Regulation and the TOR Agreements require our distribution companies to insure their assets related to electricity distribution activities with "all risk insurance" against natural disasters, fire, accidents, financial liability against third parties, terrorism, sabotage and other potential risks. Our distribution companies maintain their insurance coverage for three main areas, namely all risk insurance, general liability insurance and employer's liability insurance. Although it is not required by the applicable regulations, our retail companies also maintain commercial package insurance policy, which covers the companies against the risks related to natural disasters and various man-made disasters such as terrorism, fire, strike and lockout. We expect to continue to maintain our existing insurance coverage and to purchase any additional insurance coverage as necessary for our operations. However, there can be no assurance that our insurance coverage provides us with sufficient coverage for all losses, events or incidents. Although we believe that we maintain adequate insurance coverage for all material risks to which we are subject to, should an uninsured loss or a loss in excess of our insured limits occur, we may lose the capital invested in, and the anticipated revenue from, the affected assets, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our distribution and retail sales operations are geographically concentrated in the Başkent, Ayedaş and Toroslar regions and any events or conditions affecting these regions could have a material adverse effect on our business, financial condition, results of operations and prospects.

Turkish electricity regulations impose strict restrictions on the geographical scope of our electricity distribution and retail sale activities. Pursuant to the Electricity Market Law, distribution companies are only allowed to distribute electricity in the region set out in their distribution licenses. Similar to the distribution companies, retail companies, as an incumbent retail company, are only allowed to sell electricity to regulated customers in the region set out in their supply license (whereas retail sales to our free customers are not subject to any geographical boundaries). Our distribution and retail companies (in terms of our retail sales to regulated customers) are currently authorized to operate in the Başkent, Ayedaş and Toroslar regions. Therefore, significant majority of our revenue is derived from operations in a limited geographic area, and we are particularly affected by the economic, social, demographic, urban and political conditions and developments in this geographic area. As a result, in the event of a catastrophe, natural disaster, adverse weather conditions, criminal or terrorist acts or other events or conditions affecting the Başkent, Ayedaş and Toroslar regions, we could be severely impacted as our distribution companies and our retail companies (with the exception of electricity sales to eligible consumers without any regional limitations) do not benefit from geographic diversification. If the Başkent, Ayedaş or Toroslar regions do not experience the expected growth in electricity demand or suffers from any such material event or condition, this could have a material adverse effect on our distribution business and our retail sales to regulated customers, and therefore, our business, financial condition, results of operations and prospects.

We are involved in a number of legal proceedings relating to our distribution and retail sales operations, which could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation.

We are involved in legal proceedings and claims in the ordinary course of our business, such as commercial lawsuits, customer claims, employee complaints and enforcement and debt collection proceedings. Furthermore, from time to time, we may be subject to various death-related compensation claims, both pecuniary and non-pecuniary, and criminal charges relating to death-related accidents. See "*Business—Legal Proceedings*". As a result of such claims, we and our management may be exposed to criminal liability, and a material adverse result from any legal proceedings related to such claims could have a material adverse effect on our business, financial condition and our reputation. In addition, we may face civil or criminal liabilities or fines in the ordinary course of business as a result of injury or damages suffered by our employees or third parties, which may require us to make compensation payments in accordance with applicable laws, which could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation.

We are jointly and severally liable for certain liabilities of our subcontractors, which may expose us to liabilities and legal proceedings as a result of our subcontractors' failure to comply with applicable laws and regulations, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We rely on third party subcontractors for a number of activities relating to our distribution and retail sales business, such as the construction and maintenance of our distribution network, and contracting and payment processes of free customers for our retail sales business. Pursuant to Turkish labor laws, we are jointly and severally liable for any failure by our subcontractors to comply with health and safety laws and regulations applicable to their employees and for any failure by our subcontractors to pay the salaries of their employees or applicable social security charges. Furthermore, we are also jointly and severally liable for any damages or losses caused by our subcontractors. For example, our retail companies use subcontractors for contracting with and meter-reading for free customers. As a result, we are exposed to risks arising from such subcontractors engaging in fraudulent activities such as overbilling due to inaccurate meter-reading, which may lead to customer complaints and claims. We require our subcontractors to provide us with sufficient information to assess their compliance with applicable laws and regulations. We also require our construction subcontractors to maintain insurance policies throughout the construction and maintenance process of our distribution network for all injuries to employees and third parties. In addition, we receive security from our subcontractors for all injuries or losses to employees and third parties to secure future payments and to secure our prospective loss that may arise from subcontractor's defective or fraudulent work. Nevertheless, there can be no assurance that such insurance or security payments provide adequate or sufficient coverage for our joint and several liabilities with our subcontractors, and we may be subject to legal proceedings and claims in excess of such amounts.

As of September 30, 2017, there were 1,006 pending lawsuits that had been filed by the employees of our subcontractors, many of which were initiated by the former employees working in our retail and distribution companies before the privatization. The total amount of the provisions set aside for these lawsuits was TL 28,685,481 as of September 30, 2017. There can be no assurance that we will receive favorable decisions in the pending lawsuits, the lawsuits that we are currently appealing or the recourse lawsuits that we filed against the subcontractors, or that the provisions we have set aside for these lawsuits will cover our losses. In addition, there can be no assurance that we will be successful in recovering amounts from our subcontractors if the decisions in the other pending lawsuits are unfavorable to us. Therefore, our joint and several liabilities with our subcontractors could expose us to liabilities and legal proceedings as a result of our subcontractors' failure to comply with applicable laws and regulations, which could have a material adverse effect on our business, financial condition, results of operations and prospects as well as our reputation.

We are subject to risks relating to interest rate fluctuations due to our financial borrowings and foreign exchange rate fluctuations due to YEKDEM regulations and certain of our borrowings.

We meet a certain amount of our funding requirements through financing agreements with third party financial institutions, a small amount of which are denominated in foreign currencies or are floating interest rate based. As a result, our financial results are affected by fluctuations in interest rates and to an extent, fluctuations between the Turkish Lira and foreign currencies.

As of September 30, 2017, we are subject to interest rate risk due to our CPI indexed corporate bond amounting to TL 1,157 million. For the years ended December 31, 2016, December 31, 2015 and December 31, 2014, and for the nine months ended September 30, 2017 and September 30, 2016, our total interest expense arising from our borrowings was TL 735,174 thousand, TL 575,336 thousand, TL 625,109 thousand, TL 710,933 thousand and TL 532,152 thousand. As of September 30, 2017, 19% of total debt has floating interest rates, including CPI indexed corporate bonds. Therefore, we could incur material additional costs because of interest rate fluctuations, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

For the years ended December 31, 2016, December 31, 2015 and December 31, 2014, (excluding our financial liabilities arising from the payment obligations that we undertook following the acquisition of the distribution regions, under the euro denominated loans utilized from EIB and World Bank by TEDAŞ) all our financial debt was fully denominated in Turkish Lira. For the nine months ended September 30, 2017, (excluding our financial liabilities arising from the payment obligations that we undertook following the acquisition of the distribution regions, under the euro denominated loans utilized from EIB and World Bank by TEDAŞ) 13.3% of our financial debt was denominated in a currency other than the Turkish Lira, primarily in U.S. dollars. In addition to our foreign currency denominated financing agreements with third party financial institutions, we are also exposed to foreign currency fluctuation risk with respect to the payment obligations that we undertook following the acquisition of the distribution regions, under the euro denominated loans utilized from EIB and World Bank by TEDAŞ.

Furthermore, our retail companies are exposed to YEKDEM costs which, among others, are affected by fluctuations of Turkish Lira against the U.S. dollar. YEKDEM costs are incurred by our retail companies as a result of YEKDEM, which aims to support renewable energy generation in Turkey. Such costs vary every month due to various factors, including but not limited to the amount of generated renewable energy and foreign exchange fluctuations. The electricity generated by YEKDEM participant generators is purchased via a U.S. dollar denominated purchase guarantee per kWh of the electricity generated and the cost of YEKDEM is reflected to our retail companies in TL and, as a result, the amount charged to our retail companies varies due to foreign exchange fluctuations. See "*Regulatory Overview—YEKDEM Mechanism*". Although our retail companies are able to pass the YEKDEM costs to regulated customers through Retail Energy Sales Tariff, our retail companies may not be able to directly and completely pass YEKDEM costs to free customers. Therefore, our retail companies are exposed to foreign exchange fluctuation in terms of YEKDEM costs. Although our retail companies engage in forward transactions in foreign currencies in order to hedge the foreign exchange risk arising from the YEKDEM costs, there can be no assurance that such forward contracts will provide an adequate or sufficient coverage for all risks arising from YEKDEM costs and our retail companies may be exposed to foreign exchange fluctuation in terms of such forward contracts, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Any significant breakdown in the electricity distribution network we operate could disrupt our delivery of electricity to our consumers, which could have a material adverse effect on our distribution business, financial condition, results of operations and prospects, as well as our reputation.

Our distribution companies operate a complex electricity distribution network, which may experience operational or technical malfunctions. Our distribution companies may suffer significant interruptions in their electricity distribution network due to unfavorable weather conditions, any breakdown or collapse in the transmission system feeding our distribution network or otherwise. For example, in July 27, 2017, AYEDAŞ experienced a breakdown in its distribution network due to hail squall leading to 130 electricity outages for 241,809 hours and effecting 97,068 users. Although such breakdown did not have material effects on our business, any major breakdowns, either as a result of natural disasters (e.g., earthquakes, heavy storms or floods) or man-made disasters (e.g., terrorist attacks, sabotage, riots, fires or explosions), in any part of our complex electricity distribution network could lead to significant disruptions in our distribution and retail sale of electricity to our customers, which could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation.

We provide performance guarantees and other forms of financial security to certain governmental authorities and our suppliers, and if such guarantees and securities are enforced due to our failure to meet certain obligations, our business and financial conditions could be materially adversely affected.

Our distribution and retail companies provide performance guarantees, including letters of guarantee and deposits to ensure performance of their obligations under some of the agreements executed with certain regulatory authorities, including TETAŞ, TEİAŞ, TEDAŞ and EPİAŞ. Our retail and distribution companies have electricity sales agreements with TETAŞ to procure energy for regulated customers, and market registration agreement with EPİAŞ, and we have provided guarantee letters or collections to TETAŞ and EPİAŞ under these agreements. In addition, we provide letters of guarantee to TEDAŞ against fulfillment of liabilities with respect to the TOR Agreements and to TEİAŞ against fulfillment of payment liabilities within the scope of system usage agreement executed by and between our distribution companies and TEİAŞ for every transmission station. As of September 30, 2017, the total amount of the performance guarantees provided by our retail companies is TL 1,051,761 thousand and the total amount of the performance guarantees provided by our distribution companies is TL 607,292 thousand. We have also provided letters of guarantees to some of our suppliers against any unfulfilled liability arising from purchases. These commitments may make it more difficult for us to secure financing on attractive terms. In addition, if we fail to perform our obligations to the satisfaction of the party that holds the performance guarantees, that party may seek to enforce the guarantees, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Any failure or interruption in, or breach of, our information technology systems could significantly interfere with our electricity distribution and retail sales operations and have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation and brand.

We rely on our IT systems for the efficient conduct of our electricity distribution and retail sales operations efficiently. In particular, we depend on the Supervisory Control and Data Acquisition (the "**SCADA**") system, geographical information system (the "**GIS**") and the automatic meter reading systems (the "**AMR**") for the purposes of distribution system management and outage management. We also depend on, SAP ("**SAP**") for our operational requirements, such as field operations, customer relationship management, call center, CAPEX planning and tracking and HR operations. Any disruption to our arrangements with such IT service providers or other third parties providing IT related services our IT systems or our back-up systems could significantly interfere with our electricity distribution and retail sales operations. We may not be able to prevent such disruptions or failures from occurring and may not be able to address them in an efficient manner or at all if they do occur. Further, any failure or interruption in, or breach of, security of the IT or back-up systems we use, could also result in disruptions to our electricity distribution and retail sales operations. Any cyber security incident, including data theft, unintended use or disclosure of our customers' personal information, such as Turkish identity number and tax identity number, could cause harm to us, our reputation and our customers. As a result, any failure or interruption in, or breach of, the IT systems we use, including the occurrence of cyber security incidents, may have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation and brand.

Some of our capital expenditures and operational expenditures regarding our distribution network as well as our meter-reading activities require the services of third parties, and any failure by such third parties to perform their contractual obligations could have a material adverse effect on our business, financial condition, results of operations and prospects.

Some of our capital expenditures such as for the expansion of our electricity distribution network and our operational expenditures, such as for the maintenance and repair of our electricity distribution network, and our meter-reading activities, require certain services and equipment that are provided by a limited number of reputable suppliers. We may be unable to procure the required services or equipment from these suppliers for a number of reasons, including the bankruptcy of a supplier or a supplier's failure to perform its obligations for whatever reason. In case of such failure, we may not be able to replace such suppliers in a timely manner or on terms favorable to us. Also, we rely on third parties in connection with our collection activities in our retail sales business. If such third parties fail to fulfill their contractual obligations, we may not be able to collect payments from our customers in a timely manner. Therefore, any significant failure by our principal suppliers in performing their contractual obligations may have a material adverse effect on our business, financial condition, results of operations and prospects.

If we fail to meet our theft and loss targets, our regulated distribution revenue may decrease.

One of the main components of our Distribution Tariff, and therefore our National Tariff, is the cost of theft and loss. In order to encourage the distribution companies to take all necessary measures to reduce the target theft and loss ratios in their respective regions, EMRA grants a bonus payment for the distribution companies that achieve annual target theft and loss ratios below their annual targets set by EMRA. For the year ended December 2016 and the nine month ended September 30, 2017, 21.0% and 17.7% of our regulated distribution revenue, respectively, was from the bonus payment due to our theft and loss performance. Therefore, if we are unable to meet our theft and loss targets or to outperform, we would not be able to generate additional revenue from theft and loss and we may incur financial losses, which, given the importance of the theft and loss allowance, would have an adverse effect on our regulated profit margin, and our business, financial condition, results of operations and prospects.

Our ability to meet our theft and loss target or to outperform mainly depends on socioeconomic conditions of the regions that our distribution companies operate and on our ability to manage theft and loss incidents. For example, the Toroslar region is very close to Syria and hence has a high number of Syrian refugees. Therefore, Toroslar EDAŞ's exposure to theft and loss incidents (as well as its target theft and loss ratio set by EMRA) is higher than AYEDAŞ's and Başkent EDAŞ's exposure to theft and loss incidents. Historically, Toroslar EDAŞ did not incur any financial losses despite its higher exposure to theft and loss incidents. However, although the Toroslar region's theft and loss target has been increased by EMRA as a result of increase in the number of Syrian refugees due to the instability of the Toroslar region's socioeconomic conditions, Toroslar EDAŞ may not be able to meet its theft and loss target or to outperform, which would have an adverse effect on Toroslar EDAŞ's financial condition, and therefore our business, financial condition, results of operations and prospects.

EMRA annually determines a theft and loss target ratio based on the three years performance of the relevant company. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Markets—Distribution Tariff—Other Revenue Items and Efficiency Parameters—Theft and loss Accrual and General Illumination Expenses*". EMRA also has the right to re-determine the target theft and loss ratio during the applicable period, to reflect any changes arising from external factors such as terrorism and natural disasters. Since EMRA has the intention of encouraging distribution companies to lower their actual theft and loss ratios, EMRA may change its methodology regarding the calculation of the target theft and loss ratio and may decrease the target ratio. Also, since the target theft and loss ratio for the subsequent implementation period is determined in accordance with our distribution companies' past performance, our success in meeting the ratios may lead EMRA to lower the target ratio for the following implementation period. Any unfavorable changes to such calculation methodology could prevent us from meeting the target ratio or generate revenue from theft and loss and may incur loss, which, in turn, would have a material adverse effect on our regulated distribution revenue, and our business, financial condition, results of operations and prospects.

We are subject to environmental, health and safety risks, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our distribution and retail sales operations are subject to laws and regulations governing health and safety. Our electricity distribution operations, such as the repair, improvement, operation and maintenance of our electricity distribution network, are potentially dangerous. Pursuant to the Communiqué on the Workplace Hazard Groups related to the Occupational Health and Safety, published in the Official Gazette dated December 26, 2012 and numbered 28509 (the "**Communiqué on the Workplace Hazard Groups**"), our electricity distribution activities are classified as "very hazardous" and our electricity retail sales activities are classified as "less hazardous". All of our distribution and retail companies are required to conduct risk assessments, regardless of their hazard class. However, our distribution companies are subject to broader health and safety requirements than our retail companies. Any breach of the applicable health and safety laws and regulations or even incidents that do not amount to a breach could have a material adverse effect on our business, financial condition, results of operations and prospects. Although we maintain all measures to prevent workplace accidents, from time to time we face death-related workplace accidents. For the years ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2017, our distribution companies experienced a total of 12 death-related workplace accidents, most of which resulted from electric shock and traffic accidents. As of September 30, 2017, four out of 12 death-related workplace accidents resulted in lawsuits, whereas eight out of 12 death-related workplace accidents did not result in lawsuits as we settled with the relatives of deceased employees. As of September 30, 2017, there are four lawsuits that are still pending. As a result of such lawsuits, we may be subject to compensation claims and administrative fines, and our board members or managers may be subject to criminal charges, or we may be subject further lawsuits and such lawsuits may have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation.

We are also, to an extent, subject to laws and regulations governing environmental matters. The facilities subject to environmental impact assessment requirements are stated in the Environmental Impact Assessment Regulation published in the Official Gazette dated November 25, 2014, and numbered 29186 (the "**EIA Regulation**") and neither Enerjisa nor our distribution or our retail companies are in the scope of these lists. Therefore, we are exempt from EIA requirements. However, our distribution and retail companies are connected to a sewage system for their waste water and required to obtain necessary permits from the relevant municipality to connect to the sewage system for the relevant facilities. Additionally, our distribution companies store more than 1,000 kg of hazardous waste in their logistic service center warehouses, and are required to obtain temporary waste storage permits from the relevant provincial directorate. Therefore, we could incur additional costs of compliance or become subject to administrative fines due to breach of environmental laws and regulations, which could disrupt our activities and have a material adverse effect on our business, financial condition, results of operations and prospects.

We are also subject to the risk of government-imposed investigations, audits, inquiries or orders to remedy unsafe conditions and/or to remediate or otherwise address environmental contamination, potential penalties for contravention of health, safety and environmental laws and potential civil liability. Such investigations, inquiries or orders may arise in the future and any of these may have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not be able to successfully protect our intellectual property rights, which could have a material adverse effect on the value of our brand and on our business, financial condition, results of operations and prospects.

We depend on the recognition of our brand for the successful operation of our business. Our brand recognition is, in turn, dependent on our intellectual property rights. Enerjisa uses six trademarks registered with the Turkish Patent and Trademark Office, three of which are owned by Enerjisa whereas the remainder is owned by Sabancı Holding. Three of these trademarks are "enerjisa türkiye'nin enerjisi şekil", "enerjisa" and "enerjisa", which are protected as registered trademarks in the name of Sabancı Holding, until September 16, 2025, September 11, 2022 and September 11, 2022, respectively. These trademarks are used by Enerjisa under a trademark license agreement executed by and between Sabancı Holding and Enerjisa, on September 12, 2017. If such trademark license agreement is terminated, we may not be able to use such trademarks, which would have a material adverse effect on our business, financial condition, results of operations and prospects. Apart from the trademarks of Enerjisa, our distribution and retail companies also have registered trademarks which are important to our business.

Any failure by us to take necessary actions to maintain or increase acceptance and market penetration of our brands, or any loss in the actual or perceived value of our brands, including any loss caused by failure to protect our trademarks could have material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation and brand. Any damage to our brands or reputation, for example as a result of death-related compensation claims or related criminal charges, negative press coverage or misleading activities of other retail companies in the electricity market could negatively influence our customers' approach, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may also be subject to intellectual property rights claims, which are costly to defend and could require us to pay damages. As we grow our business and expand our operations, we may be subject to intellectual property claims and intellectual property infringement assertions by third parties, which could result in significant costs and have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation and brand.

Our retail sales revenue and profit margins, and our operational cash flows are subject to seasonal fluctuations.

Historically, our retail sales operations have been moderately seasonal. Our retail sales revenue experiences seasonality on a quarterly basis both in terms of electricity consumption and prices. Electricity consumption typically increases during the winter months (due to heating and lighting needs) and during summer months (due to air conditioning and cooling needs). Similarly, electricity prices increase during winter months as a result of increases in the electricity demand, in the natural gas demand and natural gas prices. During summer months, electricity price also increases since electricity demand increases and electricity generation from hydroelectric power plants decreases due to naturally lower hydrologic inflows, whereas the electricity prices decrease during autumn and spring seasons as energy generation from hydroelectric power plants naturally increases. Consequently, temperature levels, hydrology and seasonality in Turkey may have a significant effect on electricity consumption and prices, which could result in a decrease in the amounts of electricity we sell to our customers and have a material adverse effect on our business, financial condition, results of operations and prospects.

Our electricity distribution and retail sales activities are subject to certain quality standards set by EMRA and failure to comply with such quality standards could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation.

Our distribution companies are required to comply with technical, commercial and supply continuity quality standards set by EMRA with respect to their distribution activities. See "*Business—Our Operations-Distribution Operations—Quality Indicators of Our Distribution Operations*". Our retail companies are also required to comply with commercial quality standards with respect to their retail sales activities. For example, in case of any electricity interruption exceeding the limits set by EMRA, our distribution companies are required to pay compensation to the customers who experienced such interruption based on the duration and frequency of the interruption. Also, when we are not in compliance with certain commercial standards, our distribution and retail companies are required to pay compensation to the customers who incurred losses because of such non-compliance. In addition, should we not comply with the relevant standards, our retail and distribution companies may be subject to administrative fines or customer complaints or claims due to any such non-compliance. Rectifying any such noncompliance with the mandatory quality standards could also require us to incur additional compliance costs, which could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation.

We use form agreements with our customers, which increase the potential risk that certain agreement terms may be invalid or unenforceable if any provision in the agreements is held to be void.

Our retail companies use prescribed (i.e. non-negotiable) form agreements for electricity sales to customers. EMRA regulations and Turkish consumer protection regulations include various rules that protect the rights of the counterparties under such form agreements. For example, due to Turkish consumer protection regulations and Turkish Code of Obligations No. 6098, we are required to inform our customers about provisions that are against their interest and to obtain their explicit approval for such provisions. If we do not do this, such provisions may be deemed invalid. In addition, if the interpretation of any provision of a form agreement is subject to dispute, such provision may be interpreted in favor of the counterparties (i.e., our customers) and not the party that has prepared the contract. Accordingly, our form agreements may be subject to claims by our customers, which expose us to legal costs and legal proceedings that may be time consuming. Also, if any of the provisions under our form agreements are declared invalid, we may be required to replace these with provisions which are unfavorable to us. Any such developments could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation.

Acquisitions that we may seek in the future involve a number of inherent risks, any of which could cause us not to realize the anticipated benefits.

Although it is not a part of our current core strategy, should we seek to expand our operations through selective acquisitions in the future, we may be unable to identify attractive targets in the future or to acquire them on acceptable terms. Some key actionable medium term opportunities in the power space include rooftop solar electricity generation, smart meters and battery storage. Moreover, acquisitions pose significant risks to our existing operations, placing additional demands on our senior management, who are also responsible for managing our existing operations. We may also be unable to integrate the operations of the recently acquired business or to achieve identified operating and financial synergies anticipated to result from the acquisition. In addition, acquisitions may result in a significant increase in indebtedness, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are subject to impairment risk in terms of our intangible assets.

The acquisition prices of Başkent, Ayedaş and Toroslar regions were higher than their book values at the dates of acquisitions. Therefore, the difference between acquisition prices and the book values of such regions were recorded to our financials as intangible assets. Any deterioration in the retail and distribution businesses might decrease the fair value of our assets and may lead to an impairment of intangible assets, if such fair value is lower than the book value in our financials, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

Any change in the financial reporting standards may negatively affect our financial condition.

We prepare our consolidated financial statements in accordance with IFRS and TFRS. The financial reporting standards under IFRS and TFRS and related accounting pronouncements, implementation guidelines and interpretations with regards to a wide range of matters that are relevant to our business, including but not limited to, revenue recognition, service concession agreements, business combinations, goodwill and related parties are highly complex and involve many subjective assumptions, estimates and judgments by our management. In addition, our financial statements are prepared based on certain assumptions of our management, such as assumptions regarding our CAPEX performance, inflation rates and interest rates. Therefore, any changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported or expected financial performance and may have a material adverse effect on our business, financial condition, results of operations and prospects.

Risks Related to Turkey

Turkey is subject to internal and external unrest and the threat of future terrorist acts.

Turkey is located in a region that has been subject to ongoing political and security concerns. Turkey has been subject to a number of terrorist attacks, resulting in a number of fatalities and casualties. Since July 2015, Turkey has been subject to a number of bombings, including tourist-focused centers in İstanbul and the city center in Ankara, which have resulted in a number of fatalities and casualties. Recently, on January 1, 2017, 39 people were killed and 69 were injured following a shooting in a nightclub in İstanbul. The attack was linked to Islamic State of Iraq and Syria. On January 5, 2017, two people were killed and 11 others were wounded in a terrorist attack in İzmir. Such incidents have had, and could continue to have, a material adverse effect on the Turkish economy, including as a result of the reduced revenue from tourism following heightened terrorist activity and its coverage in the international media. This, in turn, could have a material adverse effect on our business, financial condition, results of operations and prospects. Turkey has historically had strained relationships with ethnic separatist groups. In particular, Turkey has been in conflict for many years with certain terrorist organizations. Recently, clashes between Turkish security forces and such terrorist organizations have again intensified in the southeast of Turkey. Any further escalation may negatively impact political and social stability in Turkey and could have a material adverse effect on our business, financial condition, results of operations and prospects.

Since December 2010, political instability has increased markedly in areas close to Turkey, including in Syria, Iran, Iraq Israel and Jordan. Unrest in those countries may affect Turkey's relationships with its neighbors, have political implications in Turkey or have a negative impact on the Turkish economy, including on both financial markets and the real economy. In addition, certain sectors of the Turkish economy, such as construction, iron and steel, have operations in the Middle East and North Africa and may experience material negative effects, which could have a material adverse effect on Turkey's general economy. In addition, the conflict in Syria has been the subject of significant international attention, and its impact and resolution are difficult to predict. Elevated levels of conflict have arisen in Iraq and Syria as militants of the Islamic State of Iraq and Syria seized control of key Iraqi cities, which has caused a significant displacement of people. Any of these factors may negatively impact political and social stability in Turkey, and could have a material adverse effect on our business, financial condition, results of operations and prospects.

Turkey's relations with the U.S. government have deteriorated since October 2017, when the U.S. government decided to suspend all non-migrant visa services for travel between the two countries, upon arrest of a U.S. consulate employee in İstanbul. Turkish government also suspended all non-migrant visa services for travel between the two countries in retaliation for the U.S. government's decision. Although the U.S. government and Turkish government reciprocatively lifted the suspension in December 2017, no assurance can be given that Turkish-U.S. relations will not deteriorate further in the future. Furthermore, Turkey's relations with the Russian Federation, Turkey's second largest trading partner, have deteriorated since November 24, 2015, when the Turkish Air Force shot down a Russian Federation warplane. According to the Turkish government, the warplane violated Turkish air space near the Syrian border. Since the incident, the Russian Federation has imposed a set of economic and other sanctions against Turkey. In June 2016, the Russian Federation partially lifted the sanctions. Notwithstanding this improvement, any deterioration of Turkey's relations with the U.S. government or the Russian Federation or the expansion or renewed imposition of economic and other sanctions by the U.S. government or the Russian Federation against Turkey, could have a material adverse effect on the Turkish economy generally, which, in turn, could have a material adverse effect on our business, financial condition, results of operations and prospects.

Political developments in Turkey may negatively affect our prospects, business, financial condition and results of operations.

Turkey has been a parliamentary democracy since 1923. Unstable coalition governments have been common and, since the establishment of the parliamentary system, Turkey has had over 60 governments, with political disagreements frequently resulting in early elections. Furthermore, the Turkish military establishment has historically played a significant role in Turkish government and politics, intervening in the political process in 1960, 1971, 1980 and most recently, in July 2016. On July 15, 2016, the Turkish government was subject to an attempted coup by a group within the Turkish army. The Turkish government and the Turkish security forces took control of the situation in a short period of time and the ruling government remained in control. As of the date of this Offering Circular, as a result of such attempted coup in July 2016, Turkey is in an official state of emergency which has been extended five times and is expected to last until January 2018. Negative developments in the political environment in Turkey may adversely affect the business climate in Turkey and the stability of the Turkish economy. For example, on April 16, 2017, a referendum took place in Turkey regarding amendment of certain articles of the Turkish Constitution, which would expand the powers of the president to create an executive presidency. The amendments were approved by 51.4% of voters, and most of the amendments are expected to be implemented by the end of 2019, when the next general and presidential election is scheduled to take place. The 18 constitutional amendments approved at the referendum require, among other things, that (a) the current parliamentary system be transformed into a presidential one; (b) the president be allowed to be the head of a political party and to appoint the cabinet; (c) the office of the prime minister be abolished; and (d) the Council of Judges and Prosecutors (currently the High Council of Judges and Prosecutors) be restructured and the president be granted increased powers over the selection of the members of the Council. Any political developments surrounding future elections could also contribute to volatility in the Turkish financial markets and/or have an adverse effect on the investors' perception of Turkey, including the independence of Turkey's institutions as well as Turkey's ability to adopt macroeconomic reforms, support economic growth and manage domestic social conditions.

Furthermore, on July 20, 2016, Standard & Poor's lowered Turkey's sovereign credit rating to BB from BB+, citing the polarization of Turkey's political landscape as one of the main reasons. On September 23, 2016, Moody's lowered Turkey's sovereign credit rating to Ba1 from Baa3 with a stable outlook. On January 27, 2017 Standard & Poor's downgraded its outlook for Turkey to "negative" from "stable". In addition, on the same day, Fitch downgraded Turkey's sovereign credit rating to "BB+" from "BBB-". On March 17, 2017, Moody's downgraded its outlook for Turkey from "stable" to "negative". On May 5, 2017, Standard & Poor's confirmed Turkey's rating and outlook at BB and "negative". If new political developments emerge that are considered to further contribute to political instability in Turkey, the ratings agencies could take further rating action against the Turkish sovereign and the value of the Offer Shares could decline. Any political developments, such as resignation, reassignment of certain number of parliament members and government's failure to provide vote of confidence, surrounding any future elections could also contribute to the volatility of Turkish financial markets and/or have an adverse effect on the investors' perception of Turkey, including the independence of Turkey's institutions as well as Turkey's ability to adopt macroeconomic reforms, support economic growth and manage domestic social conditions. The recent political developments in Turkey, including the referendum regarding amendment of certain articles of the Turkish Constitution, the attempted coup, and the manner of their resolution have also had a negative effect on investors' perception of Turkey and on the strength of the Turkish economy. If these events continue, or if new political developments emerge that have a similar effect, the value of the Offer

Shares could decline. In addition, actual or perceived political instability in Turkey could lead to further economic volatility, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Turkey has been, and is likely continue to be, negatively affected by uncertainty regarding the global macroeconomic environment.

Most economies around the world have begun to recover from the economic slowdown triggered by the global financial crisis in 2008, but doubts about the sustainability of the global economic recovery continue to materially affect the Turkish economy. Economic growth in Europe remains weak, and many European economies continue to face structural challenges, with unemployment and structural debt levels remaining high. In the United States, the tightening monetary policies implemented by the United States Federal Reserve Board that started in December 2015 have increased levels of uncertainty for global economic recovery. Markets, including Turkey, experienced significant volatility in 2015, 2016 and 2017 amid concerns that the level of foreign investment inflows would decline substantially as the liquidity-tightening measures started in the United States. In addition, the United Kingdom held a referendum on June 23, 2016, in which the majority voted for the United Kingdom to exit the European Union (“**Brexit**”). Brexit could adversely affect European or worldwide economic markets and contribute to instability in global financial and foreign exchange markets. Any negative developments could contribute to the uncertainty and/or increase instability in the economic and financial markets worldwide and in Turkey, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Turkey’s economy has been subject to significant inflationary pressures in the past and may become subject to significant inflationary pressures in the future.

The Turkish economy has experienced significant inflationary pressures in the past with year-over-year consumer price inflation rates as high as 69.7% in the early 2000s. Consumer price inflation was 8.2%, 8.8%, 8.6%, and 11,2% as of December 31, 2014, 2015 and 2016 and as of September 30, 2017, respectively. Producer price inflation was 6.4%, 5.7%, 10.0%, and 16,28% as of December 31, 2014, 2015 and 2016, and as of September 30, 2017, respectively (*Source: Turkish Statistical Institute (“**Turkstat**”)).* Significant global price increases in major commodities such as oil, cotton, corn and wheat are likely to increase supply side inflation pressures throughout the world. These inflationary pressures may result in Turkish inflation exceeding the Central Bank’s inflation target, which may cause the Central Bank to modify its monetary policy. This could have a material adverse effect on the Turkish economy, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Turkey has had an increasing current account deficit.

The current account deficit in Turkey was 4.4% and 3.6% of the gross domestic product (“**GDP**”) for the years ended December 31, 2015 and 2016, respectively (*Source: Central Bank; Treasury*). This contracting but still high current account deficit reflects both Turkey’s long-standing structural economic problems and current economic and market conditions. Structural economic problems include a dependence on imported energy and a high proportion of imports for manufacturing and domestic consumption, a low savings rate and the shadow economy. The decrease in Turkey’s current account deficit in 2016 was supported primarily by the decline in oil prices. However, Turkey’s current account deficit increased slightly in 2017. There can be no assurance whether or for how long the Turkish economy will continue to benefit from the increase in current account deficit. More generally, continued growth in domestic demand and capital outflows could cause the current account deficit to increase, which may result in a sudden and significant adjustment in the value of the Turkish Lira, with potential inflationary consequences. To date, Turkey’s current account deficit has been funded largely through short-term foreign capital borrowings and foreign portfolio investments. Increased uncertainty in the global financial markets could make it more difficult for Turkey to finance its current account deficit, leading to increased volatility in the Turkish economy, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are subject to risks associated with doing business in an emerging market.

Emerging markets such as Turkey are subject to greater risk than more developed markets of being perceived negatively by investors based upon external events, and financial turmoil in any emerging market (or global markets generally) could disrupt the business environment in Turkey. Moreover, financial turmoil in one or more emerging market(s) tends to adversely affect prices for securities in other emerging market countries as investors move their money to countries that are perceived to be more stable and economically developed. An increase in the perceived risks associated with investing in emerging economies could dampen capital flows to Turkey and adversely affect the Turkish economy. As a result, investors' interest in the Offer Shares (and thus their market price) might be subject to fluctuations that might not necessarily be related to economic conditions in Turkey or our financial performance. Investors' interest in Turkey might be negatively affected by events in other emerging markets or the global economy in general, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Risks Related to an Investment in the Offer Shares

The Offer Shares may experience price and volume fluctuations.

Following the Offering, there can be no assurance that a market for the Offer Shares will develop or, if such a market does develop, that it will continue. In addition, the liquidity of any market for the Offer Shares will depend on the number of holders of the Offer Shares, the interest of securities dealers in making a market in the Offer Shares and other factors. An active trading market may not develop or be maintained, which may adversely affect investors' ability to trade the Offer Shares purchased in the Offering. The limited public market for the Offer Shares may impair holders' ability to sell the Offer Shares in the amount and at the price and time as such holders may wish and may increase the volatility of the price of the Offer Shares.

The Offer Price may not be indicative of the market price for our Offer Shares in the current market or of future performance. Moreover, our operating results or financial performance may fail to meet the expectations of analysts or investors due to the circumstances described in these risk factors or otherwise. The trading price of the Offer Shares could also be subject to significant fluctuations in response to variations in our and our competitors' financial performance, global macro-environment, activities of competitors and other factors as well as the circumstances described in these risk factors or otherwise. Fluctuations in our operating results or failure to meet the expectations of analysts or investors may cause the price of the Offer Shares to decline, and investors may not be able to sell the Offer Shares they purchased in the Offering at or above the Offer Price, or at all. As a result, investors who purchase the Offer Shares in the Offering could lose all or part of their investment in the Offer Shares.

The price of the Offer Shares may be subject to significant fluctuation from time to time, which may not necessarily be related to our financial performance or expectation of future earnings. Consequently, the general decline in the market or any declines in the market for similar securities may have a material adverse effect on the trading market for, and the liquidity of, the Offer Shares.

Borsa İstanbul is smaller and less liquid than other major exchanges and may be more volatile, which may adversely affect the ability to trade our Offer Shares purchased in the Offering.

The only trading market for our Offer Shares will be Borsa İstanbul, and we have no plans to list our Offer Shares on any other stock exchange in the near future. With a total market capitalization of approximately TL 793.8 billion as of September 30, 2017, Borsa İstanbul is considerably smaller and thus less liquid than more developed securities markets, such as those in the United States or the United Kingdom. In addition, a disproportionately large percentage of the market capitalization and trading volume of Borsa İstanbul is represented by a small number of listed companies. As of September 30, 2017, 403 companies were traded on Borsa İstanbul, with the ten largest companies by market capitalization representing approximately 39% of the total market capitalization of Borsa İstanbul. The average daily trading volume in the shares of the ten most traded companies on Borsa İstanbul amounted to TL 2,3 billion in the first nine months of 2017, representing approximately 43% of the average daily trading value of all stocks traded on Borsa İstanbul during that period.

Borsa İstanbul is also a volatile market, which is illustrated by BIST-100 index figures that have fluctuated between 21,228 and 110,423 from January 1, 2005 to September 30, 2017. Trading on Borsa İstanbul has traditionally been characterized by a high degree of short-term speculative trading, which is at least partially attributable to the relatively underdeveloped institutional investor base in Turkey and the relatively small size of the retail investor base. As is the case for the equity securities of many emerging market issuers, the market value of the Offer Shares may be subject to significant fluctuations, which may not necessarily be related to our financial performance or expectation of future earnings. The relatively small size and low liquidity of Borsa İstanbul in general and the limited public market for the Offer Shares in particular may impair the ability of holders of the Offer Shares to sell them in the amount and at the price and time when a holder may wish to do so, and may increase the volatility of the price of the Offer Shares. See "*The Turkish Securities Market—Borsa İstanbul*".

Future sales of substantial amounts of the Offer Shares, or the perception that such sales could occur, could have a material adverse effect on the market value of the Offer Shares.

We and the Selling Shareholders have agreed with the Joint Bookrunners that, subject to certain exceptions and to waiver by the Global Coordinators, neither we nor the Selling Shareholders will sell any Offer Shares for a period of 180 days from the date when the Offer Shares are first traded on the Borsa İstanbul. See "*Plan of Distribution*". After the end of the 180-day period (or during the 180-day period in the case of an exception or waiver by the Global Coordinators), we and the Selling Shareholders may make sales of the Offer Shares or initiate a capital increase. Any such sales of substantial amounts of the Offer Shares by the Selling Shareholders or others, or a substantial amount of capital increase, or the perception that such sales or capital increases could occur, could have a material adverse effect on the market value of the Offer Shares.

A holder of the Offer Shares may have limited recourse against our assets and our directors and executive officers because we conduct our operations in Turkey.

We are incorporated under the laws of Turkey, and some of the members of our Board of Directors and our executive officers reside in Turkey. Our assets and the assets of our directors and executive officers are located principally in Turkey. As a result, investors may not be able to affect service of process upon us or our directors and executive officers outside Turkey or to enforce court judgments obtained against us or our directors and executive officers in jurisdictions outside Turkey. See "*Enforceability of Civil Judgments*".

We may not pay dividends to holders of the Offer Shares or declare dividends in the future.

Public companies in Turkey may distribute dividends in accordance with Turkish law, their articles of association and the dividend policies adopted by their shareholders, which are prepared in accordance with certain principles set forth by the CMB. Public companies in Turkey may, at their discretion, distribute dividends in the form of cash and/or bonus shares or retain all or part of their earnings for the relevant financial year as retained earnings. The regulations governing the calculation and distribution of dividend by Turkish companies are subject to change.

The actual payment and form of future dividends, if any, and the amounts thereof will depend on a number of factors including, but not limited to:

- the amount of distributable profits and reserves (i.e. distributable earnings);
- the amount of our free cash flow (impacted by working capital requirements, finance costs, capital expenditures and investment plans);
- our level of indebtedness and ongoing payment obligations;
- the dividend objectives and expectations of our shareholders; and
- such other factors as our Board of Directors may deem relevant in its discretion from time to time.

Even if we generate significant profits, we may not pay dividends if our Board of Directors believes that shareholder value may be increased more effectively by using any such profit for other purposes, for example through re-investment or in acquisitions. As a result, our ability to pay dividends in the future may vary and could be limited. See "*Dividends and Dividend Policy*".

Fluctuations in the value of the Turkish Lira could significantly affect the value of the Offer Shares and any dividends we pay with respect to the Offer Shares if converted into a currency other than the Turkish Lira.

The quoted price of the Offer Shares will be in Turkish Lira. In addition, the dividends, if any, that we pay in respect of the Offer Shares will be paid in Turkish Lira. As a result, fluctuations in the value of the Turkish Lira in relation to other currencies can affect the value of the Offer Shares and dividend payments upon conversion into other currencies for investors outside Turkey. See "*Dividends and Dividend Policy*".

Any rights granted to holders of the Offer Shares may be unavailable to U.S. holders of the Offer Shares.

In the case of an increase of our share capital, holders of the Offer Shares will be entitled to subscribe for new Offer Shares in proportion to their respective holdings even though such pre-emptive rights may be restricted by our shareholders. See "*Description of Share Capital—Pre-emptive Rights*". To the extent that pre-emptive rights are granted, U.S. holders of the Offer Shares may not be able to exercise such pre-emptive rights unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirements thereunder is available. There can be no assurance that any registration statement would be filed as to enable the exercise of such holders' pre-emptive rights or participation in a rights offer.

Turkish disclosure standards may require a lesser amount of disclosure than rules in certain other countries.

The accounting, financial, corporate governance and other disclosure standards applicable to public companies in Turkey are less exhaustive than those in the European Union, the United States or in other jurisdictions with major capital markets. There is less publicly available information on businesses in Turkey than is regularly published by similar businesses in the European Union, the United States or in other similar markets and any information that is published might only be presented in Turkish. Certain disclosure rules and limited corporate governance standards have been adopted recently, but their interpretation and application are still evolving. Many aspects of laws and regulations in Turkey relating to public companies and the capital markets have not yet been subject to judicial or regulatory interpretation or review and are therefore still subject to certain uncertainties with respect to their applications. See "*Description of Share Capital*" and "*The Turkish Securities Market*".

We rely on the strength of our reputation and the reputation of our shareholders Sabancı Holding and E.ON.

Our success, to an extent, depends on the strength of our reputation and brand, as well as on the reputation of our shareholders Sabancı Holding and E.ON.. Sabancı Holding, which is the parent company of Sabancı Group (i.e., Hacı Ömer Sabancı Holding A.Ş. and its subsidiaries and affiliates ("**Sabancı Group**")), is one of Turkey's leading conglomerates, while E.ON is one of Germany's largest power providers. Both of our shareholders are publicly traded companies. As such, our shareholders receive considerable public attention, including possibly negative publicity, in Turkey and Germany. Events affecting the reputation of Sabancı Holding and E.ON are beyond our control and any negative publicity concerning either of them could have an adverse impact on our brand and have a negative impact on our operations, which in turn could have a material adverse effect on our business and financial condition.

We are controlled by Sabancı Holding and E.ON whose interests may not be aligned with our interests or those of the purchasers of the Offer Shares.

Sabancı Holding held 50.0% of our share capital and E.ON, through its wholly owned subsidiary, E.ON Turkey, held 50.0% of our share capital, prior to the Offering. Upon completion of the Offering (and assuming the maximum number of the Offer Shares are sold in the Offering), Sabancı Holding will continue to directly hold 41%, and E.ON Turkey will continue to directly hold 41%, of our shares and voting rights (40%, and 40%, respectively, assuming all Additional Shares are sold). As a result, Sabancı Holding and E.ON will continue to exercise control over us after the completion of the Offering. Additionally, certain members of our Board of Directors hold board membership or senior management positions at Sabancı Holding and E.ON. The interests of Sabancı Holding and E.ON may differ from our interests or the interests of purchasers of the Offer Shares. There can be no assurance that Sabancı Holding and E.ON will act in a manner that is in our best interests or that the interests of Sabancı Holding and E.ON will coincide with the interests of purchasers of the Offer Shares.

Furthermore, because Sabancı Holding and E.ON will continue to exercise control over us after the completion of the Offering, Sabancı Holding and E.ON will have the ability to exercise significant influence over our electricity distribution and retail sales business, policies and affairs, including matters requiring shareholders' approval, such as the timing and distribution of dividends, election or termination of appointment of the members of our Board of Directors and officers and policies for investments and capital expenditures. Any of the foregoing factors could have a material adverse effect on our business, prospects, financial condition, results of operations, and cash flows. In addition, for as long as Sabancı Holding and E.ON continues to exercise control over us, it may influence our material policies in a manner that could conflict with the interests of the purchasers of the Offer Shares.

We have entered into, and will continue to enter into, related party transactions.

In the ordinary course of business, we have engaged, and intend to continue to engage in, transactions with our related parties. For example, we have entered into several general loan agreements with Akbank, which is a part of the Sabancı Group, for the purposes of meeting our financing needs. As of September 30, 2017, our total short-term liabilities arising from the loans provided by Akbank is TL 987,570 (including principal and interest accruals), and our total long-term liabilities arising from the loans provided by Akbank is TL 2,312,800 (including principal and interest accruals). Furthermore, we purchase electricity from Enerjisa Electricity Wholesale Company, which is a Sabancı Group company. For the years ended December 31, 2014, 2015 and

2016, and for the nine months ended September 30, 2016 and 2017, our cost is TL 1,418,047, TL 2,213,661, TL 1,448,832, TL 1,095,601, and TL 608,826, respectively, from Enerjisa Electricity Wholesale Company for our purchases of electricity including the purchases regarding our sales conducted through Enerjisa Electricity Wholesale Company. Electricity purchases from Enerjisa Electricity Wholesale Company, as well as from other suppliers, may increase in the future as a result of the ongoing liberalization process, as the retail companies can purchase electricity from the suppliers in the market other than TETAŞ for retail sales to free customer. For the same periods, Enerjisa Electricity Wholesale Company supplied approximately 21.1%, 30.8%, 24.6%, 24.1%, and 12.1% of the total electricity we sold to our customers. See "*Related Party Transactions*". We believe that our prior and existing contracts and other transactions with related parties have been negotiated on an arm's length basis and were in line with market terms. However, the tax authorities may conduct audits on our related party transactions and would allege that our related party transactions are not on an arm's length basis. Furthermore, related party transactions may involve conflicts of interests which may be detrimental to us. Therefore, our related party transactions, individually or in the aggregate, could have a material adverse effect on our business, financial condition, results of operations and prospects.

DIVIDENDS AND DIVIDEND POLICY

As a public company in Turkey, we will be subject to the dividend distribution requirements imposed by the CMB, as described below. The timing and amount of any future dividend payments will depend on our existing and future financial condition, results of operations, liquidity needs and other matters that we may consider relevant from time to time, including, without limitation, our investment and financing strategies and needs, amendments and developments in the applicable regulation, our mid to long-term strategies, capital and investment requirements, profitability, financial position, indebtedness and liquidity position, as well as domestic and global economic conditions. See "*Risk Factors—Risks Related to an Investment in the Offer Shares—We may not pay dividends to holders of the Offer Shares or declare dividends in the future*".

Pursuant to the Capital Markets Law, public companies are required to have a dividend distribution policy which must be determined by the general assembly of shareholders of the relevant company. Pursuant to the mandatory provisions of the Communiqué on Dividend Distribution (II-19.1), the dividend distribution policy is required to consist of information as to whether the public company will distribute dividends and, if so, the relevant dividend distribution ratio, form of payment, timing of dividend distribution and whether interim dividends will be paid by the public company. Based on the non-mandatory provisions of the Corporate Governance Principles (as defined below) the dividend distribution policy should include the minimum information allowing the investors to foresee the procedures and the principles that will apply to the distribution of profits in the upcoming periods.

The following is a description of certain information relating to the payment of dividends, including requirements under the TCC, the Capital Markets Law, the CMB regulations and our articles of association.

Regulatory and Legal Framework

In line with the dividend distribution policy to be determined by our general assembly of shareholders (the "**General Assembly**") and the provisions of Turkish law, the distribution of profits and the payment of any annual dividend in respect of the preceding financial year will be recommended by our Board of Directors each year for approval by the shareholders at the annual (ordinary) General Assembly, which must be held within three months following the end of the preceding financial year. Dividends are payable on a date and in the form determined at the annual General Assembly. Each share entitles its holder to a pro rata share of any dividends distributed and dividend distributions are made to all shares existing as of the distribution date, regardless of their date of issuance. Therefore, holders of the Offer Shares will be entitled to receive dividends payable, if any, on the Offer Shares in respect of the year ending December 31, 2017 and any dividends payable in subsequent years.

Public companies have the option to distribute dividends in the form of cash or in the form of bonus shares to the shareholders, to distribute a combination of cash and bonus shares, or to retain all or part of their earnings for the relevant financial year as retained earnings, to make their payments as lump sum or in installments subject to the limitations discussed below. Public companies may distribute dividends from net profits or non-mandatory reserves.

Distributable earnings are calculated in accordance with our articles of association after deducting all expenses, depreciation and similar payments and setting aside legally required reserves, taxes and the previous year's losses, if any, from the revenue for the prior fiscal period. The amount of distributable earnings is the lesser of the amounts derived by performing this calculation using (i) our statutory financial statements, which are prepared in accordance with the TCC and Turkish tax legislation and (ii) our TFRS accounts prepared in accordance with CMB regulations, which may differ from our IFRS accounts due to different depreciation, expense, revenue and foreign exchange gain and loss recognition standards.

Distributable earnings are then allocated in the following order:

- 5.0% of the distributable earnings is allocated to a first legal reserve until the first legal reserve reaches 20.0% of our paid-in capital (corresponding to TL 23,621,379,342 as of the date of this Offering Circular);
- the remaining amount after adding the value of any donations made within the relevant annual term (if any), will be distributed to our shareholders as a first dividend in accordance with the TCC, Turkish capital markets regulations and our articles of association;
- the remainder of the distributable earnings may be (i) distributed in full or in part to our shareholders as a second dividend or distributed to our board members, officers, employees as a share of our profit or distributed to the foundations or similar institutions established for various purposes or (ii) set aside as year-end profits or as part of non-mandatory reserves; and

- after deducting an amount equal to 5.0% of our paid-in capital from the amount to be distributed to shareholders and persons participating in profit as stated above, we allocate 10.0% of the remaining amount as a second legal reserve and add it to the statutory reserve.

Unless and until the statutory funds and other financial obligations required by law are set aside and the dividend determined in accordance with the articles of association is distributed in cash or as bonus shares, we cannot resolve (i) to set aside any reserve, (ii) to transfer a dividend to the next year, or (iii) to make distributions to the members of our Board of Directors, managers, employees and foundations or similar institutions established for various purposes.

If the calculated first dividend amount is less than 5.0% of the paid-in capital, we may not distribute the first dividend. However, the amount retained will be added to the calculation of the first dividend for the following fiscal year.

Pursuant to the Capital Markets Law, public companies may distribute interim dividends provided that each interim dividend to be distributed do not exceed 50.0% of the net profit shown in the interim period financial statements remaining after deducting the previous years' losses and statutory reserves, and the total amount of interim dividends do not exceed the lower of (i) 50.0% of the net profit of the previous year, or (ii) except for the net profit, other sources usable for profit distribution in the relevant interim period. No dividends or additional interim dividends can be distributed until the interim dividends of the previous year are completely set off. Pursuant to the provisions of the Communiqué on Dividend Distribution (II-19.1), public companies may distribute interim dividends in accordance with the following criteria:

- Any interim dividends previously paid must be deducted from the amount used to calculate any subsequent interim dividend payments within the same fiscal year;
- The articles of association of the public company must permit the distribution of interim dividends and the general assembly of shareholders must authorize the board of directors to declare such distributions for each year that they wish to have interim dividend distributions;
- The dividend distribution policy of the public company should allow for the distribution of interim dividends;
- Once authorized by the general assembly of shareholders, the board of directors must decide on whether to distribute interim dividends and disclose such decision to the public at the time interim financial statements are disclosed to the public (which is 40 days for consolidated financial statements following the completion of the relevant interim period in accordance with Communiqué on Financial Reporting in Capital Markets (II-14.1));
- Holders of privileged classes of shares are entitled to receive interim dividends the same as other shareholders holding regular classes of shares; and
- Any non-shareholders entitled to receive dividends are not allowed to receive interim dividends.

As of the date of this Offering Circular, our articles of association authorize our general assembly to decide whether to distribute interim dividends to our shareholders subject to the Capital Markets Law. In addition, pursuant to our articles of association, our general assembly may authorize the Board of Directors to distribute interim dividends, provided that such authorization is limited to the relevant accounting period.

Pursuant to the provisions of the Communiqué on Dividend Distribution (II-19.1), public companies must be authorized under their articles of association to make any charitable donations. If there is no upper limit set forth under the articles of association, then the upper limit for the donations is determined by the shareholders at a general assembly meeting. Pursuant to our articles of association, we are entitled to donate 1% of our consolidated profit to Sabancı University and Sabancı Foundation and the maximum limit for donations is EUR 5,000,000 annually. The CMB is also authorized to determine an upper limit for donations to be made by a public company. The amount of donations will be added to the distributable dividends calculated for the relevant financial year.

Under Turkish law, the statute of limitations in respect of dividend payments, including interim dividends, is five years following the date of the dividend distribution, after which time uncollected dividends are transferred to the Turkish Undersecretariat of Treasury (*T.C. Başbakanlık Hazine Müsteşarlığı*) (the "**Treasury**").

Dividend Currency

To the extent we declare cash dividends in the future, we will pay those dividends solely in Turkish Lira. As the value of the Turkish Lira fluctuates continuously, a holder of the Offer Shares will be exposed to currency fluctuations generally and particularly between the date on which dividends are declared and the date on which dividends are paid. See "*Exchange Rates*" and "*Risk Factors—Risks Related to an Investment in the Offer Shares—Fluctuations in the value of the Turkish Lira could significantly affect the value of the Offer Shares and any dividends we pay with respect to the Offer Shares if converted into a currency other than the Turkish Lira*".

Dividend Policy

Our policy is to pay dividends in accordance with the regulations of the CMB, the relevant article of our articles of association, and the minimum percentage determined by the CMB each financial year, if any.

Pursuant to our dividend policy, we target cash dividend distribution in an amount of 60.0% of the net profit recorded under our consolidated and audited annual financial statements which are prepared in accordance with IFRS, excluding any exceptional items (e.g., fair value changes). The annual dividend amount to be distributed in cash shall be determined by calculation of the 'distributable earnings' in accordance with the Capital Markets Legislation and the targets stated above.

Implementation of this policy and the ratio of distributable dividend in cash is subject to various components, including but not limited to, our investment and financing strategies and needs, mid to long-term strategies, capital and investment requirements, profitability, financial position, indebtedness and liquidity position, as well as amendments and developments in the applicable regulation and domestic and global economic conditions. In line with these conditions, the amount of the distributable dividend may be lower than the targeted amount, or we may decide not to distribute dividend upon proposal of the Board of Directors and approval of the General Assembly.

Dividends will be distributed equally to all shareholders, regardless of their date of issuance and acquisition with in the legal period following the approval of the General Assembly on the date determined by the General Assembly. Dividend payments will be made once or in instalments. In accordance with the applicable law, we may consider making advance dividend payments. See *"Regulatory Overview*" and "*Risk Factors—Risks Related to an Investment in the Offer Shares—We may not pay dividends to holders of the Offer Shares or declare dividends in the future*".

Dividends Paid

In 2014, 2015 and 2016, we have not distributed dividends to our shareholders. Similarly, EEDAŞ has not distributed dividends in the same period.

Taxation of Dividends

Under current Turkish regulations, any dividends or other distributions paid in respect of any of our Shares will be subject to withholding taxes. The withholding tax rates may be reduced pursuant to tax treaty provisions. See "*Taxation—Turkish Taxation*".

USE OF PROCEEDS

We will not receive any proceeds from the Offering, all of which will be paid to the Selling Shareholders. The gross proceeds from the sale of the Offer Shares will be TL [●], based on an assumed Offer Price at the midpoint of the Offer Price Range. The net proceeds from the sale of the Offer Shares, after deducting the underwriting commissions to be paid to the Managers, other estimated fees and expenses (including regulatory filing and registration expenses) and any applicable taxes incurred in connection with the Offering of approximately TL [●], will be approximately TL [●]. See "*Plan of Distribution*".

CAPITALIZATION

The table below sets forth, as of September 30, 2017, our cash and cash equivalents, total financial debt and total equity and our capitalization, on an actual basis. This table should be read in conjunction with the Financial Statements and notes thereto included elsewhere in this Offering Circular.

	As of September 30, 2017
	(thousand Turkish Lira)
Cash and cash equivalents	155,194
Total financial debt	7,290,196
Total shareholder's equity	4,017,433
Total capitalization	**11,307,629**

For a discussion of our capital resources, see "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Liquidity and Capital Resources*".

Except as described in this Offering Circular, there have not been any significant changes in our capitalization since September 30, 2017.

REGULATORY OVERVIEW

The following is a summary of certain important Turkish laws and regulations relevant to our electricity distribution and retail sale operations. This description is limited and is intended only to provide general information to prospective investors. It is not designed to be a substitute for professional legal advice and is qualified in its entirety by reference to the applicable Turkish laws and regulations.

Summary Regulatory Information Related to our Operations

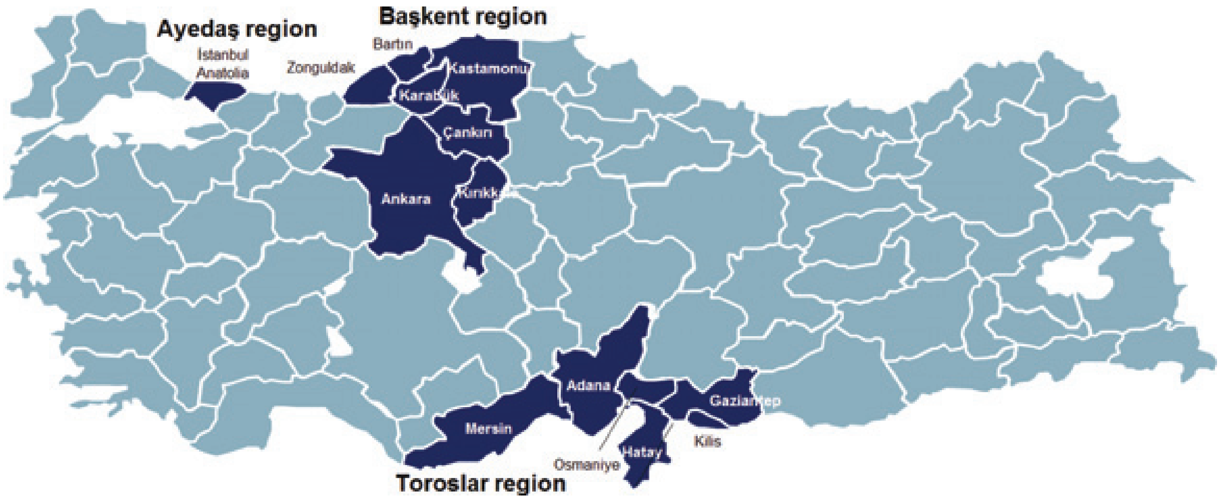
Overview of Distribution and Retail Sales Activities

We operate our business operations through two segments, namely the retail and distribution segments. Our distribution companies (Başkent EDAŞ, AYEDAŞ, and Toroslar EDAŞ) facilitate the distribution of electricity which is sold to end-users through the distribution networks operated by our distribution companies, whereas our retail companies (Başkent EPSAŞ, AYEPSAŞ, and Toroslar EPSAŞ) conduct retail sales of electricity to our end-users.

Distribution Activities

Distribution is defined as the transmission of electricity over lines with voltage levels of less than 36 kV. Regulated by EMRA, the electricity distribution network of Turkey is separated into 21 regions, each of which is run by private operators following a privatization process carried out between 2009 and 2013. Our distribution companies are the sole authorized distribution companies within their distribution regions.

The below map indicates the three distribution regions that our distribution companies are licensed to operate in Turkey.



Retail Sales Activities

In Turkey, electricity wholesale and retail sales activities are combined under a single supply license (*tedarik lisansı*). All supply license holders are, therefore, allowed to carry out retail sales activity. Retail companies can be grouped into two main categories: (i) incumbent retail companies, and (ii) other suppliers. Incumbent retail companies are the authorized retail companies in their distribution regions. Having a regulatory monopoly for regulated customers in their distribution regions, these incumbent retail companies have the following rights and responsibilities:

(i) acting as the sole supplier of electricity to ineligible customers in their distribution regions at the regulated Retail Energy Sales Tariff determined by EMRA;

(ii) acting as the sole supplier at the regulated Retail Energy Sales Tariff determined by EMRA to eligible customers who have not used their eligibility right (right to become a free customer) in their distribution regions; and

(iii) selling electricity to free customers across Turkey under free market conditions.

Başkent EPSAŞ, AYEPSAŞ, and Toroslar EPSAŞ are incumbent retail companies that were established as a result of the unbundling process, and they continue to operate as incumbent retail companies in their respective regions, through their supply licenses issued by EMRA.

Classification of Customers

Classification by Customer Eligibility and Purchase Conditions

Classification by customer eligibility is a regulatory classification based on eligibility limits determined by EMRA. Pursuant to the Electricity Market Law (Law No. 6446), (i) customers consuming equal to or more than the eligibility threshold determined by EMRA, and (ii) customers in the premises connected to transmission lines (i.e., lines with 36 kV and above high voltage level) and organized industrial zones, irrespective of their consumption level are classified as eligible customers ("**eligible customers**"). Pursuant to the EMRA resolution dated December 22, 2016 and numbered 6800 the eligibility threshold for 2017 was set at an annual consumption level of 2.4 MWh. The eligibility threshold was further reduced to an annual consumption level of 2.0 MWh for 2018, pursuant to the EMRA resolution dated November 30, 2017 and numbered 7474.

Thus, (i) customers consuming less than the eligibility limit (i.e. 2.0 MWh per year, for 2018), and the premises (ii) connected to transmission lines or (iii) located in organized industrial zones are classified as ineligible customers ("**ineligible customers**").

Eligible customers can choose their suppliers and enter into supply contracts for a fixed period. Thus, our eligible customers can choose to purchase electricity from our retail companies or from third party private suppliers. When purchasing electricity from us, our eligible customers can elect to purchase electricity in free market conditions, or through the regulated Retail Energy Sales Tariff. Our ineligible customers do not have the option to choose their electricity supplier and must purchase electricity from our retail companies, and through the regulated Retail Energy Sales Tariff.

In addition to the classification based on customer eligibility, we classify our customers based on their electricity purchase conditions for operational purposes. We define eligible customers who prefer to purchase electricity from us in free market conditions as free customers ("**free customers**"), either in or outside of our regions. We define (i) ineligible customers, and (ii) eligible customers in our regions who purchase electricity from us through the regulated Retail Energy Sales Tariff, cumulatively as regulated customers ("**regulated customers**").

The chart below sets forth our customer classification by customer eligibility and electricity purchase conditions.

Classification by Eligibility		Classification by Purchase Conditions	
Customer Type (by eligibility)	**Consumption Volume (MWh per year)**	**Purchase Conditions**	**Customer Type (by purchase conditions)**
Ineligible	0- 2.0 MWh (for 2018)	National Tariff (obligatory)	**Regulated**
Eligible(1)	≥ 2.0 MWh (for 2018)	National Tariff (optional)	
		Free market retail energy sales price	**Free**

(1) Customers connected to transmission lines or located in organized industrial zones are classified as eligible customers, regardless their consumption volume.

Classification by Consumption

Our operational strategy is differentiated by customer segments in order to capture the highest value in each customer group and address the unique needs of different customers. We classify our customers into two segments based on their consumption volumes, namely (i) corporate customers, and (ii) residential and SME customers.

The chart below sets forth our customer classification by consumption.

Classification by Consumption

Customer Type (by consumption)	Consumption Volume (MWh per year)
Corporate	≥ 400 MWh
Residential and SME	0-400 MWh

(1) Classification by consumption is solely made for operational purposes, and the consumption threshold used herein or segmentation of our customers as corporate and residential and SME is different than EMRA's classification of customers based on usage types. Thus,

regardless of the customer's electricity usage type (e.g., industrial, commercial, household, or irrigation), we define customers exceeding the ≥ 400 MWh threshold as corporate customer. Similarly, we define any customer falling below the same threshold as a residential and SME customer, even if such customer operates an industrial facility.

Pricing

The pricing for our retail sales activities vary based on our customers' electricity purchase conditions.

Retail

For our regulated customers, we apply a national tariff which is determined by EMRA on a quarterly basis (the "**National Tariff**"). Among other components, the National Tariff is composed of a regulated retail sales tariff (the "**Retail Energy Sales Tariff**") (including, among others, energy procurement costs and a gross profit margin of 2.38%), and a regulated distribution tariff (the "**Distribution Tariff**") (including, among others, the cost of operating and maintaining the distribution network, reimbursement of CAPEX and return on RAB, and cost of supplying energy for theft and loss and general illumination).

The Retail Energy Sales Tariff is based on and assumed to reflect the cost base of Turkey for each quarter. In determining the Retail Energy Sales Tariff to be applied to different types of customers, EMRA applies a cross-subsidization mechanism for residential, commercial and industrial customers, subsidizing industrial customers at the expense of commercial and residential customers. This cross-subsidization mechanism is intended to support the industrial sector through lower electricity prices, and to incentivize electricity consumption in off-peak times to balance and optimize the overall consumption profile of the electricity system within Turkey. As a result, residential and commercial tariffs are considerably higher compared to industrial tariffs.

For our free customers located in our distribution regions, we apply the Distribution Tariff, as we do for regulated customers, however we do not apply the Retail Energy Sales Tariff, as such customers procure electricity in free market conditions. With respect to free customers across all regions, we determine prices based on current market conditions considering our cost basis, and with the target of a certain profit margin; however, the National Tariff acts as a natural price cap for our free retail energy sales prices. See "*—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—National Tariff*".

The chart below sets forth our pricing conditions based on our customers' electricity purchase conditions.

Pricing Conditions

Customer Type (by purchase conditions)	Applied Pricing
Regulated	National Tariff (including the Retail Energy Sales Tariff and Distribution Tariff)
Free	Distribution Tariff and free market retail energy sales price and other costs based on operating expenses

Both our regulated and free customers are invoiced by and relevant collections are done by our retail companies. The amounts invoiced for the Distribution Tariff is passed through either to (i) our distribution companies, or to (ii) the distribution companies in other distribution regions, in the cases which our retail companies provide electricity to the free customers outside our distribution regions.

Similarly, in cases where free customers located in our distribution regions source electricity from third party private suppliers other than our retail companies, such third party private suppliers apply the Distribution Tariff and free market retail energy sales price to their free customers, and subsequently pass-through the amounts invoiced to the customers for the Distribution Tariff to our distribution companies, as our distribution companies provide distribution services to such free customers.

Overview of the Turkish Electricity Market

The Turkish electricity market has experienced significant changes in parallel to liberalization efforts in the last twenty years in order to attract private investment, enhance competition and efficiency and shift the investment burden from the Turkish state to the private sector. Prior to the implementation of the former Electricity Market Law (Law No. 4628), which was enacted in 2001, Turkey's electricity market was entirely controlled by state owned companies: Türkiye Elektrik Kurumu ("**TEK**"), TEDAŞ, and TEAŞ respectively. The electricity sector liberalization program was initiated in 2001 by the enactment of the former Electricity Market Law (Law

No. 4628) which laid out the ground work for restructuring, liberalization and regulation. The sector regulator EMRA was established and the necessary secondary regulations were issued immediately following the enactment of the former Electricity Market Law (Law No. 4628). The former Electricity Market Law (Law No. 4628) was later repealed in part and substituted by a new Electricity Market Law (Law No. 6446) enacted in 2013. Meanwhile, two strategy papers were issued in 2004 and 2009 which laid out milestone targets for the liberalization roadmap, each as described below.

On March 17, 2004, the High Planning Council issued the Electricity Sector Reform and Privatization Strategy Paper (the "**2004 Strategy Paper**") with the purpose of facilitating the transition to a competitive market structure and offering an action plan for this transition. The 2004 Strategy Paper emphasized that the timely and successful privatization of electricity generation and distribution assets was essential in realizing the liberalization objective as well as proper alignment with the related EU Acquis (i.e., Directive 2003/54/EC of the European Parliament and of the Council of June 26, 2003). The steps outlined in the 2004 Strategy Paper were also viewed as essential to creating and maintaining investor confidence in the liberalization of the market. Within the scope of the privatization process, TEDAŞ and its affiliates were placed in the privatization program and the electricity distribution network of Turkey was separated into 21 regions. As a result of the successful privatization tenders concluded between 2009 and 2013, the electricity distribution and retail sales activities in Turkey are now carried out by the private sector. Along with the privatization process, the 2004 Strategy Paper also set multi-year tariff implementation periods with the 1st tariff implementation period being five years. See "*—Tariff Implementation Periods*".

Principles on price equalization mechanism, minimum regulated revenue requirements and theft and loss targets set for the distribution companies are also key items determined under the 2004 Strategy Paper. Although the priority was given to the privatization of the distribution assets, the 2004 Strategy Paper set forth goals related to generation privatization as well. On the generation side, more than 6.5 GW of state owned thermal power plants were privatized as of the end of 2016, with only several thermal power plants and small size hydro power plants left in the privatization portfolio.

Following the 2004 Strategy Paper, significant progress was made on the preparations for the distribution and generation privatizations, tariffs and other transitory period activities, which served to further strengthen efforts for the establishment of competitive markets. On May 18, 2009, the High Planning Council issued the Electricity Market and Supply Security Paper (the "**2009 Strategy Paper**") to ensure the security of supply in the electricity market in the medium to long term. The 2009 Strategy Paper set forth that electricity transmission and distribution services would be provided at a certain quality and adequacy level to ensure consumer satisfaction, and generation and distribution privatizations would be completed to ensure a competitive electricity market.

Within this framework, the 2009 Strategy Paper (i) introduced the general principles of the day-ahead and the real time balancing power markets, (ii) provided the schedule for lowering the customer eligibility threshold, (iii) extended the application of the price equalization mechanism, (iv) introduced the legal unbundling of the distribution and retail sales activities, (v) placed a special emphasis on the adequacy of the transmission infrastructure in order to ensure supply security, (vi) provided that international transmission connections with the neighboring countries will be developed in order to increase the potential of import and export of electricity, and (vii) set installed capacity targets for domestic generation sources in order to increase the utilization of domestic and renewable generation resources to reduce dependency on imported fuel and enhance energy security.

In March 2013, the Electricity Market Law (Law No. 6446) was enacted by the Turkish Grand National Assembly, which repealed the former Electricity Market Law (Law No. 4628) with the exception of the provisions related to the organization, powers and duties of EMRA. Amendments and improvements are continuously being made to realign the market rules with those of the EU energy markets. On June 17, 2016, the Electricity Market Law (Law No. 6446) was amended by the Law No. 6719. Among others, the Law No. 6719 defined (i) certain regulated electricity market tariffs and their components that will be reflected to end-users, and (ii) distribution network and distribution facilities in a more explicit way to ensure clarity in the applicable regulations.

Overview of the Regulatory Environment in the Turkish Electricity Market

The Turkish electricity market is mainly governed by the Electricity Market Law (Law No. 6446) and the secondary regulations issued by EMRA. The main objectives of the Electricity Market Law are: (i) to ensure a financially sound, stable and transparent electricity market that operates in accordance with the provisions of private law in a competitive environment; and (ii) to monitor and conduct audits over this market for the purposes of ensuring efficient, high quality, sustainable, low-cost and environment- friendly electricity supply. Apart from the Electricity Market Law (Law No. 6446), EMRA introduced secondary regulations in order to provide detailed rules and guidelines.

There are also many EMRA decisions which provide operational guidelines on the functioning of the market and activities of market participants. Electricity Market Licensing Regulation, Electricity Market Tariff Regulation, Customer Services Regulation, Distribution Regulation and Balancing, and Settlement Regulation, Communiqué on Regulation of Distribution System Revenues, and Communique on Regulation of Retail Sale Revenues cover the duties and responsibilities of the distribution and supply license holders. Electricity market activities are regulated and inspected by EMRA. All participants in the electricity market are required to obtain licenses from EMRA for each market activity they undertake, and, in case of electricity generation activities, for each of the facilities that carry out electricity market activities. EMRA's responsibilities arising from the Electricity Market Law and other applicable laws and regulation are to:

(i) grant and renew licenses defining the rights and liabilities of the legal persons pertaining to their authorized activities;

(ii) prepare, improve and execute the secondary regulations;

(iii) audit the license holders;

(iv) set the customer eligibility limit on an annual basis;

(v) prepare, modify and execute the regulated tariffs;

(vi) ensure that the market activities are in compliance with the Electricity Market Law;

(vii) impose sanctions enacted in the Article 16 of the Electricity Market Law to license holders in case of violation of laws, regulations, license conditions etc.;

(viii) establish performance standards by monitoring the market performances; and

(ix) approve investment plans of distribution companies, revise the plans if required and audit the application of investment plans that were approved.

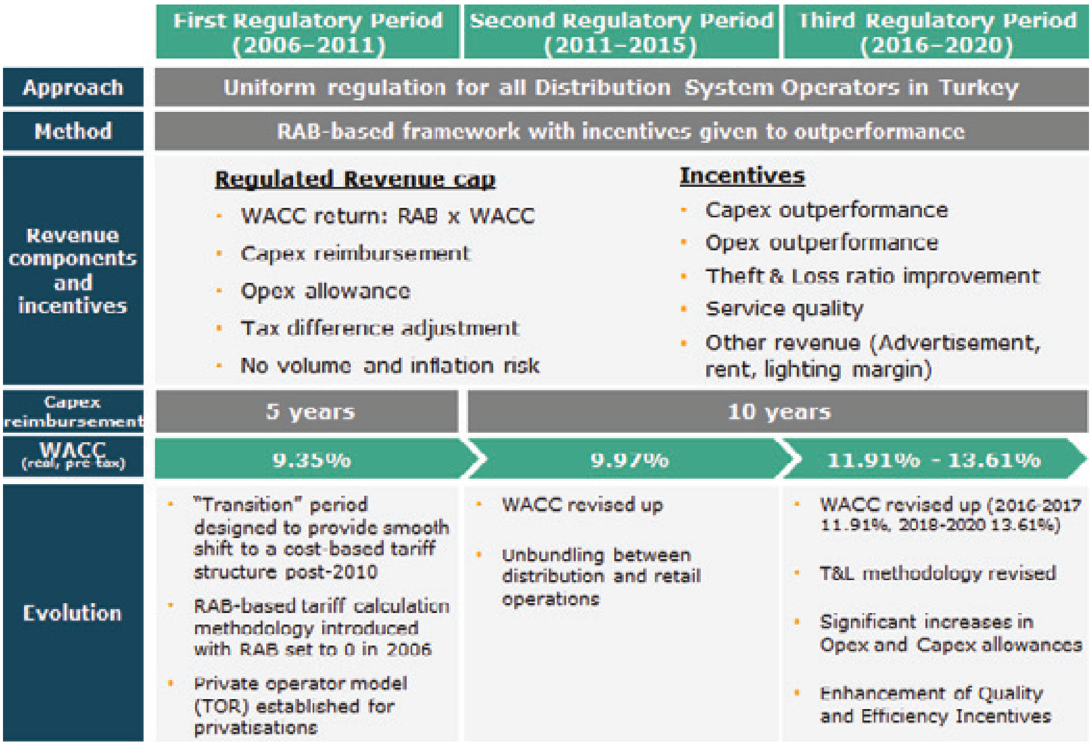
Tariff Implementation Periods

According to EMRA resolutions, (i) the 1st tariff implementation period was set as covering years from 2006 to 2010, (ii) the 2nd tariff implementation period was set as covering years from 2011 to 2015, and (iii) the 3rd tariff implementation period was set as covering years from 2016 to 2020 in line with Action Plan determined in the 2004 Strategy Paper. The 4th tariff implementation period will begin on January 1, 2021, and is expected to cover the five-year period until December 31, 2025.

Pursuant to the Tariff Regulation, the consultation period relating to revenue parameters that will be taken as a basis for the next tariff implementation period are initiated 12 months prior to the October 31 of the last year of the current tariff implementation period. In terms of determining tariffs and parameters for the 4th tariff implementation period, distribution companies throughout Turkey have initiated a project titled "Reference Distribution Company R&D Project". The Reference Distribution Company R&D Project is a guidebook for determining parameters of 4th Tariff Implementation Period. The project scope includes; (i) analysis of reference distribution company models and other tariff determination methodologies, (ii) comparison of such models with the existing tariff determination methodology in Turkey, keeping the parameters such as regional and geographical conditions, technical requirements, regulations in consideration, (iii) development of a common revenue requirement methodology and a model for distribution companies, (iv) development of an implementation software for the model, (v) analysis of quality and OPEX relationship and efficiency targets, and (vi) suggestions related to regulatory amendments and operational improvements.

Distribution companies aim to reflect their real cost structure to the revenue requirement scheme. Therefore, reference company project is implemented by these companies and in coordination with EMRA. Developments and results are continuously shared with EMRA so that their approaches can be reflected to the project flow. However, there is no guarantee that EMRA will apply reference company model to determine operational expenditures for 4th Tariff Implementation Period.

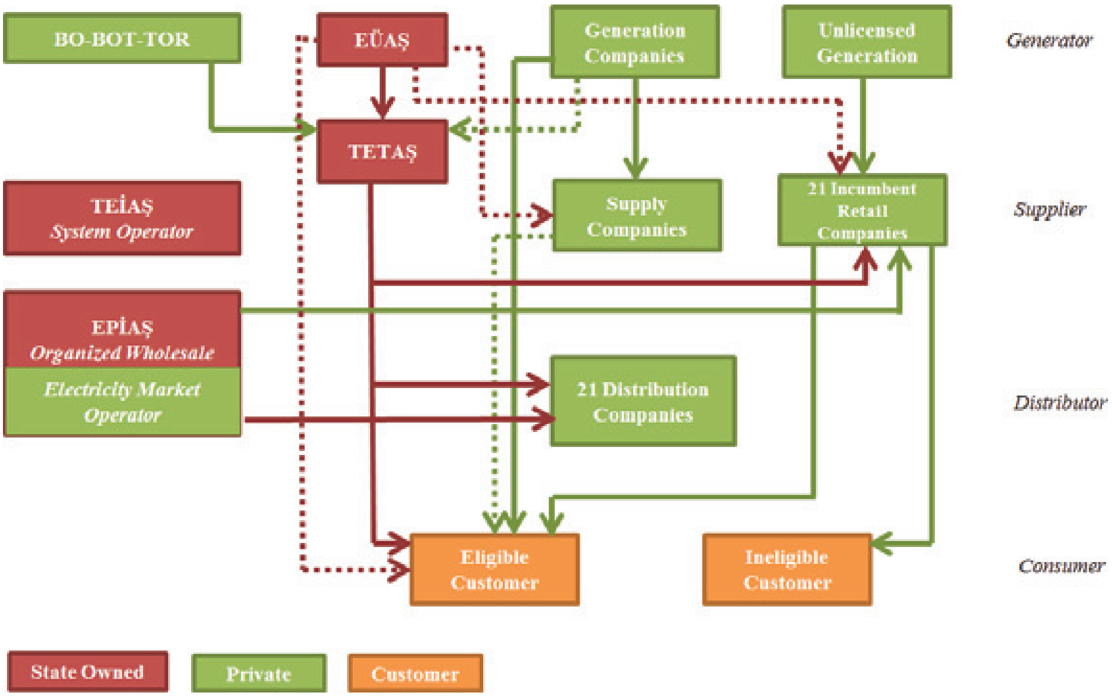
The below chart indicates the evolution of the Turkish regulatory environment for the distribution companies from the 1st tariff implementation period until the 3rd tariff implementation period.



Electricity Market Activities

The Electricity Market Law (Law No. 6446) determines the general principles guiding the marketplace and defined the rights and responsibilities associated with each market activity. Electricity market activities consist of (i) import (*ithalat*), (ii) export (*ihracat*), (iii) generation (*üretim*), (iv) transmission (*iletim*), (v) wholesale (*toptan satış*), (vi) distribution (*dağıtım*), (vii) retail sale (*perakende satış*) and (viii) market operation (*piyasa işletim*). EMRA grants, in its sole discretion, electricity market licenses for a minimum period of ten years and a maximum period of 49 years.

The following figure summarizes the main activities in the electricity market (i.e., generation, wholesale, distribution and retail) and the relevant participants, details of which are provided below.



(1) Unlicensed generation (or distributed generation) activities are license-exempted and pertains to the electricity generation by (i) generation facilities with the installed power based on maximum one megawatt renewable energy sources, or (ii) micro-cogeneration facilities with a maximum 100 KW installed power.
(2) Incumbent retail companies can buy energy from EPİAŞ, generation license holders, wholesale companies, micro-cogeneration facilities, TETAŞ (publicly owned wholesale company) and generation facilities with the installed power based on maximum one megawatt renewable energy sources.
(3) TETAŞ is responsible for supplying energy to distribution companies for theft and loss and general illumination. Distribution companies only buy energy from TETAŞ; but when TETAŞ cannot supply energy volume undertaken in the energy sales contract distribution companies can buy energy from EPİAŞ.

Generation Activities

Under the Electricity Market Law (Law No. 6446), "generation" is defined as the conversion of energy resources into electricity, in electricity generation facilities. The Turkish electricity generation segment has a fragmented structure in which several types of entities operate. The Electricity Market Law (Law No. 6446) includes the licensing process including a pre-licensing mechanism for the generation license. Beside private generation license holders, Elektrik Üretim Anonim Şirketi ("**EÜAŞ**"), a state-owned generation license holder, together with its subsidiaries, owns and operates a generation portfolio comprised of thermal and hydroelectric power plants with a total installed capacity of 46,577 MW equal to 17,1% of the total installed generation capacity in Turkey as of December 31, 2016. The privatization process for the thermal and small hydro assets of EÜAŞ is underway. *(Source: EMRA)*

Transmission Activities

Under the Electricity Market Law (Law No. 6446), "transmission" is defined as the transmission of electricity on lines with a voltage level of over 36 kV. Electricity transmission assets in Turkey are owned and operated by the state owned monopoly, TEİAŞ. TEİAŞ serves as the system operator, and is the sole responsible entity for operating the transmission systems across Turkey. TEİAŞ, as the system operator, is responsible for load dispatch, balancing the demand and supply, actual performance of load dispatch within the limitations of real-time transmission constraints in line with technical and economic load dispatch rules, and revising the load dispatch order when required in accordance with provisions of the grid code. TEİAŞ is also responsible for preparing transmission investment plans and long-term capacity development projections.

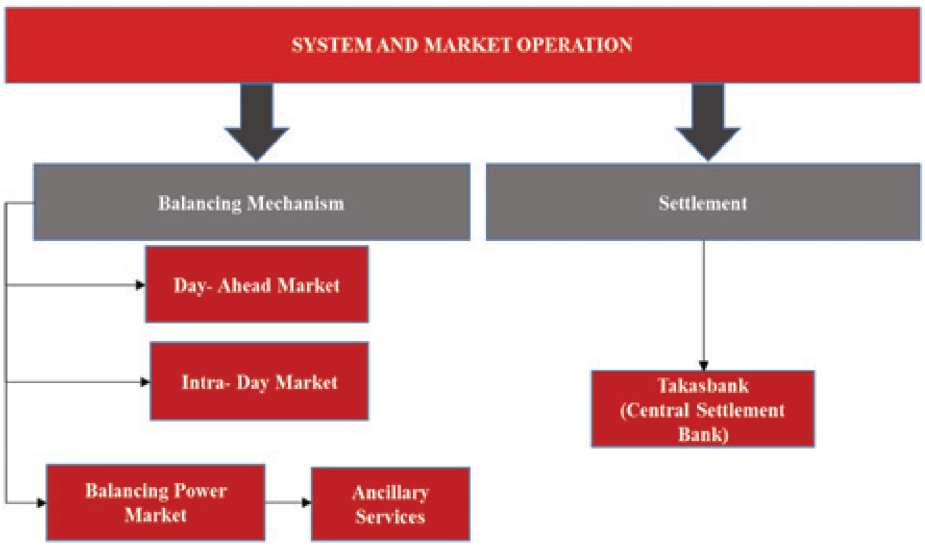
Market Operation Activities

Under the Electricity Market Law (Law No. 6446), "market operation" activity is defined as the activity of operating organized wholesale electricity markets and conducting financial settlement of the activities conducted in such organized wholesale electricity markets. EPİAŞ is the market operator structured as a joint stock company, which was established in 2015 to operate the day-ahead-market and the intraday market. TEİAŞ (30.0%), Borsa İstanbul (30.0%) and private energy companies (40.0%) are the first shareholders of EPİAŞ.

The Balancing and Settlement Regulation defines "balancing mechanism" as *"the activities that will complement the bilateral energy agreements, and cover the activities consisting of day-ahead balancing and the real time balancing activities"* and "settlement" consists of administrative actions taken by EPİAŞ to determine the monetary claims arising from balancing mechanism and/or energy imbalance and preparation of the relevant asset-liability notifications. After the balancing, the market participants are financially reconciled by EPİAŞ through the Central Settlement Bank *(Takasbank)*.

For each settlement period, every market participant must ensure balance between supply to the system, electricity energy purchases and imports on the one hand, and withdrawal from the system, electricity energy sales and exports on the other hand on an hourly basis. Retail companies enter into electricity purchase agreements with TETAŞ for their regulated customers, and with private wholesale and generation companies for their free customers. For such power purchase agreements with TETAŞ and wholesale/generation companies, retail companies estimate the consumption volumes of their customers for a time horizon covering mostly one year. However, for shorter time horizons, (i.e., on a daily basis or within days), the actual consumptions of customers (regulated or free) may show variations compared to demand forecasts made during sourcing contracts with TETAŞ or private suppliers. In cases where retail companies fall short in meeting the real time electricity demand of their customers, they purchase the additional volumes from the spot market operated by EPİAŞ. Similarly, in cases where the retail companies end up with excess electricity, they sell such excess volumes to the spot market through EPİAŞ. For such daily and intra-day balancing operations, EPİAŞ operates the spot market and the Central Settlement Bank *(Takasbank)* conducts the settlement operations.

The following figure summarizes the market operation activities in the electricity market.



Together with TEİAŞ, EPİAŞ is also responsible for balancing operations on the generation side of the system. When the total electricity demand throughout Turkey is greater than the total electricity generation, EPİAŞ notifies TEİAŞ to demand electricity generation companies to generate more electricity than their previously contracted volumes. Similarly, when the total electricity generation throughout Turkey is more than the demand, EPİAŞ notifies TEİAŞ to demand generation companies to generate less electricity than their previously contracted volumes. Such imbalance management operations incur additional costs in the system, which is reflected by EPİAŞ to generation and retail companies, on a pro-rata basis with the imbalance they have created in the system. Such costs are defined as "**imbalance costs**".

Imbalance costs are calculated based on a formula stipulated in the Balancing and Settlement Regulation and imbalances are settled in a "buy expensive, sell cheap" manner. If a power plant has a short (lack of energy) or long (excess generation) position on any given hour, the said power plant buys energy or sells energy in the balancing power market. For the excess generation, the generator receives an amount, which is calculated by multiplying the minimum of day-ahead market price or system marginal price with the excess energy amount. For the lack of energy, the generator pays an amount, which is calculated as multiplying the maximum of day-ahead market price or system marginal price with the energy amount. Renewable energy plants are also responsible for balancing and have to incur costs associated with imbalances.

Depending on their contracts with their customers, retail companies may be able to reflect such costs to their free customers based on free market conditions. However, for regulated customers, retail companies cannot directly reflect the imbalance costs to their regulated customers, instead incumbent retail companies are compensated by an imbalance cost compensation mechanism based on Turkey's average.

Distribution Activities

Under the Electricity Market Law (Law No. 6446), "distribution" is defined as the transmission of electricity over lines at a voltage level of 36 kV and less. As a result of unbundling of TEK, TEDAŞ was established in 1994 to own and operate the electricity distribution networks in Turkey. In line with 2004 Strategy Paper, TEDAŞ created 21 distribution companies each holding transfer of operating rights of the network for their respective regions. Subsequently, between 2009 and 2013, these 21 distribution companies were successfully privatized. As of the date of this Offering Circular, these 21 regions are operated by the private sector companies, whereas TEDAŞ continues to be the owner of the distribution network assets. Enerjisa is licensed to operate in three distribution regions, namely, the Başkent, the Ayedaş, and the Toroslar regions, through its three licensed distribution companies operating through transfer of operating right agreements (the "**TOR Agreements**").

In accordance with preparations for the privatization process, TEDAŞ executed TOR Agreements with each of 21 distribution license holder companies on July 24, 2006, which were amended on January 30, 2014 as a result of the legal unbundling of distribution and retail sales activities. The aim of the TOR Agreements was to transfer the operating rights of the movable and immovable assets that are compulsory for operation of the distribution facilities and to define the principles regarding establishment of the distribution facilities. Distribution and retail sale activities were performed by the same companies prior to legal unbundling of these activities in 2013. The distribution companies in each distribution region were de-merged and retail companies were established to undertake retail sale activities within the scope of the legal unbundling process. The legal unbundling process was completed on December 31, 2012, and the operational systems unbundling was completed in 2016. As a result of such unbundling process, there is one distribution and one incumbent retail company in each region. The incumbent retail companies, unlike other retail companies, enjoy the exclusive right to sell electricity to regulated consumers in their regions and to act as the supplier of last resort for any consumer in their region. AYEDAŞ, Başkent EDAŞ and Toroslar EDAŞ are our distribution companies that were de-merged as a result of the unbundling process and continue to operate as distribution companies in their regions under their distribution licenses issued by EMRA. According to the Electricity Market Law (Law No. 6446), distribution companies are mainly responsible for:

(i) operating and maintenance of distribution grid;

(ii) preparing investment plans (including network investments, meter reading investments, network management investments, environment security and other obligatory investments, and other expenditures attributed to investments) in line with demand forecasts approved by EMRA, submission of these plans to the approval of the Board, realization of the necessary improvements, capacity increase investments and construction of new distribution facilities;

(iii) decreasing theft and loss in the distribution grid;

(iv) installing, operating, and maintaining the meters of consumers connected at distribution voltage level;

(v) providing general illumination and installing and operating its measurement systems;

(vi) reading meter indices and uploading indices and consumption value of distribution users to market management system managed by EPİAŞ;

(vii) purchasing electricity to cover theft and loss of the general illumination and distribution systems as well as sales of surplus energy originating from lightning facilities;

(viii) providing ancillary services; and

(ix) forecasting demand for the areas specified in the distribution license and reporting of these forecasts to TEİAŞ after EMRA approval.

Wholesale & Retail Sale Activities

Under the Electricity Market Law (Law No. 6446), "wholesale" is defined as the sale of electricity for the purpose of resale. As of the date of this Offering Circular, wholesale electricity market activities are conducted by a state-owned entity and private companies. TETAŞ is the first and only state-owned company that holds a supply license and is a key member in the wholesale market.

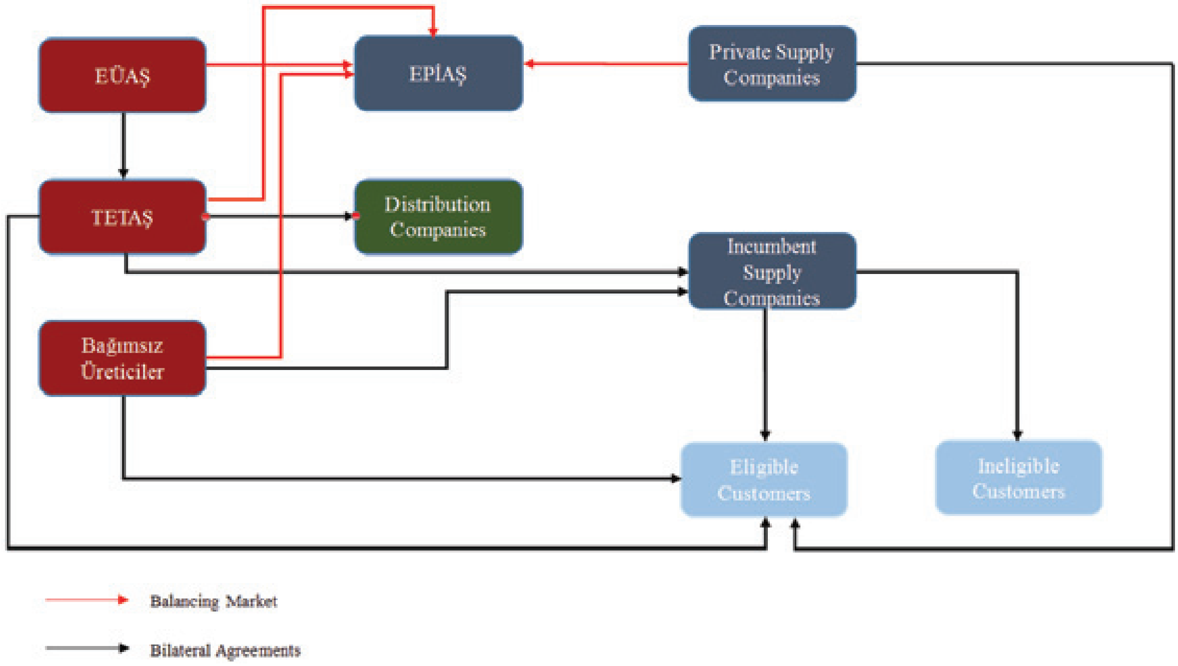
Most of the electricity generated in EÜAŞ as well as the output of the build-operate, build-operate-transfer and transfer of operation rights facilities are sold to TETAŞ. TETAŞ sells electricity to the incumbent retail companies for the regulated customers and distribution companies for theft and loss, general illumination energy needs and some of the state enterprises. After the enactment of the Law Amending the Electricity Market Law numbered 6719 and dated June 4, 2016, TETAŞ is also responsible for buying annually defined generation from indigenous lignite power plants. Additionally, according to Law on Installing and Operating Nuclear Power Plants and Sales of Energy Generated from Nuclear Power Plants (Lar No. 5710), TETAŞ is under the obligation to purchase electricity generated from nuclear power plants and to sell the generated energy to the suppliers under bilateral agreements in proportion of the volume that such suppliers provided in the previous year. Under the Electricity Market Law (Law No. 6446), "retail sale" is defined as the sale of the electricity to end-users. As of the date of this Offering Circular, 21 incumbent retail companies and 200 private retail companies are active in the retail sale market. Incumbent retail companies have been established through legal unbundling of distribution companies in their respective regions.

Wholesale and retail sales activities can also be executed by the electricity generation companies as well as public and private supply companies operating under supply licenses, pursuant to the Electricity Market Law (Law No. 6446). Retail companies are entitled to engage in wholesale or retail sale activities for eligible consumers without any geographical limitation. Retail companies, upon the approval of EMRA and in line with the affirmative opinion of the MENR, are entitled to engage in electricity import and export to or from the countries, where the international interconnection conditions (i.e., technical conditions related to connecting Turkey's electricity system to the electricity systems of other countries) are satisfied. That being said, our retail companies did not conduct any import or export activities during the periods covered by the Financial Statements.

Retail sales activities, which were carried out by distribution companies before the legal unbundling processes resulting in separation of distribution and retail sales activities, are now fulfilled by the incumbent retail companies. As part of the unbundling process, responsibilities regarding the assets operated for the distribution activities and the assets used for the retail sale services in accordance with the TOR Agreements are also split. With the aim of the separation of such responsibilities between distribution and retail companies, the TOR Agreements signed with distribution companies were amended with a supplementary protocol executed on January 30, 2014. Pursuant to the TOR Agreements, our distribution companies acquired operation rights of the relevant distribution facilities, and our retail companies (after the amendment) acquired the right to use assets required for their regulated retail sale operations, while ownership of the underlying assets remained with TEDAŞ.

Incumbent retail companies are obliged to (i) supply electricity on an exclusive basis to the ineligible customers in their respective distribution regions, at the regulated Retail Energy Sales Tariff determined by EMRA (the eligibility limit for 2018 is determined as 2.0 MWh per year), and (ii) to act as the supplier of last resort to the eligible customers in the same region, who have not switched to other private suppliers, at the regulated tariff determined by EMRA. In addition to these regional responsibilities, the incumbent retail companies are able to trade energy and capacity with other private suppliers, operate in the organized wholesale markets, and sell electricity to eligible customers without any regional boundaries and export/import electricity. The rest of the players in the retail sale market are private suppliers, who can trade output and capacity with other private suppliers, participate in organized wholesale markets and sell electricity to eligible customers without any regional limitation and without being subject to any tariff regulations.

The figure below shows the different energy supply sources for retailers in the market.



Public Audits in the Turkish Electricity Market

According to the Electricity Market Law (Law No. 6446), distribution companies are subject to public audit to be conducted by EMRA, MENR and TEDAŞ. EMRA may audit our entire processes to detect non-compliance of laws, regulations, orders, communiques, license conditions, and other board decisions, to control the customer disputes and complaints, to ensure well-functioning market and compliance with the market related policies and/or procedures. Where the breach of codes, conducts and other issues are detected, EMRA may initiate a pre-investigation or investigation according to the Article 16 of the Electricity Market Law. After the finalization of the investigation process EMRA may notify and/or impose administrative fine and request us to remedy the breach and ensure the compliance with the relevant legislation.

TEDAŞ, which is the possessor of the distribution facilities and a publicly owned company, also has the power to conduct an investigation regarding general illumination premises as to whether the general illumination fees and amounts reflected to administrative authorities (municipalities and special provincial administrations) are accurate or not. Supervision of distribution companies is performed by MENR. MENR performs the supervision of electricity distribution companies in conjunction with TEDAŞ. Although MENR supervises distribution activities in accordance with Article 15 of the Electricity Market Law and secondary regulations based on this article, the supervision report is sent to EMRA to scrutinize the findings and finalize the proceedings as per Article 16 of the Electricity Market Law.

Renewal and Amendment of Distribution and Supply Licenses

EMRA grants, in its discretion, electricity market licenses for a minimum period of ten years and a maximum period of 49 years. Our distribution companies (AYEDAŞ, Başkent EDAŞ and Toroslar EDAŞ) hold distribution licenses for their distribution operations and our retail companies (AYEPSAŞ, Başkent EPSAŞ and Toroslar EPSAŞ) hold supply licenses for their retail sale operations, whereas the Enerjisa legal entity itself does not hold distribution or supply license (or any other electricity market license) as Enerjisa itself does not distinctly undertake any electricity market activities.

The licensing status of our distribution and retail companies are as follows:

	Distribution License			
Distribution Company	**License No.**	**Period**	**Issue Date**	**Expiry Date**
AYEDAŞ	ED/874-39/697	36 years 4 months	September 1, 2006	December 31, 2042
Başkent EDAŞ	ED/101-21/028	30 years	March 13, 2003	September 1, 2036
Toroslar EDAŞ	ED/874-25/689	36 years 4 months	September 1, 2006	December 31, 2042

	Supply License			
Retail Company	**License No.**	**Period**	**Issue Date**	**Expiry Date**
AYEPSAŞ	GTL/4968-35/03130	28 years 8 months 14 days	April 17, 2014	December 31, 2042
Başkent EPSAŞ	GTL/4968-35/03091	22 years 4 months 14 days	April 17, 2014	September 1, 2036
Toroslar EPSAŞ	GTL/4968-35/03183	28 years 8 months 14 days	April 17, 2014	December 31,2042

Distribution and supply (and retail sale) license holders are required to apply to EMRA for the renewal of their licenses within a minimum of 12 months and a maximum of 15 months prior to the expiration of the relevant license.

The licenses can be renewed by EMRA for a maximum period of 49 years, based on an examination of (i) the license holder company's influence on the protection of consumers rights and on the development of the competition in the market, (ii) the experience and the performance of the license holder company and its direct or indirect shareholders holding 10.0% or more shares (5.0% or more for the public companies) in the license holder company, (iii) opinion of the relevant authorities and/or ongoing or past transactions about the license holder company and (iv) other permits of and/or agreements with relevant authorities that are needed to be renewed. Also, the distribution license holder companies are required to certify that they own the operation rights of the distribution network that are necessary for their operations in their distribution region, whereas the incumbent retail companies are required to certify that they own the operation rights of the regulated assets in their distribution region. However, the retail companies operate as going concerns and their eligible customer portfolio does not have to be handed back to TEDAŞ at the expiry of their operation rights.

A distribution or supply license can be amended:

(i) upon the request from the relevant license holder, provided that the amendment request is found acceptable by EMRA;

(ii) if some additional information such as price, parameter and indicator are required to be added to the license or such information in the license are required to be amended; or

(iii) if the applicable laws and regulations or any amendment to the applicable laws and regulations require such an amendment.

In its assessment of distribution and supply license amendment applications, EMRA takes the following parameters into account:

(i) The effects of improving the competition and market and protection of consumer rights;

(ii) The market experience and market performance of the license holder company and its direct and indirect shareholders holding 10.0% or more shares in the license holder company (5.00% for public companies); and

(iii) Opinions of relevant authorities with respect to the license amendment application and/or ongoing or closed investigations with respect to the license holder company.

If the amendment of the license requires the license holder to fulfil an obligation, such obligation must be fulfilled within 30 days following the receipt of the amendment decision of the relevant authority in EMRA or within the time frame specified under the amendment decision. If the license holder does not fulfil such obligation, the amendment request would be deemed as rejected. If a license holder requires additional time to fulfil its obligations under its license following an amendment, this additional period for compliance will be determined by EMRA.

Transferability of Licenses

As a general rule, licenses pertaining to electricity market activities are not transferable. The exception to this general rule is the transfer of the license holders' rights and obligations under their electricity market licenses due to a merger or spin-off conducted in accordance with the TCC. Prior approval of EMRA is required for such transfer.

Regulatory Authority's Intervention in case of Material Legislative Breaches

As per the Electricity Market Licensing Regulation, EMRA has the right to impose the below listed sanctions on distribution license holder companies and incumbent retail companies, in case (i) the relevant market activity that has to be carried out by the license holder company is inadmissibly noncompliant with the relevant legislation, (ii) the breaches of the license holder company inadmissibly diminishes the quality of the services provided, (iii) the license holder company is in breach of the relevant legislation regularly, or (iv) the license holder company is incapable of fulfilling its obligations or it is deemed incapable through a board resolution of EMRA:

(i) EMRA has the right to discharge all or some of the board members of the relevant company and replace them with new directors; and

(ii) EMRA may take any necessary interim measures to ensure protection of the consumers and continuance of the services until a suitable company is issued a new distribution license or supply license, as applicable.

If a distribution license holder company does not provide the services or make the relevant investments required within the scope of its tariff, EMRA may procure the financial resources to fulfil these obligations from the license holder company's income from other activities. If the financial resources are insufficient, EMRA may create the financial resources from the dividend rights of the shareholders of the company and finally, the assets of the shareholders holding shares in registered form.

Termination and Cancellation of Electricity Market Licenses

Electricity market licenses (e.g., our distribution and retail companies' distribution and supply licenses) are automatically terminated at the end of the license term. Distribution and supply (and retail sale) license holders are required to apply to EMRA for the renewal of their licenses. See "*—Renewal and Amendment of Distribution and Supply Licenses*". In addition, the licenses pertaining to electricity market activities (e.g., our distribution and retail companies' distribution and supply licenses) may be terminated, before the license terms expire: (i) in the event of insolvency of a license holder; (ii) upon request of the license holder; or (iii) if a license holder fails to maintain necessary requirements to hold an electricity market license, upon decision of EMRA. If a distribution or a supply license holder requests to terminate its operations, they are required to make a written application to EMRA, together with the reasons of such termination request, at least 12 months prior to cancellation date. EMRA will make its decision by considering the potential effects of such termination request on the consumers and the electricity market conditions and may reject the termination request.

If a distribution or a designated supply license holder requests to terminate its operations before the end of the license period, their license will not be terminated before a new distribution or incumbent retail company obtain the relevant license to operate. If EMRA determines that: (i) the distribution company or incumbent retail company fails to comply with the applicable laws and regulations and such failure causes material deficiencies in the company's electricity market activities; or (ii) the distribution company or incumbent retail company is in default, EMRA will cancel the distribution and incumbent retail company's license along with other sanctions (such as administrative fines) enacted in the Article 16 of the Electricity Market Law.

Furthermore, if any of license holder companies fails to comply with EMRA's sanctions or fails to remedy its non-compliance with the applicable laws and regulations within the time period given by EMRA or repeat its non-compliance within two years, EMRA may cancel the license. In addition to the above, (i) if a license holder fails to maintain the necessary requirements to obtain an electricity market license or it is determined that the license holder fails to have these requirements from the beginning, (ii) if EMRA determined that the license holder's requests and actions are fraudulent or misleading, or (iii) if a license holder provides misleading information regarding the necessary requirements to obtain an electricity market license or fails to notify EMRA regarding any changes in such information, and (iv) if the license holder does not remedy the deficiencies listed from (i) to (iii) within 30 days following the written notification of EMRA or if it is impossible to remedy such deficiencies, EMRA will cancel the license holder's license.

TOR Agreements will automatically terminate upon termination or cancellation of the distribution and supply license. In order to renew the TOR Agreements, our distribution and retail companies are required to partake in a tender announced by the Privatization Administration, and if we are not able to win such tenders, we would also not be able to renew our distribution and supply licenses. If this occurs, we would be required to terminate our electricity distribution operations and/or retail sales to regulated customers, whereas we are able to continue to retail sales to free customers. If this were to happen, the investment costs which are not recouped by our distribution or retail companies through the tariff as of the end of the TOR Agreements will be reimbursed to our distribution or retail companies by TEDAŞ.

Share Transfers of Electricity Market License Holders

Pursuant to the Electricity Market Licensing Regulation, any direct or indirect acquisition of the shares representing 10.0% or more of a license holder company's share capital or any acquisition resulting in change of the control of a license holder company is subject to prior approval of EMRA. The 10.0% threshold is lowered to 5.0% for public companies holding a license. In addition, irrespective of the above thresholds, creation of pledges over shares of and creation of account pledge over the accounts of distribution license holder companies and incumbent retail companies are also subject to prior approval of EMRA. However, these share transfer restrictions do not apply for any direct or indirect acquisition of shares of a license holder that are listed on a stock exchange.

Regulation and Functioning of the Electricity Distribution and Retail Sale Markets

Electricity distribution and retail sale businesses are heavily regulated businesses, under the supervision of EMRA and governed by the Electricity Market Law (Law No. 6446) and relevant secondary regulations. The distribution business in Turkey is a natural monopoly, and therefore it is a licensed business and the roles and responsibilities of distribution companies are defined by EMRA. Distribution companies in their respective territories are mainly responsible for:

(i) operating the distribution networks,

(ii) making necessary maintenance and expansion investments,

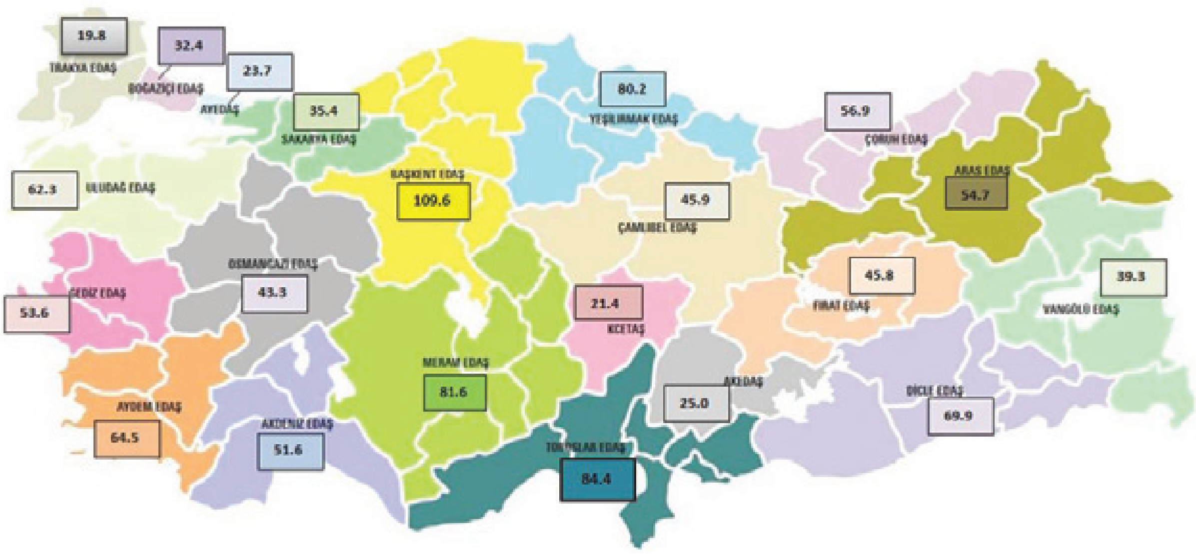
(iii) maintaining and reading the meters of the distribution network users in their distribution regions,

(iv) preparing demand projections and investment plans, and

(v) purchasing electricity to compensate theft and loss and for the illumination of public spaces.

All distribution networks in Turkey have been split into 21 distribution regions by EMRA and operating rights of distribution networks in each distribution region has been transferred to distribution companies via TOR Agreements, for a period up to 30 years. In this respect, EMRA determines (i) the Distribution Tariff, and (ii) monitors reliable and cost effective operation of the distribution networks established in the 21 regions of Turkey.

The map below indicates the 21 distribution regions of Turkey, with the distribution network lengths (in 1,000 kilometers) in each distribution region as of December 31, 2016.



Unlike the distribution business in Turkey, retail sale business is not a natural monopoly, save for the ineligible customers that are legally obliged to purchase electricity from the relevant incumbent retail company in its authorized region. Incumbent retail companies have the exclusive rights for (i) supplying electricity to regulated customers in their distribution regions (the 21 regions above) at the regulated Retail Energy Sales Tariff determined by EMRA. In addition to those rights in their distribution regions, suppliers are also able to sell electricity to eligible customers across Turkey without any restriction. EMRA determines (i) the Retail Energy Sales Tariff, and (ii) monitors the equal treatment among the regulated customers.

Distribution Tariff and Retail Energy Sales Tariff are the two main components of the National Tariff, which are unified tariffs applied throughout Turkey (based on the customer segmentations) to all regulated customers. For free customers, the Distribution Tariff will be applied (if such customer uses the distribution network of the relevant distribution company), however, the retail energy sales prices will be determined based on free market principles, and Retail Energy Sales Tariff will not be applied. EMRA determines the Distribution Tariff and Retail Energy Sales Tariff on a quarterly basis; however, components of these tariffs are determined in periods of five years, whereas the current tariff implementation period covers the period between 2016 and 2020.

Price Equalization Mechanism

In 2004, a price equalization mechanism was introduced to balance the inequalities and differences between the 21 distribution regions, particularly because of regional characteristics and theft and loss occurrences and performances. This mechanism was implemented as a result of application of a single tariff throughout Turkey, namely, the National Tariff. The price equalization mechanism makes sure that the distribution companies and the incumbent retail companies (acting as incumbent retail companies) obtain their regulated returns, although they charge the same end tariff to the customers in the same tariff group regardless of their region. The mechanism applies to all regulated tariffs, including the Distribution Tariff and Retail Energy Sales Tariff.

The regulated revenue collected through the regulated tariffs does not perfectly match the implied revenues calculated using pre-determined revenues and price caps taken into consideration whilst determining the regulated tariffs. This is because the revenue generated from retail sales of electricity to regulated customers is a completely regulated revenue, and the timing treatment of the Price Equalization Mechanism results in a slight difference between the regulated revenue generated from retail sales and the revenue reflected under IFRS accounts. EMRA sets the regulated margin and revenue requirements for regulated sales based on demand and consumption forecasts. However, the actual demand of customers shows some variance from forecasts which leads to imbalances in our electricity purchases. As retail companies make their purchases through spot market transactions for such imbalances, the cost of electricity in the spot market creates positive and negative deviations from the regulated gross margin of 2.38%, depending on the costs resulting from imbalances. EMRA compensates for such variances via the Price Equalization Mechanism two quarters after the occurrence of such variances and guarantees that the incumbent retail company generates a gross margin of 2.38%, independent of its sourcing costs for its regulated customers. While the regulatory revenue recognizes such revenues resulting from the Price Equalization Mechanism two quarters after the occurrence, IFRS recognizes it as a provision in the same quarter as the occurrence of the gross margin variation.

In addition, revenue generated from ancillary retail sales services to regulated customers (such as customer care, invoicing, collection, and other relevant operational costs incurred by the retail sales of electricity to regulated customers as well as for the doubtful expenses incurred from our regulated customers) is also a completely regulated revenue. This retail sales services revenue is collected through the Retail Energy Sales Tariff to compensate for operational costs, and is based on certain customer number and demand forecasts. Any deviation from the projected retail sales services revenue within a tariff period is compensated through the Price Equalization Mechanism two years following the occurrence of such deviation, and includes interest for the two year period. While the regulatory revenue recognizes such compensation amounts two years after the occurrence, IFRS recognize them as revenue accruals at the time of occurrence of the deviation.

Lastly, in some regions, distribution or incumbent retail companies collect more regulated revenue than their regulated revenue cap, while in other regions incumbent retail companies fail to reach their revenue caps. Reconciliation of over or under collections is made by EMRA through TETAŞ on a monthly basis, where TETAŞ collects the difference between the collected revenue and the revenue cap from those regions where the collection exceeds the revenue cap and distributes it to the regions where the collected revenue is lower than the revenue cap.

YEKDEM Mechanism

In May 2005, the renewable energy resources support mechanism ("**YEKDEM**") was introduced by the Law on Utilization of Renewable Energy Sources for Electricity Generation (Law No. 5346) (the "**Renewable Energy Law**"). YEKDEM aims to incentivize the electricity generators employing renewable energy sources, such as wind, hydroelectric, solar, bio-waste, solid waste, and geothermal energy sources. Companies eligible for YEKDEM incentives must apply to EMRA by October 31 of every year, if they aim to benefit from YEKDEM incentives in the following year. As of the date of this Offering Circular, renewable energy plants commissioned before December 31, 2020, can benefit from YEKDEM for a term of ten years following the commissioning of the power generation facility.

According to the Renewable Energy Law, if certain mechanical and/or electro-mechanical equipment manufactured in Turkey are used in the power generation facility, extra benefits are guaranteed to that generator for a term of five years following the commissioning of the power generation facility. Once a company is admitted to YEKDEM, the electricity generated by YEKDEM participant generators are purchased via a U.S. dollar denominated purchase guarantee per kWh of the electricity generated, which are then sold on the organized wholesale market operated by EPİAŞ.

This mechanism to support renewable energy sources results in higher than spot market costs in the system due to U.S. dollar denominated YEKDEM purchase prices. YEKDEM costs in the system are directly correlated with (i) USD/TL exchange rates, (ii) market clearing prices (*piyasa takas fiyatı*), (iii) regulated feed-in tariffs determined by EMRA (determined as USD 13.3 cent per kWh for solar sources, USD 7.3 cent per kWh for hydroelectric sources, USD 7.3 cent per kWh for wind sources, USD 10.5 cent per kWh for geothermal sources and USD 13.3 cent per kWh for bio-solid wastes sources), and (iv) actual electricity generation volumes of YEKDEM participants, which are mostly dependent on seasonal and climatic conditions (e.g., wind yields, water inflows, solar radiation) affecting renewable energy generation. According to Renewable Energy Law, market participants, including private suppliers and generators that sell energy to customers are obliged to bear the costs of YEKDEM, where EPİAŞ, as the market operator, reflects such costs to suppliers serving to end-users.

Thus, the costs of YEKDEM are reflected to all end-users throughout Turkey via private suppliers and retail companies, either through (i) the YEKDEM cost item included in the Retail Energy Sales Tariff applied to regulated customers, or (ii) the YEKDEM cost item included in the free market retail energy sales prices charged to free customers. The costs of YEKDEM is reflected to private suppliers and retail companies on a pro-rata basis, where the ratio of the electricity volumes a company sells to its end-users to the total electricity volumes sold to all end-users in Turkey is taken into account. For regulated customers, the YEKDEM cost item is a 100% pass-through item, which is reflected to such customers as a procurement component in the Retail Energy Sales Tariff. However, for free customers, since supply and retail companies execute fixed term agreements generally for a period of one year, such companies carry the price risk arising from the difference between the estimated YEKDEM costs that such companies include as a component in agreements with their customers, and the actual YEKDEM costs that such companies incur on a monthly basis.

Pursuant to a regulatory change on December 15, 2017, YEKDEM costs that we pass-through to our regulated customers will be included in the energy procurement costs item within the Retail Energy Sales Tariff, enabling us to apply the 2.38% gross margin on the pass-through YEKDEM costs. Previously, YEKDEM costs were being evaluated as other cost items in the retail sales revenue requirement calculation, and no margin was being provided to the incumbent retail companies out of these costs.

National Tariff

EMRA sets the National Tariff on a quarterly basis. The National Tariff is determined in a method that differentiates according to the types of systems used (i.e., distribution system (medium-voltage or low voltage) or transmission system (high voltage)) and the varying types of consumers who buy electricity from incumbent retail companies or other suppliers.

The application of the National Tariff based on the types of systems used is set forth below:

Type	Category	Retail Energy Sales Tarif*	Distribution Tariff	Reactive Energy Fee**	Capacity Charge	Overload Charge
Transmission system users buying energy from the incumbent supplier	Industrial	√	x	x	x	x
Distribution System Users (Mid Voltage, Double Term)	Industrial	√	√	√	√	√
	Commercial	√	√	√	√	√
	Household	√	√	x	√	√
	Irrigation	√	√	√	√	√
	Illumination	√	√	√	√	√
Distribution System Users (Mid Voltage, Single Term)	Industrial	√	√	√	x	x
	Commercial	√	√	√	x	x
	Household	√	√	x	x	x
	Irrigation	√	√	√	x	x
	Illumination	√	√	x	x	x
Distribution System Users (Low Voltage, Single Term)	Industrial	√	√	√	x	x
	Commercial	√	√	√	x	x
	Household	√	√	x	x	x
	Martyr Famlies & Veterans	√	√	x	x	x
	Irrigation	√	√	√	x	x
	Illumination	√	√	x	x	x
	General Illumination***	x	√	x	x	x
Distribution System Users (Generation License Holders)****	Single	x	√	√	x	x
	Double	x	√	√	√	√
Distribution System Users (For Distributed Generation Facilities)	Ready for provisional acceptance before 31.12.2017	x	√	√	x	x
	Ready for provisional acceptance after 31.12.2017	x	√	√	x	x

* Retail Energy Sales Tariff is only applied for customers buying energy from the incumbent retail company. For free market conditions active energy price is freely determined in the bilateral agreements between the parties.

** Reactive energy fee is only applied for excessive consumption of reactive power. The excessive consumption limit is determined by regulation.

*** Distribution companies are responsible for supplying energy for customers subject to general illumination tariff condition.

**** This subscriber group condition is applied for power production of generators excluding energy consumption.

The National Tariff includes:

(i) Retail Energy Sales Tariff differentiated according to subscriber groups and voltage levels (high and low voltage levels);

(ii) Distribution Tariff determined according to voltage levels;

(iii) reactive energy fee (for consumers subject to reactive energy application);

(iv) capacity charge (for industrial consumers on double-term tariffs and connected to high voltage level); and

(v) overload charge (for certain industrial consumers on double-term tariffs).

In addition, distribution tariff for generation facilities, system charges for unlicensed generation facilities, which are differentiated according to connection type and terms (mono and double), and available capacity fee which is charged to generators who establish direct line to their customers are also applicable items under the National Tariff, as the case may be. In addition to the above, energy fund surcharge, Turkish Broadcasting Company surcharge ("**TRT surcharge**") (save for industrial customers whom hold industrial registry certificate enjoy exemption) and energy consumption tax are also components of the National Tariff. Value-added tax ("**VAT**") with an amount of 18.0% is applied on the subtotal.

The components of the National Tariff are set forth below:

Retail Energy Sales Tariff	Includes (i) energy procurement costs, (ii) gross profit margin, and (iii) other market costs including reimbursement of CAPEX and costs associated with the provision of retail sales services.
Distribution Tariff	Includes the cost of operating and maintaining the distribution network, (ii) reimbursement of CAPEX and return on RAB (related to WACC), (iii) cost of supplying energy for theft and loss and general illumination, (iv) transmission fees, (v) fixed meter reading fees, (vi) meter replacement costs, and (vii) other costs.
Reactive Energy Fee	Applied only for excessive consumption of reactive power. The excessive consumption limit is determined by regulation.
Capacity Charge	Applied only for purchased capacity (kW) volumes decided in the electricity sale contracts.
Overload Charge	Applied only when peak demand exceeds the built-in capacity level in the capacity purchase contract.
Energy Fund Surcharge	1.0%
TRT Surcharge	2.0% (excluding customers who have industrial registry certificate)
Electricity Consumption Tax	1.0% for industrial customers (defined by EMRA), 5.0% for the rest.
+	
VAT	18.0%

A sample electricity bill invoiced to a regulated customer at the National Tariff (based on the latest unit prices available as of the date of this Offering Circular) is set forth below:

National Monthly Residential End-User Energy Bill
(based on illustrative volume assumptions of 200 kWh, representing eligibility limit)

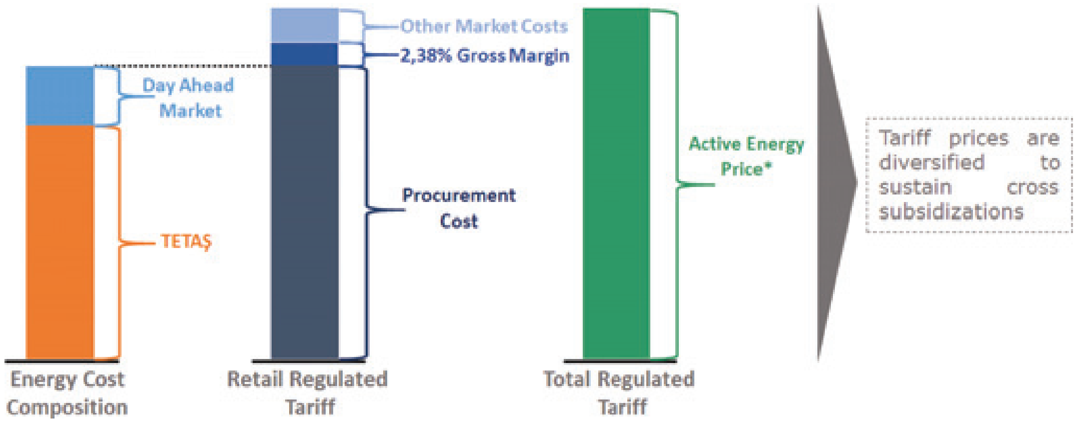
		Unit Price (TL/kWh)	Total (TL)
Retail Energy Sales Tariff	Including energy procurement costs, gross profit margin and retail service revenues	0.231	46.19
Distribution Tariff	Including costs of operating and maintaining of facilities, investment cap for distribution investments, reimbursement of Capex, cost of supplying energy for T&L and general lighting, transmission costs, fixed meter reading fees differentiated according to voltage level	0.130	26.09
Reactive Energy Fee, Capacity and Overload Charges	• Reactive Energy Fee: For consumers subject to Reactive Energy Application (excl. household, illumination subscriptions and mono phase premises) • Overload Charges: For Two Phase Industrial Consumers (Connected to high voltage level)		
Energy Fund and TRT Surcharge, Electricity Consumption Tax	• Energy Fund Surcharge (1% of retail energy) • TRT Surcharge (2% of retail energy) • Electricity consumption tax (1% for Industry, 5% for the Rest)		3.69
+	**Total**		**75.97**
VAT		18% on sub-total	13.67
			89.64

Retail Energy Sales Tariff

Retail Energy Sales Tariff includes (i) energy procurement costs, (ii) gross profit margin (which is currently set at 2.38% for the 3rd tariff implementation period (period between 2016 and 2020)), and (iii) other market costs and costs associated with the provision of the retail services. Retail Energy Sales Tariff includes prices, terms and conditions to be applied to ineligible consumers. Retail Energy Sales Tariff to be applied to ineligible customers is proposed by the incumbent retail companies and examined and approved by EMRA.

Retail Energy Sales Tariff is composed of charges covering all the costs and services within the scope of the execution of regulated retail sale activities such as active energy costs, invoicing and customer services costs and retail sale service costs and regulated gross margin.

The chart below illustrates the components of the Retail Energy Sales Tariff:



* Beginning on January 1, 2018, 2.38% gross margin will be applied on YEKDEM costs which is represented in other market costs in the above illustration.

Energy Procurement Costs

Energy procurement costs include (i) cost of the energy purchased from TETAŞ at the TETAŞ wholesale price, (ii) cost of the energy bought via the Day Ahead Market and the Intraday Market of EPİAŞ and the cost of projected energy imbalance, and (iii) cost of energy bought from other sources such as microgeneration facilities and via bilateral contracts, at the TETAŞ price.

Gross Profit Margin and Other Market Costs

On top of the energy procurement costs, a gross profit margin of 2.38% for 3rd tariff implementation period is applied. In addition to the gross profit margin, other market costs are added such as:

(i) costs arising from YEKDEM (previously YEKDEM costs were fully reflected to customers without any margin on them but with the recent regulatory change in December 2017, YEKDEM costs are also included in energy procurement costs and 2.38% gross margin will be applied on YEKDEM costs)

(ii) expenses resulting from the activities in the organized wholesale markets, including the market operation fees, additional transmission fees, share in overdue receivables and any other fees,

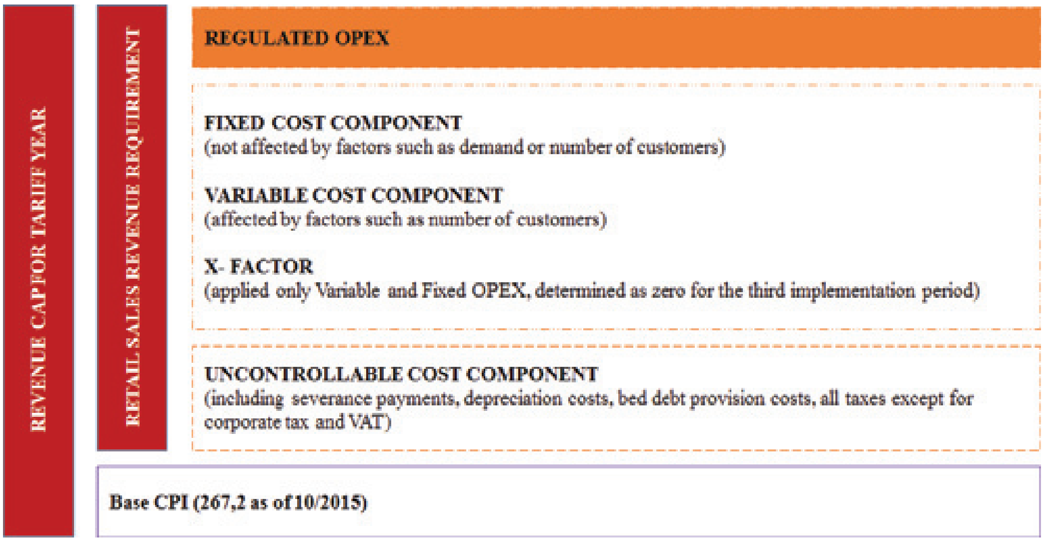
(iii) expenses resulting from the energy imbalances, and

(iv) energy supply adjustment component (i.e., the adjustment component for the difference between the realized retail sales revenue and the revenue requirement for retail sales for the tariff implementation period)

are included in the Retail Energy Sales Tariff.

Within the five year tariff implementation period covering between 2016 and 2020, EMRA determines retail sales revenue caps for retail companies, which is taken as a basis for the determination of the Retail Energy Sales Tariff.

The chart below illustrates the components of the revenue caps of retail companies.



For the year ended December 31, 2016, fixed cost component represented 38%, variable cost component represented 36%, and uncontrollable cost component represented 26% of the total revenue requirements cumulatively for all three of our retail companies. These ratios are subject to further change due to adjustments which can be made by EMRA.

Regulated OPEX

Regulated OPEX consists of two components, (i) fixed and variable cost components (including the x-factor applied to fixed and variable cost components), and (ii) the uncontrollable cost component. Fixed OPEX includes the portion of OPEX which is not affected by the changes in variables such as demand level and/or number of customers. Variable OPEX is the portion of OPEX which is affected by number of customers and that which may be controlled by the incumbent retail company. Pursuant to the relevant regulation, an efficiency parameter (x-factor) may be applied to the fixed and variable portions of OPEX, but this parameter has been determined as zero for the current tariff implementation period. Costs related to customer services, invoicing and collection services pertaining to regulated customers are included in the regulated OPEX.

Uncontrollable OPEX includes (i) severance and notice payments made to the personnel whose employment has been terminated, (ii) depreciation costs, (iii) all taxes, dues, fees and licensing fees (except for value added tax and corporate tax), (iv) bad debt provision costs which are determined by multiplying the average of company risk and country risk with the net invoiced sales revenue of the retail company, and (v) any new operational costs that are deemed to fall under the extraordinary situations set forth in the relevant regulation.

Stranded Costs (Regulatory CAPEX)

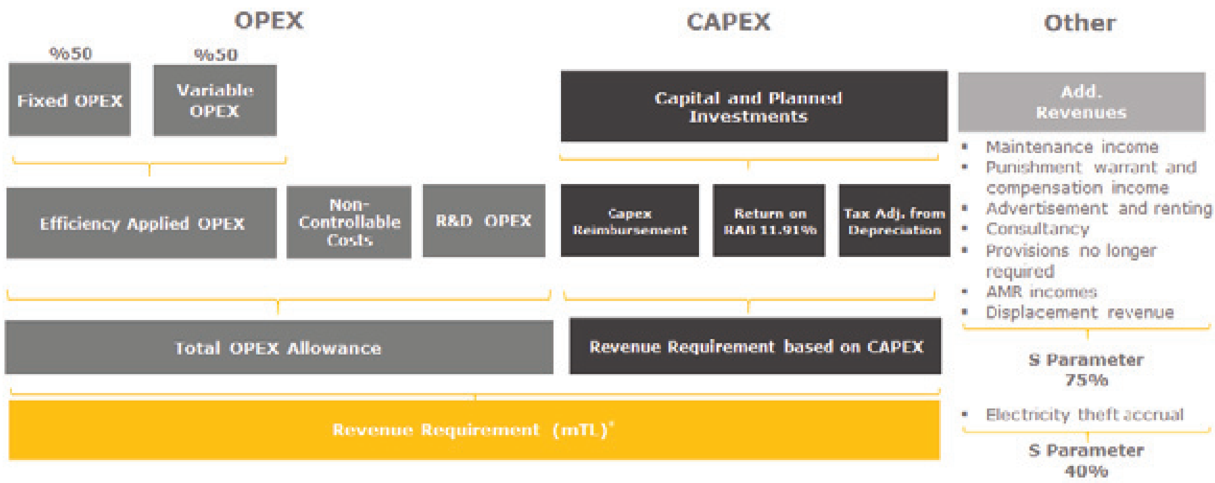
Stranded cost component is calculated based on investments in the second tariff implementation period (the period between 2011 and 2015). This component is added to the revenue requirement calculations for the 3rd tariff implementation period (the period between 2016 and 2020). For investments made after January 1, 2016, the depreciation costs related to the regulated tariffs are added to the uncontrollable OPEX portion of the revenue requirement. Therefore, the stranded cost component is included in the 2016 revenue cap calculations. This was one-time adjustment in relation to the second tariff implementation period, and there will be no stranded cost component for the other years of 3rd tariff implementation period (from 2017 to 2020).

Distribution Tariff

The Distribution Tariff is composed of the charges covering all costs and services for the sustainability of the distribution activities, including, (i) the cost of operating and maintaining the distribution network, (ii) reimbursement of CAPEX and return on RAB (related to WACC), (iii) cost of supplying energy for target theft and loss and general illumination, (iv) transmission fees (calculated through transmission tariffs), (v) fixed meter reading fees, (vi) meter replacement costs, and (vii) other costs (e.g., distribution fee, capacity fee, overcapacity fee, available capacity fee, and customer care services costs).

Distribution fee, capacity and overcapacity fee, reactive penalty, connection and disconnection fee are reflected to private suppliers on a pass-through basis. Private suppliers collect distribution fees from customers and pay such amounts to distribution companies. Within the 3rd tariff implementation period, EMRA determines revenue caps for distribution companies, which are taken as a basis for the determination of the Distribution Tariff.

Below chart indicates the components of the revenue caps of distribution companies.



(*) Revenue requirement is indexed with June CPI of each year. Quality parameter will be applied on total revenue requirement after 2017.

Revenue Requirement based on OPEX

Revenue Requirement based on OPEX consists of (i) fixed OPEX (i.e., the portion of OPEX which is not affected by external factors such as demand level, number of customers, network length and does not fall under the uncontrollable OPEX), (ii) variable OPEX (i.e., the portion of OPEX which is expected to be affected by external factors such as demand level, number of customers, network length and deemed controllable by the distribution companies), and (iii) uncontrollable cost OPEX (e.g., transmission tariff expenses, expenses related to the utilization of forestry areas, severance payments, all taxes, dues, fees and licenses fees (except for VAT and corporate tax), bad debt provision costs, and any new operational costs that are deemed to be falling under the extraordinary situations set forth under the relevant regulations.

In addition, 1.0% of revenue requirement based on OPEX (excluding the uncontrollable portion) are allocated to research and development ("**R&D**") activities. An R&D adjustment component is used to ensure reimbursement of the difference between the research and development budget and research and development expenditures performed during the tariff implementation period. The adjusted amount is reflected to tariffs in the upcoming tariff implementation period and reflects an interest rate determined by EMRA.

In order to project the net regulatory OPEX for the 3rd tariff implementation period, the realized actual OPEX for the years 2013 and 2014 are equally weighted, where the realized actual OPEX are allocated to specific cost items such as personnel and material costs. After certain items are adjusted to Turkey average, these adjusted amounts are summed up and the base OPEX is calculated. This base OPEX is then divided into two equal portions, namely, fixed OPEX and variable OPEX. The variable portion is determined based on certain drivers such as customer number, transformer number, distributed energy and network length in terms of their weights determined by EMRA. This base OPEX is adjusted by (i) the addition of new cost items that were not incurred in 2013 and 2014, (ii) the deduction of certain cost items that are no longer valid for the next tariff implementation period, and (iii) normalization items such as minimum wage. Finally uncontrolled operational costs are added to the calculations in order to obtain the final OPEX allowance. This projected allowance is valid throughout the 3rd tariff implementation period and is subject to adjustments such as the change in variable drivers and uncontrolled operational cost actuals.

OPEX Outperformance

Over-and under-realization of OPEX is not taken into account in the regulated revenue and tariff calculations. Based on the revenue cap methodology in place, at the end of a tariff year if a distribution company realizes its mandated OPEX at a cost less than the allowed OPEX calculated by EMRA, then it will still have collected the revenues through its tariffs that were calculated on the basis of that allowed OPEX. In this case the distribution company will keep the difference between what is allowed and what is spent. Thus OPEX outperformance ratio indicates the percentage of (i) realized OPEX less initial allowed OPEX to the (ii) initial allowed OPEX of our distribution companies.

Revenue Requirement Based on CAPEX

Revenue requirement based on CAPEX consist of (i) allowed return on RAB, (ii) reimbursement of the net RAB, and (iii) tax adjustment difference. For the allowed return on RAB, the mid-year real return rate is set as 11.91% for the 3rd tariff implementation period (only for 2016 to 2018) and 13.61% for 2018—2020. Pursuant to the EMRA resolution dated December 7, 2017 and numbered 7501-12, pre-tax for the period between 2018 and 2020 has been set as 13.61%. The real rate is the rate that is adjusted for the effect of inflation.

As part of EMRA's tariff making principles, the WACC is applied annually to the averages of unrecovered RAB at the beginning of the year and at the end of the year. The investment expenditures are to be reimbursed within the reimbursement period which is defined as 10 years by EMRA for the 3rd tariff implementation period.

Before qualifying as pre-approved CAPEX which may be included in the revenue requirement calculations, among others, (i) investment expenditures must have been made under the investment plans approved by EMRA, (ii) investment expenditures must consist of expenditures necessary for the distribution activity or other expenditures classified under CAPEX, (iii) assets related to CAPEX should be in use, having attained provisional acceptance from TEDAŞ on behalf of the MENR, (iv) investments should either belong to TEDAŞ, or they should be made on behalf of the TEDAŞ, or they should be made under the relevant regulations, (v) financing costs such as foreign exchange and interest expenses must be separated, (vi) documentation must be provided to show that the investment is consistent with accounting records, and (vii) costs related to the assets, that are already part of the assets of the distribution company as of the beginning of the tariff implementation period, and those assets, whose reimbursement has already started, must be separated.

Regulated distribution system investments will fall under (i) network investments, (ii) environment, safety and other legally mandated investments, (iii) network operational system investments, including AMR, or GIS Systems, SCADA, (iv) meter investments, or (v) other investments including expropriation fees, permits for forestry areas, and excavations.

A five-year investment plan including a detailed justification report is submitted to EMRA in the last year of previous implementation period. This report consists of investment requirements to (i) obtain future energy demands for each region, (ii) provide continuity of supply and ensure technical quality, (iii) conduct renewal of distribution assets, (iv) comply with technological requirements such as SCADA, GIS and AMR, and (v) comply with legal obligations. A detailed master plan is also submitted to EMRA along with the justification report. EMRA evaluates effects of electricity prices, reports and other conditions. EMRA may request additional information from distribution companies. Prior to approving the five year investment plan, EMRA will undertake a detailed evaluation process. Financing costs such as interest expenses, financial leasing costs, foreign exchange losses, default interest expenses, VAT and stamp tax are not taken into account in the calculation of accepted CAPEX.

<u>Additional CAPEX Allowances</u>

Additional CAPEX allowances are subject to approval of EMRA. If there is a need for additional CAPEX, our distribution companies may apply to EMRA for its approval for additional CAPEX allowances, provided that our distribution companies have already spent a minimum of 80% of the five year approved initial CAPEX allowances within the tariff implementation period. EMRA has not rejected any of our additional CAPEX allowance requests as of the date of this Offering Circular.

<u>CAPEX Outperformance</u>

The value of certain investment items is calculated according to the unit prices determined by EMRA. Based on the revenue cap methodology in place, by the end of a tariff year, if our distribution companies realize their mandated CAPEX (i.e., unit price investments for which calculations are based on regulated unit prices determined by EMRA) at a cost less than the unit prices determined by EMRA, then they will still have collected (and retained) the higher revenue through the regulated tariffs. In this case the distribution company will keep the 100% of the difference between what is allowed and what is spent. Thus CAPEX outperformance ratio indicates the percentage of (i) the amount of the unit price based actual CAPEX less unit price based actual allowed CAPEX to the (ii) unit price based actual allowed CAPEX of our distribution companies.

Other Revenue Items and Efficiency Parameters

Other revenue items that are fully included in the calculation of the revenue cap are (i) donation revenues, (ii) revenues from the penalties and damages within the scope of connection and system utilization agreements, (iii) revenues from distribution connection fees, (iv) revenue from power quality measurement service fees, (v) damage income, (vi) income from disconnection/reconnection fees, (vii) other income from unlicensed generation facilities, (viii) income from the payment notifications and second notices, (ix) measurement test income, (x) income from reactive energy fees, (xi) meter check income, (xii) illegal power usage income, and (xiii) displacement income.

Other items such as (i) maintenance and repair service revenue (25% included in the revenue difference calculation), (ii) income from invoices to private suppliers which deliver sub-standard goods, collateral and damage revenues (25% included), (iii) advertisement and rent revenues (75% included)), (iv) consultancy revenue, (v) illegal electricity usage income (60% included for 2016 and 2017, 60% included for 2018—2020), (vi) income related to provisions no longer required (25% included), (vii) AMR income (only 25% included), and (viii) displacement income (0% included—all income belongs to the distribution company), are partially included in the calculation of the revenue cap.

In addition to the other revenues that are included in the calculation of the revenue cap, (i) efficiency factor (x-factor), (ii) service quality and performances, and (iii) theft and loss management performances are taken into consideration. The x-factor is applied to the fixed and variable portions of OPEX in the revenue cap formula. For the service quality and performances, EMRA announced parameters related to call center expenditures, health and safety requirements, customer satisfaction scores, SAIDI and SAIFI realizations, power continuance performance, technical quality standards and CAPEX ceiling realizations as the quality factor. At the end of any operating year, a quality factor will be calculated with the inclusion of previously described parameters and such quality factor will be multiplied by existing year's revenue requirement and will be added on top of it. According to this regulation, quality factor will not be higher than 5%. Out of such 5%, 1% will be calculated based on call center performance metrics, 0.5% on health and safety requirement metrics and remaining 3,5% based on the rest of quality parameters. Separately, the revenue cap formula includes a general quality indicator which will also be applied to the entire cost base. This indicator has been announced as the "non-incidence of fatal accidents by the distribution company itself and its subcontractors".

Theft and Loss

All eligible and ineligible customers, except for those consumers connected directly to the transmission network, pay the theft and loss tariff. Distribution companies are obligated to buy energy to compensate for energy theft and loss. However, the theft and loss allowance for distribution companies, which is reimbursed by the Distribution Tariff they collect from their consumers, is determined according to their pre-set theft and loss targets. More specifically, their energy costs related to theft and loss are calculated based on the theft and loss target, and not on the realized theft and loss. The theft and loss tariff is then calculated by dividing the energy theft and loss cost determined based on the targets by the energy amount excluding the energy theft and loss. The theft and loss tariff is determined at the national level and the revenue imbalances between the distribution regions are corrected via the Price Equalization Mechanism.

The theft and loss tariffs in different distribution regions vary greatly due to the differences in the theft and loss targets. The Price Equalization Mechanism is employed to eliminate these differences. In other words, the cost burden related to theft and loss, which is calculated according to the theft and loss target, does not fall on the consumers in a specific region alone, but is distributed across all consumers in the country. On the other hand, distribution companies carry the risk associated with not meeting their pre-set theft and loss target. If a distribution company cannot meet its theft and loss target, it has to bear the cost of the energy, which results from the difference between the theft and loss target and the realized theft and loss ratio. If a distribution company performs better than the targeted theft and loss level, it will keep the difference as a result.

In this respect, as per the relevant regulations, distribution companies are also incentivized to detect and invoice theft and seek legal proceedings. Regardless of collection of these invoices, 20% of the invoiced amounts are granted to distribution companies for 2016 and 2017, 40% of the invoiced amounts are granted to distribution companies for 2018—2020. In addition, 75% of collected amounts following legal proceedings are kept by distribution companies.

General Illumination Expenses

Distribution companies are obliged to buy the energy required for general illumination (i.e., illumination of privatized highways and access-controlled highways, border illumination for security reasons, sanctuaries, parks and historical places). The general illumination tariff is calculated by adding the retail gross profit margin (2.38%) over the energy procurement costs of the distribution company. Both items are included in the calculation of the revenue caps of distribution companies.

Other Components of the National Tariff

Capacity charge is applied only to consumers on double-term tariffs (customers who purchase capacity in addition to electricity) in order to recover the fixed distribution costs through a fixed tariff. A penalty for overload is also applied only to industrial customers on double-term tariffs, whose peak demand exceeds the built-in capacity level. The energy fund surcharge, TRT (Turkish Broadcasting Company) surcharge, energy consumption tax and VAT are added to the National Tariff.

Other Electricity Market Tariffs

The license holder companies, whose electricity market activities are subject to tariffs set out under the Electricity Market Law (i.e., the distribution companies and the retail companies), prepare the draft tariffs (including all costs and service charges related to their electricity market activity that is subject to the tariff), in line with the Tariff Regulation and the Communiqué on the Regulation of Distribution Systems Revenues and the Communiqué on the Regulation of Retail Energy Sales Fee, and submit the drafts for the approval of EMRA. If necessary, EMRA may require certain changes in the proposed tariff and the license holder companies are obliged to apply the tariffs approved by EMRA. The approved tariffs can only include the license holders' costs and service charges regarding their regulated electricity market activities, and shall not include any element that is not directly related to the electricity market activities. The terms and conditions of the approved tariff bind all real and legal persons subject to these tariffs. The tariffs shall be reflected directly to the end-users or to the electricity retail companies to be reflected to the end-users.

Connection Tariffs: The connection tariffs include prices, terms and conditions regarding connection to the distribution system, based on the principle of non-discrimination among equal parties. The connection tariffs are composed of the costs incurred for the installation of connection lines to connect the internal installations of the connected persons to the distribution network, whereas the network investments costs are not included in the connection tariffs. If a connection line is installed by the consumer, the connection line shall be transferred to the distribution company in exchange for the responsibility of operation and maintenance, and no connection costs shall be charged to such consumers.

Transmission Tariff: The transmission tariff is set by EMRA following TEİAŞ's tariff proposal and includes prices, terms and conditions to be applied to all users benefiting from the transmission of generated, exported or imported electricity energy through the transmission system, based on the principle of non-discrimination among equal parties. The transmission tariff includes network investments and operational expenditures to be made by TEİAŞ.

Wholesale Tariff: Wholesale electricity prices are determined by the parties freely within the scope of procedures and principles determined by EMRA. The wholesale tariff applied to the distribution companies for electricity supply for theft and loss and general illumination, and to the electricity supply from TETAŞ for electricity sales to the consumers whose tariff is subject to EMRA regulations are set by EMRA, considering the capacity of TETAŞ to fulfil its financial obligations.

Market Operation Tariff: The market operation tariff is prepared in accordance with the financial sustainability principles to satisfy the revenue requirements of EPİAŞ for its activities.

Draft Communiqué on the Last Resort Tariff Mechanism

On October 16, 2017, a draft communique was published by EMRA, which envisages a new tariff mechanism (i.e., last resort supply tariff) for the eligible customers who purchase electricity from retail companies through the regulated Retail Energy Sales Tariff. Although this tariff mechanism was already set by EMRA under the applicable legislation, the application of such tariff mechanism was postponed until December 31, 2020. This tariff mechanism is designed to encourage the switching of eligible customers who prefer to purchase electricity from retail companies through the regulated Retail Energy Sales Tariff to the free market, where they purchase electricity under the free market conditions. The draft communique envisages setting two different tariffs for the eligible customers who purchase electricity from retail companies through the regulated Retail Energy Sales Tariff based on their consumption level (i.e., high consuming customers and low consuming customers). The consumption levels are envisaged as 100,000 kWh in the draft communiqué.

Pursuant to the draft communique, the tariff for low consuming customers will be equal to the Retail Energy Sales Tariff, whereas the tariff for high consuming customers will be determined by EMRA and will include all expenses required for last resort supply such as investment and operating expenses, energy procurement costs, and a reasonable profit margin. Enactment of this draft communique and application of last resort supply tariff would lead the eligible customers who purchase electricity from retail companies through the regulated Retail Energy Sales Tariff to switch to the free market, because the tariff for high consuming customers is expected to be higher than the prices set under free market conditions. Therefore, such customers would be encouraged to purchase electricity under free market conditions, which in turn, would increase competition between retail companies.

Depending on its price level, the last resort supply tariff may force customers to move to free market and may trigger the existing regulated corporate customers to opt for the free market. If the communique is published in the Official Gazette, this effect is expected to reach its full effect starting from the second quarter of 2018. The magnitude of these changes, as well as the overall impact on profitability, is not possible to quantify, as the details on the price level of the last resort supply tariff and the exact segments to be applied are still not clear under the current draft.

Competition and Market Share Restrictions

The Competition Law and the Electricity Market Law and its secondary legislation set forth certain provisions which aim to protect competition in the electricity market. The relevant competition regulations are as follows:

Obligations to Protect Competition in the Electricity Market: Distribution companies are required to operate and invest in the distribution network and to provide distribution services to its customers in accordance with the competitive environment and the principle of non-discrimination among equal parties. Incumbent retail companies are also required to operate in accordance with the competitive environment and not to prevent and restrict the competition in the electricity market. If incumbent retail companies prevent or restrict the competition in the electricity market, EMRA is entitled to take necessary measures (such as restructuring the management of the company or restricting or terminating its ownership or control relationships with the distribution company) and the incumbent retail company is obliged to comply with such measures.

Restrictions in the Electricity Market Activities: A distribution company is not allowed to engage in electricity market activities other than electricity distribution activities. Distribution companies may conduct non-market activities if such non-market activities are deemed to increase the efficiency of the distribution company. The principles and procedures regarding such non-market activities will be determined by EMRA.

Restrictions on the Purchased Amount of Electricity: The amount of electricity to be purchased by a supply license holder company from the generation and import companies shall not exceed twenty percent of the amount of electricity consumed within the country, during the previous year. Furthermore, the amount of electricity to be sold by a supply license holder company to end-users shall not exceed twenty percent of the amount of electricity consumed within the country, during the previous year.

Legal Restrictions: A company holding an electricity distribution license cannot be a direct shareholder of other companies operating in the electricity market. Likewise, companies operating in the electricity market cannot participate in a company holding an electricity distribution license as a direct shareholder.

Principal Obligations of License Holders

License Fee

There are various license fees that are paid to EMRA, such as license issuance fees (which is a one-off payment item) and annual license fees (that are paid on an annual basis). The annual licenses fees for the distribution and supply license holders are calculated based on the electricity distributed or sold within the previous year.

For the supply license holders (including retail companies), the annual license fee for 2017 were TL 153,329.75 for Başkent EPSAŞ, TL 356,873.30 for AYEPSAŞ and TL 489,571.50 for Toroslar EPSAŞ. The retail companies are required to pay the annual license fees in March, July and November of each year in three equal instalments. The license issuance fees for the same year were TL 284,875.42 for Başkent EPSAŞ, TL 227,155.38 for AYEPSAŞ and TL 355,772.58 for Toroslar EPSAŞ. For the distribution license holders, the annual license fee for 2017 were TL 459,989 for Başkent EDAŞ, TL 356,873 for AYEDAŞ and TL 489,572 for Toroslar EDAŞ. The distribution companies are required to pay the annual license fee in April, August and December of each year in three equal instalments.

Minimum Capital Requirement

The minimum capital amount of a distribution license holder company and an incumbent retail company is determined by EMRA during the license application process. However, a supply license holder company's (which is not an incumbent retail company) capital amount must be at least TL 2 million.

Warranty / Security

There is no legal requirement to provide letter of guarantees to EMRA. However, according to the TOR Agreements, distribution license holders are required to provide guarantee letters to TEDAŞ within the scope of transfer of operating rights in the amount of TL 108,838,467.45 for Başkent EDAŞ, TL 37,240,110 for AYEDAŞ and TL 81,587,411.96 for Toroslar EDAŞ. These amounts were determined by taking into account the net book value of the relevant assets. Due to the Electricity Market Balancing and Settlement Regulation, supply and distribution companies are required to provide guarantees to EPİAŞ, for their transactions in the organized wholesale markets. Also retail license holders and generators provide guarantees (cash and non-cash) to the related distribution companies in accordance with distribution system usage agreements.

Insurance

According to the Licensing Regulation and TOR Agreements, holders of electricity distribution licenses must insure the distribution assets under "all risk" insurance policies for risks such as natural disasters, fire and accidents. Distribution companies are reimbursed for the costs of such insurances. The incumbent retail companies are not subject to any regulatory insurance requirement. See "*Business—Insurance*".

Reporting

Retail companies are required to notify EMRA about their expectations regarding (i) electric energy peak power need, (ii) electric energy amount that will be needed and the agreements executed for supply of such energy amount, and (iii) additional energy and capacity needs, every year in December. Such reports shall be made in line with the Energy Market Notification Regulation and its annexed tables, which outline the reporting requirements arising from the electricity market regulations, such as principles and procedures regarding reporting the investments made by the distribution companies.

Quality Standards

According to the Electricity Market Licensing Regulation, distribution companies are required to submit quality standard certificates, to be issued by a certification authority accredited by the Turkish Accreditation Agency, for TS EN ISO 9001, TS ISO 10002, TS 18001, TS EN ISO 14001and TS ISO/IEC 27001 standards within 24 months after obtaining the license. Incumbent retail companies are also required to obtain quality standard certificates; namely ISO 9001, ISO 27001 and ISO 10002. Additionally, incumbent retail companies are required to obtain TS EN 15838 certificate by the end of March 31, 2018.

EMRA decided to impose some quality requirements with regards to call center performance standards and health and safety rules based on non-fatal accident rates within the scope of distribution activities and subcontractors. EMRA also determined certain technical, commercial and supply reliability performance standards (such as system average interruption duration index—system interruption frequency index, responding to customer applications) in the Regulation on Service Quality relating to Electricity Distribution and Sales Activities.

Investment Procedure and Repair and Maintenance Activities

Distribution network and grid are defined in the Omnibus Bill (Law No. 6719) amending Electricity Market Law (Law No. 6446). Distribution companies are responsible for repair and maintenance of the distribution network including last connection miles (*bağlantı hattı*), of which ownership right belongs to customers who use the premises and third party grids. Distribution companies are liable for initiating investments according to the criteria in terms of technical rules and time set in the regulation for the distribution grid; but last mile connections may also be constructed by the consumers, in lieu of the distribution connection fee. Classifications, reporting requirements and acceptance procedures of distribution investments are determined by EMRA in the Principle and Procedure of Distribution System Investments.

Data Protection

Turkey's first personal data protection law, the Law on the Protection of Personal Data (Law No. 6698) (the "**Data Protection Law**") entered into force on April 7, 2016. The Data Protection Law is modeled after the European Union Data Protection Directive 95/46/EC, and mandates administrative fines and criminal sanctions, including prison sentences under the Turkish Criminal Code, for the unlawful collection, processing and transmission of personal data, effective as of October 7, 2016. The Data Protection Law introduced the following significant requirements:

(i) personal data may only be processed if the data subject has given his/her explicit consent;

(ii) data subjects have the right to access their personal data and apply to the data controller;

(iii) cross-border data flows require explicit consent of the data subject; and

(iv) organizations must have appropriate security measures in place to ensure information security.

The Data Protection Law is applicable to all companies processing personal data without any exceptions (e.g., personal data relating to natural person customers, suppliers, and employees). The companies must align their activities with the Data Protection Law within two years, by April 7, 2018.

Tariff Parameters for Enerjisa Distribution Companies

The following tables summarize distribution tariff parameters for all our regions for the third implementation period between January 1, 2016 and December 31, 2020 *(Source: EMRA).*

Başkent EDAŞ

	2016	2017	2018	2019	2020
	(Turkish Lira except otherwise indicated)				
Base CPI	**267.2**	**267.2**	**267.2**	**267.2**	**267.2**
Fixed OPEX Component	195,101,867	195,101,867	195,101,867	195,101,867	195,101,867
Variable OPEX Component	203,851,085	208,371,744	212,992,655	217,716,041	222,544,174
X-factor (%)	1.28	1.28	1.28	1.28	1.28
Uncontrollable Cost Component	204,109,925	215,563,498	215,563,498	215,563,498	215,563,498
Regulated OPEX	**597,946,403**	**608,754,569**	**608,157,384**	**607,608,164**	**607,106,661**
R&D	**3,989,530**	**4,034,736**	**4,080,945**	**4,128,179**	**4,176,460**
Regulated Asset Base Beginning Value	1,251,762,960	1,399,706,677	1,511,943,828	1,588,474,415	1,629,298,437
Investment Cap for the Tariff Year	357,065,650	357,065,650	357,065,650	357,065,650	357,065,650
Reimbursement Amount	209,121,933	244,828,498	280,535,063	316,241,628	351,948,193
Regulated Asset Base Tariff Year Ending Value	1,399,706,676	1,511,943,828	1,588,474,415	1,629,298,437	1,634,415,894
Regulated Asset Base Tariff Year Average Value	1,325,734,818	1,455,825,252	1,550,209,122	1,608,886,426	1,631,857,166
Annual Return Rate (%)	12.66	12.66	14.60	14.60	14.60
Net Return Rate (%)	11.91	11.91	13.61	13.61	13.61
Return on Capital	157,895,017	173,388,788	210,983,461	218,969,443	222,095,760
Regulated CAPEX	**367,016,950**	**418,217,286**	**491,518,525**	**535,211,071**	**574,043,953**
Tax Adjustment	**29,728,599**	**34,191,920**	**38,962,433**	**43,438,469**	**47,585,386**
Variable Cost Ratio (%)	19.54	18.32	17.07	16.39	15.82
Distribution System Revenue Requirement	**998,681,483**	**1,065,198,510**	**1,142,719,286**	**1,190,385,884**	**1,232,912,461**

AYEDAŞ

	2016	2017	2018	2019	2020
			(Turkish Lira except otherwise indicated)		
Base CPI	**267.2**	**267.2**	**267.2**	**267.2**	**267.2**
Fixed OPEX Component	80,530,895	80,530,895	80,530,895	80,530,895	80,530,895
Variable OPEX Component	85,844,186	88,630,881	91,508,039	94,478,595	97,545,583
X-factor (%)	—	—	—	—	—
Uncontrollable Cost Component	187,893,707	200,713,302	200,713,302	200,713,302	200,713,302
Regulated OPEX	**354,268,788**	**369,875,079**	**372,752,237**	**375,722,793**	**378,789,781**
R&D	**1,663,751**	**1,691,618**	**1,720,389**	**1,750,095**	**1,780,765**
Regulated Asset Base Beginning Value	486,539,316	580,240,183	656,416,186	715,067,323	756,193,596
Investment Cap for the Tariff Year	175,248,647	175,248,647	175,248,647	175,248,647	175,248,647
Reimbursement Amount	81,547,780	99,072,644	116,597,509	134,122,373	151,647,238
Regulated Asset Base Tariff Year Ending Value	580,240,184	656,416,186	715,067,325	756,193,596	779,795,005
Regulated Asset Base Tariff Year Average Value	533,389,750	618,328,185	685,741,754	735,630,460	767,994,301
Annual Return Rate (%)	12.66	12.66	14.60	14.60	14.60
Net Return Rate (%)	11.91	11.91	13.61	13.61	13.61
Return on Capital	63,526,719	73,642,887	93,329,453	100,119,306	104,524,024
Regulated CAPEX	**145,074,499**	**172,715,531**	**209,926,962**	**234,241,679**	**256,171,262**
Tax Adjustment	**12,940,044**	**15,636,177**	**18,601,923**	**21,485,287**	**24,279,106**
Variable Cost Ratio (%)	15.67	14.38	13.36	12.72	12.18
Distribution System Revenue Requirement	**513,947,081**	**559,918,404**	**603,001,510**	**633,199,854**	**661,020,914**

Toroslar EDAŞ

	2016	2017	2018	2019	2020
			(Turkish Lira except otherwise indicated)		
Base CPI	**267.2**	**267.2**	**267.2**	**267.2**	**267.2**
Fixed OPEX Component	154,768,675	154,768,675	154,768,675	154,768,675	154,768,675
Variable OPEX Component	162,366,525	166,304,197	170,337,365	174,468,345	178,699,508
X-factor (%)	0.61	0.61	0.61	0.61	0.61
Uncontrollable Cost Component	226,290,642	252,034,912	271,299,423	271,299,423	271,299,423
Regulated OPEX	**541,499,777**	**569,219,668**	**590,517,943**	**592,610,760**	**594,763,560**
R&D	**3,171,352**	**3,210,729**	**3,251,060**	**3,292,370**	**3,334,682**
Regulated Asset Base Beginning Value	811,110,675	1,009,355,576	1,174,444,257	1,306,376,717	1,405,152,957
Investment Cap for the Tariff Year	331,562,201	331,562,201	331,562,201	331,562,201	331,562,201
Reimbursement Amount	133,317,301	166,473,521	199,629,741	232,785,961	265,942,181
Regulated Asset Base Tariff Year Ending Value	1,009,355,576	1,174,444,256	1,306,376,717	1,405,152,957	1,470,772,978
Regulated Asset Base Tariff Year Average Value	910,233,126	1,091,899,916	1,240,410,487	1,355,764,837	1,437,962,967
Annual Return Rate (%)	12.66	12.66	14.60	14.60	14.60
Net Return Rate (%)	11.91	11.91	13.61	13.61	13.61
Return on Capital	108,408,765	130,045,280	168,819,867	184,519,594	195,706,760
Regulated CAPEX	**241,726,066**	**296,518,801**	**347,449,608**	**417,305,555**	**461,648,941**
Tax Adjustment	**21,412,722**	**26,513,678**	**32,124,731**	**37,579,921**	**42,865,695**
Variable Cost Ratio (%)	16.16	17.28	15.56	14.73	14.01
Distribution System Revenue Requirement	**807,809,917**	**895,462,876**	**994,343,342**	**1,050,788,607**	**1,102,612,879**

Tariff Parameters for Enerjisa Retail Companies

The tables below summarize the retail OPEX tariff for the third implementation period between January 1, 2016 and December 31, 2020 *(Source: EMRA).*

Başkent EPSAŞ

	2016	2017	2018	2019	2020
		(Turkish Lira except otherwise indicated)			
Base CPI	267.2	267.2	267.2	267.2	267.2
Fixed Cost Component	31,598,637	31,598,637	31,598,637	31,598,637	31,598,637
Variable Cost Component	31,598,637	31,598,637	31,598,637	31,598,637	31,598,637
X-factor (%)	—	—	—	—	—
Uncontrollable Cost Component	18,285,509	18,285,509	18,285,509	18,285,509	18,285,509
Retail Sales Revenue Requirement	81,482,783	81,482,783	81,482,783	81,482,783	81,482,783

AYEPSAŞ

	2016	2017	2018	2019	2020
		(Turkish Lira except otherwise indicated)			
Base CPI	267.2	267.2	267.2	267.2	267.2
Fixed Cost Component	25,047,941	25,047,941	25,047,941	25,047,941	25,047,941
Variable Cost Component	25,047,941	25,047,941	25,047,941	25,047,941	25,047,941
X-factor (%)	—	—	—	—	—
Uncontrollable Cost Component	40,124,922	40,124,922	40,124,922	40,124,922	40,124,922
Retail Sales Revenue Requirement	90,220,804	90,220,804	90,220,804	90,220,804	90,220,804

Toroslar EPSAŞ

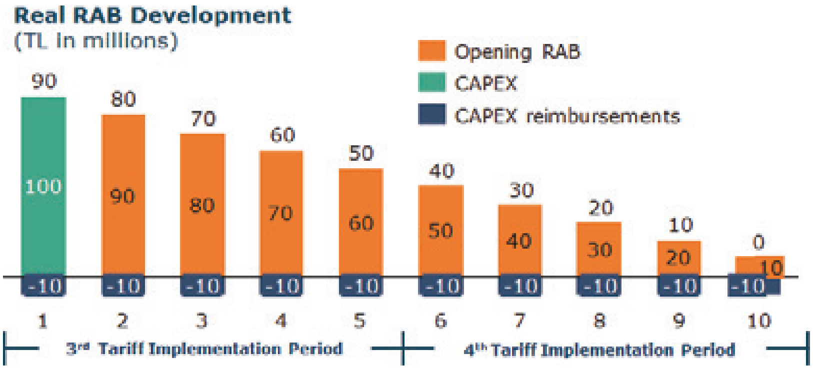
	2016	2017	2018	2019	2020
		(Turkish Lira except otherwise indicated)			
Base CPI	267.2	267.2	267.2	267.2	267.2
Fixed Cost Component	32,792,292	32,792,292	32,792,292	32,792,292	32,792,292
Variable Cost Component	32,792,292	32,792,292	32,792,292	32,792,292	32,792,292
X-factor (%)	—	—	—	—	—
Uncontrollable Cost Component	59,488,918	59,488,918	59,488,918	59,488,918	59,488,918
Retail Sales Revenue Requirement	125,073,502	125,073,502	125,073,502	125,073,502	125,073,502

Illustrations Related to Certain Regulatory Mechanisms

The below illustrations and explanations are provided for illustrative purposes only. They cannot be reconciled to the Financial Statements and are only provided to assist investors in their analysis of how (i) return on initial allowed CAPEX, (ii) return on front-loaded CAPEX, and (iii) return on overspent CAPEX mechanisms work, based on certain assumptions as stated therein, which are subject to change. In these illustrations we assumed the length of 4th tariff implementation period will be five years. We also assumed (i) that CAPEX is made on January 1st of the relevant year (2016 in the illustrations), (ii) that CAPEX is before tax, (iii) CAPEX reimbursement period is 10 years, (iv) regulated WACC is 12%, and (v) the inflation rate is at 8% per year.

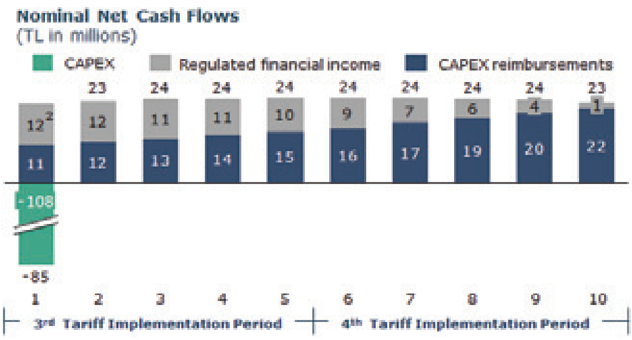
Return on Initial Allowed CAPEX

The below illustration sets forth the return on initial allowed CAPEX in a scenario where TL 100 million CAPEX is made in the first year of the 3rd tariff implementation period (2016). In these calculations, we based on current regulations and inflation and other assumptions that are subject to change.



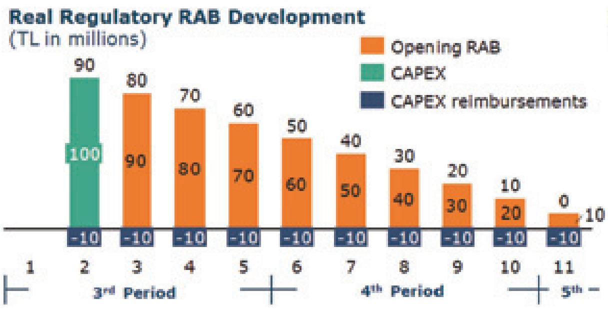
As the CAPEX amounting to TL 100 million is made in the first year of the 3rd tariff implementation period in line with the initial allowed CAPEX, the amount is immediately added to the RAB of the relevant distribution company. Consequently, CAPEX reimbursement and generation of regulated financial income begins immediately in the first year of the relevant tariff implementation period. Given the CAPEX reimbursement period is 10 years, both cash flows are received over a 10 year period until RAB is fully reimbursed.

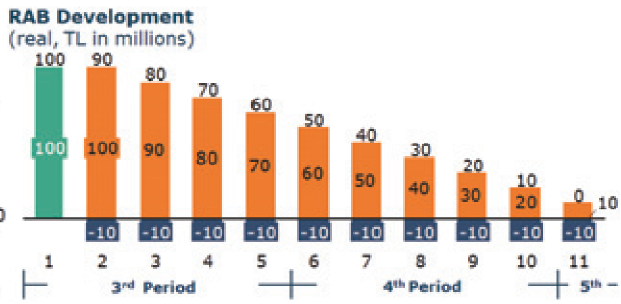
The below illustration sets forth the nominal net cash flows during the period of 10 years beginning in the first year of the 3rd tariff implementation period (2016).



Return on Front-Loaded CAPEX

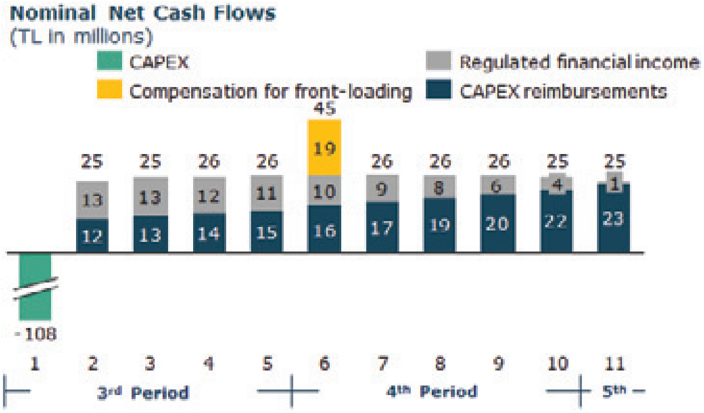
The below illustrations sets fort the return on front-loaded CAPEX in a scenario where TL 100 million CAPEX is made in the first year on a front-loaded basis, instead of the second year of the relevant tariff implementation period.





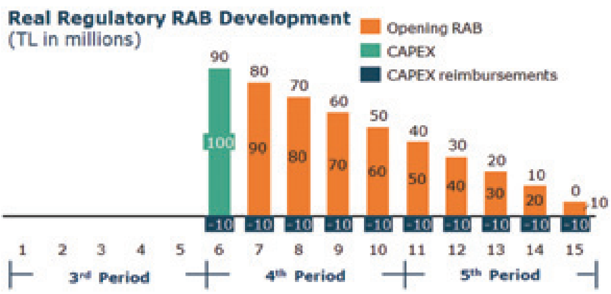
While we make TL 100 million CAPEX in the first year of the relevant third tariff implementation period, EMRA only recognizes CAPEX with a lag of one year as CAPEX is not made within the limits of the initial allowed CAPEX of the first year of the relevant tariff implementation period. Accordingly, cash returns from both regulated financial income as well as CAPEX reimbursements starts in the second year. EMRA compensates for this time lag in the beginning of the next tariff implementation period (year 6) by retrospectively determining the actual RAB bases for the previous tariff implementation period and calculating the foregone real regulated financial income. This foregone real regulated financial income is indexed to inflation in the beginning of the next tariff implementation period and received as a lump-sum payment.

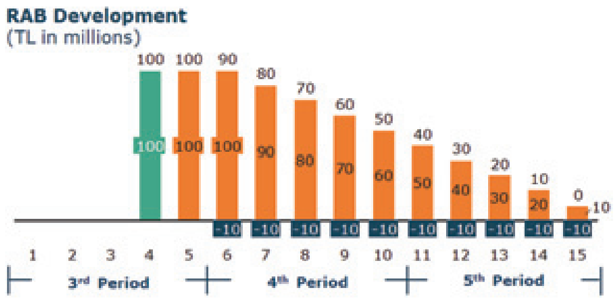
The below illustration sets forth the nominal net cash flows during the period of 10 years beginning in the first year of the 3rd tariff implementation period (2016).



Return on Overspent CAPEX

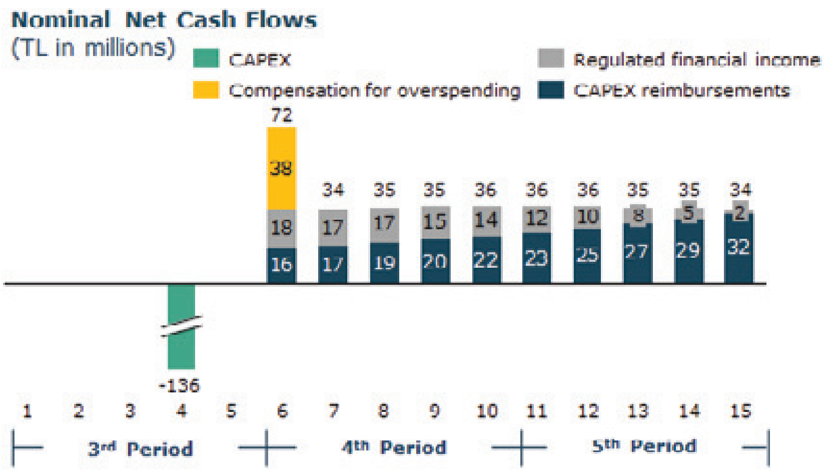
The below illustrations sets forth the return on overspent CAPEX in a scenario where TL 100 million CAPEX is made in the fourth year of the relevant tariff implementation period.





While we make TL 100 million CAPEX in the fourth year, EMRA only recognizes CAPEX at the beginning of the next tariff implementation period as the CAPEX is not made in the cumulative scope of the initial allowed CAPEX of the current tariff implementation period. Accordingly, cash returns from both regulated financial income as well as CAPEX reimbursements begin in the next tariff implementation period. EMRA compensates for this time lag in the beginning of the next tariff implementation period (year 6) by retrospectively determining the actual RAB bases for the past tariff implementation period and calculating the foregone real regulated financial income. This foregone real regulated financial income is indexed to inflation in the beginning of the next tariff implementation period and received as a lump-sum payment.

The below illustration sets forth the nominal net cash flows during the period of 10 years beginning in the fourth year of the 3rd tariff implementation period (2016).



MARKET OVERVIEW

The following information relating to the Turkish electricity market has been provided for background purposes only. The information has been extracted from third party sources that we believe to be reliable but we have not independently verified such information.

Macroeconomic Overview of Turkey

Structural reforms and successful macroeconomic policies have positioned Turkey as one of the fastest growing countries at the beginning of this century. Turkey's GDP has increased from USD 273 billion in 2000 to USD 863.7 billion in 2016 (7.5% CAGR), which makes it the 17th largest economy in the world and the sixth largest in Europe (*Source*: *World Bank*). Fiscal and monetary discipline in Turkey led to a sharp decline in inflation from the highs of approximately 70% at the beginning of 2000s to more stable levels at 8.5% in 2016, however this rate increased to approximately 13% in November 2017 (*Source*: *Turkstat*). Turkish government debt was 28.3% of GDP in 2016, which was significantly lower than the EU-28 average. Turkish government budget deficit, on the other hand, was 1.1% of Turkey's GDP in 2016, and Turkish government's estimation for 2017 is at 2.0% (*Source*: *General Directorate of Budget and Fiscal Control* (*Bütçe ve Mali Kontrol Genel Müdürlüğü*)).

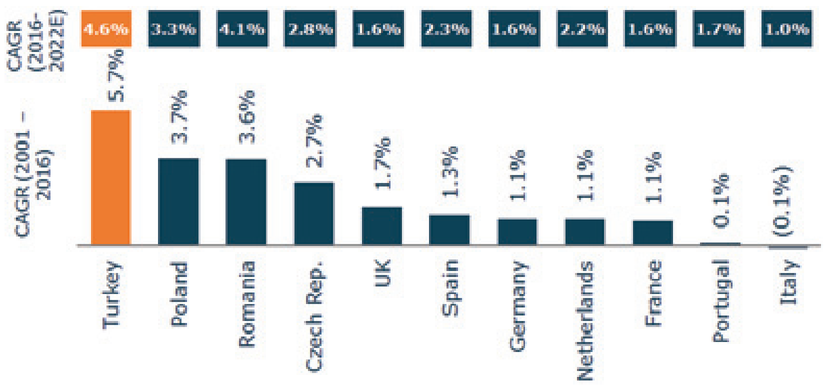
Macro Indicators of Turkey and Global Macro Indicators

The Turkish economy, in real terms, grew by 5.3 %, 5.4%, and 11.1% respectively in the first three quarters of 2017, compared to same periods of 2016 (*Source:* Turkstat). CPI increased year-on-year by 12.9 % in November 2017, compared to November 2016. Also, average CPI change for the last 12 months was 10.85% to November 2017 (*Source: Turkstat*). The Turkish Central Bank targets an inflation rate of 5.0% for both 2017 and 2018 (*Source: Central Bank*).

Year ended December 31,	Nominal GDP	GDP Annual Change (constant prices)	GDP per capita	CPI	Population	Population Growth
	(USD in billions)	*(%)*	*(USD)*	*(%)*	*(in millions)*	*(Annual, %)*
2007	679	5.0	9,672	8.4	70.6	1.2
2008	774	0.8	10,886	10.1	71.6	1.3
2009	647	(4.7)	8,986	6.5	72.6	1.4
2010	772	8.5	10,561	6.4	73.7	1.5
2011	832	11.1	11,213	10.5	74.7	1.5
2012	871	4.8	11,582	6.2	75.6	1.3
2013	950	8.5	12,484	7.4	76.7	1.2
2014	935	5.2	12,159	8.2	77.7	1.1
2015	861	6.1	11,081	8.8	78.8	1.1
2016	857	2.9	10,903	8.5	79.8	1.1

Source: Turkstat

The chart below illustrates the GDP growth (in real prices) for Turkey and selected countries between 2001 and 2016 as well as the estimated GDP growth between 2016 and 2022.



Source: EIU

The chart below illustrates the government debt of selected countries in 2015, as a proportion of GDP.

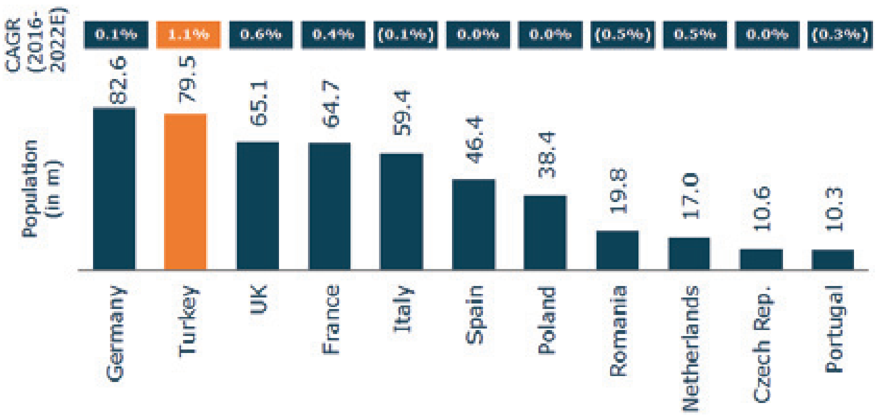
Country	Central government debt total 2015 (% of GDP)
Japan	198
United Kingdom	108
United States	98
Euro Area	92
Brazil	67
Germany	50
Republic of South Korea	40
Turkey	29

Source: World Bank

Demographics of Turkey

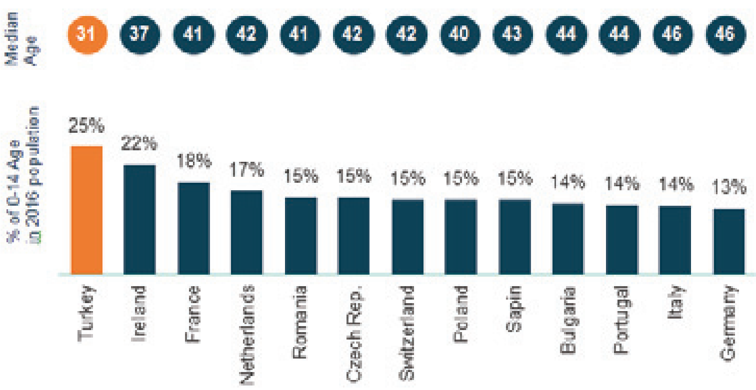
Population

In 2016, Turkey's population reached 79.8 million (*Source*: *Turkstat*). It is expected to exceed 84 million in 2023, and to peak at 93.5 million in 2050 at which point the population will be more than double what it was in 1980 (*Source*: *Turkstat*). The chart below sets forth the population of Turkey and selected countries in 2016 in millions, as well as the projected population growth between 2016 and 2022.



Source: EIU

In addition, Turkey has the youngest population when compared to the EU region, with almost quarter of its population under the age of 15 in 2016 (*Source*: *Turkstat*). The chart below illustrates the percentage of 0 – 14 age in total population in 2016 for Turkey and selected countries in EU region, as well as the median age of population in such countries in 2016.



Source: World Bank

Urbanization

Turkey's population is becoming increasingly more urbanized as people continue to migrate from rural areas into cities in the hope of better employment opportunities and a higher standard of living. Major migrations from rural to urban areas were observed in the 1970s and 1980s. Over the past decade (2007-2016), the urban population increased from 69% of the total population to 74% in Turkey, compared to the urban population in European Union, which increased from 73% to 75%. (*Source: World Bank*). There still exists headroom for further urbanization, as illustrated in the table below. With approximately 74% of total population living in urban areas, Turkey still ranks at the lower end of its European peers.

The continuing urbanization and expansion of the urban centers implies rising investment levels in Turkey's cities driving economic activity. The 10th Development Plan approved in November 2013, envisages government infrastructure spending of USD 250 billion between 2014 and 2018 and private-public partnership projects ("**PPPs**") worth approximately USD 100 billion over the same period (*Source: Turkish Ministry of Development*).

Country	Urbanized (*% of total population*)
Belgium	97.9
Netherlands	91.0
United Kingdom	82.8
France	79.8
Spain	79.8
Germany	75.5
European Union	75.0
Turkey	73.9
Hungary	71.7

Source: World Bank

Overview of the Turkish Electricity Sector

Historical Evolution

The Turkish electricity market has experienced significant changes over the last twenty years. The market structure has completely changed from a model where a state-owned single entity is responsible for the entire operation to various companies taking part in different parts of the value chain.

The electricity sector liberalization program was initiated in 2001 for the restructuring, liberalization, regulation of the sector and adoption of the relevant EU Acquis. The Electricity Market Law was enacted, and the regulator, Electricity Market Regulatory Authority (EMRA), was established. Meanwhile, two strategy papers were issued in 2004 and 2009 which laid out milestone targets for the liberalization roadmap. Amendments and improvements are continuously being made to realign the market rules with those of the common rules of EU energy markets. The privatization of distribution assets was completed in 2013. The annual eligibility threshold in electricity retail has been gradually reduced over time. EMRA's tariff framework has been consistent in terms of the application of the liberalization program throughout different implementation periods, where the changes in tariff parameters have been fairly positive, for example the RAB was increased and there have been certain amendments to reflect positive changes.

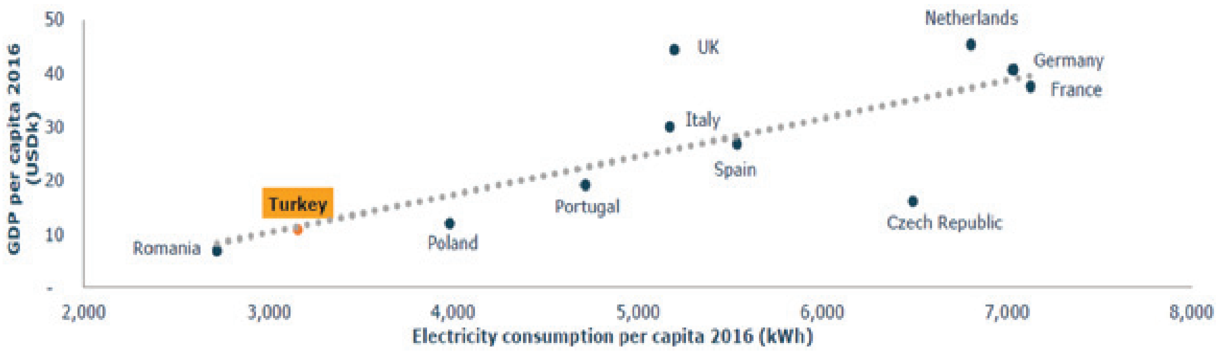
Current Overview and Key Players Across the Value Chain

Turkey is one of the fastest growing energy markets in the region with its 79.8 million population at the end of 2016, high population growth rate (CAGR of 1.32% between 2000 and 2016) and growing electricity demand (CAGR of 5% between 2000 and 2016) (*Source: Turkstat*). The Turkish electricity market is the sixth largest market in Europe after Germany, France, UK, Italy and Spain, with its 279 TWh of electricity demand in 2016 (*Source*: *TEİAŞ*). Its growth performance places Turkey among the fastest growing electricity markets, especially in Europe, driven by high economic growth, industrialization, urbanization and demographics.

Currently, the major components of the Turkish electricity market could be distinguished into five different components: generation, transmission, distribution, wholesale and retail. The following table summarizes the post-liberalization market structure in Turkish electricity sector.

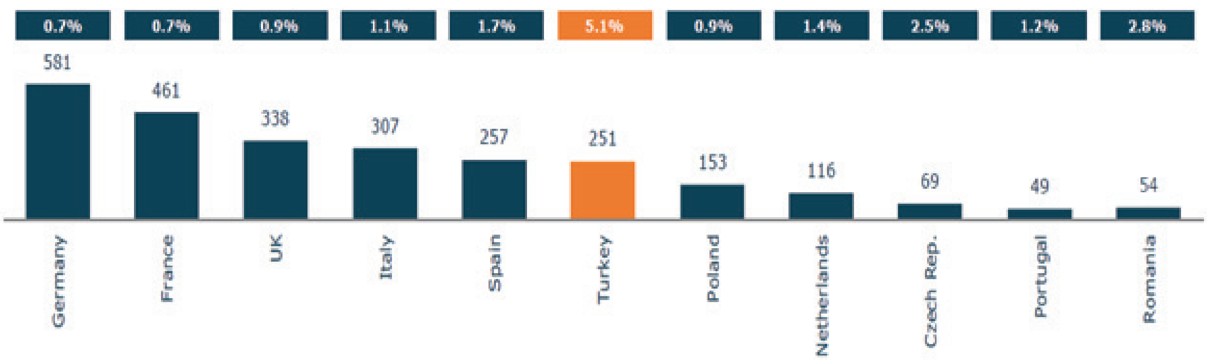
Activity	Operator
Generation	EÜAŞ (*state-owned*), Build Own Operate scheme plants, Build Own Transfer scheme plants, Transfer of operation rights scheme plants, and independent power generation companies
Transmission	TEİAŞ (*state-owned*) (monopoly)
Distribution	21 Private distribution companies
Wholesale	TETAŞ (*state-owned*) & private companies
Retail	Private retail companies

The below chart indicates the consumption of electricity of selected countries per capita in 2016 and in kWh.



Source: EIU

The below chart indicates the expected electricity consumption growth in selected countries and between 2016 and 2021 and in TWh.



Source: EIU

Key Sector Drivers

Turkish electricity demand has increased rapidly with a CAGR of 5% increasing from 128 TWh in 2000 to 279 TWh in 2016 (*Source: TEİAŞ*). Installed capacity, on the other hand, has increased with an approximate CAGR of 7% since 2000 to 2016 (*Source: TEİAŞ*). Main drivers of the growth in demand are the fast population growth, increasing GDP and the developing industrial production and growing services sector. *(Source: Turkstat)* Even during the economic downturns in Turkey in 2001 and 2009, the electricity sector remained relatively resilient and recovery has been fast.

Year ended December 31,	Installed Capacity	Gross Electricity Generation	Gross Demand(1)
	(MW)	*(GWh)*	*(GWh)*
2000	27,264	124,922	128,276
2001	28,332	122,725	126,871
2002	31,846	129,400	132,553
2003	35,587	140,581	141,151
2004	36,824	150,699	150,018
2005	38,844	161,956	160,794
2006	40,565	176,300	174,637
2007	40,836	191,558	190,000
2008	41,817	198,418	198,085
2009	44,761	194,813	194,079
2010	49,524	211,208	210,434
2011	52,911	229,395	230,306
2012	57,059	239,497	242,370
2013	64,008	240,154	246,357
2014	69,520	251,963	257,220
2015	73,147	261,783	265,724
2016	78,497	274,408	279,286

(1) Gross demand corresponds to gross generation *plus* imports *minus* exports.
Source: TEİAŞ

The table below illustrates TEİAŞ's projections for installed generation capacity and electricity demand in Turkey

Year	Installed Capacity Projection (High Case Scenario)	Installed Capacity Projection (Low Case Scenario)	Demand Projection (Base Case Scenario)
	(MW)	*(MW)*	*(GWh)*
2018	89,171	87,608	294,748
2019	92,724	89,773	305,289
2020	100,591	94,182	315,619
2021			326,107
2022			336,521
2023			346,775
2024			356,893
2025			366,848
2026			376,786

Source: TEİAŞ

The table below illustrates the installed capacity development in Turkey between 2001 and 2017, categorized by fuel / source type.

Year	Thermal	Hydro	Wind	Solar	Geothermal	Total
	(MW)	*(MW)*	*(MW)*	*(MW)*	*(MW)*	*(MW)*
2001	16,622	11,673	19	0	18	28,332
2002	19,568	12,241	19	0	18	31,846
2003	22,974	12,579	19	0	15	35,587
2004	24,136	12,654	19	0	15	36,824
2005	25,902	12,906	20	0	15	38,843
2006	27,421	13,062	20	0	62	40,565
2007	27,272	13,395	92	0	77	40,836
2008	27,595	13,829	316	0	77	41,817
2009	29,339	14,553	792	0	77	44,761
2010	32,279	15,831	1,320	0	94	49,524
2011	33,931	17,137	1,729	0	114	52,911
2012	35,028	19,610	2,260	0	162	57,060
2013	38,648	22,289	2,760	0	311	64,008
2014	41,799	23,664	3,612	40	405	69,520
2015	41,903	25,868	4,503	249	624	73,147
2016	44,411	26,681	5,751	833	821	78,497
2017	44,915	27,043	6,161	1,363	861	80,343

Source: TEİAŞ, June 2017

The share of industrial sector in net electricity consumption has been decreasing as the service sector spurs the economic growth of Turkey. Industrial electricity consumption CAGR stands at 4.3% from 2000 to 2016, while commercial sector grew at a CAGR of 13.0% over the same period (*Source*: *Turkstat*).

The decreasing trend in industrial sector's power consumption is mainly driven by efficiency measures taken by the private sector. Additionally, the high electricity consuming iron-steel, textile, and cement sectors are growing much more slowly than low electricity consuming sectors, resulting in lower intensity and lower electricity consumption growth. Although household consumption has a relatively slower growth for the last decade compared to commercial and industrial growth, it still grew by 5.3% CAGR in the period between 2000 and 2016 (*Source*: *Turkstat*).

Year ended December 31,	Consumption(*)	Household	Commercial	Industrial	Illumination	Other
	(MWh)	*(%)*	*(%)*	*(%)*	*(%)*	*(%)*
2000	98,296	24.3	9.5	49.7	4.6	11.9
2001	97,070	24.3	10.2	48.4	5.0	12.1
2002	102,948	22.9	10.6	49.0	5.0	12.5
2003	111,766	22.5	11.5	49.3	4.5	12.2
2004	121,142	22.8	12.9	49.2	3.7	11.4
2005	130,263	23.7	14.2	47.8	3.2	11.1
2006	143,071	24.1	14.2	47.5	2.8	11.4
2007	155,135	23.5	14.9	47.6	2.6	11.4
2008	161,948	24.4	14.8	46.2	2.5	12.1
2009	156,894	25.0	15.9	44.9	2.5	11.7
2010	172,051	24.1	16.1	46.1	2.2	11.5
2011	186,100	23.8	16.4	47.3	2.1	10.4
2012	194,923	23.3	16.3	47.4	2.0	11
2013	198,045	22.7	18.9	47.1	1.9	9.4
2014	207,375	22.3	19.2	47.2	1.9	9.4
2015	217,312	22.0	19.1	47.6	1.9	9.4
2016	228,655	24.0	29.0	42.0	2.0	3.0

Source: Turkstat (2000 – 2015), TEİAŞ (2000-2016 for consumption data) and EMRA (2016 for breakdown of consumption)

(*) Consumption is calculated as gross generation minus internal consumption, transmission losses, distribution losses and exports plus imports.

Overview of the Electricity Regulatory Environment

Market Regulator

The electricity sector is mainly governed by the Electricity Market Law No. 6446 of 2013 and the secondary legislation issued by EMRA, the independent regulatory authority responsible for the regulation and supervision of the market. EMRA is a public entity with administrative and financial autonomy and the legally defined related ministry is the Ministry of Energy and Natural Resources (MENR). EMRA is tasked with duties including the following:

- Grant and renew licenses defining the rights and liabilities of the legal persons;
- Prepare the existing contracts within the scope of the Transfer of Operating Rights (TOR);
- Establish performance standards by monitoring the market performances;
- Prepare, improve and execute the secondary legislation;
- Audit the license holding legal persons;
- Prepare, modify and execute regulated tariffs; and
- Ensure that the market activities are in compliance with the Electricity Market Law.

Regulatory Dynamics of the Distribution and Retail Businesses

The electricity distribution and retail sale businesses are regulated businesses under the supervision of EMRA and are governed by the Electricity Market Law and relevant secondary regulations. All distribution assets in Turkey were split into 21 distribution regions and the operating rights of assets in each distribution region were transferred to separate companies via the Transfer of Operating Rights ("**TOR**") method.

Distribution privatizations started in 2009 with Başkent region. Within four years, privatizations of all 21 regions were completed. At the beginning of the privatization process, companies acquired were responsible for both distribution and supply activities. Legal unbundling of distribution and supply functions was implemented on December 31, 2012, upon which the retail sales companies received their retail licenses from EMRA.

Distribution Business

Distribution activity is defined as the transmission of electricity over lines at a voltage level of 36 kV and less and is regulated by EMRA. Distribution activity is a natural monopoly, and EMRA regulates distribution companies closely by setting five-year tariffs. The distribution companies in their respective territories are responsible for the operation of the distribution system on an impartial basis, making necessary maintenance and expansion investments, maintenance and reading of meters, preparation of demand projections and investment plans, and procurement of electricity subject to technical and non-technical losses as well as the illumination of public spaces. At the beginning of each five-year tariff implementation period, the annual regulatory capex and opex allowances for each year within the five year period is defined by EMRA. The current regulatory framework allows outperformance of operational expenses for controllable costs. If the actual operational expenses incurred by the distribution company are different from the OPEX allowance, the company either makes additional profits or bears the extra costs. Theft and loss revenue is a pass-through for distribution companies as long as they meet the theft and loss targets with total procured electricity volume for theft and loss equal to the forecast included in the revenue requirement calculation. The 3rd tariff implementation period covers 2016 through 2020 for the Turkish electricity distribution sector, and offers a favorable tariff structure and regulatory framework for distribution companies. See *"Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff"*.

Retail Business

Pursuant to the EMRA resolution dated December 22, 2016 and numbered 6800 the eligibility threshold for 2017 was set at an annual consumption level of 2.4 MWh. The eligibility threshold was further reduced to an annual consumption level of 2.0 MWh for 2018, pursuant to the EMRA resolution dated November 30, 2017 and numbered 7474.

The following table sets forth the evolution of the eligibility threshold and market openness by electricity volume:

Year ended December 31,	Eligibility Limit	Market Openness
	(MWh/year)	*(%)*
2005	7,700	28
2006	6,000	30
2007	3,000	32
2008	1,200	39
2009	480	41
2010	100	49
2011	30	63
2012	25	78
2013	5	83
2014	4.5	84
2015	4.0	85
2016	3.6	86
2017	2.4	90
2018	2.0	94

Source: EMRA

Business Overview

Increasing urbanization and population growth play a significant role in distribution and retail business dynamics. Our three distribution regions offer increasing urbanization and population growth rates, which form the basis for increasing electricity demand and network expansion investments. With increasing urbanization and residential construction, the average number of people per household decreases, hence the number of individual houses and end-users increase. Since every house will have a base consumption volume due to heating/cooling and in-house illumination needs independent from the number of its household size, a decreasing household size and increasing housing numbers in Turkey lead to increasing electricity consumption. The average number of people living in a household decreased from 4.0 in 2008 to 3.5 in 2016 in Turkey. Among all our regions, the Başkent region shows the highest decrease in number of people per household with a -2.1% CAGR between 2008 and 2016 (*Source*: *Turkstat*). The Toroslar region shows a similar negative trend with Turkey with -1.7% CAGR between 2008 and 2016, whereas the Ayedaş region shows the slowest decrease with -1.2% CAGR between 2008 and 2016.

Year ended December 31,	Turkey	Ayedaş	Başkent	Toroslar
	(Average Number of People Living in a Household)			
2008	4.0	3.8	3.6	4.4
2009	4.0	3.8	3.5	4.4
2010	3.8	3.7	3.4	4.3
2011	3.8	3.6	3.3	4.2
2012	3.7	3.6	3.3	4.1
2013	3.6	3.5	3.2	4.0
2014	3.6	3.5	3.1	3.9
2015	3.5	3.5	3.1	3.9
2016	3.5	3.5	3.0	3.8

Source: Turkstat

The table below sets forth the electricity distributed (MWh), population, distribution connection points as well as network length in kilometers, in both Enerjisa regions as well as other regions, as of December 31, 2016.

Distribution Region	Distributed Electricity	Population	Distribution Connection Points	Network Length (including 3rd parties)
	(MWh)			*(in Kilometers)*
Enerjisa Regions				
Toroslar EDAŞ	14,340,758	8,157,931	3,669,912	84,411
Başkent EDAŞ	14,262,170	7,217,587	4,099,788	109,659
AYEDAŞ	11,089,271	5.228.368	2,751,857	23,783
Enerjisa Total	**39,692,199**	**20,603,886**	**10,521,557**	**217,853**
Other Regions				
Dicle EDAŞ	6,863,373	5,720,275	1,675,698	69,985
Vangölü EDAŞ	1,681,265	2,124,349	623,483	39,335
Aras EDAŞ	2,187,907	2,195,359	935,816	54,765
Çoruh EDAŞ	3,386,983	1,843,901	1,269,278	56,949
Fırat EDAŞ	2,326,575	1,700,468	888,483	45,890
Çamlıbel EDAŞ	2,239,237	1,632,047	917,913	45,943
Meram EDAŞ	8,521,898	3,617,697	1,964,377	81,636
Akdeniz EDAŞ	7,982,878	2,968,561	2,000,386	51,672
GDZ EDAŞ	13,911,748	5,548,781	3,061,100	53,606
Uludağ EDAŞ	11,055,907	4,775,585	2,983,810	62,330
Trakya EDAŞ	6,175,815	1,687,420	991,026	19,842
Sakarya EDAŞ	8,710,680	3,384,719	1,654,546	35,478
Osmangazi EDAŞ	5,976,877	2,672,603	1,661.,395	43,364
Boğaziçi EDAŞ	23,243,975	9,474,894	4,872,387	32,457
Kayseri EDAŞ	2,190,598	1,341,056	673,432	21,488
ADM EDAŞ	8,023,628	2,955,825	1,787,566	64,594
Akedaş EDAŞ	3,694,792	1,699,384	635,620	25,058
Yeşilırmak EDAŞ	4,681,276	3,060,313	1,938,042	80,263
Total	**162,547,610**	**78,741,053**	**41,055,915**	**1,102,508**
Enerjisa total (*% of Total*)	24.4	26.2	25.7	19.8

Source: TEDAŞ, Turkstat

Market Share and Competition

As of December 31, 2016, there were approximately 41.1 million users connected to distribution networks across Turkey, and we had approximately 10.5 million users connected to our distribution networks operated by our distribution companies (Source: *EMRA*). Similarly, with approximately 32.9 TWh and 25.5 TWh sales (for the sales prior to January 1, 2017, including the sales to the customers under Enerjisa Electricity Wholesale Company's portfolio, which were transferred to our portolio in January 1, 2017) for the year ended December 31, 2016 and for the nine months ended September 30, 2017, respectively, we are the leading electricity retail company in Turkey in terms of volume.

As of December 31, 2016 and September 30, 2017, we had a total of approximately 9.0 million and approximately 9.1 million customers (including approximately 1.0 million and 0.9 million inactive customers, respectively). We believe that our position as the market leader in terms of the number of customers provides us with a competitive advantage through economies of scale and strong brand recognition. With a combined regional population of 20.6 million people as of December 31, 2016, the Başkent, Ayedaş and Toroslar regions represented approximately 25.8% of Turkey's total population, illustrating the magnitude of our regional reach. All three regions combined, our distribution business focuses on the expansion and maintenance of a distribution network of approximately 217,853 km and TL 3.9 billion RAB as of 2016, in nominal terms. Başkent and Toroslar regions receive the highest realized CAPEX and OPEX, providing higher RAB development and potential for higher OPEX efficiencies compared to other distribution regions.

The table below sets forth the electricity demand in the electricity distribution regions in Turkey for the year ended December 31, 2016.

No.	Region	Demand TWh	Demand (%)
1	**Toroslar**	**25.7**	**12.1**
2	Boğaziçi	24.6	11.6
3	Gediz	20.5	9.7
4	Uludağ	16.9	8.0
5	**Başkent**	**16.3**	**7.7**
6	Sakarya	14.7	6.9
7	**Ayedaş**	**12.2**	**5.8**
8	Meram	9.8	4.6
9	Akdeniz	9.3	4.4
10	Trakya	9.2	4.3
	Other	52.9	24.9
	Total	**212.1**	**100.0**

Source: EMRA

The table below sets forth the realized CAPEX and realized OPEX in the electricity distribution regions in Turkey for the year ended December 31, 2016.

No.	Region	CAPEX Realization		OPEX Realization	
		Turkish Lira in millions	% of total	Turkish Lira in millions	% of total
1	**Başkent**	**546**	12.8	**597**	8.6
2	**Toroslar**	**539**	12.6	**544**	7.9
3	Boğaziçi	387	9.0	797	11.5
4	Gediz	279	6.5	504	7.3
5	Uludağ	267	6.2	396	5.7
6	Meram	265	6.2	410	5.9
7	**Ayedaş**	**255**	6.0	**357**	5.2
8	Dicle	240	5.6	569	8.2
9	Yeşilırmak	203	4.7	290	4.2
10	Aydem	189	4.4	316	4.6
	Other	1,108	25.9	2,134	30.9
	Total	**4,278**	**100.0**	**6,914**	**100.0**

Source: EMRA

The table below sets forth the end-user numbers in the electricity distribution regions in Turkey for the year ended December 31, 2016.

No.	Region	Number of Distribution Connection Points in millions	Number of Distribution Connection Points % of total
1	Boğaziçi	4.89	11.9
2	Başkent	**4.10**	**10.0**
3	Toroslar	**3.67**	**8.9**
4	Gediz	3.05	7.4
5	Uludağ	2.99	7.3
6	Ayedaş	**2.75**	**6.7**
7	Akdeniz	1.98	4.8
8	Meram	1.97	4.8
9	Yeşilırmak	1.94	4.7
10	Aydem	1.79	4.4
	Other	11.96	29.1
	Total	**41.09**	**100.0**

Source: EMRA

Distribution Business

The distribution grid network in Turkey is not only expanding with the country's growing population, urbanization and GDP growth, but it is also in need of considerable renewal due to network's age.

After the completion of the privatization and the takeover process of Başkent EDAŞ by Enerjisa in 2009, detailed due diligence analysis was performed by Enerjisa on Başkent EDAŞ's distribution assets. According to the analysis, 44% of the 33kV transformers would be more than 25 years old by 2016 and as of the analysis date, 52% are older than 10 years, being in average or bad condition. This means that the transformers, which have not been replaced since 2009 are probably due for replacement in the 3rd tariff implementation period. Similarly, 42% of the MV overhead lines were calculated to be of 25 or more years old in 2016 and 60% more than 15 years old in 2016. For LV overhead lines, the situation was found to be slightly better and only 32% were calculated to be over 25 years old by 2016 and 15% of them would be in bad condition if not replaced by then.

At the end of 2014, similar analyses were performed for Ayedaş and Toroslar to assess their distribution assets and similar results to Başkent were also reached for Ayedaş and Toroslar network. As of December 31, 2015, 17,610 transformers out of 76,232 were visited. It was concluded that 38% of the transformers would be more than 20 years old by 2016 and 25% of them would be more than 10 years old. 65% of the transformers are in good shape, whereas 4% of need immediate replacement. 8% of transformer buildings also need rehabilitation.

Başkent and Toroslar regions are the top two CAPEX receiving distribution regions in Turkey. Currently, we are the market leader in OPEX allowance, CAPEX allowance and RAB size as of 2016 year end, with market shares of 20.5%, 23.5% and 24.5%, respectively.

Region	2016 OPEX Allowance (controllable)	2016 CAPEX Allowance	2016 Year End RAB
	(%)	*(%)*	*(%)*
Başkent	9.3	9.7	11.5
Toroslar	7.4	9.0	8.3
Ayedaş	3.9	4.8	4.8
Enerjisa	**20.6**	**23.5**	**24.5**
Enerjisa Size (billion TL)	*0.88*	*0.86*	*3.0*
Market Size (billion TL)	*4.27*	*3.68*	*12.2*

Source: EMRA

Retail Business

The top six owners of incumbent retail companies accounted for 75% of the customer base in Turkey in 2015. Annual end-user retail sales of Enerjisa was 32.9 TWh (for the sales prior to January 1, 2017, including the sales to the customers under Enerjisa Electricity Wholesale Company's portfolio, which were transferred to our portolio in January 1, 2017) for the year 2016 , which corresponds to 18% market share among all retail companies.

The top five owners (in terms of number of customers) of the incumbent retail companies are listed below:

Region	Owner
Başkent	Enerjisa
Toroslar	Enerjisa
AYEDAŞ	Enerjisa
Boğaziçi	Cengiz-Kolin
Akdeniz	Cengiz-Kolin
Çamlıbel	Cengiz-Kolin
Gediz	Bereket
AYDEM	Bereket
Sakarya	Akenerji
Uludağ	Limak

Significant competition in retail and SME segment, which consists of small and medium size commercial/ industrial customers and households, comes from new entrants to the market. There are 21 incumbent and 200 non-incumbent retail companies in the market. Most of the non-incumbent retail companies are new market entrants and do not own any generation assets and mostly depend on spot or bilateral markets for the procurement of energy. They aim to utilize local third party dealers to acquire and develop a customer portfolio. They focus purely on discounts and have limited brand communication. In the corporate segment where the market has been open for a longer period, customers are more aware and open to supplier switching, and suppliers require better key account management and less mass portfolio management tools compared to residential or SME customers.

The market share of the major retail companies based on retail sale volumes of 2016 are listed below:

Group	(%) of Market Share	Volume (TWh)
Enerjisa	18	33
Cengiz-Kolin	15	29
Bereket	11	21
IC İçtaş	7	13
Limak	6	11
Aksa	5	9
Akenerji	5	9
Other incumbent retail companies	17	31
Other non-incumbents	16	30

Source: EMRA

BUSINESS

Overview

With approximately 10.5 million distribution connection points (representing approximately 25.6% of the connection points in Turkey) and approximately 9 million customers (representing approximately 22% of the customers purchasing electricity in Turkey) as of December 31, 2016, we are the leading downstream electricity company in Turkey engaged in the distribution and retail sales of electricity in the Başkent region (which includes Turkey's capital, Ankara), the Ayedaş region (which covers the Asian side of Turkey's largest city, İstanbul) and the Toroslar region (which includes large industrial centers such as Mersin, Adana and Gaziantep), as well as in the retail sales of electricity to eligible customers in all other regions of the country.

We operate our business operations through two segments: distribution and retail. Our distribution companies, namely Başkent EDAŞ, AYEDAŞ, and Toroslar EDAŞ, run the distribution networks in the three distribution regions of Başkent, Ayedaş, and Toroslar, respectively, to facilitate the distribution of electricity which is sold to end-users (whether by our or other retail companies) through the distribution networks, whereas our retail companies conduct retail sales of electricity to customers.

For the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, our revenue was TL 8,064,421 thousand, TL 9,153,614 thousand, TL 9,103,380 thousand, TL 6,919,414 thousand, and TL 8,591,508 thousand, respectively. For the year ended December 31, 2014, our loss for the period was TL 276,714 thousand (3.4% loss margin). For the years ended December 31, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, our profit for the period was TL 336,302 thousand (3.7% profit margin), TL 377,393 thousand (4.1% profit margin), TL 421,813 thousand (6.1% profit margin), and TL 453,966 thousand (5.3% profit margin), respectively.

Distribution

Distribution is defined as the transmission of electricity over lines with voltage levels of less than 36 kV. Regulated by EMRA, the electricity distribution network of Turkey is separated into 21 distribution regions, each of which is run by private operators following the privatization process carried out between 2009 and 2013. As of December 31, 2016, there were approximately 41.1 million users connected to distribution networks across Turkey, and we had approximately 10.5 million users connected to our distribution networks operated by our distribution companies (Source: *EMRA*).

We manage, monitor, plan and perform all network and customer related operations for all three of our distribution regions on a centralized basis. As part of our network management activities we conduct research and development activities. This enables us to better standardize network management processes, prepare centralized procedures, determine key performance indicators (such as compliance with the standards of EMRA, SAIDI and SAIFI targets, theft and loss targets, technical & commercial and supply reliability standards set by EMRA), plan system improvements, implement, control and monitor local networks, and conduct customer related activities for all three distribution regions.

Retail

We conduct our retail operations through three retail companies, namely Başkent EPSAŞ, the incumbent retail company in the Başkent region, AYEPSAŞ, the incumbent retail company in the Ayedaş region, and Toroslar EPSAŞ, the incumbent retail company in the Toroslar region.

Along with our positions as the incumbent retail companies to regulated customers in our respective distribution regions, our retail companies are also able to sell electricity to eligible customers as well as across Turkey without any regional restriction. We believe that our retail business benefits from its attractive combination of incumbent regions, with a favorable mix of residential, industrial and commercial customers in both rural and urban areas. With approximately 32.9 TWh and 25.5 TWh sales (for the sales prior to January 1, 2017, including the sales to the customers under Enerjisa Electricity Wholesale Company's portfolio, which were transferred to our portolio in January 1, 2017) for the year ended December 31, 2016 and for the nine months ended September 30, 2017, respectively, we are the leading electricity retail company in Turkey in terms of volume.

As of December 31, 2016 and September 30, 2017, we had a total of approximately 9.0 million and approximately 9.1 million customers (including approximately 1.0 million and 0.9 million inactive customers, respectively). We believe that our position as the market leader in terms of the number of customers provides us with a competitive advantage through economies of scale and strong brand recognition. With a combined regional population of 20.6 million people as of December 31, 2016, the Başkent, Ayedaş and Toroslar regions represented approximately 25.8% of Turkey's total population, illustrating the magnitude of our regional reach (Source: *EMRA*).

Our Key Strengths

We believe that we have a number of key strengths including the following:

Clear market leadership

We are currently the largest participant in both the electricity distribution and retail sales sectors in Turkey with the largest number of distribution connection points (approximately 10.5 million distribution connection points and approximately 25.6% market share as of December 31, 2016) and the highest number of customers (approximately 9.0 million customers and approximately 22% market share as of December 31, 2016).

In our distribution business, as of December 31, 2016, we had approximately 10.5 million connection points, which was 2.7 million more than our closest competitor (*Source: EMRA*). Our distribution regions encompass the most dynamic (in terms of demographics, population, urbanization, transportation, and economics) Turkish regions, including the Asian side of İstanbul (Ayedaş region) and Turkey's capital, Ankara and its surrounding regions (Başkent region), together with the Toroslar region. Our presence in these three regions allows us to distribute energy to approximately one out of every four distribution connections in Turkey, given there were approximately 41.1 million distribution connection points in Turkey as of December 31, 2016. We have an attractive combination of regions with a balanced mix of residential, industrial and commercial customers in both rural and urban areas, which we believe positions us to benefit from growth. We also benefit from having a high share of residential and SME customers (approximately 62.5% of the volume of electricity sold to our customers in 2016) which have higher profit potential in the liberalized market.

We accounted for 30.7% of the national Turkish RAB in 2016 (TL 3,913,785 thousand out of TL 12,734,859 thousand total national RAB), which also makes us the market leader in this respect (*Source: EMRA*). Furthermore, we believe that this leadership will be sustainable in the 3rd tariff implementation period (2016 to 2020), with an already granted CAPEX allowance of TL 4,319,382 thousand (real, stated as of November 15, 2017) corresponding to 23.5% of the total national CAPEX allowance. This CAPEX allowance is higher than our current RAB, which we expect will result in us more than doubling our RAB by the end of the current tariff implementation period compared to the beginning of the current tariff implementation period. This is mainly due to (i) the effect of inflation of the initial real CAPEX allowance, and (ii) our front-loaded CAPEX strategy. Hence we expect the combination of the relative size of the CAPEX allowance to our current RAB, our intended actual CAPEX spend and the length of the CAPEX reimbursement periods (ten years) to underpin our RAB growth.

With 221 active operators, as of the date of this Offering Circular (21 of whom are incumbent), the electricity retail market in Turkey is less concentrated than the Turkish electricity distribution market. Despite the liberalization process, the Turkish electricity retail market continues to be dominated by incumbent retail companies. We are the market leader with approximately a 17.7% market share of 2016 sales volume to all customers, and in particular, we have approximately a 21.6% market share in 2016 of sales volumes to residential and SME customers *(Source: EMRA)*.

Supportive and transparent regulatory framework

The distribution regions in Turkey were largely underinvested during the period of state ownership that lasted until the privatization phase between 2009 and 2013. Distribution is a fully regulated business where an important goal of the regulator is to encourage and incentivize operators to expand and improve the electricity network under private ownership. The regulator offers a guaranteed return (WACC) on RAB and a reimbursement of CAPEX over a ten-year period.

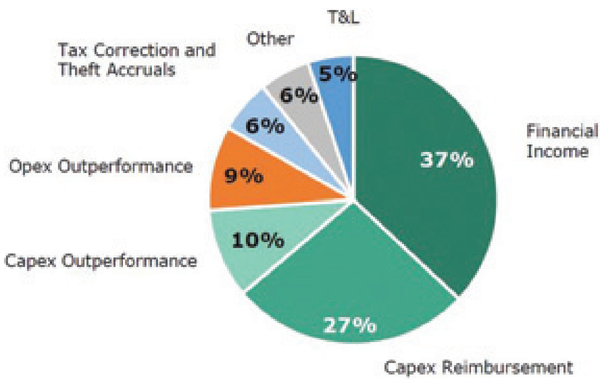
This guaranteed return has a high spread to the risk free rate, particularly when compared with many European countries having real, pre-tax WACC of 11.91% for the 3rd tariff implementation period (2016 to 2018). Pursuant to the EMRA resolution dated December 7, 2017 and numbered 7501-12, pre-tax for the period between 2018 and 2020 has been set as 13.61. The spread between the risk free rate and the real, pre-tax WACC exceeds 8% in

Turkey. We believe that the Turkish authorities are still committed to the goal of incentivizing operators to expand and improve the electricity grid, given the recent increase in the regulated cost of capital (WACC) in the third tariff implementation period (to 11.91% from 9.97% in 2011 to 2015 and to 13.61% in 2018 from 11.91%). We believe that this increase in the regulated WACC will lead to a positive fair value change in our distribution assets that are recognized as financial assets within the context of IFRIC 12. Along with these regulated returns, the Turkish regulatory framework encourages investments through several mechanisms, including capital structure optimization, OPEX, CAPEX and theft and loss outperformances, which promote non-guaranteed upsides through efficiencies.

In line with the objective of improving the electricity grid, the Turkish authorities have increased our total CAPEX allowance from TL 2.8 billion in the 2nd tariff implementation period to TL 4.3 billion in the 3rd tariff implementation period, a 53.2% increase, as well as our OPEX allowance from TL 4.0 billion in the 2nd tariff implementation period to TL 4.8 billion in the 3rd tariff implementation period, a 29.3% increase (in each case real, stated as of November 15, 2017).

In addition, we have outperformed our CAPEX allowances granted by EMRA, having 6.7% and 1.8% CAPEX overspending respectively in 2014 and 2015 (within the 2nd tariff implementation period) and 10.3% CAPEX overspending in 2016 (within the 3rd tariff implementation period). Due to our economies of scale, we are able to benefit from operational efficiencies as well as combined purchasing power for CAPEX requirements. Streamlining our costs has been an important part in achieving a sustained Adjusted EBITDA *plus* CAPEX reimbursements contribution (approximately 8.2% in 2015 and 18.9% in 2016) from regulatory outperformance. By the end of 2020, we expect to achieve a significant growth in our Adjusted EBITDA *plus* CAPEX reimbursements, with a target CAGR of approximately 20%, as a result of significant growth in RAB and corresponding returns, operational efficiency gains, and expansion in our profit from the retail sales operations through further market liberalization. In parallel with this, we expect higher growth in our consolidated net income by the end of 2020, as we benefit from positive financing spread on our investments, having free cash flow turning positive and continuing deleveraging. See *"Forward Looking Statements"*.

The below chart sets forth a breakdown of our Adjusted EBITDA *plus* CAPEX reimbursements for the year ended December 31, 2016.



Turkish regulations also set out a well-structured theft and loss policy, where the target theft and loss ratio targets vary based on regional characteristics. Under these regulations, these targets are determined dynamically each year based on previous years' (average of t-2, t-3, t-4) actual ratios for each distribution region. This has resulted in a higher theft and loss allowance in the Toroslar distribution region as the Toroslar region is very close to Syria and hence has a high number of Syrian refugees. As a result of what we believe is our best in class experience historically in successfully improving theft and loss ratios in the Başkent region, we have been able to replicate these improvements in our other regions. Our average theft and loss ratio (consisting of the average of our three distribution regions) has improved from 9.4% in 2014 to 8.6% in 2016 despite the issues faced in the Toroslar region.

In retail segment, although EMRA has been gradually decreasing the eligibility limit as part of the liberalization process, market openness by number of customers (i.e., proportion of the number of free customers to the total number of eligible customers) was still at approximately 25% as of September 30, 2017. The remaining approximately 75% largely consisted of residential and SME customers, which are a key focus of our strategy and are considered to have higher profit potential in a liberalized market. However, the proportion of the volume of electricity sold to free customers to the volume of the electricity sold to eligible customers was at approximately 90%, as of September 30, 2017. Once the market is fully liberalized, we believe we will be in a position to convert a significant number of these customers into our free market customers as we are the largest retail company in Turkey with strong brand awareness across the country, having brand top of mind awareness score of 78% and spontaneous awareness score of 93% in 2017, based on awareness research conducted by Future Bright in January 2017. As of September 30, 2017, 86.5% of our customers excluding inactive customers in our distribution regions were regulated customers, allowing us to receive a regulated 2.38% margin during the 3rd tariff implementation period until the end of 2020, as well as the potential of further upside as liberalization continues.

In addition, in October 2016, EMRA requested all distribution companies throughout Turkey to employ additional repair and maintenance personnel. In line with this request, our distribution companies were required to employ 952 additional personnel. As of December 18, 2017, our distribution companies employed 876 additional personnel in this respect. Pursuant to its resolution dated November 23, 2017 and numbered 7459, EMRA resolved to include costs related to these additional personnel (TL 63 thousand per personnel (CPI 320.4)) within the calculation of revenue requirements for the period between 2017 and 2020, whereas such additional costs were not taken into consideration prior to such EMRA resolution. Pursuant to this EMRA resolution, costs of 244 additional personnel for AYEDAŞ, 218 additional personnel for Başkent EDAŞ, and 490 additional personnel for Toroslar EDAŞ will be taken into consideration for the revenue requirement calculations for the period between 2017 and 2020.

Strong historical growth with an untapped potential

Aside from the favorable regulatory environment, we believe we benefit from strong growth drivers on a national, regional and company level. The GDP growth has fueled Turkey's gross electricity consumption, from 128.3 TWh in 2000 to 279.3 in 2016, with an approximate CAGR of 5% (Source: *TEİAŞ*). This growth has been also been enhanced by a sustained population increase from 67.8 million in 2000 to 79.8 million in 2016, with an approximate CAGR of 1%, benefiting further from the low average age of the population (approximately 30 years) *(Source: Turkstat)*.

Despite this sustained and rapid increase, we believe there is still room for further growth as Turkey remains significantly below its European peers in terms of energy consumption per household (3.6 MWh for the EU-28 vs. 2.3 MWh for Turkey in 2014). We believe that this economic growth, together with the sustained and healthy population increase, provides a platform for a continued increase demand. In addition, the growth of renewable energy generation capacity in Turkey will require more connections and more advanced network technology, given the renewable energy generation capacity grew from 28.0 GW in 2014 to 34.6 GW in 2016 (*Source: TEİAŞ*). Furthermore, the necessity to reduce the frequency and duration of outages, as well as the technological improvements required to improve the theft and loss ratios, necessitate significant investments into the electricity grid.

We are the incumbent retail company in three of the most dynamic, industrialized and populous regions of Turkey, comprising more than a quarter of the population (25.8% in 2016) and some of the key urban centers. We have a strong presence in the Asian side of İstanbul, which is the largest city and Turkey's financial center; Ankara, the country's capital and second largest city; and some of the major metropolitan areas, such as Adana, Gaziantep and Mersin. Ayedaş and Başkent are amongst the regions with the highest levels of income per capita and together with Toroslar, account for approximately 28.8% of Turkey's GDP (2014) (*Source: Turkstat*). From a consumption perspective, all of our regions are above the average forecasted Turkish electricity consumption growth rate for 2016 to 2042, with Ayedaş, Başkent and Toroslar regions projected to have a strong average forecasted annual electricity consumption growth rate of 4.7%, 4.0% and 3.9%, respectively, compared to annual electricity consumption growth rate of 3.6% for Turkey. (*Source*: Mercados).

We believe that these growth drivers, together with a favorable regulatory environment, have allowed us to deliver a very strong track record. From 2014 to 2016, distribution EBITDA increased with a CAGR of 61.1% to approximately TL 1,647,895 thousand, for which a key growth driver has been our increasing RAB through CAPEX. Our RAB grew by a 65.1% CAGR for 2014 to 2016 in nominal Turkish lira terms (an increase from TL 1,435,151 thousand as of December 31, 2014 to TL 3,913,785 thousand as of December 31, 2016). This rapid growth was possible as RAB was set to 0 in 2006. In addition, we have been able to exceed the initial CAPEX allowances set for each region, allowing us to grow our RAB and regulated returns faster than anticipated. As a result of our front-loaded CAPEX strategy, our management targets our RAB to more than double by the end of 2020, based on the expectation that we will be able to make more CAPEX compared to initial allowed CAPEX by EMRA.

Similarly, our retail business has been growing. Our retail EBITDA growth of 41.3% CAGR from 2014 to 2016 was achieved as a result of higher margins obtained in the liberalized market, combined with stable and predictable earnings ensured by our regulated customer base. As the liberalization process continues, we are aiming to source cheaper electricity to enable us to have additional benefits. In essence, we believe that the liberalized market provides additional upside in free market margins, where we can be flexible to act based on market developments. In addition, current ineligible customers are mostly residential and SME customers, which are the most profitable segments for the retail business in the free market. We believe we will be able to increase both our profitability and presence in a liberalized market, as we believe we would be able to acquire more customers from other regions using our brand name and best-in-class services and move residential and SME customers into the free market.

As the eligibility limit decreases, we target to have a higher share of residential and SME volume in our sales volumes, which we expect to improve our profitability further. In order to be ready to capture this opportunity, we have invested in our brand positioning and IT infrastructure. Consequently, we believe our company brands and our products are known and valued by existing and potential customers across the country. Also, we believe that our market share will be resilient in the face of increased retail competition once the market is further liberalized due to low historical churn rates, our strong brand image and reach to our customers.

It is worth noting that our regulated business, including both distribution and regulated retail activities, currently comprises more than 90% of our EBITDA, which we believe makes our business a highly predictable one.

Finally and with regards to our capital structure, we have progressively reduced our corporate leverage ratio (net debt/Adjusted EBITDA *plus* CAPEX reimbursements ratio below 3.4x in 2016 compared to 4.3x in 2015), which as a distribution-heavy utility, financially places us in a better position to both support the growth envisaged by the company and secure cash flows for all our stakeholders. See "*Presentation of Financial and Other Information—Non-IFRS Financial Measures*". Moreover, as of the date of this Offering Circular, we do not have any material foreign exchange exposure in our financing structure (other than other financial liabilities of EUR 69,247,842) and our newly issued CPI-linked bonds help align our earnings and the impact of inflation on our leverage. We are the first Turkish corporate to issue CPI-linked bonds and our relatively predictable earnings and cash profile is recognized by Fitch, with a local AA rating for both Enerjisa and Başkent EDAŞ affirmed in December 2017 and June 2017, respectively.

Established sponsors dedicated to superior governance

We believe we have a significant advantage of being supported by our main shareholders Sabancı Holding and E.ON. Sabancı Holding and E.ON have complementary capabilities that we believe have helped us to successfully develop our distribution and retail businesses. The excellent brand positioning of Sabancı Holding in Turkey allows us to benefit in areas of financing and relations with EMRA as well as customer and employee acquisition and retention. E.ON, as one of the largest utilities in Europe and with a power distribution and retail presence in many other countries, has regularly shared its experiences across different geographies.

The strong energy expertise and long-term commitment from both our current shareholders help foster our culture of best corporate practices, nurture our pursuit for higher operational efficiencies and further increase our brand recognition in Turkish electricity market. Following the Offering, 41.0% of our shares will continue to be owned by Sabancı Holding, and 41.0% of our shares will continue to be owned by E.ON Turkey (40.0% and 40.0%, respectively, assuming all Additional Shares are sold). We are led by experienced managers, who have worked together as a team for years. They are supported by a workforce having extensive experience. This skilled workforce, together with a capable, regulatory-focused and pioneer management, places us in a strong position to be an integral part of the future of the electricity market in Turkey.

Our Strategy

Our goal is to grow profitably and create shareholder value by continuing to expand our high quality networks in our distribution regions and expanding the reach of our retail operations to the whole country, whilst focusing on customer needs.

We intend to implement the following strategic initiatives to achieve this objective:

Expand our leadership position in Turkish electricity distribution and retail businesses

As of December 31, 2016, we were the largest electricity distribution and retail company in Turkey by number of customers and electricity volume sold. We intend to continue to expand our distribution network and retail presence by maintaining and investing in our RAB, growing our product offerings and improving the quality and reliability of our services.

We are the largest energy retailer in Turkey in terms of customer portfolio size, covering 14 cities through our distribution regions. Due to our large distribution concession areas, we are the retail company for approximately 9.0 million customers, 99.9% of which is comprised of the potentially high margin residential and SME segment in a fully liberalized market. The 21.6% of total volume of the electricity sold to Turkish residential and SME segment volume is sold by us. We believe that our leadership position in Turkish distribution and retail markets, our strong and recognizable brand and the ongoing market liberalization process in Turkey make us well-positioned to further strengthen our presence in our three distribution regions and gain further market share in retail across the country.

Capitalize on the investment opportunities presented by the Turkish market and regulatory framework

The strong historical Turkish power demand growth and the positive outlook for the upcoming years arise from increasing economic prosperity, coupled with favorable demographics (i.e., a young and growing population progressively concentrated in urban regions) and the expectation of smaller average household sizes.

Our key focus areas in distribution will be on maintaining the efficiencies in OPEX and the outperformance in CAPEX and theft and loss, growing our RAB by modernizing old network infrastructure and conducting high quality network expansion investments which are necessitated by increasing urbanization and population growth in our regions and improving the quality and reliability of our distribution services. In the medium term, our management targets to maintain the current levels of CAPEX outperformance and continue to outperform in OPEX and theft and loss outperformances. Our focus areas in retail business will be mainly on capitalizing on the liberalization of the market through expanding our customer base in the residential and SME segment, offering different products in order to satisfy changing needs of the customers, benefitting from our efficient channel network and maintaining and expanding our strong and reputable brand image throughout the country.

In order to meet the high level of capital deployment required by the Turkish power sector to keep up with growing demand, MENR, EMRA and other public institutions within the Turkish electricity market recognize the importance of incentivizing private investments in the sector through a RAB-based mechanism that rewards and reimburses capital investments and allows additional upside from efficiency gains and quality improvements. This visible and transparent regulatory structure has supported our strong growth trajectory. Over the last three years, we increased our RAB from TL 1,435,151 thousand in 2014 to TL 3,913,785 thousand in 2016 (65.1% CAGR) and our customer base has grown from 8,826,436 in 2014 to 9,047,712 in 2016 (1.3% CAGR). We plan on maintaining our strong growth in the upcoming years, capitalizing on the structural opportunities available for us in Turkey and our existing operations, while benefiting from the supportive regulatory environment.

In addition, we have a front-loaded CAPEX strategy that is, spending more CAPEX in the earlier years of each of the tariff implementation periods (which had historically been set by EMRA for a period of five years). Once we utilize all of our CAPEX allowance in the initial years of a tariff implementation period as a result of this front-loaded strategy, we apply to EMRA for additional CAPEX allowances. EMRA has not refused any of our additional CAPEX allowance requests for any of our distribution regions in any of the tariff implementation periods. In addition, for the 3rd tariff implementation period, our initial CAPEX allowance increased by 53%, compared to the 2nd tariff implementation period. As a result of these front loading efforts leading to additional CAPEX allowance, we aim to grow our RAB in all our distribution regions. Since 2009, when private initiatives in the sector started, we have developed extensive experience in managing relationships with local regulators and government entities.

Capitalize on the liberalization opportunity in the Turkish electricity retail market

We are currently the incumbent retail company for 9.1 million customers and have been growing our retail presence outside our distribution regions reaching approximately 900,000 additional customers, benefiting from the ongoing market liberalization process and our strong brands. Our success in the electricity retail segment has been underpinned by our customer-centric culture, reliable brand and efficient management systems.

EMRA has progressively decreased the eligibility thresholds for the free market, paving the way towards full market liberalization. We believe that once this threshold is set to 0 (from the current 2.0 MWh / year), the actual number of eligible customers may increase from approximately 8.4 million as of December 31, 2016 to 36 million, which is the estimated size of the market according to EMRA (EMRA recently lowered the eligibility limit to 2,000 kWh/year from 2,400 kWh/year).

In order to increase our customer base and capture potentially higher margins from free market customers, we have adopted a multi-channel, margin-based segmented pricing strategy. In the 3rd tariff implementation period, we obtained higher margins in the free market, and in particular in the residential and SME segment, than the margins in the regulated retail market, as the latter is limited at 2.38% of the energy cost. This was due to spot energy prices being favorable compared to national tariff levels (which acts as a natural price cap for the retail energy sales business). Also, owing to our IT backbone, processes and integrated systems, our operations allow us maximum proximity and service level to our growing customer base that acknowledge our operational advantage, as evidenced by our low churn rates, which was 0.9%, 3.0%, 2.9%, 2.4% and 1.0% for the years ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2016 and 2017, respectively.

We aim to migrate eligible residential and SME segment customers to free market pricing by using our efficient channel network, and by focusing on maximizing profits on the captive customer base with low price sensitivity. For the corporate segment, we also intend to prioritize sustainable profitability over market share while monitoring the market conditions to take advantage of favorable regulated tariff conditions when they arise, especially for our corporate customer base.

Residential and SME customers have more profit potential in the liberalized market since they are generally less price sensitive, as their electricity bill typically makes up a lower share of their disposable income compared to corporate customers. In addition, the National Tariff set forth by EMRA, which act as a natural price cap for the liberalized market, allows for a higher margin in the residential and SME segments as it sets higher electricity prices for residential and SME customers. Corporate customers which consume a greater amount of electricity and benefit from economies of scale, provide lower margins.

Residential and SME customers also generally have lower churn rates than corporate customers. In 2015 and 2016, we had very low churn rates in our residential and SME customer portfolio, (3.0% and 2.9% for 2015 and 2016 respectively), which we believe have been achieved as a result of our customer focus, reliable brand image and efficient customer management systems. We target to create significant value from residential and SME customers as the eligibility limit decreases, since there is still high level of untapped potential due to the current eligibility limit level. We believe we are also well positioned with our nationwide reach and brand awareness to gain customers across the country in the medium and long term.

Enerjisa has been recognized as the most customer-oriented, most prestigious and trustworthy brand in Turkey, according to an image and perception study conducted by Future Bright Research Agency in January 2017. We understand that customers rely on trust and brand image when switching suppliers and we intend to maintain the current course of brand communication, positioning ourselves as an innovative and high-quality brand. After a turnaround process that began with the unbundling of distribution and retail segments, we have transformed our retail operations from a fully-regulated utility to an electricity supplier, and our operations are now fully prepared for a completely liberalized market. We plan to continue to leverage our leadership position, organizational virtues and support from our shareholders in order to capitalize on the Turkish retail growth opportunities in an efficient manner.

Focus on operational and financial efficiency with a long-term management perspective

Given our size and focus on efficiency, we play a key role in shaping the Turkish electricity market through establishing high-quality distribution services, focusing on customer needs, improving our service quality and enhancing processes in line with best practices. We believe the following strategies and approaches have benefited our businesses and we expect them to continue to be key focuses areas going forward:

(i) improving our operational efficiency indicators such as system average interruption duration indices ("**SAIDI**") and average interruption frequency indices ("**SAIFI**") rates and OPEX outperformance figures;

(ii) lowering the cost of our operations with various cost-saving initiatives such as centralizing operational units serving in our distribution regions; employing tracking systems for field forces in order to optimize work orders;

(iii) forming sales forces based on geographical regions; installing automated and remote meter reading services for reducing labor costs;

(iv) reducing our procurement costs through centralized procurement processes for our three regions coordinated through competitive bidding rounds;

(v) improving our theft and losses indicators via replacing mechanic meters with electronic ones; and

(vi) increasing meter reading rates and shortening meter reading cycles.

The Başkent region which we acquired the right to operate in January 2009 through a privatization was our first distribution region and served as our first experience to develop best practices for turning around and improving the efficiency of our distribution companies. Since the acquisition of the rights to operate in the Ayedaş and Toroslar regions in July and September 2013, respectively, we have leveraged our previous experience in the Başkent region and our management team has worked to optimize the Ayedaş and Toroslar regions' operations at an even faster pace.

On the financing side, it is crucial to fund our CAPEX investments with maturities that are in line with this regulatory reimbursement period. We are continuously working to bridge the maturity gap between our revenue and financing streams in order to secure attractive financing spreads, maintain a sustainable leverage level and achieve an efficient capitalization structure. We believe our focus on maintaining a strong financial position, helped by our visible cash flow generation and the strategic support from our shareholders, ensures long-term stability and capacity to continue investing efficiently and generating shareholder returns. We intend to replace a portion of our existing financial debt with CPI-linked bonds to secure a predictable return that is isolated from inflationary effects to create further alignment with our inflation-linked regulated distribution revenue.

Develop new revenue lines from new products and services

We believe we can also leverage our strong brand reputation and operational capabilities to offer new products and services in the power sector and beyond. Some key actionable medium term opportunities in the power space include rooftop solar electricity generation, smart meters and battery storage. We constantly monitor and evaluate investment opportunities through in-house projects as well as strategic acquisition opportunities. With access to approximately a one-fourth of the Turkish population, we are also well-positioned to utilize our extensive customer reach in order to capture additional revenue streams via cross/up-selling opportunities from non-utility sales (e.g., insurance, broadband, GSM and other services).

History and Corporate Structure

In 1996, Sabancı Holding incorporated Enerjisa Enerji Üretim A.Ş. (the "**Enerjisa Electricity Generation Company**") as an auto-producer utility to explore new business opportunities that could emerge in the power sector in Turkey and to operate as a reliable and competent supplier of energy to leading industrial and commercial entities as well as to Sabancı Group companies.

In the early 2000s, as the first steps in the power generation market, Sabancı Holding established combined cycle power plants ("**CCPPs**") located in Kocaeli, Adana, Çanakkale and Mersin provinces in Turkey, with a combined capacity of 370 MW.

In 2004, Sabancı Holding expanded its operations into electricity and natural gas wholesale and trading businesses by establishing Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. (the "**Enerjisa Electricity Wholesale Company**") and Enerjisa Doğal Gaz Toptan Satış A.Ş. (the "**Enerjisa Natural Gas Wholesale Company**").

In 2006, Sabancı Holding chose the energy sector as one of its key growth areas. In line with this strategy, Sabancı Holding established the Energy Strategic Business Unit with the goal of making Enerjisa the leading operator in the Turkish electricity market.

In 2007, Sabancı Holding and Verbund International GmbH ("**Verbund**") entered into a joint venture, in which both companies were 50.0% shareholders. In 2008, the Sabancı Holding—Verbund joint venture won the privatization tender for the block sale of 100.0% of the shares of Başkent EDAŞ, a distribution company responsible for distribution of electricity in the Başkent region, which also conducted retail sales activities in the Başkent region prior to the unbundling of retail sales activities from distribution activities on December 31, 2012. In October 2008, EEDAŞ was incorporated as a special purpose vehicle company for the acquisition of Başkent EDAŞ shares (for a consideration of USD 1,225 million) and the transfer of the shares of Başkent EDAŞ to EEDAŞ was completed in January 2009.

In December 2011, in line with the commitment of Sabancı Holding and Verbund to become a vertically integrated leader in the Turkish electricity market, our company, Enerjisa was established as the parent company to EEDAŞ and the operating companies, namely generation, wholesale, distribution, and retail companies. On December 31, 2012, following a regulatory change requiring unbundling of retail sales activities from distribution activities, we established Başkent EPSAŞ, as the designated retail company for the Başkent region. In December 2012, Verbund and E.ON entered into a share purchase agreement for the sale and transfer of all shares in Enerjisa and its subsidiaries held by Verbund to E.ON. The transfer of these shares was completed in April 2013.

In 2013, EEDAŞ won the privatization tenders for the block sale of 100.0% of the shares of AYEDAŞ and AYEPSAŞ, which operate in the Ayedaş region. The same year, EEDAŞ also won the privatization tenders for the block sale of 100.0% of the shares of Toroslar EDAŞ and Toroslar EPSAŞ, which operate in the Toroslar region. The block sale processes for the Ayedaş region and Toroslar region were completed in July 2013 and September 2013, respectively, for a consideration of USD 1,227 million for the Ayedaş region and USD 1,725 million for the Toroslar region.

Corporate Reorganization

Until August 2017, Enerjisa served as the parent company for all energy related business lines of Sabancı Holding and E.ON in Turkey. In April 2017, in order to achieve further operational and managerial efficiencies and to facilitate the planned initial public offering of Enerjisa, Sabancı Holding and E.ON resolved to demerge Enerjisa into two companies, separating the conventional electricity generation and wholesale (upstream) businesses from the more customer centric distribution and retail (downstream) businesses (the "**Corporate Reorganization**").

Prior to the Corporate Reorganization which was fully completed in September 28, 2017, Enerjisa owned 99.9% of Enerjisa Electricity Generation Company, 100.0% of Enerjisa Electricity Wholesale Company, Enerjisa Natural Gas Wholesale Company, Enerjist Solar Enerji Üretim A.Ş. (the "**Enerjisa Solar Power Generation Company**"), and 100.0% of EEDAŞ, which held 100.0% shareholding in our distribution companies (i.e., Başkent EDAŞ, AYEDAŞ, and Toroslar EDAŞ), and 100.0% shareholding in our retail companies (i.e., Başkent EPSAŞ, AYEPSAŞ), and Toroslar EPSAŞ. Our Corporate Reorganization took place in three phases as follows:

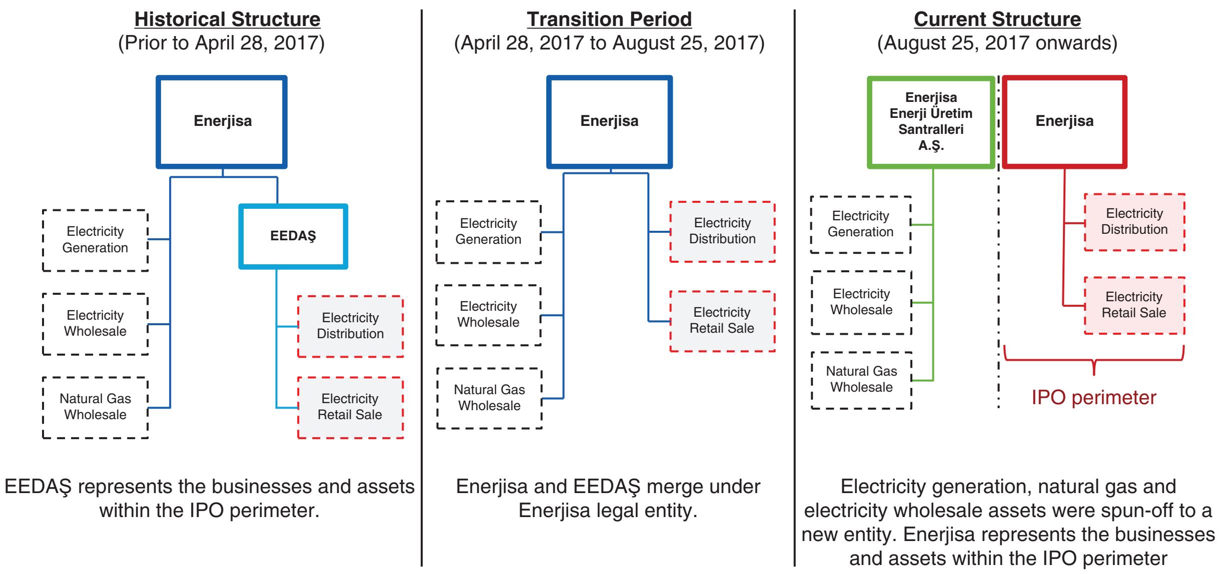
(i) in the first phase of the Corporate Reorganization, which was completed on April 28, 2017, EEDAŞ merged with Enerjisa and was then dissolved without liquidation, with EEDAŞ's assets and liabilities transferred to Enerjisa at their book values;

(ii) in the second phase of the Corporate Reorganization, which was completed on August 25, 2017, a new company, Enerjisa Üretim Santralleri A.Ş. (the "**Enerjisa Generation and Trading Company**"), was established by Sabancı Holding and E.ON. Both the latter companies were 50.0% shareholders in the joint venture. Through a partial spin-off, 100.0% of the shares in the Enerjisa Electricity Generation Company, the Enerjisa Electricity Wholesale Company and the Enerjisa Natural Gas Wholesale Company were transferred to Enerjisa Generation and Trading Company as capital in kind and at their book values. Our share capital was reduced by an amount equal to the total book values of the Enerjisa Electricity Generation Company, the Enerjisa Electricity Wholesale Company and the Enerjisa Natural Gas Wholesale Company; and

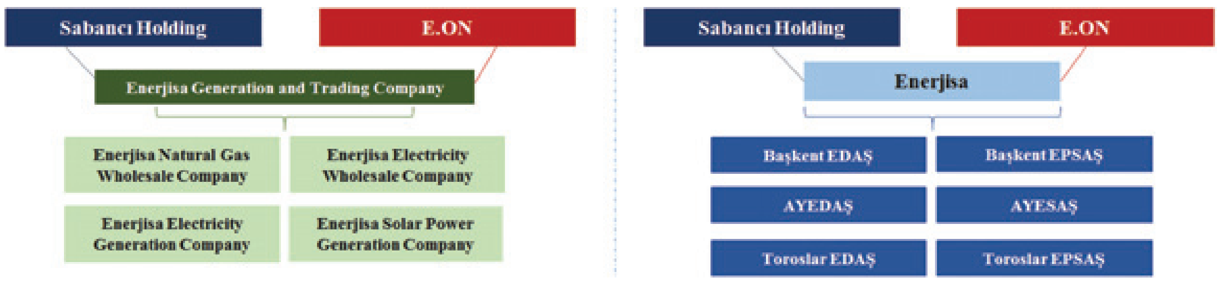
(iii) in the third phase of the Corporate Reorganization, which was completed on September 28, 2017, 100.0% of the shares of the Enerjisa Solar Power Generation Company were sold to Enerjisa Electricity Generation and Trading Company pursuant to a share purchase agreement dated September 12, 2017 and shares were transferred on September 21, 2017. Prior to the completion of this phase of the Corporate Reorganization, ownership and usufruct rights of the lands pertaining to the generation assets of Enerjisa Solar Power Generation Company were held by Alparsen Enerji Üretim A.Ş. ("**Alparsen**"), a company owned by Enerjisa Solar Power Generation Company. Alparsen and six special purpose vehicle companies ("**SPVs**") that are owned by Alparsen hold operating rights for seven solar power plants, each having 1MW installed capacity. In addition, prior to the Corporate Reorganization, Enerjisa was party to the engineering, procurement and construction contract ("**EPC contract**") related to the solar power plants. On September 25, 2017, EPC contract was transferred to Enerjisa Solar Power Generation Company, and on September 27, 2017 all pertaining solar generation assets were sold to Alparsen and the six SPVs.

As a result of the Corporate Reorganization, Enerjisa's operating segments, including electricity generation, electricity wholesale, solar power generation, electricity distribution, and electricity retail sales segments, were unbundled into two companies, us (Enerjisa) and Enerjisa Generation and Trading Company. Within the Corporate Reorganization, we transferred the electricity generation, electricity wholesale, and solar power generation operations from Enerjisa to Enerjisa Generation and Trading Company, leaving Enerjisa solely focused on the electricity distribution and electricity retail sales segments. As of the date of this Offering Circular, our sole business activities are electricity distribution and electricity retail businesses. As a result of the Corporate Reorganization, we are the successor to EEDAŞ.

Below is a summary of the corporate actions and the impact on the business and assets subject to this Offering.



Below chart indicates the post-Corporate Reorganization structure of Enerjisa and Enerjisa Electricity Generation and Trading Company.



Following the Corporate Reorganization, to maintain compliance with EMRA regulations governing the procurement, tender and outsourcing of services by our distribution companies, we moved all business units, including network maintenance and repairs, meter operations, and connection-disconnection operations to the relevant distribution companies, which were previously maintained under EEDAŞ (and under Enerjisa after the Corporate Reorganization). As a result, on January 1, 2018, 5,744 employees of Enerjisa were transferred to the relevant distribution companies.

In addition, following the second phase of the Corporate Reorganization, we established a trade business unit under Enerjisa for the management of electricity sourcing operations for Enerjisa. These sourcing management operations for Enerjisa were previously conducted by a unit under Enerjisa Electricity Wholesale Company, and following establishment of this trade business unit, Enerjisa has been able to manage its electricity sourcing operations on its own.

On December 29, 2017, we established Enerjisa Müşteri Çözümleri A.Ş. ("**Enerjisa Customer Solutions**"), for the purposes of, among others, (i) participating in and managing companies dealing with customer solutions and related activities, (ii) realization energy generation projects through acquisitions or greenfield operations, (iii) operation of renewable energy generation assets, and (iv) energy management, energy distribution, energy productivity and other customer-oriented energy services for residential, commercial, industrial and public sector customers.

Our Operations

We operate our business operations through two segments, namely the distribution and retail segments. Our distribution companies facilitate the distribution of electricity which is sold to the end-users through the distribution networks operated by our distribution companies, whereas our retail companies conduct retail sales of electricity to our customers.

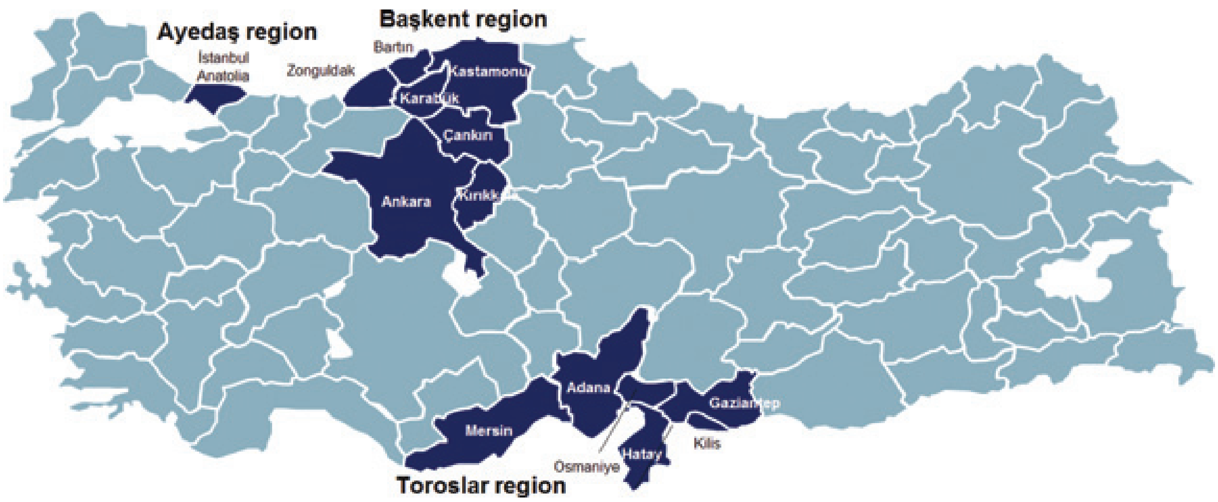
With approximately 10.5 million distribution connection points to our distribution networks (representing approximately 25.6% of the distribution connection points in Turkey) and approximately 9 million customers (representing approximately 22.0% of the customers purchasing electricity in Turkey) as of December 31, 2016, we are the leading downstream electricity company in Turkey engaged in the distribution and retail sales of electricity in the Turkish regions of Başkent, Ayedaş and Toroslar, as well as in the retail sales of electricity to eligible customers in all other regions of the country.

Distribution Operations

Overview

Distribution activity is defined as the distribution of electricity to end-users over lines with voltage levels of less than 36 kV. Regulated by EMRA, the electricity distribution network of Turkey is separated into 21 distribution regions, each of which are run by private operators following the privatization process carried out between 2009 and 2013. Prior to the privatization process, distribution activities were bundled with retail sales activities. However, in the beginning of 2013, as part of the market liberalization process, all distribution companies were legally and operationally separated into two companies, namely distribution companies and retail companies. During the privatization process, private companies acquired the licenses to exclusively operate the distribution network in their specific regions on an impartial basis.

The below map indicates the three distribution regions that we are licensed to operate in Turkey.



Each regional distribution network operator is responsible for making the necessary maintenance and expansion investments in its region, maintaining and reading electricity meters, preparing demand projections and investment plans, and procuring electricity subject to theft and loss as well as for the illumination of public spaces. We acquired the distribution rights to the Başkent region in 2009, and subsequently acquired the distribution rights to the Ayedaş and Toroslar regions in 2013.

As of December 31, 2016, there were 41.1 million distribution connection points connected to distribution networks across Turkey, and we had approximately 10.5 million distribution connection points as of the same date. As of the same date, in terms of distribution connection points, the Başkent region ranked second with 4.1 million distribution connection points, the Ayedaş region ranked sixth with 2.8 million distribution connection points, and the Toroslar region ranked third with 3.7 million distribution connection points, among all regions. As of December 31, 2016, our three distribution networks comprised 217,853 km spread across an area of more than 100,000 km^2. (*Source: EMRA*)

In 2016, in terms of distributed electricity, Toroslar EDAŞ ranked first among all distribution regions with a billed consumption level of 25.7 TWh. In the same year, Başkent EDAŞ ranked fifth with a billed consumption level of 16.3 TWh, and AYEDAŞ ranked seventh with a billed consumption level of 12.3 TWh. In 2016, the total length of distribution networks reached 1,102,508 km across Turkey. Başkent EDAŞ and Toroslar EDAŞ ranked first and second among all regions, respectively, in terms of distribution network length. In the same year, AYEDAŞ ranked 19th. In terms of nominal RAB, Başkent EDAŞ reached TL 1.8 billion, Toroslar EDAŞ reached TL 1.4 billion, and AYEDAŞ reached 732 million as of December 31, 2016. These respectively amounted to 15%, 11%, and 6% of the total RAB of all distribution companies. As of December 31, 2016, the total RAB of our distribution companies constituted a market leading share of the total national RAB in Turkey (approximately 32% of total national RAB) (*Source: EMRA*).

The table below sets forth certain operational information of the three distribution regions, as of the dates indicated.

	As of December 31,			As of September 30,
	2014	**2015**	**2016**	**2017**
Regulated asset base (RAB) (TL in millions)[1]	**1,435**	**2,662**	**3,914**	**5,013**
Başkent EDAŞ	844	1,353	1,830	2,261
AYEDAŞ	192	491	732	914
Toroslar EDAŞ	399	818	1,352	1,838
Length of distribution network (km)[2]	**207,106**	**211,378**	**217,853**	**n/a†**
Başkent EDAŞ	106,330	107,837	109,659	n/a†
AYEDAŞ	20,790	21,535	23,783	n/a†
Toroslar EDAŞ	79,986	82,006	84,411	n/a†
Regional population[3]	**20,006,458**	**20,337,816**	**15,375,518**	**n/a†**
Başkent EDAŞ	6,993,155	7,118,017	7,217,587	n/a†
AYEDAŞ	5,075,563	5,182,540	5.228.368	n/a†
Toroslar EDAŞ	7,937,740	8,037,259	8,157,931	n/a†
Number of distribution connection points[4]	**9,895,010**	**10,199,021**	**10,521,557**	**10,767,726**
Başkent EDAŞ	3,847,126	3,971,976	4,099,788	4,186,209
AYEDAŞ	2,614,737	2,677,030	2,751,857	2,812,681
Toroslar EDAŞ	3,433,147	3,550,015	3,669,912	3,768,836
Amount of the electricity distributed (TWh)[5]	**36.4**	**38.4**	**39.7**	**31.2**
Başkent EDAŞ	13.1	13.9	14.3	11.0
AYEDAŞ	10.2	10.8	11.1	8.5
Toroslar EDAŞ	12.9	13.7	14.3	11.7
Number of substations[6]	**56,238**	**76,232**	**77,502**	**n/a†**
Başkent EDAŞ	11,014	29,267	28,670	n/a†
AYEDAŞ	6,508	6,707	7,084	n/a†
Toroslar EDAŞ	38,716	40,258	41,748	n/a†
Total transformer capacity (in thousand MVAR)[7]	**30,450**	**32.502**	**32.639**	**n/a†**
Başkent EDAŞ	12,232	13,156	11,877	n/a†
AYEDAŞ	7,016	7,323	7,806	n/a†
Toroslar EDAŞ	11,202	12,022	12,956	n/a†

† Data not available as of September 30, 2017.

(1) Indicates the regulated asset base which is determined after investments are subjected to unit cost benchmarking.

(2) Indicates the total length of the distribution network operated in the relevant region, including medium-voltage lines and low voltage lines, both aerial and underground lines.

(3) Indicates the total number of inhabitants in the relevant distribution region, based on the Turkstat statistics.

(4) Indicates the total number of distribution connection points in the relevant region, including distribution connection points of the customers of other private retail companies.

(5) Indicates the amount of the electricity distributed (in TWh) to the end-users connected to our distribution networks, including customers of other private suppliers.

(6) Indicates the total number of substations used in the relevant distribution region to transform power from the transmission system of TEİAŞ to the relevant distribution system.

(7) Indicates the total installed capacities of the transformers used to transform voltage in the distribution network.

Distribution Connection Points

To the end-users in our three distribution regions, we provide non-discriminatory access to our distribution services through our distribution networks operated by our distribution companies. We distribute electricity through our distribution grids with voltage levels of 36 KV or less. Our distribution networks consist of equipped facilities and installations, and meters to measure consumption. We provide electricity we procure from the national transmission grid to the end-users, after adjusting the voltage levels through our substations to the appropriate levels for the end-users. We distribute electricity to the end-users through the distribution connection points which are located at the premises of such end-users which we define as "**distribution connection points**".

We operate, maintain and expand the distribution networks in our three distribution regions, and as a result we are obliged to provide non-discriminatory electricity distribution and connection services to all system users connected and/or to be connected to the distribution system. Our distribution companies do not directly sell the electricity to end-users except for municipalities which are directly invoiced by distribution companies in exchange for the electricity sold for general illumination but provide distribution services for the electricity that is sold and invoiced either by our retail companies or other supply companies to end-users. Our distribution companies charge all real and legal persons benefitting from electricity transmitted through the distribution system.

Distribution Regions and Networks

With approximately 10.5 million distribution connection points in 2016, we are the market leader in Turkish electricity distribution sector in terms of number of distribution connection points. We represented approximately 24% of gross electricity demand and 26% of distribution network users in Turkey. As of December 31, 2016, we ranked first in terms of length of our distribution networks, having approximately 217,853 km network length (20% of network length in Turkey). These figures illustrate the economies of scale which have played a crucial role in created added value in many aspects of our business. *(Source: EMRA)*

The regions in which we distribute electricity were previously characterized by operational inefficiencies, poorly handled customer service and low collection rates. We significantly improved these areas post acquisition by implementing four core strategies, namely (i) centralization, (ii) facility management, (iii) organizational restructuring, and (iv) infrastructure and process development. Early acquisition of the Başkent region distribution rights enabled us to quickly integrate Ayedaş and Toroslar regions.

Başkent Region

Başkent EDAŞ is the distribution company responsible for the distribution of electricity throughout the Başkent region. As of December 31, 2016, we operated a distribution network of 109,659 km over a total area of 61,141 km^2 in the Başkent region. The Başkent region is comprised of seven provinces, namely Ankara, Kastamonu, Bartın, Zonguldak, Karabük, Çankırı and Kırıkkale. As of December 31, 2016, the Başkent region had a population of 7.2 million people, representing 9.0% of Turkey's population. *(Source: Turkstat)* As of September 30, 2017 Başkent EDAŞ served 4.2 million distribution points and distributed approximately 11.0 TWh of electricity for the year ended September 30, 2017, making the Başkent region one of Turkey's largest distribution regions by volume. We expect Başkent EDAŞ to significantly benefit from the growth potential of Ankara as the capital of Turkey, supplemented by the anticipated growth in demand in six relatively small cities with relatively low population density as they undergo population growth and urbanization.

The distribution network under Başkent EDAŞ operating rights had a total line length of 109,659 km, including third party assets, comprised of medium-voltage lines (corresponding to 39% of the Başkent region network) and low-voltage lines (corresponding to 61% of the Başkent region network), as of December 31, 2016. 82.9% of the Başkent region network consists of overhead lines, whereas the remainder of the distribution lines consists of underground lines. In addition to the lines under the Başkent EDAŞ operating rights, there were approximately 2,700 km of lines established by third parties, such as large industrial customers, operated by Başkent EDAŞ. Other network assets operated by Başkent EDAŞ include 28,670 substations with a total capacity of 11,877 MVAR, 1,110,774 poles, and 540,389 armatures and lamps (not including third party assets) as of December 31, 2016.

The below table sets forth certain operational information of Başkent EDAŞ, for the periods indicated.

	As of December 31,			As of September 30,
	2014	2015	2016	2017
	(Turkish Lira in millions, except percentages)			
Revenue requirement[1]	687.74	694.28	1,044.02	916.25
CAPEX allowance[2]	311.36	338.78	373.28	310.47
CAPEX outperformance (%)[3]	7.77	1.21	10.54	9.59
OPEX allowance[4]	331.54	355.01	411.72	341.89
OPEX outperformance (%)[5]	21.02	18.68	22.45	17.13
Theft & loss target (%)[6]	7.88	7.88	8.00	7.76
Actual theft & loss (%)[7]	7.68	7.00	6.98	5.72

(1) Indicates the regulatory revenue requirement determined by EMRA. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff*".

(2) Indicates the regulatory CAPEX allowance determined by EMRA. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—CAPEX Allowances*".
(3) Indicates the percentage of (i) the amount of the unit price based actual CAPEX less unit price based actual allowed CAPEX to the (ii) unit price based actual allowed CAPEX of our distribution companies. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—CAPEX Outperformance*".
(4) Indicates the regulatory OPEX allowance determined by EMRA. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—OPEX Allowances*".
(5) Indicates the percentage of (i) realized OPEX *less* initial allowed OPEX to the (ii) initial allowed OPEX of our distribution companies. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—OPEX Outperformance*".
(6) Indicates the initial theft and loss ratio target determined by EMRA. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—Other Revenue Items and Efficiency Parameters—Theft and Loss*".
(7) Indicates the ratio of the volume of the unbilled electricity to the volume of total distributed electricity.

Ayedaş Region

AYEDAŞ is the distribution company responsible for the distribution of electricity throughout the Ayedaş region. As of December 31, 2016, we operated a distribution network of 23,783 km over a total area of 1,926 km² in the Ayedaş region covering the Asian side of metropolitan city İstanbul. As of December 31, 2016, the Ayedaş region had a population of 5.2 million people, representing 6.6 % of Turkey's population. *(Source: Turkstat)* As of December 31, 2016, AYEDAŞ served 2.8 million distribution points and distributed approximately 8.5 TWh of electricity for the nine months ended September 30, 2017. The Ayedaş region is one of Turkey's most densely concentrated distribution regions by volume relative to its area covered, which we believe offers us benefits in the form of better customer reach and cost savings potential. For the year ended December 31, 2016, 37% of the total electricity distribution volume in the Ayedaş region was distributed to residential and SME users.

The distribution network under AYEDAŞ operating rights had a total line length of 23,783 km, including third party assets, comprised of medium-voltage lines (corresponding to 32% of the Ayedaş region network) and low-voltage lines (corresponding to 68% of the Ayedaş region network), as of December 31, 2016. 24.8% of the Ayedaş region network consists of overhead lines, whereas the remainder of the distribution lines consists of underground lines. In addition to the lines under the AYEDAŞ operating rights, there were 761.4 km of lines established by third parties, such as large industrial customers, operated by AYEDAŞ. Other network assets operated by AYEDAŞ include 7,084 substations with a total capacity of 7,806 MVAR, 149,142 poles, and 168,361 armatures and lamps (not including third party assets) as of December 31, 2016.

The below table sets forth certain operational information of AYEDAŞ, as of the periods indicated.

	As of December 31,			As of September 30,
	2014	2015	2016	2017
	(Turkish Lira in millions, except percentages)			
Revenue requirement[1]	158.33	159.33	785.47	695.55
CAPEX allowance[2]	96.03	104.49	183.20	152.38
CAPEX outperformance (%)[3]	2.57	2.82	4.60	6.63
OPEX allowance[4]	125.40	138.46	173.93	147.09
OPEX outperformance (%)[5]	9.07	19.12	31.43	32.04
Theft & loss target (%)[6]	6.61	6.61	7.61	7.63
Actual theft & loss (%)[7]	7.20	7.00	6.78	6.45

(1) *Indicates* the regulatory revenue requirement determined by EMRA. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff*".
(2) Indicates the regulatory CAPEX allowance determined by EMRA. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—CAPEX Allowances*".
(3) Indicates the percentage of (i) the amount of the unit price based actual CAPEX less unit price based actual allowed CAPEX to the (ii) unit price based actual allowed CAPEX of our distribution companies.. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—CAPEX Outperformance*".
(4) Indicates the regulatory OPEX allowance determined by EMRA. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—OPEX Allowances*".
(5) Indicates the percentage of (i) realized OPEX *less* initial allowed OPEX to the (ii) initial allowed OPEX of our distribution companies. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—OPEX Outperformance*".
(6) Indicates the initial theft and loss target determined by EMRA. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—Other Revenue Items and Efficiency Parameters—Theft and Loss*".
(7) Indicates the ratio of the volume of the unbilled electricity to the volume of total distributed electricity.

Toroslar Region

Toroslar EDAŞ is the distribution company responsible for the distribution of electricity throughout the Toroslar region, which is comprised of six provinces, namely Mersin, Adana, Osmaniye, Hatay, Gaziantep and Kilis. As of December 31, 2016, we operated a distribution network of 84,411 km over a total area of 46,596 km². As of December 31, 2016, the Toroslar region had a population of 8.2 million people, representing 10.2% of Turkey's population. *(Source: Turkstat)* As of September 30, 2017, Toroslar EDAŞ served 3.8 million distribution points and distributed approximately 11.7 TWh of electricity for the nine months ended September 30, 2017, making the Toroslar region as one of Turkey's largest distribution regions by volume. The region is also home to a cluster of high-growth industrial centers, including Mersin, Adana, Hatay and Gaziantep, and approximately 17.6% of total consumption for the nine months ended September 30, 2017 was by industrial customers.

The distribution network under Toroslar EDAŞ operating rights had a total line length of 84,411 km, including third party assets, comprised of medium-voltage lines (corresponding to 29% of the Toroslar region network) and low-voltage lines (corresponding to 61% of the Toroslar region network), as of December 31, 2016. 90.1% of the Toroslar region network consists of overhead lines, whereas the remainder of the distribution lines consists of underground lines. In addition to the lines under the Toroslar EDAŞ operating rights, there were approximately 7,300 km of lines established by third parties, such as large industrial customers, and are operated by Toroslar EDAŞ. Other network assets operated by Toroslar EDAŞ include, 41,748 substations with a total capacity of 12,956 MVA, 1,197,004 poles, and 811,665 armatures and lamps (not including third party assets) as of December 31, 2016.

The below table sets forth certain operational information of Toroslar EDAŞ, as of the periods indicated.

	As of December 31,			As of September 30,
	2014	2015	2016	2017
	(Turkish Lira in millions, except percentages)			
Revenue requirement[1]	328.70	369.87	842.28	754.40
CAPEX allowance[2]	118.53	128.97	346.61	288.30
CAPEX outperformance (%)[3]	7.85	1.94	12.73	7.27
OPEX allowance[4]	213.65	233.69	329.52	275.80
OPEX outperformance (%)[5]	(1.33)	(9,75)	(0.34)	(12.51)
Theft & loss target (%)[6]	12.24	11.71	13.59	13.32
Actual theft & loss (%)[7]	13.20	12.50	12.12	11.21

(1) Indicates the regulatory revenue requirement determined by EMRA. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff*".

(2) Indicates the regulatory CAPEX allowance determined by EMRA. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—CAPEX Allowances*".

(3) Indicates the percentage of (i) the amount of the unit price based actual CAPEX less unit price based actual allowed CAPEX to the (ii) unit price based actual allowed CAPEX of our distribution companies.. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—CAPEX Outperformance*".

(4) Indicates the regulatory OPEX allowance determined by EMRA. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—OPEX Allowances*".

(5) Indicates the percentage of (i) realized OPEX *less* initial allowed OPEX to the (ii) initial allowed OPEX of our distribution companies. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—OPEX Outperformance*".

(6) Indicates the initial theft and loss target determined by EMRA. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—Other Revenue Items and Efficiency Parameters—Theft and Loss*".

(7) Indicates the ratio of the volume of the unbilled electricity to the volume of total distributed electricity.

Network Management

We manage, monitor, plan and perform all network and customer related distribution operations for all three distribution regions on a centralized basis. As part of our network management activities we conduct research and development activities and aim to increase our operational efficiency, in order to better standardize network management processes, prepare centralized procedures, determine key performance indicators (such as compliance with the standards of EMRA, SAIDI and SAIFI targets, theft and loss targets, technical & commercial and supply reliability standards set by EMRA), plan system improvements, implement, control and monitor local networks, and conduct customer related activities for all three distribution regions in coherence.

Network Maintenance Operations

Our network-related operations consist of system operations management, network operations management, SCADA & load dispatch management, and material quality control management operations. The aim of these operations is to conduct the standardization of processes and procedures, coordination of distribution regions, and planning and control of network activities. Since our network activities are performed locally, we have a system operations manager in each distribution region who acts as the interface between the network-related operations directorate and local management.

In addition, regional network operations managers are responsible for field activities. Our network maintenance strategy is based on two categories, namely (i) planned maintenances, covering periodic (annual or semi-annual) maintenances according to responsibilities defined by EMRA, and (ii) extensive maintenances, covering maintenance for special equipment and/or maintenance activities that require high level of expertise and extensive maintenance stemming from seasonal operational requirements due to weather conditions, outages, and system breakdowns.

We conduct preventive maintenance activities of in each of our three distribution regions. For the nine months ended September 30, 2017, we had 195,089 work orders (104,768 in the Başkent region, 22,939 in the Ayedaş region, and 67,667 in the Toroslar region) and had a total of 275,417 hours of work for all our three distribution regions (122,530 hours in the Başkent region, 28,318 hours in the Ayedaş region, and 124,569 hours in the Toroslar region).

Network Monitoring Operations

Pursuant to the Regulation on Service Quality in Electricity Distribution and Retail Sales, our distribution companies are responsible for establishing and ensuring continuity of IT-based network integration, monitoring, and data recording systems, namely, (i) connectivity models for middle and low voltage grids, (ii) remote supply monitoring systems, and (iii) supply recording systems.

(i) Connectivity model is an IT-based distribution network integration system encompassing the middle and low voltage parts of the grid including transformers, feeders and protection and switching mechanisms, and network distribution connection points, enabling us to manage network related information including all of its components.

(ii) Remote supply monitoring system is an IT-based distribution network monitoring system enabling us to remotely identify interruptions in our distribution networks and acquire interruption data. This system encompasses switching mechanisms, reclosers, circuit breakers and any other parts of the grid where protection and switching mechanisms are placed.

(iii) Supply recording system is an IT-based distribution network data recording system which reports interruption records, receives interruption data from supply remote monitoring system and outage management system and uses data from the connectivity model and customer information systems.

As a part of our network monitoring operations, we use GIS, which is an information and distribution system management tool that enables us to produce strategies by querying and analyzing the graphic information (e.g., distribution grid map) and non-graphic information of electricity network assets (e.g., statistical information related to substation, switch yard-switch gear transformers, overhead lines, underground cables) and incidents (e.g., maintenance, and outage) related to those assets. GIS data and its functionality helps us to manage asset quantity and quality, make maintenance and investment plans, and easily detect outage sources or affected customers by outages.

In addition, all of our distribution regions are being tracked by SCADA, which is a unified distribution network monitoring and control system, for real time operational control and monitoring of our distribution network. We maintain and operate SCADA for our distribution network for real time operational control and monitoring of our distribution network between 6.3 kV and 36 kV medium-voltage level, including 1,872 SCADA centers within our transformer centers as of September 30, 2017. As required by the relevant EMRA regulations, along with the data monitored and stored by our SCADA system, we back-up all the operational data maintained in our IT systems.

Our data back-ups of SCADA main control center and emergency control center are maintained at our back-up center located in Ankara. We anticipate undertaking a three year investment plan starting in 2018 with an expected budget of approximately TL 27 million for our three distribution regions to upgrade SCADA and to increase our active monitoring and controlling capabilities for related systems. In addition to SCADA, we have implemented a work force management system ("**WFM**"), which allows us to manage outage, failure and maintenance activities by integrating data obtained from SAP and customer relations management ("**CRM**") systems. Our WFM system helps us record all activities and improve network activity data quality by the strong and confidential infrastructure of SAP which improves our workforce resource management by providing reports based on true data processes through SAP, and provides fast response to electricity outages, along with controlling and monitor labor, road and work completion durations, and enabling detailed root cause analysis and feed maintenance and investment strategies.

As a result of our focused efforts in network management, there has been a significant improvement in the reliability of our network infrastructure in recent years. Our network management initiatives include (i) relay coordination project to decrease the effects of outage in main sources implementing the SCADA center, (ii) coordination with handheld terminals integrated into SAP for managing work orders, and (iii) installation of surge arrestors to protect the systems of high voltage level. In addition, our transformers' outages have been reduced following conduction of medium-voltage and low voltage loads to our transformers and making power amplifications or load transfers in necessary places. We have also prevented outages by expediting the change of low voltage panels that have reached the end of their technical and economic life.

Quality Indicators of our Distribution Operations

Pursuant to the Regulation on Service Quality in Electricity Distribution and Retail Sales, our distribution companies are responsible for the services they provide to users in the regions determined by our distribution licenses. Service quality in the distribution system is determined in terms of (i) continuity of supply, (ii) commercial quality, and (iii) technical quality categories. Continuity of supply refers to the capacity to serve electrical energy to distribution system users with shortest possible interruption duration and minimum frequency and with economically reasonable costs. Our distribution companies record long, short and transient interruptions affecting distribution systems totally or partly and calculate continuity of supply indicators according to methods determined in the regulation.

Commercial quality refers to the capacity of exercising transaction service provisions pursuant to standards determined by EMRA in each phase of relations on the network between users and service providers. Minimum quality standards and related compensation payments and processes to be carried out in case of breaching these standards are determined in the Regulation on Service Quality in Electricity Distribution and Retail Sales. Our distribution companies submit related tables with regard to quality standards to EMRA and publish these indicators on our internet sites monthly. Technical quality refers to the capacity of distribution system to meet electrical energy demand of users within acceptable fluctuation limits in terms of voltage frequency, amplitude, waveform and three phase symmetry, continuously and with high quality. System frequency is controlled by TEİAŞ within the margins defined in Electricity Market Network Code. Measurement results obtained after the installation of technical quality measurement devices are submitted on annual basis to the EMRA in accordance with TS EN 50160:2011 standard by March 31 of the following year in a report for distribution region.

We use system average interruption duration indices ("**SAIDI**") and average interruption frequency indices ("**SAIFI**") in our three regions, as reliability indicators. SAIDI represents average outage duration for each customer served. SAIFI represents the average number of interruptions that a customer would experience. The below table sets forth our SAIDI and SAIFI measurements for our three distribution regions.

	As of December 31,			As of September 30,
	2014	2015	2016	2017
SAIDI (hours/year)[1]				
Başkent region	9.38	13.84	9.96	6.81
Ayedaş region	12.40	8.49	10.32	6.87
Toroslar region	24.30	26.39	29.75	25.58
SAIFI (number/year)[2]				
Başkent region	8.58	7.81	4.70	3.34
Ayedaş region	9.45	5.09	5.13	3.69
Toroslar region	15.09	13.36	12.28	9.86

(1) SAIDI is measured in hours and over the course of a year.
(2) SAIFI is measured in units of interruptions per customer and over the course of a year.

End-user Management

We perform our end-user management activities locally across three distribution regions but centrally manage such activities. Since customer operation activities are locally performed, each distribution region has its own customer technical services manager, who acts as an interface between the customer operations directorate and local management. In addition, there are regional customer operations managers responsible for field activities. Our end-user management activities can be grouped under four categories: (i) meter reading, (ii) connection and disconnection of customers and new connections, (iii) theft and loss management, and (iv) call center management.

Meter Reading

We measure electricity consumption of the users that are connected to our distribution networks through electronic and mechanical meters. As of September 30, 2017, a substantial majority of our users connected to our distribution networks used electronic meters, pertaining approximately to 99%, 98%, and 95% of total users, respectively in the Başkent, Ayedaş, and Toroslar regions. In addition, our distribution companies are obliged to establish an automatic meter reading system ("**AMR system**"), which provides us with the ability to remotely read the meters of certain end-users, provided that such end-users consume over a certain volume determined by EMRA. We are also obliged to remotely read the meters of general illumination customers and licensed generation facilities. The customer types for which the distribution companies are required to install the AMR system are determined by EMRA. We aim to replace all remaining mechanical meters with electronic ones by the end of 2018, as the electronic meters are more accurate in terms of measurement, and provide cost efficiencies in terms of maintenance and repairs compared to mechanical meters.

The table below sets forth the number of electronic meters and mechanical meters, with a further regional breakdown and as of the dates indicated.

	As of December 31,			As of September 30,
	2014	2015	2016	2017
Başkent region				
Electronic meters	2,828,569	2,881,609	3,364,868	3,588,157
Mechanical meters	597,816	551,120	122,458	33,573
Meters connected to the AMR system	20,560	21,414	25,379	27,485
Ayedaş region				
Electronic meters	1,832,866	1,899,944	2,087,144	2,349,106
Mechanical meters	509,045	484,358	251,474	38,863
Meters connected to the AMR system	1,856	4,522	9,362	12,146
Toroslar region				
Electronic meters	2,143,338	2,179,457	2,539,025	3,184,132
Mechanical meters	1,079,750	1,010,967	699,307	166,048
Meters connected to the AMR system	266	516	16,820	22,470
All regions				
Electronic meters	6,804,773	6,961,010	7,991,037	9,121,395
Mechanical meters	2,186,611	2,046,445	1,073,239	238,484
Meters connected to the AMR system	22,682	26,452	51,561	62,101
Total	**9,014,066**	**9,033,907**	**9,115,837**	**9,421,980**

According to the Balancing and Settlement Regulation, our distribution companies are responsible for installing the AMR system, which covers the required software, hardware and communication infrastructure for automatic remote reading, transferring and validating of meter data, filling the missing data and submitting them to the relevant parties in the desired format. The end-user consumption limit to install the AMR system is determined by EMRA as 100,000 kWh per year for Başkent region, 130,000 kWh per year for Ayedaş region, 150,000 kWh per year for Toroslar region. We have made the AMR system available in our three distribution regions. The remote control option in the meters connected to our AMR system enables to us to give faster responses for detecting illegal usage of electricity, upon detection of which, we can remotely direct our field teams to customer premises promptly.

We read the electronic and mechanical meters via hand terminals at the end-users' premises and the meters connected to AMR system remotely through the AMR system. For the meters other than the meters connected to

AMR system remotely, we rely on our mobile teams which had 1,050 members as of September 30, 2017, for consumption data retrieval and billing for our meters. We conduct meter readings on a monthly basis, validate such meter readings using SAP system, and print invoices. In addition, for our customers that switch their suppliers, we read meters for the purposes of determining their consumption value and uploading consumption information to the market management system (*Piyasa Yönetim Sistemi*) (the "**Market Management System**") operated by EPİAŞ. For the year ended December 31, 2016, and for the nine months ended September 30, 2017, we recorded 67,265,802 meter readings in the Başkent region, 49,221,540 meter readings in the Ayedaş region, and 61,611,612 meter readings in the Toroslar region. Since Ayedaş is comprised only of the Asian side of İstanbul, it is easier for us to carry out more frequent readings compared to more rural areas.

All of the meters are a part of the regulated asset base of our distribution networks which we acquired through concessions under TOR Agreements. We are responsible for installing, reading, maintaining, and operating meters. We are also responsible for the free-of-charge replacement of meters that are more than 10 years old, which are in turn reflected in our CAPEX and which will be taken into consideration for tariff reimbursement. We also perform replacement (installation/uninstallation) of the meters of our customers in case of meter renewals or meter deficiencies. According to the Balancing and Settlement Regulation, we update the information of customers, register the meters of the market participants, and ensure the validity of the reading values which are the basis for settlement. In addition, we perform system usage invoicing to retail companies, and perform reconciliation of meter readings with retail companies.

Connection and Disconnection of Customers and New Connections

Pursuant to the Electricity Customer Services Regulation, we perform connection and disconnection operations of meters based on work orders we receive from private supply companies, including our retail companies. In addition, we connect new customers upon signing of retail sales agreements with retail companies, and disconnect customers upon termination of retail sales agreements. We also disconnect our customers from our distribution network in case of theft and illegal usage or our customers' failure to fulfil their payment obligations to our incumbent retail companies. Following the completion of obligations determined in the Electricity Customer Services Regulation, we perform connection to the customers' premises. In addition, we control and approve connection projects of new customers to our distribution network by our in-house field employees. Our new connection operations include project control, installation inspections, energy permits for installations below 50kW and master data creation on SAP system.

Theft and Loss Management

Losses in electricity distribution are composed of two key components, namely (i) technical losses such as loss of energy while transmitting the electricity in the distribution grid, adjusting the electricity in the transformers, or loss of energy in old or faulty meters, and (ii) theft by having unauthorized access to our distribution grid or tampering of the meters. Reducing technical losses is limited by certain technical constraints. For management of technical losses in the Başkent region, we performed improvements for overhead lines, cables and power distribution units in the period between 2009 and 2014. In 2014, we initiated precautionary measures in the Ayedaş and Toroslar regions and continue to apply these measures for the 3rd tariff implementation period. As a result of these measures, we were able to meet our theft and loss target in the Ayedaş region in 2016 (from 0.96% deficiency in 2014 to 0.83% and 1.18% outperformance in 2016 and in the nine months ended September 30, 2017), three years following the acquisition of such region. In order to reduce theft, we place high emphasis on shortening the meter management cycle (i.e., faulty, uncalibrated, or old meter replacements). Additionally, field units are directed to trace daily meter readings of consumers.

As electronic meters have increased accuracy compared to mechanical meters, electronic meters provide us with an improved ability to detect the illegal usage of electricity. This is because electronic meters show the ampere and voltage values of all distribution phases along with the retrospective measurement values. In addition, compared to mechanical meters, electronic meters are more effective in terms of preventing illegal usage of electricity, since it is more difficult to tamper with (i.e., making the meter stop functioning or under-register) electronic meters. For the purposes of theft and loss management, we continuously monitor our actual theft and loss ratios and compare it with our regulatory theft and loss targets.

The table below sets forth the theft and loss targets, actual theft and loss rates and the difference between the theft and loss targets and actual theft and loss rates in each distribution region, and as of the dates indicated.

	As of December 31,			As of September 30,
	2014	2015	2016	2017
	(%)			
Başkent region				
Theft & loss target[1]	7.88	7.88	8.00	7.76
Actual theft & loss[2]	7.68	7.00	6.98	5.72
Difference[3]	0.20	0.88	1.02	2.04
Ayedaş region				
Theft & loss target[1]	6.61	6.61	7.61	7.63
Actual theft & loss[2]	7.20	7.00	6.78	6.45
Difference[3]	(0.59)	(0.39)	0.83	1.18
Toroslar region				
Theft & loss target[1]	12.24	11.71	13.59	13.32
Actual theft & loss[2]	13.20	12.50	12.12	11.21
Difference[3]	(0.96)	(0.79)	1.47	2.11

(1) Indicates the initial theft and loss target determined by EMRA. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—Other Revenue Items and Efficiency Parameters—Theft and Loss*".
(2) Indicates the ratio of the volume of the unbilled electricity to the volume of total distributed electricity.
(3) Indicates the difference between theft and loss target and the actual theft and loss ratio.

Similar to the new connection process, our field employees perform theft recovery activities. In the Başkent region, we screened 81,595 customers and identified 19,318 incidences of theft in 2016. In the same year, we screened 113,107 customers and identified 44,231 incidences of theft in the Toroslar region, and screened 64,370 customers and identified 30,323 incidences of theft in the Ayedaş region. In addition to these screenings, we have recently commenced a new process to track the difference between supplied energy at transformer level and consumed energy in customer meters which is expected to improve the theft identification process by enabling us to proactively focus on problematic regions.

Call Center Management

We operate call centers in each distribution region, which are managed centrally and all call center employees answer calls from all regions. Our call centers cover customer calls in relation to power failures and other customer issues and requests. In addition to our call centers, we have mobile applications for smart phones (iOS and Android) enabling our customers to send notifications for outages with geographical position information or informing customers for planned outages. Our mobile application has been launched by our in-house team as a pioneer software solution in Turkey. As part of our call center management strategy, we monitor answer rates and service levels along with the number of calls we receive. The answer rate represents the ratio of the number of calls we answered to the total number of calls received by our call centers. The service level represents the ratio of the number of calls we answered within 20 minutes to the total number of calls received by our call centers.

For the nine months ended September 30, 2017, we received 3.4 million calls in the Başkent region, 2.7 million calls in the Ayedaş region, and 10.7 million calls in the Toroslar region. For the same period our call centers had a 97.7% answer rate and 89.6% service level, for all three regions combined. With the ongoing IVR structure improvement, automated call separation of provinces and callback assist projects call center performance is expected to be enhanced. We have been granted the Stevie Bronze Award in the Customer Services of the Year category in 2017, for our customer focused works that we conduct in our distribution areas.

Retail Operations

Overview

In Turkey, electricity wholesale and retail sales activities are combined under a single supply license (*tedarik lisansı*). All supply license holders are, therefore, allowed to carry out retail sales activity and to trade electricity with other license holders, participate in the organized wholesale market and import and export electricity with the approval of EMRA. Although our retail companies are entitled to (i) trade electricity with other license holders, (ii) engage in electricity wholesale activities, and (iii) import and export electricity with the approval of EMRA, we did not conduct any of such activities on a significant level. We engage in wholesale activities only for sourcing purposes and not for proprietary trading purposes.

With the privatization of the distribution regions and unbundling of distribution and retail sales activities, supply companies can be categorized into (i) incumbent retail companies and (ii) other suppliers. As incumbent retail companies have a regulatory monopoly for regulated customers in their distribution regions, they have the following rights and responsibilities:

(i) acting as the sole supplier of electricity to the ineligible customers in their distribution regions at the regulated Retail Energy Sales Tariff determined by EMRA;

(ii) acting as the sole supplier of electricity at the regulated Retail Energy Sales Tariff determined by EMRA to eligible customers who have not used their eligibility right (right to become a free customer) in their distribution regions, and

(iii) selling electricity to free customers across Turkey under free market conditions. See "—*Customers*".

We conduct our retail operations through three retail companies, namely Başkent EPSAŞ, the incumbent retail company in the Başkent region, AYEPSAŞ, the incumbent retail company in the Ayedaş region, and Toroslar EPSAŞ, the incumbent retail company in the Toroslar region. Along with their position as the incumbent retail company in their distribution regions with regards to regulated customers, our retail companies are able to sell electricity to eligible customers in those regions and across Turkey without any regional restriction.

We believe that our retail business benefits from its unique combination of regions, with a favorable mix of residential, industrial and commercial customers in both rural and urban areas. With approximately 32.9 TWh and 25.5 TWh sales (for the sales prior to January 1, 2017, including the sales to the customers under Enerjisa Electricity Wholesale Company's portfolio, which were transferred to our portolio in January 1, 2017) for the year ended December 31, 2016 and for the nine months ended September 30, 2017, we are the leading electricity retail company in Turkey in terms of volume. In 2016, we had 9 million customers (representing approximately 22.0% of the customers purchasing electricity in Turkey), and sold approximately 32.9 TWh (for the sales prior to January 1, 2017, including the sales to the customers under Enerjisa Electricity Wholesale Company's portfolio, which were transferred to our portolio in January 1, 2017) electricity in 2016 (representing approximately 18% of the total electricity sales in Turkey). With a combined regional population of 20.6 million people as of December 31, 2016, the combined Başkent, Ayedaş and Toroslar regions represented approximately 25.8% of Turkey's overall population, illustrating the magnitude of our regional reach. As of December 31, 2016 and September 30, 2017, these three regions had a total of 10.5 million and 10.8 million distribution connection points. For the year ended December 31, 2016 and nine months ended September 30, 2017, our customers' combined electricity consumption in these three regions amounted to 32.9 TWh and 25.5 TWh (for the sales prior to January 1, 2017, including the sales to the customers under Enerjisa Electricity Wholesale Company's portfolio, which were transferred to our portolio in January 1, 2017), respectively. (*Source: EMRA*)

The table below sets forth the total number of our customers classified by regions and as of the dates indicated.

	As of December 31,			As of September 30,
	2014	**2015**	**2016**	**2017**
Başkent region	2,907,032	2,992,480	3,044,550	3,162,594
Ayedaş region	2,035,321	2,075,197	2,098,362	2,144,950
Toroslar region	2,781,988	2,782,660	2,851,551	2,966,509
Other region	n.a	745	523	391
Total active customers[1]	**7,724,341**	**7,850,337**	**7,994,463**	**8,274,053**
Inactive customers[2]	1,102,095	1,075,369	991,701	862,748
Total customers	**8,826,436**	**8,926,451**	**8,986,687**	**9,137,192**

(1) Excludes the number of inactive customers in each region.

(2) Indicates the number of inactive customers (i.e., customers that were not invoiced due to lack of customer usage for the twelve-month period immediately prior to that date). See "—*Customers*".

The table below sets forth the volumes of electricity sold to our customers classified by regions for the periods indicated.

	For the year ended December 31,						For the nine months ended September 30,	
	2014		2015		2016		2017	
		% of Total		% of Total		% of Total		% of Total
	(in TWh, except percentages)							
Başkent region	10.1	27.1	10.5	26.6	9.6	29.1	7.3	28.8
Ayedaş region	7.2	19.4	7.8	19.7	7.8	23.6	5.7	22.1
Toroslar region	15.8	42.3	15.9	40.3	12.5	38.0	11.7	45.7
Other regions	4.1	11.2	5.4	13.4	3.0	9.3	0.8	3.4
Total	**37.2**	**100.0**	**39.6**	**100.0**	**32.9**	**100.0**	**25.5**	**100.0**

We served eligible customers in other regions, where these customers purchased 3.0 TWh and 0.8 TWh from us for the year ended December 31, 2016 and for the nine months ended September 30, 2017, respectively. Following the completion of the second step of the Corporate Reorganization, we unbundled Enerjisa Electricity Wholesale Company from Enerjisa. Prior to this, we had transferred the customer portfolio of Enerjisa Electricity Wholesale Company, which included certain large corporate customers to our retail companies' portfolios on January 1, 2017, in order for our retail companies to encompass all of our customers, and to manage all our customers directly through Enerjisa.

Customers

Our retail companies conduct retail sales of electricity to our customers. We define end-users purchasing electricity from our retail companies as our customers. For operational purposes, we classify our customers by customer eligibility and by the customer segment. We also monitor the number of active customers and inactive customers. Customers that were invoiced during the last 12 months' period are defined as "**active customers**", whereas customers that were not invoiced during the same period are defined as "**inactive customers**".

The table below sets forth the total number of active and inactive customers as of the dates indicated.

	As of December 31,			As of September 30,
	2014	2015	2016	2017
Active customers	7,724,341	7,851,052	7,994,986	8,274,444
Inactive customers	1,102,095	1,075,399	991,701	862,748
Total customers	**8,826,436**	**8,926,451**	**8,986,687**	**9,137,192**

Classification by Customer Eligibility and Purchase Conditions

Classification by customer eligibility is a regulatory classification based on eligibility limits determined by EMRA. Pursuant to the Electricity Market Law (Law No. 6446), (i) customers consuming equal to or more than the eligibility threshold determined by EMRA, and (ii) customers in the premises connected to transmission lines (i.e., lines with 36 kV and above high voltage level) and organized industrial zones, irrespective of their consumption level are classified as eligible customers ("**eligible customers**"). Pursuant to the EMRA resolution dated December 22, 2016 and numbered 6800 the eligibility threshold for 2017 was set at an annual consumption level of 2.4 MWh. The eligibility threshold was further reduced to an annual consumption level of 2.0 MWh for 2018, pursuant to the EMRA resolution dated November 30, 2017 and numbered 7474. Thus, customers consuming less than 2.0 MWh per year, and the premises connected to transmission lines or located in organized industrial zones are classified as ineligible customers ("**ineligible customers**").

Eligible customers can choose their suppliers and enter into supply contracts for a fixed period. Thus, our eligible customers can choose to purchase electricity from our retail companies or from third party private suppliers. When purchasing electricity from us, our eligible customers can elect to purchase electricity in free market conditions, or through the regulated Retail Energy Sales Tariff. Our ineligible customers do not have the option to choose their electricity supplier and must purchase electricity from our retail companies, and through the regulated Retail Energy Sales Tariff.

In addition to the classification based on customer eligibility, we classify our customers based on their electricity purchase conditions for operational purposes. We define eligible customers who prefer to purchase electricity from us in free market conditions as free customers ("**free customers**"). We define (i) ineligible customers, and (ii) eligible customers who purchase electricity from us through the regulated Retail Energy Sales Tariff, cumulatively as regulated customers ("**regulated customers**").

The chart below sets forth our customer classification by customer eligibility and electricity purchase conditions.

Classification by Eligibility		Classification by Purchase Conditions	
Customer Type (by eligibility)	**Consumption Volume (MWh per year)**	**Purchase Conditions**	**Customer Type (by purchase conditions)**
Ineligible	0- 2.0 MWh (for 2018)	National Tariff (obligatory)	**Regulated**
Eligible(1)	≥ 2.0 MWh (for 2018)	National Tariff (optional) Free market retail energy sales price	**Free**

(1) Customers connected to transmission lines or located in organized industrial zones are classified as eligible customers, regardless their consumption volume.

The table below sets forth our total number of customers classified by their eligibility and active status as of the dates indicated.

	As of December 31,			As of September 30,
	2014(1)	**2015**	**2016**	**2017**
Ineligible customers (regulated)	n/a	7,148,361	6,470,013	5,829,320
Eligible customers (regulated)	n/a	459,948	898,015	1,329,098
Eligible customers (free)	n/a	242,743	626,958	1,116,026
Total active customers2	**7,724,341**	**7,851,052**	**7,994,986**	**8,274,444**
Inactive customers3	1,102,095	1,075,399	991,701	862,748
Total customers	**8,826,436**	**8,926,451**	**8,986,687**	**9,137,192**

(1) We acquired the Toroslar and Ayedaş regions in 2013 and we completed customer base related data migration in 2014 in these regions. We completed customer segmentation at the end of 2015, thus we do not have segmentation as of December 31, 2014.
(2) Does not include the number of inactive customers in each region. See "*—Customers*".
(3) Indicates the number of inactive customers.

The table below sets forth the volumes of electricity sold to our customers classified by their eligibility for the periods indicated.

	For the year ended December 31,						For the nine months ended September 30,			
	2014(1)		**2015**		**2016**		**2016**		**2017**	
		% of Total		**% of Total**		**% of Total**		**% of Total**		**% of Total**
	(in TWh, except percentages)									
Ineligible customers (regulated)	n/a	n/a	12.3	31.0	11.5	35.0	8.7	34.6	6.2	24.1
Eligible customers (regulated)	n/a	n/a	15.1	38.1	9.4	28.4	7.6	30.1	11.0	43.0
Eligible customers (free)	n/a	n/a	12.2	30.9	12.0	36.6	8.9	35.3	8.4	32.9
Total	**37.2**	**100.0**	**39.6**	**100.0**	**32.9**	**100.0**	**25.2**	**100.0**	**25.5**	**100.0**

(1) We acquired the Toroslar and Ayedaş regions in 2013 and we completed customer base related data migration in 2014 in these regions. We completed customer segmentation at the end of 2015, thus we do not have segmentation as of December 31, 2014.

We generate revenue from our retail sales to our customers either through our regulated Retail Energy Sales Tariff determined by EMRA (for our regulated customers) or free retail energy sales prices (for our free customers). Our regulated Retail Energy Sales Tariff includes electricity procurement costs, gross profit margin and costs associated with the provision of the retail services. Our free retail energy sales prices are determined based on general supply and demand conditions in the market; however, the Retail Energy Sales Tariff acts as a natural price cap for our free retail energy sales prices.

Our total number of customers increased by 1.1% from December 31, 2014 to December 31, 2015, and increased by 0.7%, which was due to conversion of some of our regulated customers to free customers who elected to purchase electricity from third party private suppliers, from December 31, 2015 to December 31, 2016. Our total number of customers as of September 30, 2017 was 1.7% higher than as of December 31, 2016. We generated the majority of our revenue from our regulated customers, corresponding to approximately 79.1%, 69.2%, 62.5%, and 66.4% of our retail sales revenue for the years ended December 31, 2014, 2015 and 2016 and for the nine months ended September 30, 2017, respectively.

As of December 31, 2015 and 2016, and as of September 30, 2016 and 2017, we had 715, 523, 572, and 391 free customers, respectively, located in regions other than our distribution regions. Such free customers have elected to purchase electricity from our retail companies rather than the incumbent retail companies located in the distribution regions that such customers are located or from other private retail companies. For the same periods, these free customers electing to purchase electricity from our retail companies, including sales conducted through Enerjisa Electricity Wholesale Company for the years ended December 31, 2014, 2015 and 2016, rather than the incumbent retail companies located in the distribution regions consumed 13.4%, 9.3%, 9.9% and 3.4% of the total electricity retail sales volume of our retail companies.

Classification by Consumption

Our operational strategy is differentiated by customer segments in order to capture the highest value in each customer group and address the unique needs of different customers. We classify our customers into two segments based on their consumption volumes, namely (i) corporate customers, and (ii) residential and SME customers.

The chart below sets forth our customer classification by consumption.

Classification by Consumption

Customer Type (by consumption)	Consumption Volume (MWh per year)
Corporate	≥ 400 MWh
Residential and SME	0-400 MWh

(1) Classification by consumption is solely made for operational purposes, and the consumption threshold used herein or segmentation of our customers as corporate and residential and SME is different than EMRA's classification of customers based on usage types. Thus, regardless of the customer's electricity usage type (e.g., industrial, commercial, household, or irrigation), we define customers exceeding the ≥ 400 MWh threshold as corporate customer. Similarly, we define any customer falling below the same threshold as a residential and SME customer, even if such customer operates an industrial facility.

In 2016, we sold approximately 20.9 TWh electricity to our regulated customers and 12.0 TWh electricity to our free customers. 75.3% of the electricity sold to our regulated customers was sold to residential and SME customers, whereas only 40.2% of the electricity sold to our free customers was sold to residential and SME customers. In terms of our gross profit generated from sales of electricity to our regulated customers, we expect a stable unitary gross profit, but also a sales volume reduction due to an expectation of certain regulated customers switching to free market portfolio as a result of the eligibility limit decreases.

The table below sets forth the total number of our customers classified by their consumption volumes and as of the dates indicated.

	As of December 31,			As of September 30,
	2014(1)	2015	2016	2017
Corporate	n/a	6,855	9,529	9,394
Residential and SME	n/a	7,844,197	7,985,457	8,265,050
Total active customers[2]	**7,724,341**	**7,851,052**	**7,994,986**	**8,274,444**
Inactive customers[3]	1,102,095	1,075,399	991,701	862,748

(1) We acquired the Toroslar and Ayedaş regions in 2013 and we completed customer base related data migration in 2014 in these regions. We completed customer segmentation at the end of 2015, thus we do not have segmentation as of December 31, 2014.

(2) Does not include the number of inactive customers in each region. See "—*Customers*".

(3) Indicates the number of inactive customers.

The table below sets forth the volumes of electricity sold to our customers classified by their consumption volumes for the periods indicated.

	For the year ended December 31,						For the nine months ended September 30,			
	2014		2015		2016		2016		2017	
		%		%		%		%		%
	(TWh, except percentages)									
Corporate	n/a	n/a	18.9	47.7	12.4	37.5	9,6	38,1	9.0	35.2
Residential and SME	n/a	n/a	20.7	52.3	20.6	62.5	15,6	61,9	16.5	64.8
Total	**37,2**	**100,0**	**39,6**	**100,0**	**32,9**	**100,0**	**25.2**	**100.0**	**25.5**	**100.0**

(1) We acquired the Toroslar and Ayedaş regions in 2013 and we completed customer base related data migration in 2014 in these regions. We completed customer segmentation at the end of 2015, thus we do not have segmentation as of December 31, 2014.

In 2016, we sold 32.9 TWh of electricity to our customers (including the customers under Enerjisa Electricity Wholesale Company's portfolio), and 20.6 TWh of this electricity was sold to residential and SME customers. 20.5 TWh of this volume was sold to our customers located in our distribution regions, whereas the remaining 0.1 TWh was sold to free customers located in other regions. In 2016, we sold 12.4 TWh electricity to our corporate customers. 9.7 TWh of this volume was sold to customers located in our distribution regions, whereas the remaining 2.6 TWh was sold to free customers located in other regions.

Electricity Sales to Customers

We sell electricity to our customers through our retail companies. Our retail companies are required to serve the regulated customers in their areas as the incumbent retail company. In addition, such retail companies act as the supplier of last resort for free customers. Our retail companies can also sell electricity to eligible customers without any regional boundaries. Eligible customers have the opportunity to buy electricity directly from generation companies or private suppliers, while regulated customers are served by incumbent retail companies. Regulated customers are subject to regulated tariffs, which vary based on tariff groups and connection types.

Since 2003, the eligibility threshold that determines the consumption level over which consumers are free to choose their energy suppliers have been gradually reduced by EMRA from 9,000 MWh per year in 2003 to 2.4 MWh per year in 2017, and 2.0 MWh per year in 2018. Although EMRA has been gradually decreasing the eligibility limit as part of the liberalization process, market openness by number of customers as of September 30, 2017 (i.e., proportion of the number of free customers to the total number of eligible customers) was still at approximately 25%, since the majority of the eligible customers do not exercise their right to become a free customer. The remaining approximately 75% largely consisted of residential and SME customers, which are a key focus of our strategy and are considered to have higher profit potential in a liberalized market. However, the proportion of the volume of electricity sold to free customers to the volume of the electricity sold to eligible customers was at approximately 90%, as of September 30, 2017.

As of September 30, 2017, we had 1,117,636 free customers located in our distribution regions. As of the same date, we had 391 free customers located in regions other than our distribution regions. Such free customers have elected to purchase electricity from our retail companies rather than the retail companies located in the distribution regions that such customers are located. Our residential and SME customers are usually more reluctant to switch to our free customer portfolio, compared to our corporate customers. This is because corporate customers are typically highly price sensitive as their energy costs represent a significant portion of their total costs.

Electricity Procurement

We have four main sources to procure electricity that we sell to our customers, namely, (i) TETAŞ, a state-owned supply company, (ii) EPİAŞ, a private market operator owned by TEİAŞ (30.0%), Borsa İstanbul (30.0%) and private energy companies (40.0%), (iii) private wholesale companies, including Enerjisa Electricity Wholesale Company, a related party to us, and (iv) our balancing group partners (i.e., our distribution companies). Our sources for electricity procurement vary based on our customer classification.

We purchase the electricity we sell to our regulated customers primarily from TETAŞ pursuant to TETAŞ Electricity Purchase Agreements and from EPİAŞ through spot market transactions. For our purchases from

TETAŞ, our distribution companies and retail companies enter into agreements on an annual basis. Our distribution companies and retail companies executed the TETAŞ Electricity Purchase Agreements in December 2017 for our electricity purchases for 2018. Should the consumption of our regulated customers exceed the volume set forth in the TETAŞ Electricity Purchase Agreement, we purchase the additional electricity from EPİAŞ, the market operator, on a daily basis through the Day Ahead Market or Intraday Market. See "*Regulatory Overview—Electricity Market Activities—Market Operation Activities*".

For the electricity we sell to our free customers, we enter into bilateral electricity purchase agreements (which are in line with generally accepted standard European Federation of Energy Traders ("**EFET**") terms) with Enerjisa Electricity Wholesale Company and other private wholesale companies. We purchase the electricity on the date of and in the volume set forth in the electricity sales contract we execute with these customers, which are executed on a fixed price basis. If the consumption of our free customers exceeds the volume set forth in our electricity sales contracts with them, we purchase the additional electricity from EPİAŞ on a daily basis.

Prior to the completion of the second phase of the Corporate Reorganization on August 25, 2017, we have been procuring the electricity we sold to our free customers primarily from Enerjisa Electricity Wholesale Company. Following the completion of the second phase of the Corporate Reorganization, we established a trade business unit under Enerjisa for management of our electricity sourcing operations. These sourcing management operations for Enerjisa were previously conducted by a unit under the Enerjisa Electricity Wholesale Company, and following establishment of this trade business unit, we are able to manage our electricity sourcing operations on our own and have begun to procure electricity from private wholesale companies, including the Enerjisa Electricity Wholesale Company.

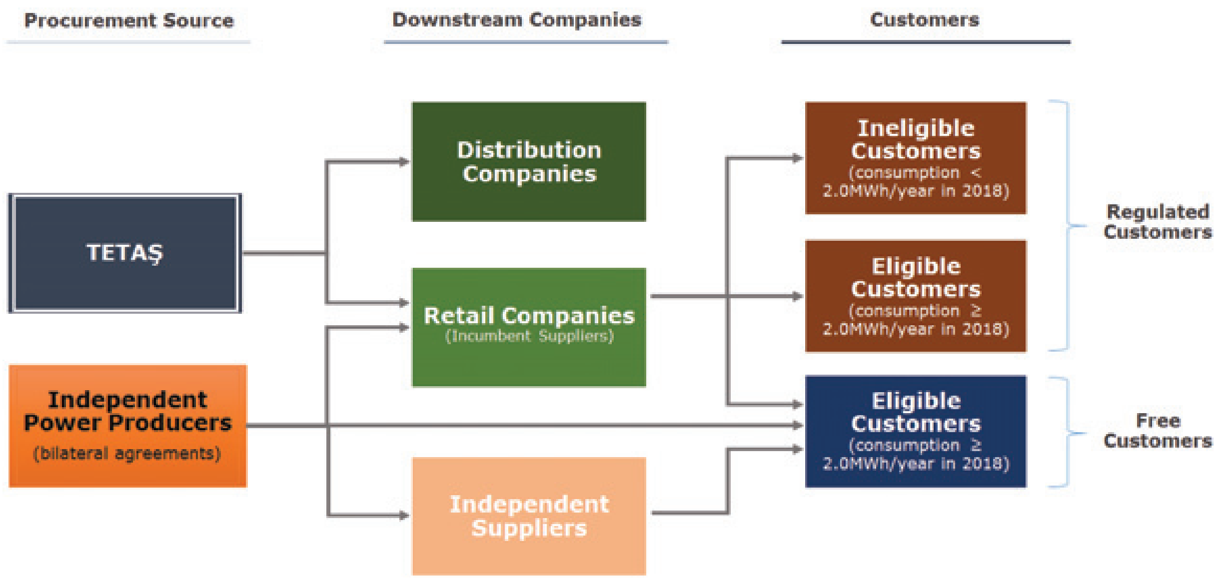
The table below sets forth our electricity purchases by source for the periods indicated.

	For the year ended December 31,						For the nine months ended September 30,			
	2014		2015		2016		2016		2017	
		% of Total		% of Total		% of Total		% of Total		% of Total
	(in TWh, except percentages)									
TETAŞ[1]	25.2	67.8	16.9	42.8	15.5	47.0	11.7	46.5	14.8	57.9
EPİAŞ (regulated)[2]	3.5	9.5	10.6	26.8	5.6	17.2	4.2	16.7	0.3	1.3
Others (regulated)[3]	0.2	0.5	(0.2)	(0.5)	(0.2)	(0.7)	0.4	1.4	2.0	7.9
Private wholesaler (free)[4]	8.3	22.2	12.2	30.6	8.0	24.2	6.0	23.9	3.3	12.9
EPİAŞ (free)[5]	—	—	—	—	4.1	12.3	2.9	11.5	5.1	20.0
Total	**37.2**	**100.0**	**39.6**	**100.0**	**32.9**	**100.0**	**25.2**	**100.0**	**25.5**	**100.0**

(1) Indicates the electricity purchased from TETAŞ for regulated customers.
(2) Indicates the electricity purchased from EPİAŞ for regulated customers.
(3) Indicates the electricity purchased from other sources for regulated customers. For our regulated customers, we settle our electricity shortage or surplus with our balancing group partners (i.e., our distribution companies) pursuant to the Balancing and Settlement Regulation by either selling electricity to or purchasing electricity from our distribution companies for the purposes of balancing operations.
(4) Indicates the electricity purchased from Enerjisa Electricity Wholesale Company for free customers. In addition to Enerjisa Electricity Wholesale Company, we began to procure electricity from other private wholesale companies upon completion of the second phase of the Corporate Reorganization on August 25, 2017.
(5) Indicates the electricity purchased from EPİAŞ for free customers.

We are exposed to fluctuations in electricity sourcing prices in connection with our sales to free customers. To mitigate this exposure, we engage in hedging activities, including through medium term bilateral electricity purchase agreements with predetermined prices. We also engage in foreign currency forward agreements to manage foreign currency risk we are exposed due to YEKDEM costs (i.e., the costs incurred by the retail companies as a result of a subsidization mechanism to support renewable energy generation).

The below chart indicates the supply chain of electricity beginning from the procurement source to the end-users.



Retail Business Management

We run a centralized retail business infrastructure for all the critical processes and the system runs on an integrated SAP platform for all three regions. Our customer relationship management system also runs on an SAP-type platform. In line with our focus on a centralized approach, we carry out our management of customer services in a unified manner. We transformed and expanded the scope of our call centers that were previously giving service only for disconnection and failure notifications into our approximately 200 full-fledged customer service centers, providing services from complaint resolution to sales execution. We also initiated a new training program titled, “Sales Academy” to give continuous training to our customer care employees.

Since the acquisitions of our distribution regions, we perform annual customer satisfaction surveys with an average of 3,500 customers via CATI (Computer Assisted Telephone Interview) methodology, and through an independent research agency. These surveys include questions to the customers on the quality of various service levels and calculate an indexed customer satisfaction score. We improved our customer satisfaction levels in all three regions, from 65% in 2014 to 71% in 2016 in the Ayedaş region, from 66% in 2014 to 72% in the Başkent region, and from 54% in 2014 to 67% in 2016 in the Toroslar region, which are determined, in each case, through surveys completed by our customers.

Pricing

The pricing for our retail sales activities vary based on our customers’ electricity purchase conditions. For our regulated customers, we apply the National Tariff which is determined by EMRA on a quarterly basis. Among other components, the National Tariff is composed of the Retail Energy Sales Tariff (including, among others, energy procurement costs and a gross profit margin of 2.38%), and the Distribution Tariff (including, among others, the cost of operating and maintaining the distribution network, reimbursement of CAPEX and return on RAB, and cost of supplying energy for theft and loss and general illumination).

For our free customers located in our distribution regions, we apply the Distribution Tariff, as we do for regulated customers, however we do not apply the Retail Energy Sales Tariff, as such customers procure electricity in free market conditions. With respect to free customers across all regions, we determine prices based on current market conditions considering our cost basis, and with the target of a certain profit margin; however, the National Tariff acts as a natural price cap for our free retail energy sales prices. See “*—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—National Tariff*”.

The chart below sets forth our pricing conditions based on our customers' electricity purchase conditions.

Pricing Conditions

Customer Type (by purchase conditions)	Applied Pricing
Regulated	National Tariff (including the Retail Energy Sales Tariff and Distribution Tariff)
Free	Distribution Tariff and free market retail energy sales price and other costs based on operating expenses

Both our regulated and free customers are invoiced by and relevant collections are done by our retail companies. The amounts invoiced to the customers for the Distribution Tariff is passed through either to (i) our distribution companies, or to (ii) the distribution companies in other distribution regions, in the cases which our retail companies provide electricity to the free customers outside our distribution regions.

Similarly, in cases where free customers located in our distribution regions source electricity from third party private suppliers other than our retail companies, such third party private suppliers apply the Distribution Tariff and free market retail energy sales price to their free customers, and subsequently pass-through the amounts invoiced to the customers for the Distribution Tariff to our distribution companies, as our distribution companies provide distribution services to such free customers.

The Retail Energy Sales Tariff is based on and assumed to reflect the cost base of Turkey for each quarter. In determining the Retail Energy Sales Tariff to be applied to different types of customers, EMRA applies a cross-subsidization mechanism for residential, commercial and industrial customers, subsidizing industrial customers at the expense of commercial and residential customers. This cross-subsidization mechanism is intended to support the industrial sector through lower electricity prices, and to incentivize electricity consumption in off-peak times to balance and optimize the overall consumption profile of the electricity system within Turkey. As a result, residential and commercial tariffs are considerably higher compared to industrial tariffs.

Brand Power

Our brand power primarily derives from the "Sabancı" brand which we believe is one of the most recognized and trustworthy brand in Turkey. Since 2009, Enerjisa has been selected the most admired company in the Turkish energy sector by the Capital magazine, on a yearly basis.

We have established and started to execute a long term brand strategy, of which the main objectives are (i) to have the highest awareness and image level within the market, (ii) to ensure a customer care oriented Enerjisa brand perception in our customers, and (iii) to be perceived as a trustworthy and innovative brand. As the first step of our brand investment, we executed a national campaign for the "Enerjisa" brand in December 2015. We added the "Energy Button" and "Energy of Turkey" trademarks into our brand identity set. Moreover, we executed a wide ranging communication plan, where we launched a new communication campaign under the motto "Save Your Energy", and added a brand mascot called "Pozitip" into our brand identity set.

On the back of all these communications and brand investments, the Enerjisa brand top of mind awareness score has been increased to 78% (Enerjisa Awareness Research (January 2017, Future Bright) from 22% (Enerjisa Awareness Research (April 2015, Future Bright), and our spontaneous awareness score increased to 93% (Enerjisa Awareness Research (January 2017, Future Bright) from 47% (Enerjisa Awareness Research (April 2015, Future Bright). As a result, we were granted various awards, including One Awards in 2017 (for "the brand that has increased its reputation most in 2016 within the energy sector" title), Effie in 2016 (for "the best communication campaign strategy in 2016 in its sector" title), and Mixx Europe Silver Award in 2017 (for "the second best responsive digital campaign in Europe" title).

In 2017, we have conducted an image and perception study with our "I am saving my energy" campaign. In 2017, we won the Silver Stevie Award in Europe Social Responsibility Program, Silver Mixx Award in Mixx with "First Digital Energy Saving Advertisement" and "Best Local Campaign" in Mena 2017 Search Awards for Digital campaigns.

Marketing and Sales

Our marketing strategy governs all the basic marketing functions, namely pricing, product, brand, channel, as well as supportive functions such as segment strategy, customer experience (including process design), market research, customer insight, and customer data management and business analyst teams. For the overall conduct of our business, we formulate marketing strategies with the participation of our senior management and key stakeholders and deploy the rest of the marketing organization with the support of human resources. In our daily operations, we analyze our key business challenges such as customer acquisition, retention, increasing profitability of existing customer base, or generation of new revenue streams from a segmental perspective.

We prepare communication materials for sales channels and conduct above-the-line campaigns via mass media or below-the-line campaigns via direct media (e.g., brochures). Besides these activities, our marketing department is partially responsible for the planning of sales channel activities via overall planning of sales and marketing activities and sales targets up to gross profit level. Our marketing department also maintains our digital channels (i.e., web page and social media), and is responsible for the preparation and management of brand campaigns.

Our sales team is responsible for direct sales activities and management of physical channels. We divided our regional sales operations into three regions governing the sales activities in the distribution regions of Enerjisa via door to door, dealer, and customer care office channels for mass segment, and for corporate customers in our distribution regions as well as in the neighboring regions via key account management. As of December 31, 2014, 2015, 2016, and September 30, 2017, we had 472, 557, 657 and 706 personnel designated for our sales and marketing operations. Our telesales team makes approximately 1.3 million outbound calls, and responds 335 thousand inbound calls on an annual basis.

Our door to door and telesales channels are active by nature and reach out to residential and SME customers to promote switching to our free market portfolio. Our door to door marketing teams are directed at customers within the distribution region based on their eligibility, annual consumption, and geographical proximity for maximum efficiency. Our telesales teams, on the other hand, reach out to customers via phone and utilize couriers to collect signed contracts upon customers’ acceptance. Unlike our door to door and telesales channels, our customer care office channels and dealer locations are reactive by nature and require our customers to visit one of the physical locations to be able to switch to our free market portfolio. Our regional key account managers and the key account managers for sophisticated customers regularly visit our customers, bid offers to tenders, and conduct management of customer relations by acting as the dedicated contact name for the customer. Our sales planning team is responsible for orchestrating the efforts of the sales organization and provision of tools and materials required (with the support of the marketing team) as well as providing the sales targets as part of the budgeting process.

Following the privatization of our distribution regions, we observed significant improvements in our operational metrics. For example, as of September 30, 2013 we had approximately 50 thousand contracts executed with our free customers. As a result of the ongoing liberalization efforts, decrease in the eligibility limit and our customer oriented operational improvements, this figure increased to approximately 1.1 million as of September 31, 2017. Similarly, as of September 30, 2013, our sales representatives executed approximately one free market contracts on a daily basis, whereas this figure increased to approximately 6.2 as of September 31, 2017. Within this period, we decreased the number of our customer centers from 168 to 69 to ensure operational efficiency.

Payment Channels

As of December 31, 2017, we had 65 Enerjisa payment points. In addition, we have executed agreements with Posta ve Telgraf Teşkilatı A.Ş. (*Turkish Post Office*) (“**PTT**”), authorizing us to use 4,228 PTT branches. We also have agreements with 16 banks, authorizing our customers to make payments to the branches of these banks, and provide digitalized payment options for our customers via our website and mobile applications.

The following table sets forth the number of payment channels and payment points as of the dates indicated.

	As of December 31, 2017
Customer centers	69
Enerjisa payment points	65
PTT branches	4,228
Payment bank branches (total within 16 banks)	10,894

Competition

We are positioned in the Turkish electricity market with electricity distribution and retail activities based in Başkent, Ayedaş, and Toroslar regions. As of December 31, 2016 we had approximately 41.1 million users connected to distribution networks across Turkey, and we had approximately 10.5 million users connected to our distribution networks operated by our distribution companies (Source: *EMRA*). With approximately 32.9 TWh and 25.5 TWh sales (for the sales prior to January 1, 2017, including the sales to the customers under Enerjisa Electricity Wholesale Company's portfolio, which were transferred to our portolio in January 1, 2017) for the year ended December 31, 2016 and for the nine months ended September 30, 2017, respectively, we are the leading electricity retail company in Turkey in terms of volume.

As of December 31, 2016 and September 30, 2017, we had a total of approximately 9.0 million and approximately 9.1 million customers (including approximately 1.0 million and 0.9 million inactive customers), respectively. With a combined regional population of 20.6 million people as of December 31, 2016, the Başkent, Ayedaş and Toroslar regions represented approximately 25.8% of Turkey's total population, illustrating the magnitude of our regional reach. All three regions combined, our distribution business focuses on the expansion and maintenance of a distribution network of approximately 217,853 km and TL 3.9 billion RAB as of 2016, in nominal terms.

See "*Market Overview—Business Overview—Market Share and Competition*".

Permits, Licenses and Quality Certificates

All participants in the electricity market are required to obtain licenses from EMRA for each market activity they undertake. Enerjisa, as the parent company of three distribution companies is not required to have a license issued by EMRA, since it does not undertake any electricity market activity. However, our distribution companies are required to hold an electricity distribution license (*elektrik dağıtım lisansı*), and our retail companies are required to hold an electricity supply license (*elektrik tedarik lisansı*) issued by EMRA, in order to conduct their operations in Turkey.

Distribution and Supply Licenses

Distribution Companies

The licensing status of our distribution companies is as follows:

	Distribution License			
Distribution Company	**License No.**	**Period**	**Issue Date**	**Expiry Date**
AYEDAŞ	ED/874-39/697	36 years 4 months	September 1, 2006	December 31, 2042
Başkent EDAŞ	ED/101-21/028	30 years	September 1, 2006	September 1, 2036
Toroslar EDAŞ	ED/874-25/689	36 years 4 months	September 1, 2006	December 31, 2042

In order to continue their distribution operations, our distribution companies are required to renew their distribution licenses. Pursuant to the applicable legislation, our distribution companies are required to apply to EMRA for renewal of their licenses within a minimum of 12 months and a maximum of 15 months prior to the expiration of the relevant licenses. EMRA determines whether to renew the licenses for a minimum period of ten years and a maximum period of 49 years upon its examination of certain requirements. See "*Regulatory Overview—Renewal and Amendment of Distribution and Retail Sale Licenses*". Apart from the other requirements set under the applicable legislation, to renew their distribution licenses, our distribution companies need to certify that they own the operating rights of the distribution network that are necessary for distribution operations, thus our distribution companies need to execute TOR Agreements..

Retail Companies

The licensing status of our retail companies is as follows:

	Supply License			
Retail Company	**License No.**	**Period**	**Issue Date**	**Expiry Date**
AYEPSAŞ	GTL/4968-35/03130	28 years 8 months 14 days	April 17, 2014	December 31, 2042
Başkent EPSAŞ	GTL/4968-35/03091	22 years 4 months 14 days	April 17, 2014	September 1, 2036
Toroslar EPSAŞ	GTL/4968-35/03183	28 years 8 months 14 days	April 17, 2014	December 31,2042

Other Permits and Licenses

Distribution Companies

Pursuant to the Electricity Market Licensing Regulation, our distribution companies are also required, until the end of 2017, to obtain quality standard certificates, to be issued by a certification authority accredited by the Turkish Accreditation Agency for:

(i) TS EN ISO 9001 (for continuous improvement of business processes and compliance with regulatory and customer requirements);

(ii) TS ISO/IEC 27001 (for information security on enterprise information systems processes and all related processes which support information systems, personnel and hosted data) standards;

(iii) TS ISO 10002 (for effective management of customer complaints);

(iv) TS 18001 (for occupational health and safety management systems); and

(v) TS EN ISO 14001 (for environmental management systems standards).

AYEDAŞ, Başkent EDAŞ and Toroslar EDAŞ obtained the following certificates:

Quality Standard Certificate	AYEDAŞ		Başkent EDAŞ		Toroslar EDAŞ	
	Issue Date	Expiry Date	Issue Date	Expiry Date	Issue Date	Expiry Date
TS EN ISO 9001	February 1, 2015	January 31, 2018	January 5, 2017	September 14, 2018	December 21, 2015	September 14, 2018
TS ISO/IEC 27001 (for information security management)	July 22, 2016	July 21, 2019	July 19, 2016	July 18, 2019	July 12, 2016	July 11, 2019
TS ISO/IEC 27001 (for SCADA systems)	December 2017	December 2020	February 19, 2016	February 18, 2019	December 2017	December 2020
ISO/IEC 20000	August 13, 2015	August 12, 2018	August 13, 2015	August 12, 2018	August 13, 2015	August 12, 2018
TS ISO 10002	December 18, 2017	December 17, 2020	December 18, 2017	December 17, 2020	December 18, 2017	December 17, 2020
TS 18001	November 22, 2017	November 21, 2020	November 6, 2017	November 5, 2020	November 24, 2017	November 24, 2020
TS EN ISO 14001	November 22, 2017	September 14, 2018(1)	November 6, 2017	September 14, 2018(1)	November 24, 2017	September 14, 2018(1)

(1) These TS EN ISO 14001 certificates are issued for ISO 14001:2004 standard. These certificates will be replaced with ISO 14001:2015 compliant certificates prior to September 2018.

Retail Companies

AYEPSAŞ, Başkent EPSAŞ and Toroslar EPSAŞ obtained the following certificates:

(i) ISO 9001 Certificate for continuous improvement of business processes and compliance with regulatory and customer requirements,

(ii) ISO 10002 Certificate for effective management of customer complaints, and

(iii) ISO 27001 Certificate for information security on enterprise information systems processes and all related processes which support information systems, personnel and hosted data.

Quality Standard Certificates	AYEPSAŞ, Başkent EPSAŞ and Toroslar EPSAŞ	
	Issue Date	Expiry Date
ISO 9001	April 15, 2015	April 14, 2018
ISO 10002	June 9, 2017	June 8, 2020
ISO 27001	July 22, 2016	July 21, 2019

In addition, according to EMRA Board Decision numbered 6507/6 and dated September 29, 2016, our retail companies are required to obtain TS EN 15838 certificate for call center management systems by

March 31, 2018. Our retail companies have applied and obtained these certificates in December 2017. Our distribution companies are not required to obtain these certificates as they outsource these services and the subcontractors obtained these certificates.

Enerjisa

Enerjisa obtained ISO/IEC 27001 (2013) Certificate for information security management system, which was issued on September 3, 2013 and valid until March 2, 2020. This certificate covers all information, information systems, infrastructures and employees that support finance management's processes.

Environmental and Health and Safety Matters

The principal legislation relating to environmental matters in Turkey is the Environmental Law, and several separate regulations promulgated under the Environmental Law, primarily the EIA Regulation, and the Environmental Permit and License Regulation. The Environmental Law sets out the general framework for environmental protection requirements and the consequences of non-compliance with these requirements, whereas the EIA Regulation governs the types of EIA studies (EIA report or project description report) and the contents of these studies, the administrative and technical principles and procedures applicable during an EIA process.

The facilities subject to environmental impact assessment requirements are stated in the EIA Regulation. Neither Enerjisa nor our distribution companies nor our retail companies are in the scope of the lists provided under the EIA Regulation. Therefore, Enerjisa and its subsidiaries are exempt from EIA requirements. Similarly, Enerjisa and its subsidiaries do not perform any activity within the scope of the Environmental Permit and License Regulation, such as air emission, environmental noise, wastewater discharge and deep sea water discharge. Therefore, they are not subject to the permit and license requirements under the Environmental Permit and License Regulation. However, our distribution companies are connected to sewage system for their waste water.

Accordingly, they have obtained the necessary permits from the relevant municipalities to connect to the sewage system for the relevant facilities. Additionally, our distribution companies store more than 1,000 kg hazardous waste in their logistic service center warehouses, and are therefore required to obtain temporary waste storage permits from the Environment and Urbanization Directorate, according to the Waste Management Regulation. Our distribution companies have eight logistic service centers. A temporary waste storage permit was obtained for one of our logistic service centers in Ankara. Our distribution companies have applied to the Environment and Urbanization Directorate in September 2017 for remaining seven of these centers and expect to obtain such permits by the end of 2017, and all necessary actions have been taken for our waste storage areas to be in compliance with the regulatory requirements.

Enerjisa and its subsidiaries are also subject to a wide range of health and safety laws and regulations. The main health and safety legislation regarding our operations includes risk assessment regulations, occupational health and safety training regulations, management of occupational health and safety regulations. The principal health and safety legislation relating to Enerjisa's and its subsidiaries' operations is the Occupational Health and Safety Law, and several separate regulations promulgated under the Occupational Health and Safety Law, primarily the Communiqué on the Workplace Hazard Groups and the Occupational Health and Safety Risk Assessment Regulation.

The Occupational Health and Safety Law sets out the general framework regarding the health and safety requirements for the employers and the consequences of non-compliance with these requirements. Under the Occupational Health and Safety Law and other applicable regulations, relevant authorities may conduct audits and impose fines for any violations. Pursuant to the Occupational Health and Safety Law, employers are now obliged to have (or appoint, if election is not possible) one or more "employee representative(s)" elected from its employees and to appoint occupational safety expert(s), workplace doctor(s) and other health personnel from among their employees.

In order to monitor the health and safety implementations, our distribution companies and our retail companies have health and safety teams. Also, to create an occupational health and safety culture in our companies, our distribution companies and our retail companies conduct occupational health and safety meetings with all personnel including top management. Additionally, managers of our distribution companies periodically carry out occupational health and safety field supervisions and take the lead for occupational health and safety.

Furthermore, in order to incentivize compliance with health and safety regulations, our distribution companies and our retail companies award any personnel who make notifications regarding dangerous situations. Different types of training programs, including trainings on risk assessment, emergency events, first aid and defensive driving, are periodically organized for the employees of our distribution and our retail companies. As of the date of this Offering Circular, we are in material compliance with applicable environmental and health and safety rules and regulations.

Employees

As of September 30, 2017, we, on a consolidated basis had a total of 9,551 employees. As of the same date, Enerjisa (solo) had 171 employees, our distribution companies had 8,284 employees, and our retail companies had 1,096 employees, all of whom were full-time employees. In addition, as of the same date, our distribution companies had 772 and our retail companies had 205 full-time outsourced personnel.

The following table sets forth information on the number of employees for each of Enerjisa and its subsidiaries by function as of the dates indicated.

	As of December 31,			As of September 30,
	2014	2015	2016	2017
Enerjisa (solo)[1]				
Total	**140**	**171**	**182**	**171**
Outsourced	—	—	—	—
Distribution companies[2]				
Total	**6,555**	**7,269**	**7,812**	**8,284**
Outsourced	722	861	766	772
Retail companies[3]				
Total	**840**	**981**	**1,091**	**1,096**
Outsourced	167	221	245	205
Enerjisa (consolidated)[4]				
Total	**7,535**	**8,421**	**9,085**	**9,551**
Outsourced	889	1,082	1,011	977

(1) Includes only Enerjisa employees excluding the employees of our consolidated subsidiaries (indicated under sub-sections titled "Distribution companies" and "Retail companies").
(2) Includes only the employees of our distribution companies, namely Başkent EDAŞ, AYEDAŞ, and Toroslar EDAŞ.
(3) Includes only the employees of our retail companies, namely Başkent EPSAŞ, AYEPSAŞ, and Toroslar EPSAŞ.
(4) Includes our employees (indicated under the title "Enerjisa solo"), and the employees of our consolidated subsidiaries (indicated under sub-sections titled "Distribution companies" and "Retail companies").

On September 1, 2015, EEDAŞ, AYEDAŞ, Başkent EDAŞ and Toroslar EDAŞ separately executed four collective bargaining agreements with the Tes-İş trade union, which are effective from March 1, 2015 and valid until February 28, 2018. See "*—Material Agreements—Collective Bargaining Agreements*". Our retail companies do not meet the criteria for a union to request to execute a collective bargaining agreement. As of December 31, 2014, 2015 and 2016 and as of September 30, 2016, and 2017, 71.5%, 67.3%, 71.0%, 66.0%, and 67.0% of our employees, respectively, were members of the Tes-İş trade union.

The following table sets forth information on the number of unionized and non-unionized employees in each of the companies as of the date indicated.

	As of September 30, 2017		
	Unionized	Non-Unionized	Total
Enerjisa (solo)	—	171	171
Distribution companies	6,396	1,868	8,284
Retail companies(1)	—	1,096	1,096
Total	**6,396**	**3,134**	**9,551**

(1) Our retail companies do not meet the criteria for a union to request to execute a collective bargaining agreement.

According to the Trade Unions and Collective Bargaining Agreements Law numbered 6356 and dated October 18, 2012, strikes and lock-outs in the electricity distribution business are prohibited. Therefore, unionized employees in our distribution companies are unable to organize labor strikes. Our management believes that we historically have had and currently have good relations with the Tes-İş trade union. We have not experienced any material labor disputes or significant problems with the recruitment or retention of our employees or suffered from any material disruption of our business operations as a result of any labor dispute, strike or employee dispute.

As a consequence of recent changes in the Private Pension Law no. 4632, we are required to implement the auto-enrollment of our employees in the private pension system. As of the date of this Offering Circular, our distribution and retail companies have started to implement such a system. Before the spin-off transaction EEDAŞ also initiated such a system, whereas Enerjisa is required to fulfill its obligation as of January 1, 2018. However, for the employees transferred from EEDAŞ to Enerjisa as a result of second phase of Corporate Reorganization, the private pension system is being applied, since the system had been initiated for these employees by EEDAŞ, before the second phase of Corporate Reorganization was realized. We are working with AvivaSA Emeklilik ve Hayat A.Ş. to enroll our employees into the private pension system. This system will not put any financial burden on us and we will continue to pay the same social security premium.

We believe that a motivated and highly qualified workforce is essential to our business operations. We also believe that our future success and sustainability depend on the continuing ability to identify, hire, attain, train and retain qualified and talented employees. We provide development opportunities to our employees focusing on technical expertise, competency development. We conduct training programs for our employees on a periodic basis for technical expertise development, competency development and other specific areas. Upon hiring, our employees undergo an orientation program before commencing their employment with us, and all of our employees receive health and safety and code of conduct trainings. Our employees also benefit from other development tools provided by us such as online learning platforms, in-class trainings, structured development programs specifically designed for different target groups, coaching, mentoring and reverse mentoring, language courses as well as tuition fee supports for masters' or PhD degrees.

In addition, we also conduct on-the-job training programs. We offer these programs with the aim of increasing the number of qualified intermediate employees and to provide professional experience for them. Within the scope of these training programs, we work with Türkiye İş Kurumu ("**İşkur**"), an entity providing public employment services, to train and potentially recruit unemployed persons registered with İşkur. Pursuant to our program with İşkur, trainees are anticipated to be recruited pro rata by the employer upon completion of the course and the wages of the trainees are financed by İşkur. Also, the insurance premiums of the trainees that are recruited upon the completion of the course are paid pro rata as an incentive. Since the commencement of our participation in İşkur's programs in April 2015, we have hired a total of 826 employees through İşkur, of whom 746 are currently employed by us.

We incentivize our white-collar employees by offering bonuses and providing other incentives generally based on their contributions to our business operations. We conduct annual performance reviews comparing year-end performance results with the stated performance goals for each employee and these reviews set the basis for our reward, recognition and development programs. In our target setting process, our main focus is to set smart key performance indicators (specific, measurable, attainable, relevant, time based). Each year, we set department key performance indicators, employees' individual key performance indicators and action plans for our white-collar employees depending on our strategic and operational targets.

Properties

As of the date of this Offering Circular, Enerjisa and its subsidiaries do not own any immovable property and use properties based on various property rights, such as easement rights or other rights deriving from contracts with land owners.

Our distribution companies and retail companies do not own the distribution network and the relevant assets and facilities needed for their operations. However, on July 24, 2006, each of our distribution companies signed a TOR Agreement with TEDAŞ, relating to the transfer of the operation rights of the distribution system, the distribution facilities and the other movable and immovable properties which are needed for the operation of the distribution facilities in the distribution region granted to each of our distribution companies. After the legal unbundling which took place on December 31, 2012, our retail companies also executed TOR Agreements with TEDAŞ on January 30, 2014, relating to the transfer of the operation rights of the assets, facilities and other movable and immovable properties (in the authorized region granted to each of our retail companies for retail sales to regulated customers) which are needed for the retail sale operations of our retail companies as an incumbent retail company (i.e., for retail sales to regulated customers). See "*—Material Agreements—TOR Agreement*". Pursuant to the TOR Agreements, our distribution companies and our retail companies (after the legal unbundling) acquired operation rights of the relevant distribution facilities, while ownership of the underlying assets remained with TEDAŞ.

According to article 19 of the Electricity Market Law, lands are expropriated by TEDAŞ within the scope of operation rights of distribution facilities; *usus fructus* and easement rights are acquired in name of our distribution companies and their costs are reflected in the distribution tariffs. Public interest decisions are compulsory according to Turkish expropriation legislation for expropriation of the relevant assets and such decisions are taken by EMRA. Additionally, our distribution companies also use forestry areas (where some part of their distribution network is located) on behalf of TEDAŞ in accordance with the protocols executed by and between TEDAŞ and General Directorate of Forestry.

Apart from the TOR Agreements, our distribution companies and our retail companies also use several immovable properties as management offices and business premises based on several lease agreements executed with private law persons. Furthermore, our distribution companies and our retail companies also use several immovable properties which are registered in the name of public entities such as the Treasury and municipalities, based on various property rights, such as usufruct and easement rights.

Enerjisa's registered and corporate office is located at Sabancı Center Kule 2, 4. Levent—Beşiktaş / İstanbul. Enerjisa uses this property under a lease agreement executed with Sabancı Holding, the term of which is renewed on a yearly basis.

Information Technology

IT is important to our ability to operate efficiently, and our IT systems support our business operations with advanced security levels and operational support. Our distribution companies mainly concentrate on enhancing its customer channel capabilities with mobile applications and call center processes with the aim of providing an excellent customer experience. Our distribution companies also focus on operational excellence on outage processes, and provide its IT systems within this framework. Our retail companies also concentrate on enhancing functionality on customer channels and on sales and after-sales operations while managing its IT systems. In line with these objectives, we conduct helpdesk operations which are centralized and placed locally in major operation centers. BMC (Service Desk Software) is the main application we use for helpdesk operations, running processes such as incidents, changes, problem management and asset management.

Our IT operations and applications are managed centrally out of five different locations: İstanbul Maltepe, İstanbul Sabancı Center, Ankara Hanımeli, Ankara Balgat Kule, and Adana. We have outsourced IT helpdesk operations and SAP systems basis operations to IBM. We manage internally all other operations, including application maintenance and support, systems and network operations, information security, architecture, project management, application developments, with a favorable mix of internal and external employees. We are currently updating our strategy with regard to outsourcing, except core functionality, and we plan to outsource certain operations where enough market maturity and capability are in place. All our retail and distribution companies follow and comply with ISO 27001 and ISO 27019 frameworks and all companies have been certified since 2015. We attribute utmost importance to protect our customers' data and electricity networks information against cyber-attacks and technical failures by following the latest technology solutions.

We also focus on digitalization roadmap, where all the key initiatives and key performance indicators will be studied in 2017 and 2018, in order to build our digitalization strategy based on company focus and priorities. This program is prioritized and will be led by our CEO. We conduct back-up operations in two datacenters located in İzmit and Ankara, where we run and back up all the operational data maintained in our IT systems. These two data centers back up each other. Co-location operations will be shifted to Turkcell Data centers (Live & Disaster sites) which are located in Gebze, İzmit & Ankara, by the end of March 31, 2018. Non-SAP system operation, Voice over IP (VoIP) systems, Wide Area Network (WAN), Local Area Network (LAN) and other second level operations such as bank integration, call center infrastructure are maintained by Enerjisa IT team. Our corporate IT solutions for ERP (finance/accounting, controlling, reporting, procurement, human resources, etc.,) are designed to enable efficient management support processes. Our IT landscape is based on three central enterprise resource planning systems ("**SAP ERP**"). The support for all SAP modules is managed by our IT team with favorable mix of our own employees and third party consultants. Furthermore, our HR operations are conducted through SAP ERP HR.

Our distribution companies use SCADA, an industrial automation control system, for outage management, by collecting outage data from the distribution network through SCADA system. In addition to the SCADA system, the outage management system (OMS) is also integrated with geographic information systems (GIS), customer relationship management system (CRM) and interactive voice response (IVR) system. In order to manage our outage operations, our distribution companies conduct field operations through hand devices which have online connections to SAP WFM.

Our distribution companies and our retail companies also communicate with their customers mainly for outage notification, invoice inquiry and customer complaints via interactive voice response through the call center and uses SAP CRM and AVAYA for such operations. In addition to the call center, a mobile application for smart phones (iOS and Android) enabling customers to send notifications for outages with geographical position information or informing customers for planned outages. Our distribution companies also conduct meter data management (MDM) operations through Enerjisa's in-house developed meter data management solution. Our distribution companies use TMX (TeleMetrix), which is an advanced metering infrastructure system used for managing the meters and communication units and collecting meter data, for meter data collection. Furthermore, for the GIS operations we use ESRI (Geographical Information System Software) and GEONIS application (GIS Network Solutions for Infrastructure Management) for the utilities GIS application. See "*—Network Management—Network Failures and Power Outages*".

Our distribution companies and our retail companies use SAP-ISU (SAP Industry Solution—Utilities) for customer related operations such as meter reading, new connection, connection / disconnection, billing and collection, and use SAP IDEX in order to exchange relevant data between themselves. Invoice printing operations are mainly conducted onsite and online via hand devices through android and Windows applications. In order to conduct customer related operations, our distribution companies' field staff use hand devices that have online connection to SAP-ISU system. Our distribution companies also use field tracking system (FTS) that gathers geo-coordinates of field force (including company cars) and delegates work force between the field force in real time. Our distribution companies have a map based route optimization application, named Enrota—(Enerjik Routing) which facilitates and increases the efficiency of the field operations.

Intellectual Property

We rely on our trademark to protect our brand name and logo that we use in our internal and external communications, corporate identity and invoices.

Trademark

Enerjisa

Enerjisa uses six trademarks registered with the Turkish Patent and Trademark Office, three of which are owned by Enerjisa whereas the remainder is owned by Sabancı Holding. Three of these trademarks are "enerjisa türkiye'nin enerjisi şekil", "enerjisa" and "enerjisa", which are protected as registered trademarks in the name of Sabancı Holding, until September 16, 2025 and September 11, 2022 and September 11, 2022, respectively. These trademarks are used by Enerjisa on a non-exclusive basis under a trademark license agreement executed by and between Sabancı Holding and Enerjisa, on September 12, 2017. Under these trademark license agreements, we do not pay any consideration to Sabancı Holding.

Three additional trademarks are registered in the name of Enerjisa. One of these trademarks is "*enerjimi koruyorum*", which is protected as a registered trademark until February 16, 2026. The other trademarks are logos, which are protected as registered trademarks until September 23, 2023 and February 16, 2026.

As of the date of this Offering Circular, Enerjisa does not own any patents, copyrights or industrial designs or have any pending trademark applications. However, Enerjisa has one registered utility model titled "*A Laclift Enclosure Which Can Be Connected to Electricity Grid and/or Communication Network*", registered with the Turkish Patent and Trademark Office, until April 2, 2025. In addition, Enerjisa has one pending utility model application regarding magnetic door contact with camera and one pending patent application titled "*Mobile Meter Error Testing Device*".

Distribution Companies

AYEDAŞ, Başkent EDAŞ and Toroslar EDAŞ also have trademarks registered with the Turkish Patent and Trademark Office, whereas Başkent EDAŞ has also one non-investigated registered patent titled "A Floating Energy System" registered with the Turkish Patent and Trademark Office for seven years, until March 31, 2021.

Retail Companies

AYEPSAŞ, Başkent EPSAŞ and Toroslar EPSAŞ jointly own eight trademarks registered with the Turkish Patent and Trademark Office. Three of these trademarks are protected as registered trademarks and the other five trademarks are logos, which are also protected as registered trademarks. Furthermore, AYEPSAŞ, Başkent EPSAŞ and Toroslar EPSAŞ jointly have a pending trademark application for a trademark. The application for this trademark was made on December 12, 2016, and an objection has been raised by a third party against the registration of this trademark which has been rejected by the Turkish Patent and Trademark Office. In addition, AYEPSAŞ solely owns a trademark and has a pending trademark application made on May 3, 2017.

Domain Names

There are a total of eight domain names registered in the name of the Enerjisa and its subsidiaries: *ayesas.enerjisa.com, toroslar.enerjisa.com, satis.enerjisa.com, eedas.enerjisa.com, ayedas.com.tr, baskentedas.com.tr, enerjisa.com.tr, toroslaredas.com.tr*.

Insurance

We maintain comprehensive insurance coverage for our electricity distribution network and other operations, which we believe is consistent with industry practices in terms of indemnity limits and scope, providing coverage against a number of risks arising in connection with our electricity distribution and retail sale operations, including property damage and general liability. Our management considers our insurance coverage to be sufficient in amount and scope for our operations. Our insurance policies are usually for a period of one year and are renewed annually upon their expiry.

The Electricity Licensing Regulation requires our distribution companies to insure their assets related to electricity distribution activities with “all risk insurance” against natural disasters, fire, accidents, financial liability against third parties, terrorism, sabotage and other potential risks. As of the date of this Offering Circular, each of our distribution companies satisfy this regulatory requirement and maintain “all risk insurance”, where the beneficiary of the insurance policies is TEDAŞ as a requirement of the TOR Agreement. Apart from the all risk insurance, our distribution companies also maintain, “general liability insurance” which includes third person liability insurance, product liability insurance/voltage fluctuation, and material damages from fire, and “employer’s liability insurance” for compensation of all physical damages that may occur upon the employees.

Additionally, our distribution companies also maintain employee liability, shipping (cargo) liability, workplace stock, machinery breakdown, burglary, electronic equipment (level meter), electronic equipment (IT server), commercial crime and directors all risk insurances. For the nine months ended September 30, 2017, the total risk covered for one-year period by these insurances is TL 735,196,382.22, USD 142,000,000 and EUR 127,041,961.44. All of the insurance policies, except compulsory traffic insurances, are maintained by our distribution companies are issued by Aksigorta A.Ş. A tender is required to be announced the insurance company that will provide “all risk insurance” and “general liability insurance” policies. As of the date of this Offering Circular, “all risk insurance” and “general liability insurance” maintained by our distribution companies are issued by Aksigorta A.Ş.

Our retail companies are not subject to any regulatory insurance requirement. However, each of our retail companies maintain “commercial package insurance policy” which covers the companies against the risks related to natural disasters and various man-made disasters such as terrorism, fire, strike and lockout. Furthermore, our retail companies also maintain all risks, employee liability, third party liability, shipping (cargo) liability, workplace stock, machinery breakdown, burglary, electronic equipment (level meter), electronic equipment (IT server), misconduct and directors insurances. For the nine months ended September 30, 2017, the total risk covered for one-year period by these insurances is TL 44,870,857.82, USD 5,475,558.48 and EUR 40,915,367.21. All of the insurance policies maintained by our retail companies are issued by Aksigorta A.Ş.

Enerjisa is not subject to any regulatory insurance requirement. However, Enerjisa maintains (i) a “commercial crime insurance policy” which covers Enerjisa against the risks related to fraud, extortion by detention, criminal damage to property and costs incurred by Enerjisa in connection with any crime, (ii) a “directors all risk insurance policy” which protects our directors and officers against personal losses that may arise from lawsuits initiated against them due to performance of their obligations as a director and officer, (iii) a “special contingency risks insurance policy” which covers the Enerjisa against the risks related to express kidnap, disappearance investigation and expense, threat response, computer virus, business interruption and loss of earnings (extortion) and (iv) "products/completed operations, and sudden and accidental pollution policies" which covers Enerjisa against third parties such as bodily injury or property damage risks that may arise during ordinary course of our business. All of the insurance policies maintained by Enerjisa are issued by Aksigorta A.Ş.

Since the acquisition of our distribution regions, we have not been subject to any material natural disasters, accidents or other events that led to a significant repair or replacement expense or permanent halt of our operations. In addition, we have not experienced any material disputes with our insurance companies in respect of the insurance claims made by us. For the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, our insurance expenses were TL 12,598, thousand TL 13,682 thousand, TL 9,931 thousand, TL 7,385 thousand and TL 9,158 thousand respectively. See "*Risk Factors—Risks Related to Our Business and Industry—We may not be able to insure against all risks we face and may incur losses not covered by insurance, which could have a material adverse effect on our business, financial condition, results of operations and prospects*".

Material Agreements

Agreements Related to the Privatization

Privatization Agreements

On January 28, 2009, EEDAŞ and the Privatization Administration entered into a share sale agreement with respect to the sale to EEDAŞ of 100.0% of Başkent EDAŞ shares for a total consideration of USD 1,225,000,000 (the "**Başkent EDAŞ Privatization Agreement**").

On July 31, 2013, EEDAŞ and the Privatization Administration entered into a share sale agreement with respect to the sale to EEDAŞ of 100.0% of AYEDAŞ shares for a total consideration of USD 1,227,000,000 (the "**AYEDAŞ—AYEPSAŞ Privatization Agreement**").

On September 30, 2013, EEDAŞ and the Privatization Administration entered into a share sale agreement with respect to the sale to EEDAŞ of 100.0% of Toroslar EDAŞ shares for a total consideration of USD 1,725,000,000 (the "**Toroslar EDAŞ—Toroslar EPSAŞ Privatization Agreement**").

The Başkent EDAŞ Privatization Agreement, AYEDAŞ—AYEPSAŞ Privatization Agreement and Toroslar EDAŞ—Toroslar EPSAŞ Privatization Agreement (the "**Privatization Agreements**") provided for the transfer of certain employees of Başkent EDAŞ, AYEDAŞ and Toroslar EDAŞ to governmental institutions in connection with the Privatization. The Privatization Agreements further provide that, in the event that control of Başkent EDAŞ, AYEDAŞ and Toroslar EDAŞ is transferred to a third party purchaser, such third party purchaser will also be required to assume all liabilities and undertakings provided by EEDAŞ in favor of the Privatization Administration under the Privatization Agreements.

In addition, each of our distribution companies and our retail companies signed a TOR Agreement with TEDAŞ as part of the privatization of the operation of such distribution and supply activities, when the transfer of operational rights model was introduced for the privatization of the electricity distribution and retail sale activities. See "*—TOR Agreements*".

Financing Arrangements

See "*Management's Discussion and Analysis of Financial Results and Operations—Liquidity and Capital Resources—Financing Arrangements*".

Framework Agreement on Services between Enerjisa and E.ON SE

On April 15, 2014, a framework agreement was executed by and between Enerjisa and E.ON. Within the scope of this agreement, Enerjisa and E.ON agreed to provide consultancy services to each other and their affiliates, including our distribution companies and our retail companies, regarding works and services for management, consulting, engineering, supervision and other services related to the service provider's portfolio through requesting service orders.

TOR Agreements

On July 24, 2006 (before the distribution and retail sales activities were unbundled), each of our distribution companies executed transfer of all operation rights agreements with TEDAŞ (which was amended on January 30, 2014 following the unbundling process), with respect to the transfer of the operation rights of the distribution system, the distribution facilities and other movable and immovable properties which are needed for the operation of the facilities in the distribution region to each of our distribution companies and our retail companies.

After the legal unbundling of distribution and retail sales activities which took place on December 31, 2012, on January 30, 2014, the TOR Agreements were amended with supplementary protocols. By such amendment, our retail companies were entitled to use relevant assets within the scope of retail sales activities. Simultaneously, on January 30, 2014, our retail companies executed TOR Agreements with TEDAŞ, relating to the transfer of the operation rights of the assets, facilities and other movable and immovable properties (in the authorized region granted to each of our retail companies for retail sales to regulated customers) which are needed for the retail sale operations of our retail companies as an incumbent retail company (i.e., for retail sales to regulated customers). Pursuant to the TOR Agreements, our distribution companies and our retail companies (after the legal unbundling) acquired operation rights of the relevant distribution and retail sales facilities, while ownership of the underlying assets remained with TEDAŞ.

Pursuant to the TOR Agreements, the term of the TOR Agreements would continue until the end of the license term of each of our distribution companies and our retail companies. However, renewal of the licenses would not result in the automatic renewal of the terms of the TOR Agreements. Therefore, each of our distribution companies and our retail companies need to apply at least one year prior the expiration date of the TOR Agreements for its renewal. In this case, TEDAŞ will determine whether to renew the TOR Agreements 180 days prior to the expiry of the term, at the latest, and in order to renew the TOR Agreements, our distribution and retail companies are required to partake in a tender announced by the Privatization Administration. If our distribution and retail companies are unable to win this tender and the TOR Agreements are not renewed, our distribution companies would be required to terminate their electricity distribution operations and/or our retail companies would be required to terminate their retail sales to regulated customers, within the scope of providing services as an incumbent retail company. However, our retail companies may continue to conduct retail sales activities to free customers, even if the TOR Agreements are not renewed, provided that EMRA approves our retail companies' applications in relation to renewal of their supply licenses. If this were to happen, the investment costs which are not recouped by our distribution or retail companies through the tariff as of the end of the TOR Agreements will be reimbursed to our distribution or retail companies by TEDAŞ.

The TOR Agreements will automatically terminate (i) upon termination or cancellation of the distribution and supply licenses, (ii) if the incumbent retail company title of our retail companies is terminated, (iii) if insolvency or bankruptcy of our distribution or retail companies is proposed, or (iv) if our distribution and retail companies breaches the TOR Agreements and do not fulfill their obligations within 90 days following the notification of such breach, TEDAŞ has the right to terminate the TOR Agreements.

Pursuant to the TOR Agreements, the investment costs which are not redeemed by our distribution or retail companies through the tariff as of the end of the TOR Agreements will be paid to our distribution or retail companies by TEDAŞ, within one year from the end of the TOR Agreements. However, pursuant to Article 12(11) of the TOR Agreements, this amount shall not be paid to our distribution or retail companies in case of termination of the TOR Agreements due to (i), (ii), (iii) or (iv) above. Furthermore, pursuant to the TOR Agreements, all security deposits collected from the regulated customers, by our retail companies, will be returned to TEDAŞ by updating the amounts according to the TOR Agreements executed with our retail companies.

According to the TOR Agreements, our distribution and retail companies are not entitled to wholly or partially transfer, assign or establish a pledge over the TOR Agreements and/or rights arising from the TOR Agreements. Our distribution companies also accept and undertake that they will not raise any claim regarding default and/or third party rights on the relevant assets. Our distribution companies are required to transfer all assets covered by the TOR Agreements to TEDAŞ, at the end of the term of the TOR Agreements or upon the TOR Agreements' termination.

TETAŞ Electricity Purchase Agreements

Each of our distribution companies and retail companies has executed an energy sale agreement with TETAŞ on December 31, 2012 (the "**TETAŞ Electricity Purchase Agreements**"), which was extended until December 31, 2018 with a supplementary protocol to the TETAŞ Electricity Agreements (the "**Supplementary Protocol**"). The TETAŞ Electricity Agreements set forth the sale of a fixed amount of electrical energy from TETAŞ to each of our distribution companies and retail companies.

The amounts of active energy to be sold under the TETAŞ Electricity Agreements for the year 2018 are (i) 5,457,121 MWh of energy for Başkent EPSAŞ; (ii) 3,456,580 MWh of energy for AYEPSAŞ; and (iii) 7,645,685 MWh of energy for Toroslar EPSAŞ. These are the volumes contracted at the beginning of 2018 for the whole year, however, the amounts may be different at the end of the year as for the first time in 2018, we are allowed to request updated volume from TETAŞ three weeks prior to the beginning of each month and TETAŞ is to provide these updated volumes based on the revised requests within the constraint of its available capacity.

In addition to the above mentioned amounts of active energy, the TETAŞ Electricity Agreements for the year 2018 envisage (i) 411,972 MWh of energy for general illumination and 1,148,590 MWh of energy for theft and loss to be purchased by Başkent EDAŞ; (ii) 163,046 MWh for general illumination and 879,720 MWh for theft and loss to be purchased by AYEDAŞ; and (iii) 336,138 MWh of energy for general illumination and 2,163,532 MWh of energy for theft and loss to be purchased by Toroslar EDAŞ. The amounts to be paid under the TETAŞ Electricity Agreements are the electricity wholesale prices determined by TETAŞ.

Connection and System Usage Agreements

Each of our distribution companies has executed connection and system usage agreements with (i) TEİAŞ for transmission systems usage, and (ii) the system users, including the incumbent retail companies and generation license holders. These agreements are standard agreements that are approved by the EMRA and pursuant to the relevant regulations these agreements remain in force as long as the connection point is available. Additionally, each of our retail companies has executed connection and system usage agreements with the relevant distribution companies where our retail companies sell electricity.

Collective Bargaining Agreements

On September 1, 2015, EEDAŞ, AYEDAŞ, Başkent EDAŞ and Toroslar EDAŞ executed four separate Collective Bargaining Agreements with the Tes-İş trade union, which are effective from March 1, 2015 and valid until February 28, 2018. The negotiations for the new collective bargaining agreements have not started yet. The Collective Bargaining Agreements govern several terms and conditions of employment, such as salary increases, trial periods, working hours, overtime salaries, vacations and indemnities. In addition, the Collective Bargaining Agreements provide greater rights to blue collar employees in comparison to the rights entitled to them under Turkish labor laws and regulations. For example, under the Collective Bargaining Agreements, termination notice periods and periods of paid vacation are extended and some other additional side benefits such as financial help for marriage and birth, death and disability benefit, shift premium, occupational premium and maintenance premium are provided to blue collar employees. According to the Trade Unions and Collective Bargaining Agreements Law No. 6356, strikes and lock-outs in the electricity distribution business are prohibited. Therefore, our unionized employees are unable to organize labor strikes.

Legal Proceedings

Other than as disclosed in this section, we are currently not involved in any litigation, arbitration or other administrative proceedings which, if decided against us, would individually or in the aggregate have a material adverse effect on our business, results of operations or financial condition.

In the ordinary course of our business, we are and we may become a party to disputes in relation to (i) employee claims filed by some of our former employees, (ii) enforcement and debt collection proceedings we file against our users, (iii) claims filed by some of our users, contractors and third parties and (iv) administrative lawsuits that we file against regulated actions and acts, that are ordinary and incidental to our business. See "*Risk Factors—Risks Related to Our Business and Industry—We are involved in a number of legal proceedings relating to our distribution and retail sales operations, which could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as our reputation*".

Death-Related Lawsuits

Death-Related Lawsuits Arising From Workplace Accidents

Although we maintain all measures to prevent workplace accidents, from time to time we face death-related workplace accidents. For the years ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2017, our distribution companies experienced a total of 12 death-related workplace accidents, most of which resulted from electric shock and traffic accidents. When a workplace accident results in death, our distribution companies try to come to an agreement with the relatives of the deceased employee to compensate their pecuniary and non-pecuniary losses before they initiate a lawsuit against us. As of September 30, 2017, four out of 12 death-related workplace accidents resulted in lawsuits, whereas eight out of 12 death-related workplace accidents did not result in lawsuits as we settled with the relatives of deceased employees. As of September 30, 2017, there are four lawsuits that are still pending.

Death-Related Lawsuits Arising From Electrical Accidents

From time to time, we have been subject to various death-related compensation claims (both pecuniary and non-pecuniary) and criminal charges relating to electrical accidents that resulted in death of our customers, due to disruption of our distribution network or disruption of electrical installation. For the years ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2017, there are 18 pending death-related compensation claims in relation to such accidents (including the accidents arising from our distribution network) that resulted in death of our customers. As of September 30, 2017 none of our employees had been convicted of criminal charges. See "*Risk Factors—Risks Related to Our Business and Industry—Operating an electricity distribution network is inherently risky and subject to hazards that could result in accidents or disruptions, which could have a material adverse effect on our business, financial condition, results of operations and prospects*".

Competition Board Investigations

Preliminary Examination against AYEDAŞ and AYEPSAŞ

In 2014, the Competition Authority initiated a preliminary examination against AYEDAŞ and AYEPSAŞ to determine whether AYEDAŞ and AYEPSAŞ had violated Article 6 of the Law No. 4054 on the Protection of Competition (the "**Competition Law**"), which prohibits abuse of a dominant position. However, upon its examination, the Competition Authority determined not to initiate an investigation and resolved certain measures to be taken by AYEDAŞ and AYEPSAŞ without issuing any fines or penalties. The measures determined by the Competition Authority were mainly with respect to the retail companies' actions regarding customer switch from their regulated customer portfolio to their free customer portfolio.

Competition Investigation against Enerjisa and its Subsidiaries

On November 26, 2016, the Competition Authority initiated another preliminary examination, this time, against Enerjisa and its distribution and retail companies to determine whether Enerjisa and its subsidiaries had violated Article 6 of the Competition Law. Along with Enerjisa and its subsidiaries, the Competition Authority also initiated similar preliminary examinations against two other groups active in the electricity market. As a result of this preliminary examination, in December 2016, the Competition Authority notified us of the Competition Board's (the ruling body of the Competition Authority) decision to proceed with a full investigation of (i) whether our distribution companies and retail companies are acting in compliance with legal unbundling rules, (ii) whether the bilateral agreements executed between our customers and our retail companies are in compliance with competition rules, (iii) whether the necessary measures resolved in the previous preliminary examination initiated against AYEDAŞ and AYEPSAŞ in 2014 were taken and (iv) whether our distribution companies and retail companies are in abuse of dominant position.

On February 2, 2017, we submitted the first written defense statement to the Competition Authority vigorously challenging all of the fundamental aspects of the preliminary findings. Pursuant to the Competition Law, the investigation should have been completed within six months (i.e., June 28, 2017). However, the Competition Authority decided to extend our investigation process for a period of six months beginning from June 28, 2017. We received the Competition Board's investigation report on January 5, 2018 (the "**Investigation Report**"), which alleges that our distribution and retail companies have abused their dominant position and should be imposed administrative fines. As next steps, we plan to submit the second written defense statement against the allegations in the Investigation Report, which will be followed by the third written defense statement and an oral hearing within the regulatory period. The Investigation Report is not binding on the Competition Board, which may or may not agree with the findings in the Investigation Report.

As at the date of this Offering Circular, the investigation is still ongoing and based on the procedures applicable to such investigations, the matter is expected to be concluded between the end of May and August 2018. Notwithstanding the foregoing, we are fully cooperating with the Competition Authority and providing any requested data. See "*Risk Factors—Risks Related to Our Business and Industry—If the ongoing investigation by the Turkish Competition Authority results in an adverse finding, we may be subject to administrative fines, we may need to adopt new strategies and our reputation might be adversely affected*".

If the Competition Board (the ruling body of the Competition Authority) determines that the companies' operations result in an abuse of dominant position, pursuant to applicable regulations it may impose administrative fines up to a maximum of 10.0% of our annual revenue for the fiscal year preceding its decision (e.g. 2017, if, as anticipated, the investigation is finalized in 2018). However, to date, administrative fines imposed by the Competition Board due to abuse of dominant position have been less than 10.0% of the annual revenue of the relevant companies which were subject to a similar investigation. In addition, we may be required to incur additional compliance costs or be required to defend against compensation claims (which under applicable regulation may be for treble damages) from interested third parties based on an adverse decision of the Competition Authority.

Lawsuit against TEDAŞ

In 2014, TEDAŞ conducted an audit regarding the general illumination invoices issued by Başkent EDAŞ to the local municipalities and provincial special administrations and determined that Başkent EDAŞ overbilled the relevant municipalities and deducted TL 28 million from Başkent EDAŞ's future general illumination receivables, which was paid by Başkent EDAŞ. We have filed a lawsuit for the annulment of TEDAŞ's audit report and for a refund of the deduction. As of the date of this Offering Circular, the lawsuit is still ongoing and in the expert examination process.

TEDAŞ is currently conducting similar audits with respect to the invoicing by AYEDAŞ and Toroslar EDAŞ, and a corresponding deduction may be imposed on AYEDAŞ and Toroslar EDAŞ. Therefore, the conclusion of the lawsuit initiated by Başkent EDAŞ against TEDAŞ would have an effect on the conclusion of these audits. As of September 30, 2017, we have set aside provisions in the amount of TL 43 million for the deduction made from Başkent EDAŞ's future general illumination receivables and the audits conducted against AYEDAŞ and Toroslar (TL 15 million for potential deductions from AYEDAŞ and Toroslar EDAŞ).

Theft and Loss Related Lawsuits

Our retail companies charge the theft and loss costs to end-users in accordance with the National Tariff determined by EMRA. Although our retail companies charge the theft and loss costs to end-users in accordance with EMRA regulations, starting from 2015, our retail and distribution companies have been subject to complaints from a number of customers who allege we have unlawfully collected such theft and loss costs. These customers have demanded the return of the theft and loss amounts paid under the National Tariff. As of September 30, 2017, a total of 39,392 complaints (totaling to TL 224,357,834.93) initiated against us before the consumer courts and the Arbitration Committees for Consumer Problems, which is an alternative dispute resolution committee for consumer disputes established under the Consumer Protection Law No. 4077 ("**Consumer Protection Committees**"). As of September 30, 2017, approximately 18% of these 39,392 complaints and 22% of the total amount of these complaints concluded in favor of our retail and distribution companies, whereas approximately 35% of these 39,392 complaints and 7% of the total amount of these complaints concluded against our retail and distribution companies. As of September 30, 2017, 20,836 complaints out of 39,392 complaints (amounting to TL 68,096,410) had been finalized and there were 18,556 pending complaints totaling to TL 156,183,105.35.

In June 2016, a provision was added to the Electricity Market Law regarding the claims and lawsuits with respect to the income and tariff regulations set by EMRA. Pursuant to such provision, the courts and the Consumer Protection Committees are only entitled to inspect the compliance of theft and loss collections with the applicable EMRA regulations, and are not entitled to determine whether the theft and loss collection activity is in compliance with the applicable laws and regulations. We believe that following enactment of such provision, the number the theft and loss claims that are concluded against us has decreased and we expect such claims to continue to decrease in the future. As of September 31, 2017, we did not have any provisions set for the theft and loss related lawsuits.

SELECTED HISTORICAL FINANCIAL AND OPERATIONAL DATA

The tables below set forth our selected historical financial and other data as of the dates and for the periods indicated. The following selected historical financial and other data should be read in conjunction with, and is qualified in its entirety by reference to, the financial statements and other relevant information included elsewhere in this Offering Circular. The historical financial data contained herein have been derived from financial statements prepared and presented in accordance with IFRS. We consider our Company, Enerjisa, as the successor of EEDAŞ and the Annual Financial Statements represent substantially the same business and assets as the Interim Financial Statements. Similarly, the audited interim consolidated financial statements of Enerjisa as of and for the nine months ended September 30, 2017 represent substantially the same business and assets as the comparative audited interim consolidated financial statements of EEDAŞ for the nine months ended September 30, 2016. Thus, the below historical financial and other data for the years ended December 31, 2014, 2015 and 2016 pertain to EEDAŞ, and the below historical financial and other data for the nine months ended September 30, 2017 pertain to Enerjisa. Figures for the nine months ended September 30, 2016 also pertain to the audited interim consolidated financial statements of EEDAŞ, which have been used as comparatives to Enerjisa's audited interim consolidated financial statements as of and for the nine months ended September 30, 2017. You should read the following information in conjunction with "*Presentation of Financial and Other Information*", "*Management's Discussion and Analysis of Results of Operations and Financial Condition*" and the Financial Statements and the notes thereto included elsewhere in this Offering Circular. For a discussion of certain corporate reorganization transactions relevant to the presentation of the financial information contained in this Offering Circular, please also see "*Business—Corporate Reorganization*".

Audited Consolidated Statement of Profit or Loss

	Year ended December 31,			Nine months ended September 30,	
	2014	**2015**	**2016**	**2016(1)**	**2017**
	(Turkish Lira in thousands)				
Revenue	8,064,421	9,153,614	9,103,380	6,919,414	8,591,508
Cost of sales	(6,753,511)	(7,108,120)	(6,500,956)	(4,986,163)	(6,137,141)
Gross profit	**1,310,910**	**2,045,494**	**2,602,424**	**1,933,251**	**2,454,367**
General administrative expenses	(967,303)	(1,079,790)	(1,227,836)	(816,398)	(1,035,284)
Other income from operating activities	104,204	123,333	144,651	105,120	115,712
Other expenses from operating activities	(140,174)	(50,760)	(246,929)	(150,228)	(248,632)
Operating profit before finance income/ (expense)	**307,637**	**1,038,277**	**1,272,310**	**1,071,745**	**1,286,163**
Finance income	68,647	31,484	39,729	35,402	73,344
Finance expenses	(639,991)	(606,854)	(797,837)	(557,378)	(755,404)
Profit before tax from continuing operations	**(263,707)**	**462,907**	**514,202**	**549,769**	**604,103**
Tax expense from continuing operations	(13,007)	(126,605)	(136,809)	(127,956)	(150,137)
Profit for the period	**(276,714)**	**336,302**	**377,393**	**421,813**	**453,966**

(1) Figures for the nine months ended September 30, 2016 pertain to financial statements of EEDAŞ which have been used as comparatives to Enerjisa financial statements as of and for the nine months ended September 30, 2017.

Audited Summary Consolidated Statement of Cash Flows

	Year ended December 31,			Nine months ended September 30,	
	2014	**2015**	**2016**	**2016[(1)]**	**2017**
	(Turkish Lira in thousands)				
Cash and cash equivalents at the beginning of the period	**340,635**	**112,669**	**152,103**	**152,103**	**74,570**
Cash flows from operating activities	98,044	1,021,362	1,859,439	1,197,596	1,196,612
Cash flows from investing activities	(1,642,809)	(2,286,473)	(2,709,132)	(2,091,581)	(1,283,447)
Cash flows from financing activities	1,316,799	1,304,545	772,160	899,079	167,459
Increase/(decrease) in cash and cash equivalents	(227,966)	39,434	(77,533)	5,094	80,624
Cash and cash equivalents at the end of the period	**112,669**	**152,103**	**74,570**	**157,197**	**155,194**

(1) Figures for the nine months ended September 30, 2016 pertain to financial statements of EEDAŞ which have been used as comparatives to Enerjisa financial statements as of and for the nine months ended September 30, 2017

Audited Summary Consolidated Statement of Financial Position

	As of December 31,			As of September 30,
	2014	**2015**	**2016**	**2017**
	(Turkish Lira in thousands)			
Current assets	2,241,969	2,532,462	2,939,550	3,491,079
Non-current assets	10,521,490	11,488,597	12,191,898	13,506,806
Total assets	**12,763,459**	**14,021,059**	**15,131,448**	**16,997,885**
Current liabilities	3,294,155	4,580,790	4,950,759	4,215,754
Long-term liabilities	5,428,962	5,074,438	5,433,861	7,581,337
Equity	**4,040,342**	**4,365,831**	**4,746,828**	**5,200,794**
Total liabilities and equity	**12,763,459**	**14,021,059**	**15,131,448**	**16,997,885**

Other Financial and Operational Data

The table below sets forth our other financial and operational data which we believe is useful in understanding the performance of our business as of the dates and for the periods indicated. See "*Presentation of Financial and Other Information—Non-IFRS Financial Measures*".

	As of or for the year ended December 31,			As of or for the nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands, unless otherwise indicated)				
Other financial data					
Revenue	8,064,421	9,153,614	9,103,380	6,919,414	8,591,508
EBIT(1)	307,637	1,038,277	1,272,310	1,071,745	1,286,163
Of which: Distribution segment	*430,430*	*930,061*	*1,216,693*	*1,005,629*	*1,345,224*
Of which: Retail segment	*86,959*	*303,271*	*265,908*	*222,771*	*108,433*
Of which: Unallocated†	*(209,752)*	*(195,055)*	*(210,291)*	*(156,655)*	*(167,494)*
EBITDA(1)	516,300	1,257,705	1,490,248	1,233,378	1,458,102
Of which: Distribution segment	*430,430*	*940,826*	*1,225,968*	*1,010,980*	*1,353,892*
Of which: Retail segment	*86,959*	*303,271*	*265,908*	*222,771*	*114,105*
Of which: Unallocated†	*(1,089)*	*13,608*	*(1,628)*	*(373)*	*(9,895)*
EBITDA margin (%)(2)	6.4	13.7	16.4	17.8	17.0
Distribution EBITDA plus CAPEX reimbursements(3)	635,298	1,138,663	1,649,833	1,328,878	1,798,104
Net debt(4)	5,461,421	6,083,439	6,493,445	6,329,193	7,312,720
Adjusted financial data					
Adjusted revenue(5)	8,894,235	10,073,436	9,306,681	7,158,290	8,098,647
Adjusted EBITDA(6)	569,161	1,231,559	1,494,742	1,227,342	1,512,327
Of which: Distribution segment	*425,117*	*938,330*	*1,206,598*	*996,452*	*1,354,326*
Of which: Retail segment	*145,133*	*279,621*	*289,772*	*231,263*	*167,896*
Of which: Unallocated†	*(1,089)*	*13,608*	*(1,628)*	*(373)*	*(9,895)*
Adjusted EBITDA margin (%)(7)	6.4	12.2	16.1	17.1	18.7
Adjusted EBITDA plus CAPEX reimbursements(8)	779,342	1,431,892	1,937,977	1,559,768	1,956,105
Free cash flow(9)	(379,158)	2,062	444,066	320,631	(126,361)
Of which: Distribution segment(10)	*(432,386)*	*(422,697)*	*(121,706)*	*(22,038)*	*(233,250)*
Of which: Retail segment(11)	*47,813*	*419,987*	*322,573*	*323,759*	*172,437*
Operational metrics					
Initial allowed CAPEX(12)	525,918	572,606	903,094	677,320	751,155
Actual allowed CAPEX(13)	618,535	1,269,196	1,598,831	1,095,954	1,116,000
CAPEX reimbursements(14)	210,181	200,333	443,235	332,426	443,778
CAPEX outperformance (%)(15)	6.7	1.8	10.3	9.5	8.2
Total RAB(16)	1,435,151	2,661,560	3,913,785	3,521,338	5,013,175
OPEX outperformance (%)(17)	11.7	9.6	16.0	22.8	9.3
WACC (%)(18)	9.97	9.97	11.91	11.91	11.91
Other operational data					
Number of distribution connection points(19)	9,892,681	10,151,289	10,521,557	10,421,356	10,767,726
Electricity distribution volume (in TWh)(20)	36.4	38.4	39.7	29.4	31.3
Electricity retail sales volume (in TWh)(21)	37.2	39.6	32.9	25.2	25.5
Number of customers(22)	8,826,436	8,926,451	8,986,687	9,004,774	9,137,192
Of which: inactive customers	*1,102,095*	*1,075,399*	*991,701*	*1,018,894*	*862,748*
Retail churn ratio (%)(23)	0.9	3.0	2.9	2.4	1.0
Retail collection rate (%)(24)	98.0	98.9	99.1	99.1	99.3

† TOR agreements and other intangible assets represent allocation of acquisition prices of distribution companies and retail companies at Enerjisa level. Accordingly, such amounts are not allocated to our operational results in the related segments. Similarly, acquisition related financial expenses at Enerjisa solo level are not allocated.

(1) References to "**EBIT**" are to profit or loss for the period before finance income/expense and tax expense, and references to "**EBITDA**" are to profit or loss for the period before finance income/expense, tax expense and depreciation and amortization costs.

We present EBITDA because it is widely used by securities analysts, investors and other interested parties to evaluate the profitability of companies. EBITDA eliminates potential differences in performance caused by variations in capital structures (affecting net finance costs), tax positions (such as the availability of net operating losses against which to relieve taxable profits), the cost and age of tangible assets (affecting relative depreciation expense) and the extent to which intangible assets are identifiable (affecting relative amortization expense). EBITDA has limitations as an analytical tool. Some of these limitations are:

- it does not reflect our cash expenditures or future requirements for capital expenditure or contractual commitments;
- it does not reflect changes in, or cash requirements for our working capital needs;
- it does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and
- it is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows.

The following table shows the reconciliation of EBIT and EBITDA to profit for each period.

	Year ended December 31,			Nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
Profit for the period	**(276,714)**	**336,302**	**377,393**	**421,813**	**453,966**
Adjustments related to tax expense	13,007	126,605	136,809	127,956	150,137
Adjustments related to finance expense	639,991	606,854	797,837	557,378	755,404
Adjustments related to finance income	(68,647)	(31,484)	(39,729)	(35,402)	(73,344)
EBIT	**307,637**	**1,038,277**	**1,272,310**	**1,071,745**	**1,286,163**
Adjustments related to depreciation and amortization	208,663	219,428	217,938	161,633	171,939
EBITDA	**516,300**	**1,257,705**	**1,490,248**	**1,233,378**	**1,458,102**

(2) References to "**EBITDA margin**" are to EBITDA for the periods presented divided by revenue for the same period.

The following table shows the calculation of EBITDA margin for each period.

	Year ended December 31,			Nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
EBITDA	516,300	1,257,705	1,490,248	1,233,378	1,458,102
Revenue	8,064,421	9,153,614	9,103,380	6,919,414	8,591,508
EBITDA margin (%)	**6.4**	**13.7**	**16.4**	**17.8**	**17.0**

(3) The following table shows the reconciliation of EBITDA *plus* CAPEX reimbursements for each period, which is generated by our distribution companies.

	Year ended December 31,			Nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
Finance income	205,390	304,831	609,628	447,838	665,392
CAPEX outperformance	41,670	23,436	165,000	104,258	92,000
OPEX outperformance	78,228	70,018	146,453	156,482	71,187
Theft & loss outperformance	(60,061)	26,449	83,756	63,758	105,430
Tax correction	32,310	38,877	44,000	33,000	46,641
Theft accrual and collection	7,000	17,000	53,763	43,501	107,111
Other (non-cash including changes in fair value)	120,580	457,720	103,997	147,614	266,565
Distribution EBITDA	**425,117**	**938,330**	**1,206,598**	**996,452**	**1,354,326**
CAPEX reimbursements[1]	210,181	200,333	443,235	332,426	443,778
Distribution EBITDA *plus* CAPEX reimbursements	**635,298**	**1,138,663**	**1,649,833**	**1,328,878**	**1,798,104**

(1) For a discussion of CAPEX adjustments, see footnotes 8 and 15 below.

(4) References to "**net debt**" are to total borrowings and payables to Privatization Administration *less* cash and cash equivalents. See "*Management's Discussions and Analysis of Results of Operations and Financial Condition—Quantitative and Qualitative Disclosures about Market Risk—Capital Risk*".

We believe that net debt is a useful indicator of our indebtedness, financial flexibility and capital structure because it indicates the level of borrowings after taking account of cash and cash equivalents within our business that could be utilized to pay down the outstanding borrowings. We believe that net debt can assist securities analysts, investors and other parties to evaluate us. Net debt and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Accordingly, caution is required in comparing net debt as reported by us to net debt of other companies.

The following table shows a reconciliation of current and non-current borrowings to net debt.

	As of December 31,			As of September 30,
	2014	2015	2016	2017
	(Turkish Lira in thousands)			
Total borrowings and payables to Privatization Administration	5,574,090	6,235,542	6,568,015	7,467,914
Cash and cash equivalents	(112,669)	(152,103)	(74,570)	(155,194)
Net debt	**5,461,421**	**6,083,439**	**6,493,445**	**7,312,720**

(5) References to "**Adjusted revenue**" are to revenue *plus* Enerjisa Electricity Wholesale Company related revenue adjustments *minus* pass through system usage revenue.

The following table shows the reconciliation of adjusted revenue for each period.

	Year ended December 31,			Nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
Revenue	8,064,421	9,153,614	9,103,380	6,919,414	8,591,508
Enerjisa Electricity Wholesale Company related revenue adjustments[1]	1,114,764	1,245,111	750,615	678,296	—[3]
System usage revenue[2]	(284,950)	(325,289)	(547,314)	(439,420)	(492,861)
Adjusted revenue	**8,894,235**	**10,073,436**	**9,306,681**	**7,158,290**	**8,098,647**

(1) Enerjisa Electricity Wholesale Company related revenue adjustments are made to reflect the effect of the transfer of large corporate customers to our retail companies' portfolios which were previously held under the customer portfolio of Enerjisa Electricity Wholesale Company. The customer portfolio transfer was completed on January 1, 2017. See "*Retail Operations—Overview*".
(2) System usage revenue represents the cost of using transmission lines which is charged by TEİAŞ and reflected to our customers on a pass through basis.
(3) As the customer portfolio transfer related to Enerjisa Electricity Wholesale Company was completed on January 1, 2017, we did not make any Enerjisa Electricity Wholesale Company related adjustment to our revenue for the nine months ended September 30, 2017.

(6) References to "**Adjusted EBITDA**" are to EBITDA *plus* Enerjisa Electricity Wholesale Company related EBITDA adjustments, adjustments related to finance income/cost on revenue cap and adjustments related to valuation differences arising from deposits and guarantees. We adjusted our EBITDA with Enerjisa Electricity Wholesale Company related EBITDA adjustments in order to present the years ended December 31, 2016 and prior on a consistent basis with the nine months ended September 30, 2017 since the transfer of the customer portfolio transfer related to Enerjisa Electricity Wholesale Company was only effective on January 1, 2017 and the historic financial statements were not restated to reflect the activities of Enerjisa Electricity Wholesale Company in prior periods. Adjusted EBITDA has similar limitations as an analytical tool to EBITDA as described above.

The following table shows the reconciliation of Adjusted EBITDA for each period.

	Year ended December 31,			Nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
Profit for the period	**(276,714)**	**336,302**	**377,393**	**421,813**	**453,966**
Enerjisa Electricity Wholesale Company related EBITDA adjustments[1]	15,547	(59,768)	(16,423)	(21,442)	—[2]
Adjustments related to tax expense	13,007	126,605	136,809	127,956	150,137
Adjustments related to finance expense	639,991	606,854	797,837	557,378	755,404
Adjustments related to finance income	(68,647)	(31,484)	(39,729)	(35,402)	(73,344)
Adjustments related to depreciation and amortization	208,663	219,428	217,938	161,633	171,939
Adjustments related to finance (income) / cost based on revenue cap regulation	(5,313)	(2,496)	(19,370)	(14,528)	434
Adjustments related to valuation differences arising from deposits and guarantees	42,627	36,118	40,287	29,934	53,791
Adjusted EBITDA	**569,161**	**1,231,559**	**1,494,742**	**1,227,342**	**1,512,327**

(1) Enerjisa Electricity Wholesale Company related EBITDA adjustments are made to reflect the effect of the transfer of large corporate customers to our retail companies' portfolios which were previously held under the customer portfolio of Enerjisa Electricity Wholesale Company. The customer portfolio transfer was completed on January 1, 2017. See "*Retail Operations—Overview*".
(2) As the customer portfolio transfer related to Enerjisa Electricity Wholesale Company was completed on January 1, 2017, we did not make any Enerjisa Electricity Wholesale Company related adjustment to our revenue for the nine months ended September 30, 2017.

(7) References to "**Adjusted EBITDA margin**" are to Adjusted EBITDA for the periods presented divided by adjusted revenue for the same period.

The following table shows the calculation of Adjusted EBITDA margin for each period.

	Year ended December 31,			Nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
Adjusted EBITDA	569,161	1,231,559	1,494,742	1,227,342	1,512,327
Adjusted revenue	8,894,235	10,073,436	9,306,681	7,158,290	8,098,647
Adjusted EBITDA margin (%)	**6.4**	**12.2**	**16.1**	**17.1**	**18.7**

(8) Our regulated revenue generated from our distribution segment is mainly based on our allowed CAPEX and accumulated RAB derived from our CAPEX allowances throughout the concession period. Our regulated revenue consists of the related financial return (i.e., WACC), tax correction component, allowed OPEX, allowed research and development expenditures, theft and loss target and certain pass through items such as transmission fees and taxes. Given we operate our distribution regions under the concessions under the TOR Agreements, we follow the official interpretation of the IFRS Interpretations Committee on service concession agreements ("**IFRIC 12**") for financial reporting purposes. This guidance requires application of financial asset model in our Financial Statements. Accordingly,

- Accumulated CAPEX and related network investments are not recognized as fixed assets but as financial assets in our balance sheet (as the ownership of such assets belongs to TEDAŞ), and are derecognized from the financial statements; and

- CAPEX reimbursements, which is a component of our regulated revenue, is not recognized in the income statement as a revenue item but instead is recognized under "other cash inflows generated from operating activities" in our cash flow statement under our Financial Statements.

That said, representation of these distribution regions as well as accounting of CAPEX reimbursements is different between the financial asset model under IFRIC 12 and our statutory (Local GAAP) financial statements where (i) CAPEX is accounted for under tangible assets, and (ii) CAPEX reimbursements is recognized in the income statement as revenue and thus included in EBITDA. On the other hand, CAPEX reimbursement is a typical component of the regulated revenues in the regulated utilities business. Most of our peers (which are comparable regulated utility companies in various countries depending on the concession framework) recognize tangible assets or apply the intangible asset model under IFRIC 12, under which (i) CAPEX is recognized as intangible assets, and (ii) CAPEX reimbursements is recorded as revenues and thus included in EBITDA. This is not the case in our income statement under the Financial Statements where the regulated CAPEX reimbursements are not recognized under our revenue, according to the requirements of IFRIC 12 financial asset model, considering the concession framework applicable to us.

Thus, references to "**Adjusted EBITDA *plus* CAPEX reimbursements**" are to Adjusted EBITDA *plus* CAPEX reimbursements. Our Adjusted EBITDA is considered to represent net income before financial income/(expense), income taxes, depreciation and amortization, net of interest income related to revenue cap regulation, and valuation differences arising from deposits and guarantees *plus* Enerjisa Electricity Wholesale Company related adjustments. In that regards, our Adjusted EBITDA, as computed from our Financial Statements prepared under IFRS, does not include cash flows from CAPEX reimbursements. However, as similar regulated utility companies would include such cash flows in their EBITDA, we believe that Adjusted EBITDA *plus* CAPEX reimbursements is a better measure to reflect operational performance of our company and also increase comparability to other players in the regulated utility space. Thus:

- EBITDA is derived from the consolidated statement of profit or loss in our Financial Statements prepared under IFRS, including revenue recognition principles, as described in "*Management's Discussions and Analysis of Results of Operations and Financial Condition—Critical Accounting Policies—Revenue Recognition*".

- As IFRIC 12 financial asset model does not permit recognition of CAPEX reimbursement in the statement of profit or loss, CAPEX reimbursement is included in the consolidated statement of cash flows in our Financial Statements prepared under IFRS. See "*Management's Discussions and Analysis of Results of Operations and Financial Condition—Cash Flows—Cash Flows from Operating Activities*".

Our management believes that Adjusted EBITDA *plus* CAPEX reimbursements is a better measure for operational profitability than the EBITDA or Adjusted EBITDA reported above, and our management treats it as our key internal key performance indicator. Please note that Adjusted EBITDA *plus* CAPEX reimbursements figures shown are not a measure of financial performance under IFRS or any generally accepted accounting principles and should not be considered as alternative performance measures derived in accordance with IFRS.

The following table shows the reconciliation of Adjusted EBITDA *plus* CAPEX reimbursements for each period.

	Year ended December 31,			Nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
Profit for the period	**(276,714)**	**336,302**	**377,393**	**421,813**	**453,966**
Adjustments related to tax expense	13,007	126,605	136,809	127,956	150,137
Adjustments related to finance expense	639,991	606,854	797,837	557,378	755,404
Adjustments related to finance income	(68,647)	(31,484)	(39,729)	(35,402)	(73,344)
Adjustments to the depreciation and amortization	208,663	219,428	217,938	161,633	171,939
Enerjisa Electricity Wholesale Company related EBITDA adjustments(1)	15,547	(59,768)	(16,423)	(21,442)	— (2)
Adjustments related to finance (income) / cost based on revenue cap regulation	(5,313)	(2,496)	(19,370)	(14,528)	434
Adjustments related to valuation differences arising from deposits and guarantees	42,627	36,118	40,287	29,934	53,791
Adjusted EBITDA	**569,161**	**1,231,559**	**1,494,742**	**1,227,342**	**1,512,327**
CAPEX reimbursements	210,181	200,333	443,235	332,426	443,778
Adjusted EBITDA plus CAPEX reimbursements	**779,342**	**1,431,892**	**1,937,977**	**1,559,768**	**1,956,105**

(1) Enerjisa Electricity Wholesale Company related EBITDA adjustments are made to reflect the effect of the transfer of large corporate customers to our retail companies' portfolios which were previously held under the customer portfolio of Enerjisa Electricity Wholesale Company. The customer portfolio transfer was completed on January 1, 2017. See "*Retail Operations—Overview*".

(2) As the customer portfolio transfer related to Enerjisa Electricity Wholesale Company was completed on January 1, 2017, we did not make any Enerjisa Electricity Wholesale Company related adjustment to our revenue for the nine months ended September 30, 2017.

(9) We believe free cash flow is meaningful to investors because it is a measure of our funds available for acquisition related payments, dividends to shareowners, share repurchases and debt repayment. The purpose of presenting free cash flow is to indicate the ongoing cash generation within our control after taking account of the necessary cash expenditures of maintaining our capital and operating structure (in the form of payments of interest, corporate taxation and capital expenditure).

This computation may not be comparable to that of similarly titled measures presented by other companies. Free cash flow does not reflect any restrictions on our transfer of cash and cash equivalents or any requirement to repay our borrowings and does not take into account cash flows that are available from disposals or the issue of shares. We therefore take such factors into account in addition to free cash flow when determining the resources available for acquisitions and for distribution to shareholders.

The following table shows the reconciliation of free cash flow for each period.

	Year ended December 31,			Nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
Cash flows from operating activities	**98,044**	**1,021,362**	**1,859,439**	**1,197,596**	**1,196,612**
Tax payments	(48,225)	(73,307)	(145,032)	61,562	33,818
Cash flows from operating activities before tax	146,269	1,094,669	2,004,471	1,259,158	1,230,430
Cash flows from investing activities	(1,642,809)	(2,286,473)	(2,709,132)	(2,091,581)	(1,283,447)
Interest received	(58,692)	(31,484)	(39,729)	(35,402)	(73,344)
Payment to Privatization Administration	1,176,074	1,225,350	1,188,456	1,188,456	—
Cash flows from investing activities before interest	**(525,427)**	**(1,092,607)**	**(1,560,405)**	**(938,527)**	**(1,356,791)**
Free cash flow before interest and tax	**(379,158)**	**2,062**	**444,066**	**320,631**	**(126,361)**
Tax payments	(48,225)	(73,307)	(145,032)	(61,562)	(33,818)
Interest received	58,692	31,484	39,729	35,402	73,344
Interest paid	(654,757)	(405,744)	(641,584)	(518,984)	(597,445)
Free cash flow after interest and tax	**(1,023,448)**	**(445,505)**	**(302,821)**	**(224,513)**	**(684,280)**

(10) The following table shows the reconciliation of our distribution companies' free cash flow for each period.

	Year ended December 31,			Nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
Distribution EBITDA plus Capex reimbursements	635,298	1,138,663	1,649,833	1,328,878	1,798,104
Of which: Distribution EBITDA	*430,430*	*940,826*	*1,225,968*	*1,010,980*	*1,353,892*
Of which: CAPEX reimbursements	*210,181*	*200,333*	*443,235*	*332,426*	*443,778*
Other (non-cash including changes in fair value)	(43,000)	(379,513)	(147,987)	(121,898)	(212,500)
Finance income not yet cash effective	(70,798)	(124,540)	(264,824)	(189,236)	(337,517)
CAPEX outperformance	(41,670)	(23,436)	(165,000)	(104,258)	(92,000)
Changes in net working capital and VAT	(432,595)	12,789	574,996	21,521	(100,385)
Operating Cash Flow before interest and tax	47,235	623,963	1,647,018	935,007	1,055,702
Actual allowed CAPEX (nominal)	(618,535)	(1,269,196)	(1,598,831)	(1,096,000)	(1,116,000)
Actual allowed CAPEX (including CAPEX outperformance)	(576,865)	(1,245,760)	(1,433,831)	(991,742)	(1,024,000)
Unpaid CAPEX and VAT	97,243	199,101	(91,481)	78,773	(264,952)
Cash-effective CAPEX	(479,621)	(1,046,660)	(1,525,312)	(912,969)	(1,288,952)
Free cash flow before interest and tax (distribution)	**(432,386)**	**(422,697)**	**(121,706)**	**(22,038)**	**(233,250)**

(11) The following table shows the reconciliation of our retail companies' free cash flow for each period.

	Year ended December 31,			Nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
Retail Adjusted EBITDA	145,133	279,621	289,772	231,263	167,896
Changes in the net working capital	(51,514)	186,313	67,894	109,899	29,722
Operating cash flow before interest and tax	**93,619**	**465,934**	**357,666**	**341,161**	**197,618**
CAPEX	(45,806)	(45,947)	(35,093)	(17,402)	(25,181)
Free cash flow before interest and tax (retail)	**47,813**	**419,987**	**322,573**	**323,759**	**172,437**

(12) References to **"initial allowed CAPEX"** are to the initial CAPEX amounts for the relevant annual period granted by EMRA at the beginning of the tariff implementation period to our distribution companies. See "*Regulatory Overview—Regulation and* Functioning *of the Electricity Distribution and Retail Sale Market—Distribution Tariff—OPEX Allowances*". Based on EMRA figures, for the year ended December 31, 2017, the initial allowed CAPEX was approximately TL 1 billion (nominal).

(13) References to "**actual allowed CAPEX**" are to total actual CAPEX expenses made by our distribution companies corresponding to the relevant annual period. Actual allowed CAPEX amounts include the initial allowed CAPEX amounts *plus* the CAPEX amounts (approved by EMRA) that exceed the initial allowed CAPEX amounts granted by EMRA, as a result of CAPEX front loading. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—OPEX Allowances*". For the year ended December 31, 2017, our management expects the actual allowed CAPEX to be approximately TL 1.8 billion (nominal).

(14) References to "**CAPEX reimbursements**" are to the regulated revenue stream that is a component of our regulated revenue, which is not recognized in the income statement as a revenue item but instead is recognized under "other cash inflows generated from operating activities" in our cash flow statement under our Financial Statements. Due to IFRIC 12, our distribution revenue under our Financial Statements differs from our regulated distribution revenue, as a result of (i) the differences in calculation methodology and revenue recognition relating to financial income and (ii) CAPEX reimbursements, which are not recognized as part of our distribution revenues in our Financial Statements. Due to the fact that the distribution network assets built as a result of our realized CAPEX are legally the property of TEDAŞ and not our distribution companies, under IFRS we do not book any reimbursement revenues in our income statement for the CAPEX reimbursements provided by EMRA. See "*Management's Discussions and Analysis of Results of Operations and Financial Condition—Presentation of Operating Results—Presentation of Revenue—Distribution Revenue*".

(15) By the end of a tariff year, if our distribution companies realize their mandated CAPEX (i.e., unit price investments for which calculations are based on regulated unit prices determined by EMRA) at a cost less than the unit prices determined by EMRA, then they will still have collected (and retained) the higher revenue through the regulated tariffs. References to "**CAPEX outperformance**" are to the percentage of (i) the amount of the unit price based actual CAPEX *less* unit price based actual allowed CAPEX to the (ii) unit price based actual allowed CAPEX of our distribution companies. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff—CAPEX Outperformance*".

(16) References to "**Total RAB**" are to the total of the regulated asset bases of our distribution companies, which is determined after investments are subjected to unit cost benchmarking.

(17) References to "**OPEX outperformance**" are to the percentage of (i) realized OPEX *less* initial allowed OPEX to the (ii) initial allowed OPEX of our distribution companies. See "*Regulatory Overview—Regulation and Functioning of the* Electricity *Distribution and Retail Sale Market—Distribution Tariff—OPEX Outperformance*".

(18) References to "**WACC**" are to the regulatory weighted cost of capital which is applied annually by EMRA to the averages of unrecovered RAB at the beginning of the year and at the end of the year. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—Distribution Tariff*".

(19) References to "**distribution connection points**" are to the distribution connection points that our distribution companies use to distribute the electricity to our end-users which are located at the premises of such end-users. Distribution connection point numbers are used to determine the number of end-users that are connected to our distribution networks. These figures also include customers of other private retail companies that are connected to our distribution networks to whom we only provide electricity distribution services through the Distribution Tariff. See "*Business—Distribution Operations—Distribution Connection Points*".

(20) References to "**electricity distribution volume**" are to the total volume of the electricity distributed to the end-users by our distribution companies located in our distribution regions through the distribution connection points. These figures also include customers of other private retail companies that are connected to our distribution networks to whom we only provide electricity distribution services through the Distribution Tariff.

(21) References to "**electricity retail sales volume**" are to the total volume of the electricity sold to our customers by our retail companies in the relevant period, which is measured in TWh. These figures include the electricity sold to our regulated and free customers, including free customers located in regions other than our distribution regions. These figures also include our sales conducted through Enerjisa Electricity Wholesale Company for the years ended December 31, 2014, 2015, 2016. On January 1, 2017, we transferred the customer portfolio of Enerjisa Electricity Wholesale Company, which included certain large corporate customers, to our retail companies' portfolios in order for our retail companies to encompass all of our customers, and to manage all our customers directly through Enerjisa.

(22) References to "**customers**" are to the total number of regulated and free customers served by our retail companies, including free customers located in the regions other than our distribution regions. This figure also includes the number of inactive customers that are the customers that were not invoiced during the last 12 months' period.

(23) References to "**retail churn ratio**" are to the number of churned customers to the yearly average of eligible residential and SME customers (including regulated customers who have not used their eligibility right (right to become a free customer)). The yearly average is calculated as the relevant number as of January 1 *plus* the relevant number as of December 31 which is then *divided* by two.

(24) We monitor our collection capacity as the rate of collections over sales of electricity for the relevant period. Due to operational requirements, we define an unpaid invoice "mature" after a six-month period following the invoicing. We measure our collection rate on the basis of our capacity to collect mature invoices within 12 months following their maturity. Thus, references to "**retail collection rate**" are to the collected portion of the mature invoices to the total mature invoice amounts. For example, an invoice dated July 1, 2017 is deemed mature at January 1, 2018, and our ability to collect this mature invoice within the 12 months' period of 2018 is reflected as our collection rate.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis should be read in conjunction with the Financial Statements and the notes thereto included in this Offering Circular beginning on page F-1. You should also read the following information in conjunction with "Selected Historical Financial and Operational Data". The following discussion contains certain forward looking statements that reflect our plans, estimates and beliefs. Our actual results of operations may differ materially from those discussed in such forward looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Offering Circular, including under "Risk Factors" and "Forward Looking Statements". For a description of the financial statements, see "Presentation of Financial and Other Information". For a discussion of certain corporate reorganization transactions relevant to the presentation of the financial information contained in this Offering Circular, please also see "Business—Corporate Reorganization".

Overview

With approximately 10.5 million distribution connection points (representing approximately 25.6% of the connection points in Turkey) and approximately 9 million customers (representing approximately 22% of the customers purchasing electricity in Turkey) as of December 31, 2016, we are the leading downstream electricity company in Turkey engaged in the distribution and retail sales of electricity in the Başkent region (which includes Turkey's capital, Ankara), the Ayedaş region (which covers the Asian side of Turkey's largest city, İstanbul) and the Toroslar region (which includes large industrial centers such as Mersin, Adana and Gaziantep), as well as in the retail sales of electricity to eligible customers in all other regions of the country.

We operate our business operations through two segments: distribution and retail. Our distribution companies, namely Başkent EDAŞ, AYEDAŞ, and Toroslar EDAŞ, run the distribution networks in the three distribution regions of Başkent, Ayedaş, and Toroslar, respectively, to facilitate the distribution of electricity which is sold to end-users (whether by our or other retail companies) through the distribution networks, whereas our retail companies conduct retail sales of electricity to customers.

With a combined regional population of 20.6 million people as of December 31, 2016, the Başkent, Ayedaş and Toroslar regions represented approximately 25.8% of Turkey's total population, illustrating the magnitude of our regional reach. As of December 31, 2016, there were approximately 41.1 million users connected to distribution networks across Turkey, and we had approximately 10.5 million users connected to our distribution networks operated by our distribution companies. (Source: *EMRA*)

As of December 31, 2016 and September 30, 2017, we had a total of approximately 9.0 million and approximately 9.1 million customers (including approximately 1.0 million and 0.9 million inactive customers, respectively). We believe that our position as the market leader in terms of the number of customers provides us with a competitive advantage through economies of scale and instant brand recognition.

Key Factors Affecting Our Results of Operations

General

Our performance and results of operations have been and will continue to be affected by a number of factors, including external factors. We believe that the key factors affecting our results of operations include the following:

- Macroeconomic environment and demand for electricity.
- Tariffs and regulatory factors.
- Power prices, energy sourcing and market conditions.
- Financing of our operations.
- Effects of seasonality and meteorological conditions in Turkey.
- Post-Privatization restructuring and ongoing cost savings.

Macroeconomic Environment and Demand for Electricity

Macroeconomic developments in Turkey affect the demand for electricity in Turkey, both nationwide and on a regional level in our three distribution regions. We generate revenue through the two segments in which we operate, namely the distribution and retail sales segments. In the distribution segment, our distribution companies provide electricity distribution services to end-users connected to our distribution networks. In the retail sales segment, acting as the incumbent retail companies, our retail companies provide retail sales of electricity to our regulated customers located in the distribution regions. In addition, along with the free customers located in the distribution regions where we act as incumbent retail companies, our retail companies also sell electricity to free customers throughout Turkey with no regional boundaries. Thus, both regional and nationwide developments have a material effect on our results of operations.

The macroeconomic environment in Turkey is the primary factor affecting our customers' demand for electricity. This is because the state of the macroeconomic environment is a primary factor that impacts the real private consumption and disposable income of Turkish residents, which in turn affects the demand for electricity by our residential and SME customers. Similarly, the level of and growth in industrialization within Turkey is directly correlated with the macroeconomic conditions in Turkey and this impacts growth in the number of corporate customers and electricity consumption of our corporate customers.

The Turkish economy sustained an average real GDP growth of 5.7% between 2002 and 2016 (*Source: World Bank*). Between 2016 and 2019, Turkey's economy is expected to achieve significant growth rates, which is also expected to be reflected in real private consumption and disposable income growth (*Source: Turkstat*). Electricity consumption in Turkey is also supported by high population growth, indicating a growing customer base and favorable demographic characteristics, as Turkey has:

(i) a population of approximately 79.8 million people, with a compound annual growth rate ("**CAGR**") of 1.3% between 2011 and 2015, as compared to a CAGR of 0.5% in the European Union (*Sources: Turkstat and Eurostat*);

(ii) a young population with a median age of 31.4 (*Source: Turkstat*), with approximately 48% of the population being under 30 (*Source: Turkstat*), whereas approximately 33% of the population in the European Union is under 30 (*Source: Eurostat*);

(iii) a growing urbanization rate (from 65.3% in 2001 to 73.9% in 2016 (*Source: World Bank*)); and

(iv) a shift in family structure towards the so-called nuclear family with decreasing number of people per household (*Source: Turkstat*).

Between 2012 and 2016, the disposable income in Turkey grew with a CAGR of 11.7%. On the other hand, the average electricity bill amount increased with a CAGR of 5.2% during the same period. In addition, our distribution regions represent the most dynamic, industrialized and populous regions of Turkey, comprising more than a quarter of the population (25.8% in 2016) and some of the key urban centers. We have a presence in the Asian side of İstanbul, which is the largest city and Turkey's financial center; Ankara, the country's capital; and some of the other major metropolitan areas, such as Adana, Gaziantep and Mersin in the Toroslar region. Compared to other regions in Turkey, Ayedaş and Başkent regions are amongst the regions with the highest levels of income per capita and together with Toroslar, formed approximately 28.8% of Turkey's GDP in 2014.

In this respect, during the period between 2000 and 2016;

(i) the Turkish population has, on average, grown by 1.3% per year, and is expected, on average, to grow by 0.6% per year until 2042 (*Source: Turkstat, Euromonitor, World Energy Council*);

(ii) the population of İstanbul has grown from 8.8 million to 14.7 million in 2016 (3.3% CAGR);

(iii) the population of Ankara has grown from 4.0 million to 5.4 million in 2016 (1.9% CAGR);

(iv) Within the same period, the demand for electricity grew on average with a CAGR of approximately 5%, and is expected to grow further by 3.12% until 2026 *(Source: TEİAŞ).*

On the other hand, the average household power consumption in 2014 was 2.3 MWh in Turkey, whereas the average of the European countries was 3.6 MWh within the same period. Similarly, the electricity outage durations and frequencies which are measured through SAIDI and SAIFI, and theft and loss rates in Turkey are above the EU-28 average, Turkey's average SAIDI and SAIFI (excluding the Dicle region as this region is exempt from SAIFI requirements) being 1,567.3 minutes per year and 16.4 times per year and Turkey's average theft and loss rate being 13.4% for the year ended December 31, 2016. Thus, significant investments in network quality improvements are needed in Turkey if the Turkish distribution companies are to reach the EU-28 average in terms of electricity outage frequencies durations, and theft and loss rates.

Based on the projections of AF-Mercados EMI (*Source: Electricity Demand Forecast for 2015—2042, June 2015*), and the population growth study of Ahmet Sinan Türkyılmaz (*Source: Population and Household Projections for 2015-2042 Horizon to Estimate the Yearly Additions to Residential Customer Base in Başkent, Ayedaş and Toroslar Distribution Regions, April 2015*), the electricity consumption and population growth rates in our three distribution regions are expected to exceed Turkey's average, for the period from 2016 to 2042. Average annual consumption growth rates of 4.0%, 4.7%, and 3.9% are expected respectively in the Başkent, Ayedaş, and Toroslar regions, whereas Turkey's average is expected to be 3.6%. Similarly, annual population growth rates of 1.0%, 1.5%, and 0.8% are expected respectively in the Başkent, Ayedaş, and Toroslar regions, whereas Turkey's average is expected to be 0.6%.

These macroeconomic developments in Turkey are directly correlated with the demand for electricity by our customers, both on a residential and SME and corporate level. Fostered by the growth in the macroeconomic factors, the demand for electricity in Turkey grew by 3.3%, and 5.1% for the years ended December 31, 2015 and 2016, respectively. (*Source: TEİAŞ*) In parallel with this growth in the demand for electricity in Turkey, our distribution companies' distributed volume increased by 5.4% and 3.1% in 2015 and 2016. In our retail sales segment, our electricity sales volume increased by 6.2% in 2015 but decreased by 16.8% in 2016. Such decrease in our sales volume in 2016 was not due to macroeconomic factors but due to certain corporate customers that elected to purchase electricity from third party retail companies. This was due to increased price competition in the market for corporate customers, whereas we have chosen to target more profitable customers with acceptable risk profiles as part of our corporate sales strategy.

Tariffs and Regulatory Factors

Our electricity distribution and retail sales operations are subject to extensive Turkish laws and regulations. Our distribution companies provide electricity distribution services to end-users located in our distribution regions. Our retail companies sell electricity to regulated customers in our distribution regions, acting as incumbent retail companies, and to free customers both in and outside our distribution regions. For our regulated customers, we apply the National Tariff which is determined by EMRA on a quarterly basis. Among other components, the National Tariff is composed of the Retail Energy Sales Tariff and the Distribution Tariff.

For our free customers, we apply the Distribution Tariff, as we do for regulated customers, however we do not apply the Retail Energy Sales Tariff, as such customers procure electricity under free market conditions. With respect to free customers, we determine prices based on current market conditions considering our cost basis, and with the target of a certain profit margin; however, the National Tariff acts as a natural price cap for our free retail energy sales prices. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market—National Tariff*".

We generate the majority of our revenue (corresponding to 82.6%, 86.7%, 96.0%, 83.9% and 79.9% for the years ended December 31, 2014, 2015 and 2016 and for the nine months ended September 30, 2016 and 2017, respectively) from our electricity distribution operations and retail sales to regulated customers, which are both subject to the National Tariff. EMRA determines the components of the National Tariff (which includes, among others, the Distribution Tariff and Retail Energy Sales Tariff) for each tariff implementation period, and the current (third) tariff implementation period covers the period between 2016 and 2020. However, the final values of the Distribution Tariff and Retail Energy Sales Tariff, which are reflected to end-users' invoices, are determined by EMRA on a quarterly basis, in order to reflect changes in market costs.

Our revenue generated from electricity distribution operations is a completely regulated revenue and is subject to the Distribution Tariff set by EMRA, which is calculated on the basis of; CAPEX reimbursement, return on RAB, tax correction component, allowed OPEX, allowed research and development expenditures, theft and loss target and certain pass through items such as transmission fees and taxes. EMRA calculates CAPEX allowance after its inspections of the master plans prepared by our distribution companies and additional research it deems necessary. EMRA calculates OPEX allowances based on our past performance (with our performance during 2013 and 2014 being the relevant reference point for the third implementation period) and theft and loss targets based on previous years' actual theft and loss and gross distributed energy amounts. See "*Regulatory Overview—Distribution Tariff*".

According to the IFRS Interpretations Committee on service concession agreements ("**IFRIC 12**"), our distribution revenue under our Financial Statements differs from our regulated distribution revenue, as a result of (i) the differences in calculation methodology and revenue recognition relating to financial income and (ii) CAPEX reimbursements, which are not recognized as part of our distribution revenues in our Financial

Statements, but they are recognized under "other cash inflows generated from operating activities" item under our cash flow statement in our Financial Statements. Due to the fact that the distribution network assets built as a result of our realized CAPEX are actually not the property of our distribution companies, we do not record any reimbursement revenues in our income statement for the CAPEX reimbursements provided by EMRA. See "*Regulatory Overview—National Tariff*" and "*Business—Distribution Operations*". See "*Regulatory Overview—Distribution Tariff*". Also see "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Critical Accounting Policies—Revenue Recognition—Financial Asset Model under IFRIC 12*".

Similar to our revenue generated from electricity distribution operations, our revenue generated from retail sales of electricity to our regulated customers is also a completely regulated revenue and is subject to Retail Energy Sales Tariff set by EMRA, which is calculated by taking into consideration the electricity distribution and demand forecasts. In addition, for our regulated customers, we generate retail sales service revenue consisting of fees from ancillary services such as customer care, invoicing, collection, and other relevant operation related costs, which are included in the calculation of the Retail Energy Sales Tariff set by EMRA.

To calculate the Retail Energy Sales Tariff, EMRA determines a revenue requirement for the incumbent retail companies for the relevant tariff implementation period, and a regulated gross profit margin (which is currently set at 2.38% for the 3rd tariff implementation period (period between 2016 and 2020). In addition, EMRA determines operating expenses and doubtful expense compensation amounts, as well as other costs outside our control, all of which in turn become components of the Retail Energy Sales Tariff for retail sales to regulated customers. On the other hand, unlike our revenue generated from retail sales of electricity to our regulated customers, our revenue generated from retail sales of electricity to our free customers is not regulated revenue, as we do not apply the Retail Energy Sales Tariff to our free customers.

Since the unbundling of distribution and retail activities on December 31, 2012, and full privatization of distribution companies throughout Turkey in 2013, EMRA has progressively decreased the eligibility thresholds for the free retail sales market, paving the way towards full market liberalization. The eligibility threshold that determines the consumption level over which consumers are free to choose their energy suppliers have been gradually reduced by EMRA from 9,000 MWh per year in 2003 to 2.4 MWh per year in 2017 and 2.0 MWh per year in 2018.

Although EMRA has been gradually decreasing the eligibility limit as part of the liberalization process, market openness by number of customers (i.e., proportion of the number of free customers to the total number of eligible customers) was still at approximately 25%, as of September 30, 2017. The remaining approximately 75% largely consisted of residential and SME customers, which are a key focus of our strategy and are considered to have higher profit potential in a liberalized market. However, the proportion of the volume of electricity sold to free customers to the volume of the electricity sold to eligible customers was at approximately 90%, as of September 30, 2017.

We believe that once the eligibility threshold is set to 0 (from 2.0 MWh per year in 2018), the actual number of eligible customers may increase from approximately 8.4 million to 36 million, which is the estimated size of the market. Our residential and SME customers are usually less likely to switch to our free customer portfolio, compared to our corporate customers. This is because corporate customers are typically highly price sensitive as their energy costs represent a significant portion of their total costs. In 2016, we sold 32.9 TWh of electricity (for the sales prior to January 1, 2017, including the sales to the customers under Enerjisa Electricity Wholesale Company's portfolio, which were transferred to our portolio in January 1, 2017) to our regulated and free customers, of which 14.7% was sold to free residential and SME customers and 47.8% were sold to regulated residential and SME customers. The entire total gross margin generated from our free customers was attributable to residential and SME customers, whereas we incurred slightly negative margin from our corporate customers. Changes to EMRA's eligibility limit affect our earnings. Our gross margin that we generated from our retail sales to free customers has increased at a CAGR of 152.9% from 2014 to 2016, as the eligibility limit decreased from 4,500 kWh in 2014 to 3,600 kWh in 2016.

In addition to progressive decreases in the eligibility limit, the regulated gross margin set by EMRA (which is a component of the Retail Energy Sales Tariff) has also decreased from 3.49% in 2015 to 2.38% in the 3rd tariff implementation period. However, along with this decrease, the "doubtful expense compensation" item which was previously included in the regulated gross margin has been excluded from the regulated gross margin and instead, has been included it in the retail sales service revenue component. Thus, although the regulated gross margin was decreased to 2.38%, due to inclusion of the "doubtful expense compensation" item in the retail sales service revenue component, our total effective margin generated from our regulated customers increased to 6.8%

in 2016 from 5.3% in 2015. Regulatory changes also affect our expenses. For instance, the 27.8% increase in our finance expenses in 2016 as compared to 2015 was primarily attributable to an increase of interest expense on our borrowings, part of which was driven by our increased CAPEX as a result of increased CAPEX ceiling set by EMRA.

Power Prices, Energy Sourcing and Market Conditions

We have three main sources to procure electricity that we sell to our customers, namely (i) TETAŞ, (ii) EPİAŞ, and (iii) private wholesale companies. Our sources for electricity procurement vary based on our customer classification. We purchase the electricity we sell to our regulated customers primarily from TETAŞ and from EPİAŞ. For the electricity we sell to our free customers, we enter into bilateral electricity purchase agreements with Enerjisa Electricity Wholesale Company and other private wholesale companies. Our cost of energy purchases constituted 80.1%, 74.1%, 65.4%, 65.7% and 65.4% of our revenue for the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, respectively. Our blended (from all sources) energy sourcing costs were approximately TL 193/MWh, TL 199/MWh and TL 187/MWh in 2014, 2015 and 2016, respectively.

The effects of the changes in the electricity price depend on the consumption characteristics of our retail sales customers. For our retail sales to regulated customers, we are not directly affected by changes in the price of electricity because our retail companies pass all of the cost of electricity (including the energy consumption tax, TRT (Turkish Broadcasting Company) surcharge and energy fund surcharge) to regulated customers. However, increases in the price of electricity may decrease demand for electricity from our customers, resulting in lower retail sales to regulated customers and reduced sales volumes. For our retail sales to free customers, we may not be able to pass all of the cost of electricity to free customers. For our corporate customers, we offer fixed price contracts, generally for a term of one year, and determine the price based on the cost estimations done at the time of the contract.

At the time of the sale, we also engage in mitigation activities to close our positions arising from sales to corporate customers. We mainly aim to fix our pure electricity sourcing costs in order to secure the margin. As for SME and residential customers, we offer both fixed and flexible price contracts, where flexible price contracts dominate the portfolio. For flexible price contracts, we are able to pass through the sourcing costs to our customers at the levels the competition and National Tariff, which acts as a natural cap for the prices. In 2016, we executed fixed price agreements with approximately 72% of our free corporate customers. Within the same period, we executed flexible price agreements with approximately 63% of our free residential and SME customers.

As the National Tariff acts as a natural price cap for us with regards to our free customers, we generally extend price quotations to our free customers based on percentage discounts to the National Tariff which the customer falls under. Based on the type of the customer, we either promptly close our positions with electricity purchases through forward transactions for our corporate customers, or we elect to carry such open positions in order to benefit from fluctuations and low prices through the spot market transactions for residential and SME customers. In 2014, 2015 and 2016, the cost of electricity in the spot market transactions was favorable enough to permit us to benefit from higher margins between the National Tariff and spot prices. However, in 2017, our margins generated from retail sales to free customers decreased, primarily due to increase in the cost of electricity which was not reflected to the regulated tariff that we charged to our regulated customers.

Although we do not apply Retail Energy Sales Tariff to our free customers, as this tariff acts as a natural price cap, we cannot sell electricity to our free customers with a higher price than the Retail Energy Sales Tariff in practice. Thus, due to the increase in the cost of electricity, our margin generated from our free customers decreased for the period ended September 30, 2017. To mitigate this exposure, we engage in hedging activities, including medium term bilateral electricity purchase agreements at predetermined prices and foreign currency forward agreements to manage foreign currency risk we are exposed to due to YEKDEM costs (i.e., the costs incurred by the retail companies as a result of a subsidization mechanism to support renewable energy generation). See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Markets—YEKDEM Mechanism*".

The key drivers underlying electricity prices include natural gas and other fuel prices, net capacity additions, hydrology and demand growth. Given the increasing share of renewables, wind yields also have particular importance in price formation process in Turkish electricity market. However, our retail companies are generally able to pass through the costs of electricity procurement to our customers, resulting in the level of electricity prices having limited impact on our results of operations. In addition, following the completion of the second phase of the Corporate Reorganization, we established a trade business unit under Enerjisa for management of electricity sourcing operations for Enerjisa.

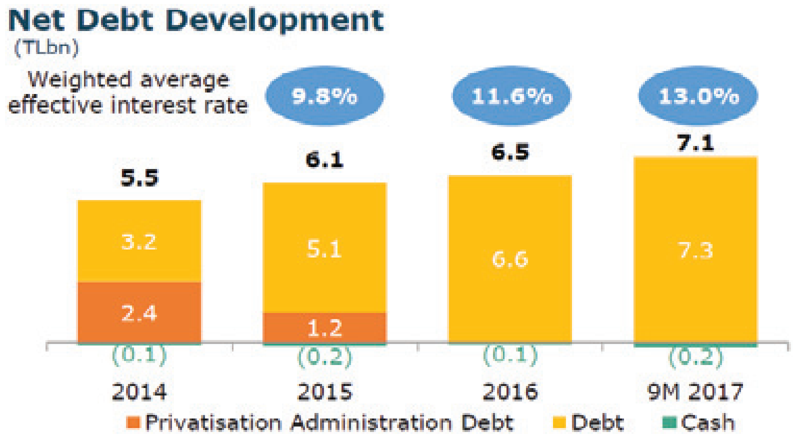
These sourcing management operations for Enerjisa were previously conducted by a unit under Enerjisa Electricity Wholesale Company, and following establishment of this trade business unit, Enerjisa became able to manage its electricity sourcing operations on its own. We believe that our ability to conduct our electricity sourcing operations without relying to a third party will enable us to procure electricity with more competitive prices, maturities, and conditions, and will provide us the ability to better hedge our positions related to purchase of electricity. See "*Business—Corporate Reorganization*".

Financing of our Operations

We need financing primarily to meet our working capital needs as well as to fund our regulatory CAPEX and to meet our obligations related to the acquisitions of the distribution rights in the Ayedaş and Toroslar regions. We fund these capital requirements primarily through cash generated from our operations and the incurrence of indebtedness. Our principal source of liquidity is the revenue derived from electricity sales and related services, including retail sales revenue, retail sales service revenue, and distribution revenue. Historically, we have had significant financing needs due to the significant cash requirements of our business.

We have engaged in intercompany financing arrangements and obtained external financing from third party financial institutions to provide adequate financing to us and to our distribution and retail companies. Historically, we have had debt to the Privatization Administration, which was related to our acquisitions of the Ayedaş and Toroslar regions. By the end of 2015, we refinanced all of our debt to the Privatization Administration.

The below chart indicates our net debt development and debt structure, along with our weighted average effective interest rates for the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017.



* Weighted average effective interest rates for the years ended December 31, 2015 and 2016 are calculated as 9.8% and 11.6%, respectively, and is 13.0% for the nine months ended September 30, 2017.

In addition, we have several outstanding CPI-linked local corporate bonds issued by Enerjisa Enerji A.Ş. and Başkent Elektrik Dağıtım A.Ş. under issuance certificates approved by the CMB. These bonds were sold to qualified investors in Turkey and, as of the date of this Offering Circular, these bonds are being traded on the Outright Purchases and Sales Market of Borsa İstanbul. See "*Liquidity and Capital Resources—Financing Arrangements*", and "*Liquidity and Capital Resources—Local Corporate Bond Issuances*".

We are continuously working to bridge the gap between our revenues and financing needs in order to secure attractive financing spreads and achieve an efficient capitalization structure. Our focus on maintaining a strong financial position, helped by our visible cash flow generation and the strategic support from our shareholders, ensures long-term stability and capacity to continue investing efficiently and generating return to our shareholders. We are also working on replacing some portion of our existing financial debt with CPI-linked bonds to align our operating and financing needs.

Fitch Ratings assigned EEDAŞ a national long-term rating at "AA(tur)" with a stable outlook on December 22, 2016. After the merger of EEDAŞ and Enerjisa on July 10, 2017, Fitch Ratings affirmed our national long-term rating at "AA(tur)" with a stable outlook. In addition, Fitch Ratings assigned Başkent EDAŞ a national long-term rating at "AA(tur)" with a stable outlook on June 27, 2016, and affirmed this rating on June 22, 2017. In addition, Fitch Ratings confirmed our national long-term rating at "AA(tur)" with a stable outlook on December 19, 2017.

Effects of Seasonality and Meteorological Conditions in Turkey

Historically, our retail sales operations have been moderately seasonal. Our retail sales revenue experiences seasonality on a quarterly basis both in terms of electricity consumption and prices. Electricity consumption typically increases during the winter months (due to heating and lighting needs) and during summer months (due to air conditioning and cooling needs). Similarly, electricity prices increase during winter months as a result of increases in the electricity demand. During summer months, electricity price also increases since energy generation from hydroelectric power plants decreases due to lower hydrologic inflows, whereas the electricity prices decrease during autumn and spring seasons as energy generation from hydroelectric power plants increases.

Post-Privatization Restructuring and Ongoing Cost Savings

Given our size and focus on efficiency, we believe that we have a key role in shaping the Turkish electricity market through establishing high-quality distribution services, focusing on customer needs, improving our service quality and enhancing processes. Improving our operational efficiency indicators, lowering the cost of our operations, reducing our procurement costs and improving our theft and losses indicators have supported value creation to our businesses and should continue to be key focus areas for maximizing shareholder value.

We acquired the distribution rights to the Başkent region in 2009, and this served as our first experience for turning around and improving efficiency of distribution companies. We subsequently acquired the distribution rights to the Ayedaş and Toroslar regions in 2013. Since the latter acquisitions, we have leveraged our previous experience with the Başkent region and we have been to optimize the Ayedaş and Toroslar regions' operations at an even faster pace. These regions were previously characterized by operational inefficiencies, poorly handled customer services and low collection rates. We significantly improved these areas after acquisition by implementing four core strategies, namely, (i) centralization, (ii) facility management, (iii) organizational restructuring, and (iv) infrastructure and process development. The experience we gained through early acquisition of the distribution rights to the Başkent region enabled us to quickly integrate the Ayedaş and Toroslar regions in terms of post-privatization restructuring, as a result of the experience we gained in the Başkent region.

As a part of these ongoing cost savings efforts, the headcount in the Başkent region decreased by 42% between 2009 and 2016. Similarly, we reduced the headcount in the Ayedaş region by 36% between mid-2013 and 2016 and the headcount in the Toroslar region by 39% between 2013 and 2016. Following the acquisitions of the distribution rights to our three regions, we also improved (i) the average waiting time in customer service centers from approximately 1 hour in 2013 to 12 minutes in 2016 and (ii) reach rate to our call centers from approximately 10% in 2013 to 90% in 2016.

Current Trading and Prospects

Our current trading is in line with our past trends and we do not expect significant deviation except for the points that are already disclosed in the Offering Circular (such as recent regulatory developments).

Presentation of Operating Results

Revenue

The line item "revenue" consists of the revenue we generate from our business activities and operations. Our revenue includes (i) the revenue we generate from electricity sales and services provided, (ii) finance income from service concession agreements, and (iii) other sales. See "*Business—Distribution Operations*" and "*Business—Retail Operations*".

Presentation of Revenue

Our revenue is presented net of sales returns. These sales returns consist of the amounts refunded to our customers due to various reasons (i.e., correction of the inaccurate invoices) from the total electricity sales amount. These amounts generally are immaterial amounts. Our revenue is reported as three main line items, namely (i) revenue from electricity sales and services provided, (ii) finance income from service concession agreements, and (iii) other sales.

Revenue from Electricity Sales and Services Provided

This revenue item comprises our (i) retail sales revenue, (ii) retail sales service revenue, and (iii) distribution revenue. See "*Business—Our Operations*".

(i) Retail sales revenue consists of the revenue we generate from our retail sales of electricity either through the Retail Energy Sales Tariff determined by EMRA or free market retail energy sales prices. See "*Business—Customers*", "*Business—Retail Operations*" and "*Regulatory Overview—Retail Energy Sales Tariff*".

Our revenue generated from retail sales of electricity to our regulated customers is completely regulated and is not materially different than our revenue reflected under our Financial Statements. The only difference between our regulated retail sales revenue and retail sales revenue reflected under our Financial Statements arises from the timing treatment of the Price Equalization Mechanism. EMRA sets the regulated margin and revenue requirements for our regulated sales based on demand and consumption forecasts. However, the actual demand of our customers shows some variance from our forecasts which leads to imbalances in our electricity purchases. As we make our purchases through spot market transactions for such imbalances, the cost of electricity in the spot market creates deviations (both positive and negative) from the regulated gross margin of 2.38%. EMRA compensates for such variances via the Price Equalization Mechanism two quarters after the occurrence of such gross margin variances and guarantees that the incumbent retail company generates a gross margin of 2.38%, independent of its sourcing costs for its regulated customers. While the regulatory revenue recognizes such revenues resulting from the Price Equalization Mechanism at the time of compensation, (i.e., two quarters after the occurrence of the gross margin variation), IFRS recognizes it at the same quarter as a provision at the time of the occurrence in gross margin variation.

Our revenue generated from retail sales of electricity to our free customers is not regulated as we do not apply the Retail Energy Sales Tariff to our free customers and regulatory recognition of our free market revenues is the same as the recognition treatment of IFRS.

We generate retail sales revenue from regulated customers via the Retail Energy Sales Tariff. For our free customers, we apply free retail energy sales prices. We apply a cost plus pricing mechanism to our corporate customers (customers consuming more than 400 MWh/year), as they generate relatively lower margins compared to our residential and SME customers (customers consuming up to 400 MWh/year). See "*Business—Customers— Classification by Consumption*". This is because corporate customers are typically highly price sensitive as their energy costs represent a significant portion of their total costs. We determine prices for our residential and SME customers based on electricity supply and demand in the market, typically with a discount from the National Tariff. See "*Regulatory Overview—National Tariff*".

For the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, the share of regulated customers to our total number of customers was 98.4%, 97.3%, 93.0%, 93.8% and 87.8% respectively, the remainder being free customers. Our retail sales revenue constituted 73.7%, 71.4%, 60.9%, 61.2% and 61.4% of our revenue for the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, respectively.

(ii) Retail sales service revenue consists of fees from ancillary services (as described below) provided to our regulated customers, and such fees are included in the Retail Energy Sales Tariff as a tariff component. These fees are determined by EMRA and are included in the Retail Energy Sales Tariff to compensate for operational costs for ancillary services such as customer care, invoicing, collection, and other relevant operational costs incurred by the retail segment for sales of electricity to regulated customers as well as for the doubtful expenses incurred from our regulated customers. See "*Business—Retail Operations*".

This revenue item is also completely regulated, and is derived from the Retail Energy Sales Tariff where each incumbent retail company is granted retail sales services revenue based on certain customer number and demand forecasts. Any deviation from the projected revenue requirement in actual services within an implementation period is compensated by the Price Equalization Mechanism two years following the occurrence of such deviation, including interest for the two year period. While the regulatory revenue recognizes such compensation amounts two years after the occurrence of such deviation, our Financial Statements recognize them as revenue accruals at the time of the occurrence of the deviation.

Our retail sales service revenue constituted 2.0%, 2.2%, 2.7%, 2.7% and 2.1% of our revenue for the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, respectively.

(iii) Distribution revenue consists of the revenue generated from our free and regulated customers through the Distribution Tariff. Distribution Tariff is calculated on the basis of; allowed CAPEX and accumulated RAB, together with the related financial return (i.e., WACC), tax correction component, allowed OPEX, allowed research and development expenditures, theft and loss target and certain pass through items such as transmission fees and taxes. See "*Regulatory Overview—Distribution Tariff*", and "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Critical Accounting Policies—Revenue Recognition—Financial Asset Model under IFRIC 12*".

According to IFRIC 12, our distribution revenue under our Financial Statements differs from our regulated distribution revenue as a result of (i) the differences in the calculation methodology and revenue recognition relating to financial income, and (ii) CAPEX reimbursements, which are not recognized as part of our distribution revenues in our Financial Statements, but they are recognized under "other cash inflows generated from operating activities" item under our cash flow statement in our Financial Statements. As the distribution network assets built as a result of our realized CAPEX are not actually the property of our distribution companies, we do not book any reimbursement revenues in our income statement for the CAPEX reimbursements provided by EMRA

Both our regulated and free customers are invoiced by (and relevant collections are made by) our retail companies. The amounts collected through the Distribution Tariff is then passed-through either to (i) our distribution companies, or to (ii) the authorized distribution companies in the distribution regions other than our distribution regions, in the cases which our retail companies provide electricity to the free customers outside our distribution regions. Similarly, in the cases which free customers located in our distribution regions source electricity from third party private suppliers other than our retail companies, such third party private suppliers apply the Distribution Tariff and free market retail energy sales price to their free customers, and subsequently pass-through the amounts invoiced to the customers through the Distribution Tariff to our distribution companies, as our distribution companies provide distribution services to such free customers. Therefore, revenues generated by our distribution companies are collected by our retail companies or third party private suppliers and passed-through to our distribution companies, except for the revenues generated from the municipalities which are directly invoiced by distribution companies in exchange for the electricity sold for general illumination.

Our distribution revenue constituted 21.0%, 22.2%, 29.7%, 29.5% and 28.7% of our revenue for the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, respectively.

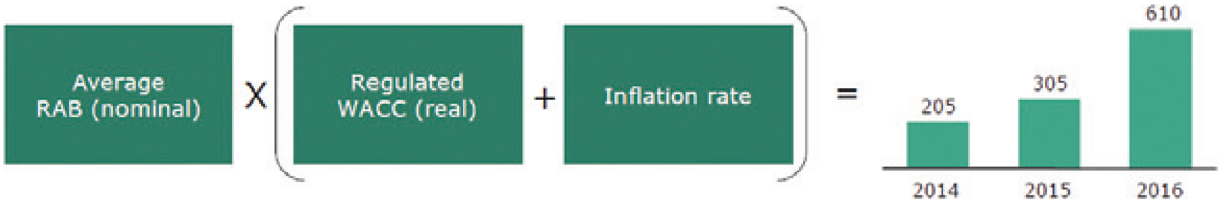
Revenue from electricity sales and services constituted 96.7%, 95.8%, 93.3%, 93.3% and 92.2% of our revenue for the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, respectively.

Finance Income from Service Concession Agreements

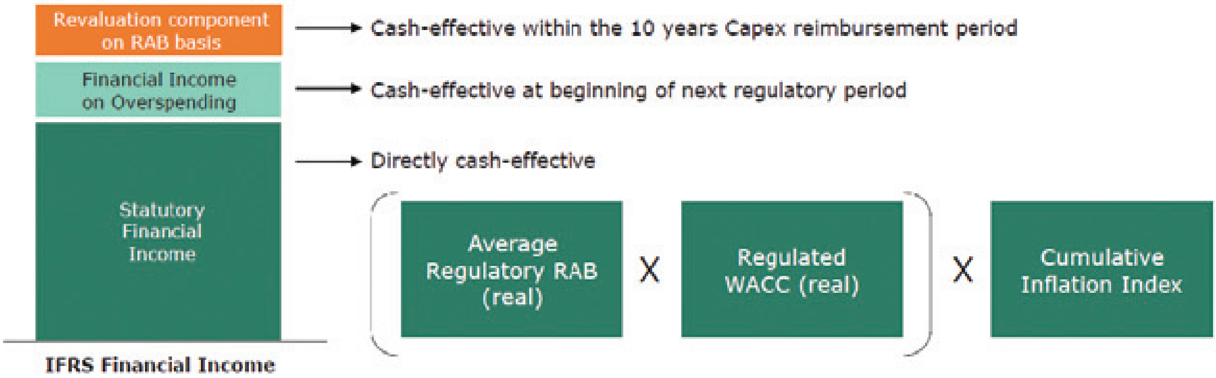
Our management defines and follows the relevant line item as 'financial income'. However, the Financial Statements refer to this line item as 'finance income from concession agreements'. For the sake of this section, we use the terminology specifically referred to in the Financial Statements.

Considering the terms of the TOR Agreements we execute which are defined as service concession agreements, we apply a financial asset model to our distribution assets under IFRIC 12. In this financial asset model, we recognize a financial asset to the extent that we have an unconditional contractual right to receive cash or another financial asset from, or at the direction of the grantor, as the right to receive cash for the distribution service is constituted through actual billing to subscribers to our distribution services where the distribution and meter reading service components of the billing are already specified or determinable through the regulations of EMRA. While measuring the value of this financial asset, we recognize the revenue we generate through the changes in our financial asset size, as an interest income, and recognize such income on a time-proportion basis using the effective interest method. Pursuant to this method, we multiply the portion of our capital expenditures, which are not compensated by EMRA through the regulated tariffs, by an internal rate of return ("**IRR**"), and reflect such amount on our cash flows, to capture the difference in our financial asset.

The below figure indicates a simplified illustration of the calculation of financial income under IFRIC 12, which is presented as "finance income from service concession agreements" in our Financial Statements.



The below figure indicates an illustration of the difference between the finance income under IFRIC 12 and our finance income in our statutory accounts. The calculations and models in this simplified approach are simplified illustrative representations of the relevant figures. The corresponding line items in our Financial Statements or our reported results may deviate significantly as such line item would contain other components.



Finance income from service concession agreements constituted 2.6%, 3.4%, 6.7%, 6.6% and 7.7% of our revenue for the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, respectively. See "*Regulatory Overview—Distribution Tariff*", and "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Critical Accounting Policies—Revenue Recognition—Financial Asset Model under IFRIC 12*". See also "*—Critical Accounting Policies—Service Concession Arrangements*".

Other Sales

This revenue item comprises other sales revenue such as the revenue we generate from provision of services to license exempt electricity generators, advertisement, and consultancy. In the year ended December 31, 2015, we accounted for disconnection/connection and new connection fees under other sales revenue. We have accounted for these fees under distribution revenue from January 1, 2016.

Other sales constituted 0.7%, 0.8%, 0.0%, 0.0% and 0.0% of our revenue for the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, respectively.

Cost of Sales

Our cost of sales consists of; (i) cost of energy purchases, (ii) system usage costs, and (iii) other costs. Our main cost of sales is the cost of our energy purchases, cost of supplies for general illumination, and cost of managing theft and loss. Our cost of energy purchases include both the cost of energy that we purchase from TETAŞ, EPİAŞ, and through bilateral agreements executed with third party wholesalers. We have certain additional energy costs such as YEKDEM costs (on which, as per the new regulation applicable from 2018 onwards, we will apply 2.38% margin) and market operation fees which are a direct pass through for our sales to regulated customers. For our free customers, we reflect such other energy costs to our sales prices. Some of our eligible customers in our distribution regions elect to purchase electricity from independent power producers or from other private suppliers through bilateral agreements. In such cases, we only provide electricity distribution services to the customers and do not incur costs related to energy purchases.

Our cost of energy purchases constituted 80.1%, 74.1%, 65.4%, 65.7% and 65.4% of our revenue for the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, respectively. In addition, we reflect our imbalance costs in the "other costs" item in cost of energy purchases. We reflect the amounts that we may generate from outperforming the country average in terms of imbalance management through efficient demand forecasting under "retail sales revenue" item under the revenue item in our Financial Statements. Impacts of imbalance costs and revenue gained from imbalance management were immaterial for the years ended December 31, 2014, 2015, 2016 and for the nine months ended September 30, 2016 and 2017. See *"Regulatory Overview—Electricity Market Activities—Market Operation Activities"*.

Our cost of sales includes system usage costs incurred in relation to the Transmission System Usage Agreements that our distribution companies execute with TEİAŞ, and for the purposes of the usage of the transmission system of TEİAŞ. In addition, we have distribution related costs related to our sales conducted in the regions other than our distribution regions within the scope of Distribution System Usage Agreements. Both costs are 100.0% pass through items that are reflected to the invoices of the end-users.

Our system usage costs constituted 3.5%, 3.6, 6.0%, 6.4% and 5.7% of our revenue for the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, respectively.

Our cost of sales also includes other costs related to miscellaneous purchases (e.g., personnel costs, consultancy expenses, rent expenses, maintenance expenses).

Our other costs constituted 0.1%, 0.0%, 0.0%, 0.0% and 0.3% of our revenue for the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, respectively.

General Administrative Expenses

The majority of our general administrative expenses consist of;

(i) payroll and employee benefit expenses, which comprises salaries, reimbursements and social security premiums paid (including the compensation paid to the members of our board of directors and our senior management);

(ii) depreciation and amortization expenses, which consist of depreciation and amortization of our tangible (fixed assets) and intangible assets (e.g., TOR Agreements) and customer contracts,

(iii) material expenses we incur in relation to the materials that we use for our operations (such as repair and maintenance operations, health and safety equipment);

(iv) consulting expenses related to the consultancy services we procure in relation to network repair and maintenance, management of theft and loss, and health and safety;

(v) rent expenses we incur in relation to rental of office and operational buildings, customer care offices and forestry rental expenditures;

(vi) taxes and duties related to the administration of our operations;

(vii) outsourcing expenses, which consist of outsourcing payments we make to service suppliers in relation to outsourcing of facility management, fleet rental, call center and construction works in relation with repair and maintenance operations;

(viii) attorney expenses we incur in relation to provisions for litigation against the company and costs of legal actions initiated by us;

(ix) maintenance expenses we incur in relation to repairs of network breakdowns;

(x) communication and IT expenses consisting of system utilization and annual license fees;

(xi) security expenses we incur to ensure security at the office and operational buildings and warehouses,

(xii) travel expenses we incur in relation to accommodation and transfers;

(xiii) insurance expenses we incur in relation to insuring our network assets and personnel; and

(xiv) other expenses we incur in relation to sales and marketing expenses, which consist of advertisements on TV and advertisements in other media channels and brochures, and

(xv) collection expenses, which includes commissions paid to our collection channels such as PTT (national postal service company) for the collections made by through PTT, and stationary and corporate relations.

Our general administrative expenses constituted 12.0%, 11.8%, 13.5%, 11.8% and 12.1% of our revenue for the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, respectively.

Other Income from Operating Activities

Our other income from operating activities includes (i) late payment interest from electricity receivables (and system usage fees) which we generate from our customers who pay their bills after the due date, (ii) interest income related to revenue cap regulation we generate as a result of difference between realized revenue and revenue requirement income, (iii) power theft penalties we charge to third persons or customers having unauthorized access to our distribution network, (iv) lawsuit income we generate as a result of monetary judgments in our favor, (v) rent income we generate from the rental of distribution network assets, (vi) income from derivative financial instruments we generate as a result of the hedging activities performed by our retail companies to match YEKDEM costs, and (vii) other income including reversal of provision for doubtful and other receivables and service fees charged to our related and third parties.

Our other income from operating activities constituted 1.3%, 1.3%, 1.6%, 1.5% and 1.3% of our revenue for the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, respectively.

Other Expenses from Operating Activities

Our other expenses from operating activities include (i) provision for doubtful and other receivables, (ii) fair value differences arising from deposits and guarantees, (iii) penalty expenses we incur as a result of various investigations and customer complaints, and (iv) other expenses including service fees received from our related and third parties.

Our other expenses from operating activities constituted 1.7%, 0.6%, 2.7%, 2.2% and 2.9% of our revenue for the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, respectively.

Finance Income

Our finance income consists of (i) interest revenue from repurchase agreements we generate as a result of our cash management activities, and (ii) foreign exchange gains arising from foreign currency denominated borrowings and other liabilities due to the appreciation of Turkish Lira against the relevant foreign currency.

Our finance income constituted 0.9%, 0.3%, 0.4%, 0.5% and 0.9% of our revenue for the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, respectively.

Finance Expenses

Our finance expenses consist of (i) bank commission expenses we incur as a result of guarantee letter transactions, (ii) interest expense of borrowings we incur as a result of bank loans used to finance CAPEX of our distribution companies, acquisitions of Ayedaş and Toroslar regions, and short-term working capital needs and (iii) foreign exchange losses we incur as a result of foreign currency denominated borrowings and other liabilities due to the depreciation of Turkish Lira against the relevant foreign currency.

Our finance expenses constituted 7.9%, 6.6%, 8.8%, 8.1% and 8.8% of our revenue for the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, respectively.

Tax Expense

Our tax expenses consist of current tax expense and deferred tax expense, which we reflect as income when applicable due to origination and reversal of temporary differences. We are subject to Turkish corporate taxes, and we make tax provisions in the accompanying financial statements for the estimated charge based on our results for the period. Corporate tax is applied on our taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting the tax-exempt earnings, other exempt income and other deductions (i.e., losses of previous periods, investment incentives utilized). The corporate tax in Turkey was 20.0% in 2014, 2015 and 2016, and for the nine months ended September 30, 2017. This rate will be applied as 22.0% for the years 2018, 2019 and 2020, beginning from January 1, 2018 pursuant to the Law No. 7061 published in the Official Gazette dated December 5, 2017 and numbered 30261.

In addition to corporate taxes, we are also required to calculate income withholding taxes and funds surcharge on any dividends distributed. Income withholding tax was 15.0% in 2014, 2015 and 2016. We recognize our deferred tax assets and liabilities on the temporary timing differences between our legal books and the financial statements prepared in accordance with IFRS. Such differences generally arise from timing differences of some revenue and expense balances in legal books and financial statements prepared in accordance with IFRS. For calculation of our deferred tax assets and liabilities, we used the rate of 20.0% in 2014, 2015 and 2016 and for the nine months ended September 30, 2017. This rate will be applied as 22.0% beginning from January 1, 2018 pursuant to the Law No. 7061 published in the Official Gazette dated December 5, 2017 and numbered 30261.

Our tax expense constituted 0.2%, 1.4%, 1.5%, 1.8% and 1.7% of our revenue, respectively, for the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, respectively.

Results of Operations

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

The following table sets forth our consolidated statement of profit or loss for the nine months ended September 30, 2016 and 2017, and each item expressed as a percentage of revenue, together with the percentage change from period to period.

	Nine months ended September 30,				2017 vs 2016	
	2016		2017			
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Revenue	6,919,414	100.0	8,591,508	100.0	1,672,094	24.2
Cost of sales	(4,986,163)	(72.1)	(6,137,141)	(71.4)	(1,150,978)	23.1
Gross profit	**1,933,251**	**27.9**	**2,454,367**	**28.6**	**521,116**	**27.0**
General administrative expenses	(816,398)	(11.8)	(1,035,284)	(12.1)	(218,886)	26.8
Other income from operating activities	105,120	1.5	115,712	1.3	10,592	10.1
Other expenses from operating activities	(150,228)	(2.2)	(248,632)	(2.9)	(98,404)	65.5
Operating profit before finance income/ (expense)	**1,071,745**	**15.5**	**1,286,163**	**15.0**	**214,418**	**20.0**
Finance income	35,402	0.5	73,344	0.9	37,942	107.2
Finance expenses	(557,378)	(8.1)	(755,404)	(8.8)	(198,026)	35.5
Profit before tax	**549,769**	**7.9**	**604,103**	**7.0**	**54,334**	**9.9**
Tax expense	(127,956)	(1.8)	(150,137)	(1.7)	(22,181)	17.3
Profit for the period	**421,813**	**6.1**	**453,966**	**5.3**	**32,153**	**7.6**

Revenue

For the nine months ended September 30, 2017, our revenue increased by TL 1,672,094 thousand or 24.2%, to TL 8,591,508 thousand from TL 6,919,414 thousand for the nine months ended September 30, 2016.

The following table sets forth our revenue by revenue type, and each item as percentage of revenue, for the periods indicated:

	Nine months ended September 30,				2017 vs 2016	
	2016		2017			
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Revenue from electricity sales and services provided	6,458,878	93.3	7,924,061	92.2	1,465,183	22.7
Retail sales revenue	*4,233,745*	*61.2*	*5,271,754*	*61.4*	*1,038,009*	*24.5*
Retail sales service revenue	*185,030*	*2.7*	*182,578*	*2.1*	*(2,452)*	*(1.3)*
Distribution revenue	*2,040,103*	*29.5*	*2,469,729*	*28.7*	*429,626*	*21.1*
Finance income from service concession agreements	459,233	6.6	665,392	7.7	206,159	44.9
Other sales	1,303	0.0	2,055	0.0	752	57.7
Total	**6,919,414**	**100.0**	**8,591,508**	**100.0**	**1,672,094**	**24.2**

The increase in our revenue for the nine months ended September 30, 2017 was primarily attributable to an increase of TL 1,465,183 thousand or 22.7% in our revenue from electricity sales and services provided. This was primarily due to an increase of TL 1,038,009 thousand, or 24.5% in our retail sales revenue, which was due to the increase in our sales volume (from 22.4 TWh for the nine months ended September 30, 2016, to 25.5 TWh for the nine months ended September 30, 2017). This increase in our sales volume was mainly attributable to the transfer of our free customer portfolio which was being held by Enerjisa Electricity Wholesale Company's portfolio to our retail companies' portfolios in 2017. Our total sales volume, including sales conducted through Enerjisa Electricity Wholesale Company, is 25.2 TWh for the nine months ended September 30, 2016.

The increase in our revenue from electricity sales and services provided was also attributable to an increase of TL 429,626 thousand or 21.1% in our distribution revenue. This increase was mainly due to our increased OPEX requirements in our distribution regions. This increase in our OPEX requirements was granted by EMRA and as a result of increase in the inflation. In addition, the increase in our distribution revenue was also attributable to inclusion of recovery for doubtful receivables component in the distribution revenue. The increase in our distribution revenue was also attributable to an increase in fair value adjustment of financial assets and our inflation expectations for future periods, which are the components of our service concession arrangement calculation made under IFRIC 12.

The ownership structure and regulatory nature of our distribution business requires the distribution assets to be recorded as a financial asset, rather than an intangible asset, according to IFRIC 12 interpretation of IFRS. Based on the changes in regulatory returns, inflation assumptions or CAPEX execution plans, the fair value of our financial asset is calculated and any changes in the fair value are reflected to our financials.

In addition, an increase in the system usage revenue we generate also contributed to the increase in our distribution revenue. The increase in our system usage revenue was due to an increase in the transmission fees we pay to TEİAŞ, which we completely pass through to the end-users. An increase in our theft and loss revenue due to increased theft detection activities compared to previous periods also contributed to the increase in our distribution revenue.

Lastly, an increase of TL 206,159 thousand, or 44.9% in our finance income from service concession agreements contributed to the increase in our revenue. This increase was driven by our increased RAB as a result of our front loaded CAPEX strategy.

Cost of Sales

For the nine months ended September 30, 2017, our cost of sales increased by TL 1,150,978 thousand or 23.1%, to TL 6,137,141 thousand from TL 4,986,163 thousand for the nine months ended September 30, 2016. As a percentage of revenue, total cost of sales decreased from 72.1% to 71.4% for the same periods.

The following table sets forth our cost of sales cost type, and each item as percentage of revenue, for the periods indicated:

	Nine months ended September 30,					
	2016		2017		2017 vs 2016	
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Energy purchases	4,545,717	65.7	5,622,011	65.4	1,076,294	23.7
System usage costs	439,420	6.4	492,861	5.7	53,441	12.2
Other	1,026	0.0	22,269	0.3	21,243	2,070.5
Total cost of sales	**4,986,163**	**72.1**	**6,137,141**	**71.4**	**1,150,978**	**23.1**

The increase in our cost of sales for the nine months ended September 30, 2017 was primarily attributable to an increase of TL 1,076,294 thousand or 23.7% in our cost of energy purchases. This was primarily due to the 16.3% increase in our sales volume. In addition, the significant increase in our energy purchase costs in 2017 (TL 16.6/MWh increase) also contributed to the increase in our cost of energy purchases.

An increase of TL 53,441 thousand or 12.2% in our system usage costs also contributed to the increase in our cost of sales. This was primarily due to an increase in the system usage tariff (determined by EMRA) which we pay to TEİAŞ. Costs under the system usage tariff are a pass through item for distribution companies. In addition, an increase of TL 21,243 thousand, or 2,070.5% in our other costs contributed to the increase in our cost of sales. This was mainly due to the accrual of the previous periods' theft and loss and TRT surcharge payment components in 2017. As these components are reimbursed via price equalization mechanism on distribution revenue ceiling, thus there is no effect on our gross margin The increase in other costs is also due to reclassification of certain central function costs (TL 11,390) such as, personnel, consulting and rent expenses in the cost of sales in 2017. During 2016 and prior years, such items were classified under General Administrative expenses.

Gross Profit

For the nine months ended September 30, 2017, our gross profit increased by TL 521,116 thousand or 27.0%, to TL 2,454,367 thousand from TL 1,933,251 thousand for the nine months ended September 30, 2016. Our gross profit margin increased to 28.6% from 27.9% for the same periods. 88.4% of our gross profit was generated from our distribution business, whereas the remainder was generated from our retail business.

General Administrative Expenses

For the nine months ended September 30, 2017, our general administrative expenses increased by TL 218,886 thousand or 26.8%, to TL 1,035,284 thousand from TL 816,398 thousand for the nine months ended September 30, 2016.

The following table sets forth a breakdown of our general administrative expenses, and each expense type as percentage of revenue, for the periods indicated:

	Nine months ended September 30,				2017 vs. 2016	
	2016		2017			
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Payroll and employee benefit expenses	388,756	5.6	479,030	5.6	90,274	23.2
Outsourcing expenses	24,659	0.4	57,199	0.7	32,540	132.0
Depreciation and amortization expenses	161,633	2.3	171,939	2.0	9,685	6.0
Material expenses	71,496	1.0	117,607	1.4	46,111	64.5
Consulting expenses	28,836	0.4	24,340	0.3	(4,496)	(15.6)
Attorney expenses	29,111	0.4	33,813	0.4	4,702	16.2
Rent expenses	28,995	0.4	39,762	0.5	10,767	37.1
Communication and IT expenses	2,039	0.0	7,328	0.1	5,289	259.4
Tax and duties	10,409	0.2	17,104	0.2	6,695	64.3
Security expenses	17,032	0.2	16,750	0.2	(282)	(1.7)
Maintenance expenses	12,154	0.2	18,233	0.2	6,079	50.0
Travel expenses	8,094	0.1	9,955	0.1	1,861	23.0
Insurance expenses	7,385	0.1	9,158	0.1	1,773	24.0
Other	25,799	0.4	33,066	0.4	7,888	30.6
Total	**816,398**	**11.8**	**1,035,284**	**12.1**	**218,886**	**26.8**

The increase in our general administrative expenses for the nine months ended September 30, 2017 was primarily attributable to an increase of TL 90,274 thousand, or 23.2%, in our payroll and employee benefit expenses. This increase was due to an increase in our personnel numbers from 8,329 in 2016 to 9,551 in 2017, reflecting the increased field operations of our distribution companies and increased free market activities performed by our retail companies to incentivize our customers to switch from regulated tariff to free market.

In addition, the increase in our general administrative expenses was attributable to an increase of TL 46,111 thousand, or 64.5%, in our material expenses. This increase was due to increased maintenance activities in our distribution network and increased unit costs of the materials purchased for such maintenance activities. The increase in our general administrative expenses was also attributable to an increase of TL 32,540 thousand or 132.0% in our outsourcing activities. This was due to increased call-center and maintenance activities mainly attributable to the increased number of operations and increase customer satisfaction initiatives. An increase of TL 6.079 thousand, or 50.0%, in our maintenance activities resulting from the increased number of breakdowns at our network related assets also contributed to the increase in our general administrative expenses. In addition, an increase of TL 9,685 thousand, or 6.0% in our depreciation and amortization expenses which was mainly due to our machinery, equipment and operation vehicles purchases used in our activities contributed to the increase in our general administrative expenses.

Other Income from Operating Activities

For the nine months ended September 30, 2017, our other income from operating activities increased by TL 10,592 thousand or 10.1%, to TL 115,712 thousand from TL 105,120 thousand for the nine months ended September 30, 2016.

The following table sets forth a breakdown of our other income from operating activities, and each income item as percentage of revenue, for the periods indicated:

	Nine months ended September 30,				2017 vs. 2016	
	2016		2017			
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Late payment interest from electricity receivables	56,268	0.8	67,749	0.8	11,481	20.4
Interest income related to revenue cap regulation	14,528	0.2	1,426	0.0	(13,102)	(90.2)
Power theft penalties	8,768	0.1	28,536	0.3	19,768	225.5
Lawsuit income	15,523	0.2	—	0.0	(15,523)	(100.0)
Rent income	3,833	0.1	4,413	0.1	580	15.1
Income from derivative financial instruments	225	0.0	—	0.0	(225)	(100.0)
Other income	5,975	0.1	13,588	0.2	7,613	127.4
Total	**105,120**	**1.5**	**115,712**	**1.3**	**10,592**	**10.1**

The increase in our other income from operating activities for the nine months ended September 30, 2017 was primarily attributable to an increase of TL 19,768 thousand, or 225.5%, in our power theft penalties. This increase resulted from our increased theft detection activities in our distribution regions. In addition, an increase of TL 11,481 thousand, or 20.4%, in our income from late payment interest from electricity receivables contributed to the increase in our other income from operating activities. This increase was mainly attributable to our improved collection performance due to increased theft and loss detection activities. In addition, an increase of TL 7,613 thousand, or 127.4% in other income also contributed to the increase in our other income from operating activities, which was due to our increased advertising activities we make through our distribution network assets.

The increase in our other income from operating activities was partially offset by a decrease of TL 13,102 thousand, or 90.2%, in our interest income from revenue cap regulation. Pursuant to the relevant regulation, our distribution companies are entitled to an interest income for the portion of their actual revenues which is below their regulated revenue requirements. In 2017 and 2016, our distribution companies' actual realized revenues were lower than their regulated revenue requirements previously determined by EMRA and we were entitled to an interest income for the difference between the actual revenues and regulated revenue caps. However, for 2017, such differences between the actual revenues and the revenue caps were lower than 2016 figures, which was the reason for the decrease in interest income related to revenue cap regulation item. The increase in our other income from operating activities was also partially offset by a decrease of TL 15,523 thousand, or 100.0, in our lawsuit income. This was because unlike in 2016, we did not generate any income resulting from reversal of provisions related to the lawsuit initiated in relation to Ankara Metropolitan Municipality Infrastructure Coordination Center (*Altyapı Koordinasyon Merkezi*) in 2017.

Other Expenses from Operating Activities

For the nine months ended September 30, 2017, our other expenses from operating activities increased by TL 98,404 thousand or 65.5%, to TL 248,632 thousand from TL 150,228 thousand for the nine months ended September 30, 2016.

The following table sets forth a breakdown of our other expenses from operating activities, and each expense item as percentage of revenue, for the periods indicated:

	Nine months ended September 30,					
	2016		2017		2017 vs. 2016	
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Provision for doubtful and other receivables	71,799	1.0	157,652	1.8	85,853	119.6
Valuation differences arising from deposits and guarantees	29,934	0.4	53,791	0.6	23,857	79.7
Penalty expenses	28,236	0.4	63	0.0	(28,173)	(99.8)
Loss from derivative financial instruments	—	—	20,160	0.2	20,160	—
Other expenses	20,259	0.3	16,966	0.2	(3,293)	(16.3)
Total	**150,228**	**2.2**	**248,632**	**2.9**	**98,404**	**65.5**

The increase in our other expenses from operating activities for the nine months ended September 30, 2017 was primarily attributable to an increase of TL 85,853 thousand in our expenses from provision for doubtful and other receivables. We set aside provisions for the receivables related with theft accruals. As we increased our efforts in prevention of theft and losses, we began to initiate more legal actions against our customers having unauthorized access to our distribution network or failing to fulfil their payment obligations on time. An increase of TL 23,857 thousand, or 79.7%, in valuation differences arising from deposits and guarantees also contributed to the increase in our other expenses from operating activities. This was primarily due to the increased inflation rate (from 4.5% in 2016 to 8.4% in 2017). In addition, for the nine months ended September 30, 2017, we incurred TL 20,160 thousand losses from derivative financial instruments, which was due to the mark-to-market valuation of our USD denominated forward transactions which we engaged in in order to mitigate our YEKDEM costs. The majority of this amount was related to hedging of our contemplated YEKDEM costs for 2018.

The increase in our other expenses from operating activities was partially offset by a decrease of TL 28,173 thousand, or 99.8%, in our penalty expenses. This was because unlike in 2016, we did not incur any expense related to reimbursement of inaccurately invoiced general illumination fees to TEDAŞ in 2017.

Finance Income

For the nine months ended September 30, 2017, our finance income increased by TL 37,942 thousand or 107.2%, to TL 73,344 thousand from TL 35,402 thousand for the nine months ended September 30, 2016.

The following table sets forth a breakdown of our finance income, and each income item percentage of revenue, for the periods indicated:

	Nine months ended September 30,					
	2016		2017		2017 vs. 2016	
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Interest revenue from repurchase agreements	35,402	0.5	73,344	0.9	37,942	107.2
Total	**35,402**	**0.5**	**73,344**	**0.9**	**37,942**	**107.2**

The increase in our finance income for the nine months ended September 30, 2017 was attributable to an increase of TL 37,942 thousand in our interest revenue from repurchase agreements. The increase in our interest income was due to the regulatory compensation of our other regulated costs item, which is paid to us with a five months lag.

Finance Expenses

For the nine months ended September 30, 2017, our finance expenses increased by TL 198,026 thousand or 35.5%, to TL 755,404 thousand from TL 557,378 thousand for the nine months ended September 30, 2016.

The following table sets forth a breakdown of our finance expenses, and each expense item as percentage of revenue, for the periods indicated:

	Nine months ended September 30,				2017 vs.2016	
	2016		2017			
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Bank commission expenses	7,096	0.1	11,302	0.1	4,206	59.3
Interest expense of borrowings	532,152	7.7	710,933	8.3	178,781	33.6
Foreign exchange losses	18,130	0.3	33,169	0.4	15,039	83.0
Total	**557,378**	**8.1**	**755,404**	**8.8**	**198,026**	**35.5**

The increase in our finance expenses for the nine months ended September 30, 2017 was primarily attributable to an increase of TL 178,781 thousand, or 33.6%, in our interest expense on borrowings, reflecting an increase in the interest on the bank loans we obtained to pay our obligations to the Privatization Administration for the acquisition of the distribution regions. The increase was also driven by our increased CAPEX as a result of front loaded CAPEX strategy; that is, making more CAPEX in the earlier years of the tariff periods to cover the later years in the same tariff period. Once we utilize 80% of our CAPEX allowance as a result of front loading, we apply to EMRA for additional CAPEX allowances, and as of the date of this Offering Circular, EMRA has not refused any of our additional CAPEX allowance request.

In addition, an increase of TL 15,039 thousand, or 83.0% in our foreign exchange losses contributed to the increase in our finance expenses. Following the acquisition of the distribution regions, the euro denominated payment obligations of TEDAŞ (as the previous holder of the distribution regions) under the loan transactions with EIB and World Bank were transferred to us. As Turkish Lira depreciated against the euro in 2017, we incurred foreign exchange losses in connection with these repayment obligations.

Tax Expense

For the nine months ended September 30, 2017, our tax expense increased by TL 22,181 thousand or 17.3%, to TL 150,137 thousand from TL 127,956 thousand for the nine months ended September 30, 2016.

The following table sets forth a breakdown of our current tax expense, and each expense item as percentage of revenue, for the periods indicated:

	Nine months ended September 30,				2017 vs 2016	
	2016		2017			
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Current tax expense	124,733	1.8	56,533	0.7	(68,200)	(54.7)
Deferred tax expense	3,223	0.0	93,604	1.1	90,381	2,804.3
Total	**127,956**	**1.8**	**150,137**	**1.7**	**22,181**	**17.3**

The increase in our tax expense for the nine months ended September 30, 2017 was primarily attributable to an increase of TL 90,381 thousand, or 2,804.3%, in our deferred tax expense, which was due to (i) increased fair value adjustment for financial assets which are mainly the component of service concession arrangements and (ii) change in the CAPEX implementation methodology.

The impact of the increase in deferred tax expense was partially offset by a decrease of TL 68,200 thousand, or 54.7%, in our current tax expense. This decrease was due to the lower statutory profit before tax we generated, which was mainly resulted from the regulatory changes in the Settlement Regulation requiring our retail companies to provide energy for a period of 15 days to the customers who have not been invoiced or whose meters have not been read. The impact of this requirement is adjusted in our Financial Statements based on an accrual basis since the energy provided to such customers is consumed but not invoiced. In addition, our statutory earnings were lower than the previous period as our retail sales margins deteriorated due to higher sourcing costs and our statutory earnings from our distribution companies were also lower compared to the previous period due to price equalization adjustments.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

The following table sets forth our consolidated statement of profit or loss for the years ended December 31, 2015 and 2016, and each item expressed as a percentage of revenue, together with the percentage change from period to period.

	Year ended December 31,				2016 vs 2015	
	2015	% of Revenue	2016	% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Revenue	9,153,614	100.0	9,103,380	100.0	(50,234)	(0.5)
Cost of sales	(7,108,120)	(77.7)	(6,500,956)	(71.4)	607,164	(8.5)
Gross profit	**2,045,494**	**22.3**	**2,602,424**	**28.6**	**556,930**	**27.2**
General administrative expenses	(1,079,790)	(11.8)	(1,227,836)	(13.5)	(148,046)	13.7
Other income from operating activities	123,333	1.3	144,651	1.6	21,318	17.3
Other expenses from operating activities	(50,760)	(0.6)	(246,929)	(2.7)	(196,169)	386.5
Operating profit before finance income/ (expense)	**1,038,277**	**11.3**	**1,272,310**	**14.0**	**234,033**	**22.5**
Finance income	31,484	0.3	39,729	0.4	8,245	26.2
Finance expenses	(606,854)	(6.6)	(797,837)	(8.8)	(190,983)	31.5
Profit before tax	**462,907**	**5.1**	**514,202**	**5.6**	**51,295**	**11.1**
Tax expense	(126,605)	(1.4)	(136,809)	(1.5)	(10,204)	8.1
Profit for the period	**336,302**	**3.7**	**377,393**	**4.1**	**41,091**	**12.2**

Revenue

In 2016, our revenue decreased by TL 50,234 thousand or 0.5%, to TL 9,103,380 thousand from TL 9,153,614 thousand in 2015.

The following table sets forth our revenue by revenue type, and each item as percentage of revenue, for the periods indicated:

	Year ended December 31,				2016 vs 2015	
	2015	% of Revenue	2016	% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Revenue from electricity sales and services provided	8,771,706	95.8	8,491,243	93.3	(280,463)	(3.2)
Retail sales revenue	*6,534,463*	*71.4*	*5,543,040*	*60.9*	*(991,423)*	*(15.2)*
Retail sales service revenue	*204,659*	*2.2*	*243,962*	*2.7*	*39,303*	*19.2*
Distribution revenue	*2,032,584*	*22.2*	*2,704,241*	*29.7*	*671,657*	*33.0*
Finance income from service concession agreements	310,955	3.4	609,628	6.7	298,673	96.1
Other sales	70,953	0.8	2,509	0.0	(68,444)	(96.5)
Total	**9,153,614**	**100.0**	**9,103,380**	**100.0**	**(50,234)**	**(0.5)**

The decrease in our revenue for the year ended December 31, 2016 was attributable to a decrease of TL 280,463 thousand, or 3.2%, in our revenue from electricity sales and services provided. This was primarily due to a decrease of TL 991,423 thousand, or 15.2%, in our retail sales revenue, which was driven by certain of our regulated corporate customers choosing to purchase electricity from third party retail companies, resulting in a decrease in sales volume to corporate customers from approximately 12 TWh in 2015 to 9 TWh in 2016. This was mainly due to a decrease in power prices (both in spot and bilateral transactions), and thus increased price competition in the market, where we chose to target more profitable customers with acceptable risk profiles as part of our corporate sales strategy.

In addition, the regulated gross margin set by EMRA decreased from 3.49% applied in 2015 to 2.38% in 2016, which contributed to the overall decrease in retail sales revenue. The decrease in the regulated gross margin was a result of EMRA's decision to exclude the item "doubtful expense compensation" from the regulated gross margin and, instead, include it in the retail sales service revenue component in 2016. As a result of EMRA's decision to exclude, the "doubtful expense compensation" item from the new gross margin, which was formerly guaranteed under the previous gross margin, the "doubtful expense compensation" component has been shifted to the "uncontrollable operating expenses" component of the Retail Energy Sales Tariff, which is a variable component, resulting in the decrease of the regulated gross margin, and thus in the decrease of the retail sales revenue. However, the decrease in the gross retail margin has been partially compensated by an increase of TL 39,303 thousand or 19.2% in our retail sales service revenue which is an item excluded in the gross margin calculation.

The decrease in our sales in 2016 was also attributable to a decrease of TL 68,444 thousand, or 96.5%, in our other sales revenue. This was primarily due to a change in the tariff structure in 2016, as disconnection/ connection and new connection income were no longer included in the other sales revenue, but were defined as a portion of the revenue requirement of distribution companies in 2015.

The overall decrease in our revenue was partially offset by an increase of TL 671,657 thousand or 33.0% in our distribution revenue. This increase in our distribution revenue was mainly due to the increased OPEX requirement in the 3rd tariff implementation period starting from 2016, as EMRA granted us an increased OPEX requirement in our distribution regions. The mentioned increase in our distribution revenue on OPEX requirement was mainly netted off with a TL 291,513 thousand decrease in our revenue adjustment based on the IFRIC 12 accounting standard.

The ownership structure and regulatory nature of our distribution business requires the distribution assets to be recorded as a financial asset, rather than an intangible, according to IFRIC 12 interpretation of IFRS. Based on the changes in regulatory returns, inflation assumptions or CAPEX execution plans, the fair value of our financial asset is calculated and any changes in the fair value are reflected to our financials. In 2015, due to (i) the increase of the regulated WACC from 9.97% to 11.91% for the 3rd tariff implementation period (only between 2016 and 2018) 13.61% for 2018—2020, and (ii) changes in our long-term inflation assumptions, a higher fair value adjustment figure was booked as a revenue item, compared to 2016, where a smaller adjustment was booked, as there was only minor changes in our long-term inflation assumptions and no change in regulated WACC. In addition, our system usage revenue increased due to an increase in the transmission fees paid to TEİAŞ as this is a pass through to our customers.

Our finance income from service concession agreements increased by TL 298,673 thousand, or 96.1%, driven by increased WACC and regulated asset base.

Cost of Sales

In 2016, our cost of sales decreased by TL 607,164 thousand, or 8.5%, to TL 6,500,956 thousand from TL 7,108,120 thousand in 2015. As a percentage of revenue, total cost of sales decreased from 77.7% to 71.4% for the same periods.

The following table sets forth our cost of sales cost type, and each item as percentage of revenue, for the periods indicated:

	Year ended December 31,				2016 vs 2015	
	2015		2016			
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Energy purchases	6,782,254	74.1	5,953,189	65.4	(829,065)	(12.2)
System usage costs	325,289	3.6	547,314	6.0	222,025	68.3
Other	577	0.0	453	0.0	(124)	(21.5)
Total cost of sales	**7,108,120**	**77.7**	**6,500,956**	**71.4**	**(607,164)**	**(8.5)**

The decrease in our cost of sales in 2016 was primarily attributable to a decrease of TL 829,065 thousand, or 12.2%, in our cost of energy purchases, driven by decreased sales volumes in our retail segment due to certain of our regulated corporate customers choosing to purchase electricity from third party retail companies, resulting in a decrease in sales volume to corporate customers from approximately 12 TWh in 2015 to 9 TWh in 2016.

Electricity sourcing cost was lower in 2016 by approximately TL 12 per MWh (blended electricity prices from all procurement sources) compared to 2015. This was partially offset by an increase in the YEKDEM costs of approximately TL 8/MWh. The decrease in our cost of sales was partially offset by an increase of TL 222,025 thousand, or 68.3%, in our system usage costs, which was primarily due to increased transmission tariff set by EMRA.

Gross Profit

In 2016, our gross profit increased by TL 556,930 thousand, or 27.2%, to TL 2,602,424 thousand from TL 2,045,494 thousand in 2015. Our gross profit margin increased to 28.6% in 2016 from 22.3% in 2015. 82.1% of our gross profit was generated from our distribution business, whereas the remainder was generated from our retail business.

General Administrative Expenses

In 2016, our general administrative expenses increased by TL 148,046 thousand, or 13.7%, to TL 1,227,836 thousand from TL 1,079,790 thousand in 2015.

The following table sets forth a breakdown of our general administrative expenses, and each expense type as percentage of revenue, for the periods indicated:

	Year ended December 31,					
	2015		2016		2016 vs. 2015	
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Payroll and employee benefit expenses	454,467	5.0	539,642	5.9	85,175	18.7
Depreciation and amortization expenses	219,428	2.4	217,938	2.4	(1,490)	(0.7)
Material expenses	99,683	1.1	125,768	1.4	26,085	26.2
Consulting expenses	40,645	0.4	43,432	0.5	2,787	6.9
Rent expenses	40,299	0.4	39,535	0.4	(764)	(1.9)
Outsourcing expenses	43,371	0.5	35,443	0.4	(7,928)	(18.3)
Attorney expenses	20,823	0.2	35,152	0.4	14,329	68.8
Maintenance expenses	26,228	0.3	32,511	0.4	6,282	24.0
Communication and IT expenses	19,171	0.2	23,435	0.3	4,264	22.2
Tax and duties	22,804	0.2	23,282	0.3	479	2.1
Security expenses	20,587	0.2	22,357	0.2	1,770	8.6
Travel expenses	9,305	0.1	10,793	0.1	1,489	16.0
Insurance expenses	13,683	0.1	9,931	0.1	(3,751)	(27.4)
Other	49,297	0.5	68,617	0.8	19,319	39.2
Total	**1,079,790**	**11.8**	**1,227,836**	**13.5**	**148,046**	**13.7**

The increase in our general administrative expenses in 2016 was primarily attributable to an increase of TL 85,175 thousand, or 18.7%, in our payroll and employee benefit expenses. This increase was due to an increase in our personnel count from 8,421 in 2015 to 9,085 in 2016, reflecting the increased field operations of our distribution companies in the 3rd tariff implementation period, and increased free market activities performed by our retail companies to incentivize our customers to switch from regulated tariff to free market conditions.

In addition, the increase in our general administrative expenses in 2016 was attributable to an increase of TL 26,085 thousand, or 26.2%, in our material expenses. This increase was due to increased maintenance activities in our distribution network and increased unit costs of the materials purchased for such maintenance activities. Our attorney expenses increased by TL 14,329 thousand, or 68.8%, due to a higher number of lawsuits initiated against us and increased efforts to prevent theft of electricity, driven by new regulatory incentives to prevent electricity theft. A decrease of TL 7,928 thousand, or 18.3%, in our outsourcing expenses was due to decreased facility, fleet and call-center expenses, mainly attributable to the increase in effectiveness of internal operations compared to the prior year. An increase of TL 6,282 thousand, or 24.0%, in our maintenance expenses, resulting from increased operations on the grid, contributed the overall increase in our general administrative expenses.

The increase in our general administrative expenses in 2016 was also due to an increase of TL 19,319, or 39.2%, in our other expenses. This was primarily due to increased number of meter calibration activities and fees paid thereunder, and an increase in our utility expenses (i.e., water, heating, electricity expenses).

Other Income from Operating Activities

In 2016, our other income from operating activities increased by TL 21,318 thousand, or 17.3%, to TL 144,651 thousand from TL 123,333 thousand in 2015.

The following table sets forth a breakdown of our other income from operating activities, and each income item as percentage of revenue, for the periods indicated:

	Year ended December 31,					
	2015		2016		2016 vs. 2015	
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Late payment interest from electricity receivables	91,763	1.0	77,949	0.9	(13,814)	(15.1)
Interest income related to revenue cap regulation	2,496	0.0	19,370	0.2	16,874	676.0
Power theft penalties	17,560	0.2	15,398	0.2	(2,162)	(12.3)
Lawsuit income	—	0.0	14,174	0.2	14,174	—
Rent income	1,717	0.0	6,303	0.1	4,586	267.1
Income from derivative financial instruments	—	0.0	3,886	0.0	3,886	—
Other income	9,797	0.1	7,571	0.1	(2,226)	(22.7)
Total	**123,333**	**1.3**	**144,651**	**1.6**	**21,318**	**17.3**

The increase in our other income from operating activities in 2016 was primarily attributable to an increase of TL 16,874 thousand in our interest income related to revenue cap regulation. Pursuant to the relevant regulation, our distribution companies are entitled to an interest income for the portion of their actual revenues which is below their regulated revenue requirements. In 2015 and 2016, our distribution companies' actual realized revenues were lower than their regulated revenue requirements previously determined by EMRA and we were entitled to an interest income for the difference between the actual revenues and regulated revenue caps. However, for 2016, such differences between the actual revenues and the revenue caps were higher than 2015 figures, which was the reason for the increase in interest income related to revenue cap regulation item.

The increase in our other income from operating activities was also attributable to an increase of TL 14,174 thousand in our lawsuit income resulting from reversal of provisions related to the lawsuit initiated in relation to the Ankara Metropolitan Municipality Infrastructure Coordination Center (*Altyapı Koordinasyon Merkezi*), resulting in EMRA reimbursing us through the Distribution Tariff. In addition, in 2016, our rent income increased by TL 4,586 thousand due to renewal of rent contracts executed with third parties. In addition, our income from derivative financial instruments increased by TL 3,886 thousand, due to mark-to-market valuations of forward transactions that we executed to mitigate our foreign currency risk resulting from YEKDEM costs. We did not have any income from derivative financial instruments in 2015.

The increase in our other income from operating activities was partially offset by a decrease of TL 13,814 thousand, or 15.1%, in our income from late payment interest from electricity receivables. This decrease primarily reflected an improvement in our on-time collection performance and lower doubtful receivable collection as our doubtful receivables in the Toroslar and Ayedaş regions from the pre-acquisition period decreased as we collected the majority of these receivables in 2015.

Other Expenses from Operating Activities

In 2016, our other expenses from operating activities increased by TL 196,169 thousand to TL 246,929 thousand from TL 50,760 thousand in 2015.

The following table sets forth a breakdown of our other expenses from operating activities, and each expense item as percentage of revenue, for the periods indicated:

	Year ended December 31,				2016 vs. 2015	
	2015		2016			
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Provision for doubtful and other receivables	316	0.0	138,266	1.5	137,950	n/m
Fair value differences arising from deposits and guarantees	36,118	0.4	40,287	0.4	4,169	11.5
Penalty expenses	5,474	0.1	38,393	0.4	32,919	601.4
Other expenses	8,852	0.1	29,983	0.3	21,131	238.7
Total	**50,760**	**0.6**	**246,929**	**2.7**	**196,169**	**386.5**

The increase in our other expenses from operating activities in 2016 was primarily attributable to an increase of TL 137,950 thousand in our provision for doubtful and other receivables. This was because in 2016, we began to initiate more identification and notifications for payment through the legal process against persons having unauthorized access to our distribution networks or persons failing to fulfil their payment obligations on time. Through this process, we identified more uncollectable receivables enabling us to set more provisions aside. This was due to increased efforts to prevent theft of electricity, driven by regulatory incentives to prevent electricity theft. An increase of TL 32,919 thousand in our penalty expenses contributed to the increase in our other expenses from operating activities, which was due to the reimbursement of inaccurately invoiced general illumination fees to TEDAŞ.

An increase of TL 21,131 thousand in our other expenses contributed to the increase in our other expenses from operating activities. This was due to a tax amnesty related one-off payment we made for the purposes of settling certain potential tax obligations of our retail companies. This was due to certain tax return adjustments we made as a result of completion of data migration procedures following the acquisition of Toroslar and Ayedaş regions. In addition, following a verdict we received, we were required in 2016 to return theft and loss charges we reflected to the invoices to our customers, which contributed to the increase in our other expenses in 2016.

Finance Income

In 2016, our finance income increased by TL 8,245 thousand, or 26.2%, to TL 39,729 thousand from TL 31,484 thousand in 2015.

The following table sets forth a breakdown of our finance income, and each income item as percentage of revenue, for the periods indicated:

	Year ended December 31,				2016 vs. 2015	
	2015		2016			
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Interest revenue from repurchase agreements	31,484	0.3	39,729	0.4	8,245	26.2
Total	**31,484**	**0.3**	**39,729**	**0.4**	**8,245**	**26,2**

The increase in our finance income in 2016 was attributable to an increase of TL 8,245 thousand in our interest revenue from repurchase agreements, which was due to higher interest rates in the market and better average cash on-hand due to better operating results.

Finance Expenses

Our finance expenses in 2016 increased by TL 190,983 thousand, or 31.5%, to TL 797,837 thousand from TL 606,854 thousand in 2015.

The following table sets forth a breakdown of our finance expenses, and each expense item as percentage of revenue, for the periods indicated:

	Year ended December 31,					
	2015		2016		2016 vs. 2015	
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Bank commission expenses	11,681	0.1	8,549	0.1	(3,132)	(26.8)
Interest expense of borrowings	575,336	6.3	735,174	8.1	159,838	27.8
Foreign exchange losses	19,837	0.2	54,114	0.6	34,277	172.8
Total	**606,854**	**6.6**	**797,837**	**8.8**	**190,983**	**31.5**

The increase in our finance expenses in 2016 was primarily attributable to an increase of TL 159,838 thousand, or 27.8%, in our interest expense on borrowings, reflecting an increase in the interest on the bank loans we obtained to pay our obligations to the Privatization Administration for the acquisition of the distribution regions. The increase was also driven by our increased CAPEX as a result of increased CAPEX ceiling and front loaded CAPEX strategy; that is, making more CAPEX in the earlier years of the tariff implementation periods to cover the later years in the same tariff implementation period. Once we utilize 80% of our CAPEX allowance as a result of front loading, we apply to EMRA for additional CAPEX allowances, and as of the date of this Offering Circular, EMRA has not refused any of our additional CAPEX allowance request.

In addition, an increase of TL 34,277 thousand in our foreign exchange losses contributed to the increase in our finance expenses. Following the acquisition of the distribution regions, the euro denominated payment obligations of TEDAŞ (as the previous holder of the distribution regions) under the loan transactions with EIB and World Bank were transferred to us. As Turkish Lira depreciated against the euro in 2016, we incurred foreign exchange losses in connection with these repayment obligations.

Tax Expense

In 2016, our tax expense increased by TL 10,204 thousand, or 8.1%, to TL 136,809 thousand from TL 126,605 thousand in 2015.

The following table sets forth a breakdown of our current tax expense, and each expense item as percentage of revenue, for the periods indicated:

	Year ended December 31,					
	2015		2016		2016 vs 2015	
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Current tax expense	96,524	1.1	148,215	1.6	51,691	53.6
Deferred tax expense	30,081	0.3	(11,406)	(0.1)	(41,487)	(137.9)
Total	**126,605**	**1.4**	**136,809**	**1.5**	**10,204**	**8.1**

The increase in tax expense in 2016 was primarily attributable to an increase of TL 51,691 thousand, or 53.6%, in our current tax expense, which was due to higher earnings before tax in 2016, resulting from price equalization adjustment driven by the revenue cap mechanism. A decrease of TL 41,487 thousand in our deferred tax expense partially offset this increase. The decrease in our deferred tax expense was mainly a result of following changes in the new tariff implementation period, such as (i) change in timing differences on revenue requirement components, (ii) change in the CAPEX implementation methodology and more favorable unit prices, and (iii) decreased fair value adjustment for financial assets which are mainly the component of service concession arrangements.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

The following table sets forth from our consolidated statement of profit or loss for the years ended December 31, 2014 and 2015, and each item expressed as a percentage of revenue, together with the percentage change from period to period.

	Year ended December 31,					
	2014		2015		2015 vs 2014	
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Revenue	8,064,421	100.0	9,153,614	100.0	1,089,193	13.5
Cost of sales	(6,753,511)	(83.7)	(7,108,120)	(77.7)	(354,609)	5.3
Gross profit	**1,310,910**	**16.3**	**2,045,494**	**22.3**	**734,584**	**56.0**
General administrative expenses	(967,303)	(12.0)	(1,079,790)	(11.8)	(112,487)	11.6
Other income from operating activities	104,204	1.3	123,333	1.3	19,129	18.4
Other expenses from operating activities	(140,174)	(1.7)	(50,760)	(0.6)	89,414	(63.8)
Operating profit before finance income/ (expense)	**307,637**	**3.8**	**1,038,277**	**11.3**	**730,640**	**237.5**
Finance income	68,647	0.9	31,484	0.3	(37,163)	(54.1)
Finance expenses	(639,991)	(7.9)	(606,854)	(6.6)	33,137	(5.2)
Profit/(loss) before tax	**(263,707)**	**(3.3)**	**462,907**	**5.1**	**726,614**	**(275.5)**
Tax expense	(13,007)	(0.1)	(126,605)	(1.4)	(113,598)	873.4
Profit/(loss) for the period	**(276,714)**	**(3.4)**	**336,302**	**3.7**	**613,016**	**(221.5)**

Revenue

In 2015, our revenue increased by TL 1,089,193 thousand or 13.5%, to TL 9,153,614 thousand from TL 8,064,421 thousand for the year ended December 31, 2014.

The following table sets forth our revenue by revenue type, and each item as percentage of revenue, for the periods indicated:

	Year ended December 31,					
	2014		2015		2015 vs 2014	
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Revenue from electricity sales and services provided	7,797,085	96.7	8,771,706	95.8	974,621	12.5
Retail sales revenue	*5,943,531*	*73.7*	*6,534,463*	*71.4*	*590,932*	*9.9*
Retail sales service revenue	*157,378*	*2.0*	*204,659*	*2.2*	*47,281*	*30.0*
Distribution revenue	*1,696,176*	*21.0*	*2,032,584*	*22.2*	*336,438*	*19.8*
Finance income from service concession agreements	208,758	2.6	310,955	3.4	102,197	49.0
Other sales	58,578	0.7	70,953	0.8	12,375	21.1
Total	**8,064,421**	**100.0**	**9,153,614**	**100.0**	**1,089,193**	**13.5**

The increase in our revenue for the year ended December 31, 2015 was primarily attributable to an increase of TL 974,621 thousand, or 12.5%, in our revenue from electricity sales and services provided. This increase was mainly due to an increase of TL 590,932 thousand, or 9.9%, in our retail sales revenue, which was due to an increase in our retail sales volume of 7.4%. Our free market sales volume increased from approximately 1.7 TWh in 2014 to 5.6 TWh in 2015, mainly due to certain regulated customers (primarily SMEs and residential customers) switching to free market as the eligibility limit decreased.

However, the adverse effect of certain regulated customers moving to the free market was partially offset by the addition of new corporate free customers to our regulated portfolio. As a result, our total sales volume increased which resulted in higher retail sales revenue. An increase of TL 336,438 thousand, or 19.8%, in our distribution revenue also contributed to this increase. This increase was due to an increase in fair value adjustment of financial assets due to an increase in our new tariff assumptions and our inflation expectations for future periods, which are the components of our service concession arrangement calculation made under IFRIC 12.

The increase in our revenue for the year ended December 31, 2015 was also attributable to an increase of TL 102,197 thousand, or 49.0%, in our finance income from service concession agreements, which was due to increased RAB as a result of continuous CAPEX. In addition, an increase of TL 12,375 thousand or 21.1% in our other sales revenue contributed to the overall increase in our revenue in 2015. This was due to an increase in the number of disconnection/connection and new connection activities and increased unit prices.

Cost of Sales

In 2015, our cost of sales increased by TL 354,609 thousand, or 5.3%, to TL 7,108,120 thousand from TL 6,753,511 thousand for the year ended December 31, 2014. As a percentage of revenue, total cost of sales decreased from 83.7% to 77.7%.

The following table sets forth our cost of sales by cost type, and each item as percentage of revenue, for the periods indicated:

	Year ended December 31,					
	2014		2015		2015 vs 2014	
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in Thousands)					
Energy purchases	6,463,201	80.1	6,782,254	74.1	319,053	4.9
System usage costs	284,950	3.5	325,289	3.6	40,339	14.2
Other	5,360	0.1	577	0.0	(4,783)	(89.2)
Total cost of sales	**6,753,511**	**83.7**	**7,108,120**	**77.7**	**354,609**	**5.3**

The increase in our cost of sales in 2015 was primarily attributable to an increase of TL 319,053 thousand, or 4.9%, in our cost of energy purchases, which reflected higher retail sales volume. In addition, an increase of TL 40,339 thousand, or 14.2%, in our system usage costs, which was due to an increase in the system usage tariff (determined by EMRA) which we pay to TEİAŞ. Costs under the system usage tariff are a pass through item for distribution companies. A decrease of TL 4,783 thousand, or 89.2%, in other cost of sales partially offset the increase in cost of sales in 2015. This was due to a decrease in the reactive energy fee, a component of the National Tariff charged by TEİAŞ to distribution companies, which is passed-through customers.

Gross Profit

In 2015, our gross profit increased by TL 734,584 thousand, or 56.0%, to TL 2,045,494 thousand from TL 1,310,910 thousand for the year ended December 31, 2014. Our gross profit margin increased to 22.3% in 2015 from 16.3% for the year ended December 31, 2014. 78.5% of our gross profit was generated from our distribution business, whereas the remainder was generated from our retail business.

General Administrative Expenses

In 2015, our general administrative expenses increased by TL 112,487 thousand, or 11.6%, to TL 1,079,790 thousand from TL 967,303 for the year ended December 31, 2014.

The following table sets forth a breakdown of our general administrative expenses, and each expense item as percentage of revenue, for the periods indicated:

	Year ended December 31,					
	2014		2015		2015 vs 2014	
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Payroll and employee benefit expenses	381,034	4.7	454,467	5.0	73,433	19.3
Depreciation and amortization expenses	208,663	2.6	219,428	2.4	10,765	5.2
Material expenses	91,043	1.1	99,683	1.1	8,640	9.5
Outsourcing expenses	98,893	1.2	43,371	0.5	(55,522)	(56.1)
Consulting expenses	33,738	0.4	40,645	0.4	6,907	20.5
Rent expenses	13,155	0.2	40,299	0.4	27,144	206.3
Maintenance expenses	7,825	0.1	26,228	0.3	18,403	235.2
Tax and duties	20,319	0.3	22,804	0.2	2,485	12.2
Attorney expenses	42,162	0.5	20,823	0.2	(21,339)	(50.6)
Security expenses	17,469	0.2	20,587	0.2	3,118	17.8
Communication and IT expenses	19,242	0.2	19,171	0.2	(71)	(0.4)
Insurance expenses	12,598	0.2	13,683	0.1	1,085	8.6
Travel expenses	7,004	0.1	9,305	0.1	2,301	32.8
Other	14,158	0.2	49,297	0.5	35,139	248.2
Total	**967,303**	**12.0**	**1,079,790**	**11.8**	**112,487**	**11.6**

The increase in our general administrative expenses in 2015 was primarily attributable to an increase of TL 73,433 thousand, or 19.3%, in our payroll and employee benefit expenses. This increase was due to an increase in our number of personnel from 7,535 in 2014 to 8,421 in 2015, primarily reflecting the increased number of employees in the Toroslar region as we began to employ more personnel in 2015 to cover our operational requirements following the restructuring process. An increase of TL 35,139 thousand in our other expenses also contributed to this increase. This increase was due to an increase in our marketing and communication expenses, as we performed rebranding activities for our distribution and retail companies in the Ayedaş and Toroslar regions in 2015. In addition, an increase in our field activities and increased number of meter calibration activities and fees paid thereunder, and an increase in our utility expenses (i.e., water, heating, electricity expenses) contributed to the overall increase in our other expenses.

An increase of TL 27,144 thousand in rent expenses also contributed to the increase in our general administrative expenses in 2015. This increase was due to increased expropriation expenses on network related assets and increase in number of customer care offices. In addition, an increase of TL 18,403 thousand in our maintenance expenses, which was due to increased number of activities in the distribution grid contributed to the overall increase in our general administrative expenses. Our depreciation and amortization expenses increased by TL 10,765 thousand, or 5.2%, in, which was mainly due to purchase of company owned vehicles used in service operations.

A decrease of TL 55,522 thousand, or 56.1%, in our outsourcing expenses, which was due to decreased facility, fleet and call center expenses, reflecting the increased efficiency of our internal operations compared to the previous year partially offset the overall increase in our general administrative expenses. A decrease of TL 21,339 thousand, or 50.6%, in our attorney expenses has also partially offset the increase in our general administrative expenses in 2015. This decrease was due to a decrease in the lawsuits that were initiated against us.

Other Income from Operating Activities

In 2015, our other income from operating activities increased by TL 19,129 thousand, or 18.4%, to TL 123,333 thousand from TL 104,204 thousand for the year ended December 31, 2014.

The following table sets forth a breakdown of our other income from operating activities, and each income item as percentage of revenue, for the periods indicated:

	Year ended December 31,					
	2014		2015		2015 vs 2014	
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Late payment interest from electricity receivables	83,089	1.0	91,763	1.0	8,674	10.4
Interest income related to revenue cap regulation	5,313	0.1	2,496	0.0	(2,817)	(53.0)
Power theft penalties	7,736	0.1	17,560	0.2	9,824	127.0
Lawsuit income	—	0.0	—	0.0	—	—
Rent income	—	0.0	1,717	0.0	1,717	—
Income from derivative financial instruments	—	0.0	—	0.0	—	—
Other income	8,066	0.1	9,797	0.1	1,731	21.5
Total	**104,204**	**1.3**	**123,333**	**1.3**	**19,129**	**18.4**

The increase in our other income from operating activities in 2015 was primarily attributable to an increase of TL 9,824 thousand in our power theft penalties (amounts charged to persons having unauthorized access to our distribution networks) due to higher performance of illegal electricity usage prevention activities. This increase was also attributable to an increase of TL 8,674 thousand, or 10.4%, in late payment interest from electricity receivables. We acquired the Toroslar and Ayedaş regions in 2013 and as we completed customer base related data migration in 2014 in these regions, our doubtful receivable collection performance pertaining to previous years improved considerably, in turn resulting in a significant increase in our late payment interest income from electricity receivables.

The increase in our other income from operating activities was also attributable to an increase of TL 1,731 thousand, or 21.5%, in other income, which was due to an increase in the service fees charged to our related and third parties. A decrease of TL 2,817 thousand, or 53.3%, in our interest income related to revenue cap regulation was due to the difference between our realized revenue and revenue requirement previously determined by EMRA.

Other Expenses from Operating Activities

In 2015, our other expenses from operating activities decreased by TL 89,414 thousand, or 63.8%, to TL 50,760 thousand from TL 140,174 thousand for the year ended December 31, 2014.

The following table sets forth a breakdown of our other income from operating activities, and each income item as percentage of revenue, for the periods indicated:

	Year ended December 31,					
	2014		2015		2015 vs 2014	
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Provision for doubtful and other receivables	74,468	0.9	316	0.0	(74,152)	(99.6)
Fair value differences arising from deposits and guarantees	42,627	0.5	36,118	0.4	(6,509)	(15.3)
Penalty expenses	3,713	0.0	5,474	0.1	1,761	47.4
Expense due to system migration	10,131	0.1	—	0.0	(10,131)	(100.0)
Other expenses	9,235	0.1	8,852	0.1	(383)	(4.1)
Total	**140,174**	**1.7**	**50,760**	**0.6**	**(89,414)**	**(63.8)**

The decrease in our other expenses from operating activities in 2015 was primarily attributable to a decrease of TL 74,152 thousand, or 99.6%, in our expenses for provision for doubtful and other receivables, which was due to significantly higher collection of overdue receivables in 2015 compared to 2014. This was due to completion of data migration in November 2014 which enabled us to collect overdue receivables. A decrease of TL 10,131 thousand, or 100.0%, in our expense due to system migration contributed to the overall decrease in our other expenses from operating activities in 2015. In 2014, AYEDAŞ, AYEPSAŞ, Toroslar EDAŞ and Toroslar EPSAŞ switched to a new billing, collection and customer relations management system, resulting in higher expenses that year. In addition, a decrease of TL 6,509 thousand, or 15.3%, in our expenses from fair value differences arising from deposits and guarantees contributed to the decrease in our other expenses from operating activities. This decrease was primarily due to a decrease in the inflation rate in Turkey.

Finance Income

In 2015, our finance income decreased by TL 37,163 thousand, or 54.1%, to TL 31,484 thousand from TL 68,647 thousand for the year ended December 31, 2014.

The following table sets forth a breakdown of our finance income, and each income item as percentage of revenue, for the periods indicated:

	Year ended December 31,					
	2014		2015		2015 vs 2014	
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Interest revenue from repurchase agreements	58,692	0.8	31,484	0.3	(27,208)	(46.4)
Foreign exchange gains	9,955	0.1	—	0.0	(9,955)	(100.0)
Total	**68,647**	**0.9**	**31,484**	**0.3**	**(37,163)**	**(54.1)**

The decrease in our finance income in 2015 was primarily attributable to a decrease of TL 27,208 thousand, or 46.4%, in our interest revenue from repurchase agreements, which was mainly due to our cash management strategy aiming at holding minimum cash on hand in our retail companies to maximize intercompany loans provided to EEDAŞ. This also enabled us to have lower consolidated finance expenses as EEDAŞ needed less bank funding in 2015 compared to 2014.

In addition, a decrease of TL 9,955 thousand, or 100.0%, in our foreign exchange gains contributed to the overall decrease in our finance income in 2015. Following the acquisition of the distribution regions, the euro denominated payment obligations of TEDAŞ (as the previous holder of the distribution regions) under the loan transactions with EIB and World Bank were transferred to us. As Turkish Lira depreciated against the euro in 2016, we incurred foreign exchange losses in connection with these repayment obligations.

Finance Expenses

Our finance expenses in 2015 decreased by TL 33,137 thousand, or 5.2%, to TL 606,854 thousand from TL 639,991 thousand for the year ended December 31, 2014.

The following table sets forth a breakdown of our finance expenses, and each expense item as percentage of revenue, for the periods indicated:

	Year ended December 31,					
	2014		2015		2015 vs 2014	
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Bank commission expenses	14,882	0.2	11,681	0.1	(3,201)	(21.5)
Interest expense of borrowings	625,109	7.8	575,336	6.3	(49,773)	(8.0)
Foreign exchange (gains)/losses	—	0.0	19,837	0.2	19,837	—
Total	**639,991**	**7.9**	**606,854**	**6.6**	**(33,137)**	**(5.2)**

The decrease in finance expenses in 2015 was primarily attributable to a decrease of TL 49,773 thousand, or 8.0%, in our interest expense of borrowings, which was due to the decrease in the PPI index which had an impact on the computation of the interest paid to Privatization Administration in relation to acquisition of Ayedaş and Toroslar regions. This decrease was partially offset by our increased CAPEX related with the additional CAPEX ceiling approved by EMRA in 2015 for the Başkent and Toroslar regions and the completion of investments that could not be carried out in the prior tariff implementation periods. In addition, a decrease of TL 3,201 thousand, or 21.5%, contributed to the decrease in our finance expenses in 2015. The decrease in our finance expenses was partially offset by an increase of TL 19,837 thousand in our foreign exchange losses, which was due to depreciation of Turkish Lira against euro. We did not incur any foreign exchange losses for the year ended December 31, 2014.

Tax Expense

In 2015, our tax expense increased by TL 113,598 thousand to TL 126,605 thousand from TL 13,007 for the year ended December 31, 2014.

The following table sets forth a breakdown of our current tax expense, and each expense item as percentage of revenue, for the periods indicated:

	Year ended December 31,					
	2014		2015		2015 vs 2014	
		% of Revenue		% of Revenue	Change	% of Change
	(Turkish Lira in thousands)					
Current tax expense	51,485	0.8	96,524	1.1	45,039	87.5
Deferred tax (income)/expense	(38,478)	(0.6)	30,081	0.3	68,559	(178.2)
Total	**13,007**	**0.2**	**126,605**	**1.4**	**113,598**	**873.4**

The increase in tax expense in 2015 was primarily attributable to an increase of TL 45,039 thousand, or 87.5%, in our current tax expense, which was due to significantly higher earnings before tax resulting from higher operating margins achieved through lower costs and higher overdue debt collections with our strong focus on collection activities in 2015.

An increase of TL 68,559 thousand in our deferred tax expense contributed to the increase in our tax expense in 2015. This was due to an increase in fair value adjustment of financial assets regarding the increase in our new tariff assumptions and our inflation expectations for future periods, which are the components of our service concession arrangement calculation made under IFRIC 12.

Liquidity and Capital Resources

We need financing primarily to meet our working capital needs as well as to fund our regulatory CAPEX and to meet our obligations related to acquisitions of Ayedaş and Toroslar regions. See also “*Business—Strategy*” and “*—Capital Expenditures*”.

Currently, our principal source of liquidity is the revenue derived from electricity sales and related services, including retail sales revenue, retail sales service revenue, and distribution revenue. Our sources of funding, and our ability to fund our capital expenditure requirements, are affected by many factors, some of which are beyond our control, including economic conditions, regulatory developments, demand from our customers and availability of financing. Therefore, our funding requirements may extend beyond what we need to support our planned CAPEX. In the event that we need additional funds to support our capital requirements, we may seek to raise funding through private or public financing or other sources.

Historically, we had significant financing needs due to the high level of cash requirements of our business. In order to provide adequate financing to us and to our distribution and retail companies, we had both intercompany financing arrangements and obtained external financing from third party financial institutions. In addition, we have several outstanding CPI-linked local corporate bonds issued by Enerjisa Enerji A.Ş. and Başkent Elektrik Dağıtım A.Ş. under issuance certificates approved by the CMB. These bonds were sold to qualified investors in Turkey and, as of the date of this Offering Circular, these bonds are being traded on Outright Purchases and Sales Market of Borsa İstanbul. See “*Liquidity and Capital Resources—Financing Arrangements*”, and “*Liquidity and Capital Resources—Local Corporate Bond Issuances*”.

Historically, we had debt to the Privatization Administration, which are related to our acquisitions of the Ayedaş and Toroslar regions. By the end of 2015, we refinanced all of our debt to the Privatization Administration. As of the date of this Offering Circular, our management believes that we have the necessary liquidity and access to medium and long term financing that allows us to meet our commitments for future investments.

Financing Arrangements

Intercompany Loans

To the extent possible, we utilize our internal funds to finance regulatory CAPEX and meet our obligations related to acquisitions of Ayedaş and Toroslar regions. We also had various intra-group loans from our retail companies. These loans have been extended at market interest rates with various maturity dates ranging up to the end of September 2018. As of September 30, 2017, the total outstanding loans extended to us by our retail companies amounted to TL 972 million (principal amount).

In addition to the intra-group loans extended to us by our retail companies, we have given loans to our distribution companies. These loans have been extended at market interest rates and as overnight loans. As of September 30, 2017, the total outstanding loans extended by us to our distribution companies amounted to TL 901.7 million (principal amount).

These intercompany loans have zero net impact as such loans disappear on consolidation at Enerjisa level. As a result, the intercompany loan transactions performed within the IPO perimeter do not lead into any indebtedness for Enerjisa, as the receivables and payables under such transactions net each other upon consolidation.

Financing Arrangements with Akbank

We (including our distribution and retail companies) have executed various loan agreements with Akbank T.A.Ş. ("**Akbank**") at market interest rates ranging between 12.86% and 16.07% and with various maturity dates ranging up to the end of September 2020. All of these loans were denominated in Turkish Lira except for a U.S. dollar denominated loan of USD 100 million (principal amount) that we received on July 5, 2017 and is due July 6, 2018 and a U.S. dollar denominated loan of USD 63.6 million (principal amount) that we received on August 4, 2017 and is due August 5, 2019, and a U.S. dollar denominated loan of USD 100 million (principal amount) that we received on September 27, 2017 and is due September 27, 2019. As of September 30, 2017, the total outstanding loans extended to us by Akbank amounted to TL 2,352 million and USD 266.9 million (the principal amounts for such loans are 2,290 million and USD 263.6 million, respectively). Foreign currency risks associated with the U.S. dollar denominated loans are fully hedged through foreign exchange swap and cross currency swap instruments.

These loans are not secured or guaranteed and contain customary event of defaults, including (i) non-payment, (ii) bankruptcy, (iii) providing misleading information, and (iv) receipt of verdict of execution proceedings above TL 100 million. These loans contain customary covenants which are not material for the Offering.

See "*Related Party Transactions*".

Financing Arrangements with Third Parties

We (including our distribution and retail companies) have executed various loan agreements with major Turkish banks, namely, T.C. Ziraat Bankası A.Ş. ("**Ziraat Bank**"), Türkiye İş Bankası A.Ş. ("**İş Bank**"), Türkiye Garanti Bankası A.Ş. ("**Garanti Bank**"), Türkiye Sınai Kalkınma Bankası A.Ş. ("**TSKB**"), Citibank A.Ş. ("**Citibank**"), and Türkiye Ekonomi Bankası A.Ş. ("**TEB**"). In addition, we have executed loan agreements with overseas subsidiaries of Turkish banks, such as Garanti Bank International N.V. ("**Garanti Bank International**"), and İş Bank AG ("**İş Bank International**").

These loan agreements were executed at market interest rates, from 11.18% to 16.17% for Turkish lira denominated loans. In addition, we have one outstanding euro denominated loan with 2.68% interest rate, whereas the foreign currency risk associated with the euro denominated loan is fully hedged via a foreign exchange swap instrument. The maturity dates of these loans range from March 2018 to April 2020. As of September 30, 2017, the total outstanding loans extended to us amounted approximately to TL 2.67 billion and EUR 11 million (the principal amount out of our total loan is TL 2.60 billion and EUR 11 million, respectively), excluding the amounts derived from issued bonds.

None of these loans are secured or guaranteed and all loans contain customary covenants which are not material for the Offering. In addition, these loans contain customary event of defaults, including, among others (i) non-payment, (ii) bankruptcy, (iii) receipt of verdict of execution proceedings above TL 50 million, (iv) performance of execution proceedings over a substantial portion of the borrower's assets or real estate, (v) providing misleading information, (iv) commencement of execution proceedings above TL 100 million, (vi) cancellation of licenses or permits encumbering the continuity of business, (vii) expropriation of business assets, and (viii) change of control.

In addition, our distribution companies have payment obligations under five Euro denominated loans, two with variable interest rates and three with fixed interest rates varying from 2.55% to 4.70%. These payment obligations are due to the transfer of TEDAŞ's (as the previous owner of our distribution regions) Euro denominated payment obligations under its loan agreements with EIB and World Bank to the relevant distribution companies that we acquired following the acquisition of our distribution regions. As of September 30, 2017, the total utilization amounts under these loans were approximately EUR 70.5 million and no hedging transaction was made in relation to these loans as of the date of this Offering Circular.

Overnight or Revolving Loans

Our distribution companies utilize overnight loans (i) to finance their working capital needs, and (ii) to finance relatively small short-term CAPEX needs of our distribution companies. These overnight loans are then refinanced with long term ones. As of September 30, 2017, the total outstanding overnight and revolving loans extended to us amounted to TL 159.75 million. These loans are utilized under standard general loan agreements and contain customary covenants which are not material for the Offering.

Local Corporate Bond Issuances

As of September 30, 2017, we and our subsidiary Başkent EDAŞ had four outstanding domestic corporate bond issuances. All of these bonds are CPI indexed, with semiannual coupon payments, sold to qualified investors and are listed and traded on the Outright Purchases and Sales Market of Borsa İstanbul.

Enerjisa Corporate Bond

On August 1, 2017, we issued a CPI indexed corporate bond amounting to TL 335 million. This issuance was made under the CMB issuance certificate dated July 21, 2017. The bond has a tenor of five years and is due July 26, 2022, and real coupon rate of the bond is CPI + 500 bps. Ak Yatırım acted as the intermediary institution, and the bond was sold to qualified investors, including asset management funds, pension funds, institutional investors and retail investors, together with European Bank for Reconstruction and Development ("**EBRD**"). Terms and conditions of this bond contain customary covenants which are not material for the Offering.

On October 20, 2017, we issued a CPI indexed corporate bond amounting to TL 100 million. This issuance was made under the same issuance certificate dated July 21, 2017. The bond has a tenor of four years and is due October 15, 2021, and real coupon rate of the bond is CPI + 475 bps. Ak Yatırım acted as the intermediary institution, and the bond was sold to qualified investors, including asset management funds, pension funds, institutional investor and retail investors.

EEDAŞ Corporate Bond

On March 2, 2017, EEDAŞ issued a CPI indexed corporate bond amounting to TL 405 million. This issuance was made under the CMB issuance certificate dated December 29, 2016. The bond has a tenor of four years and is due February 23, 2021. The coupon rate of the bond is CPI + 475 bps. Ak Yatırım acted as the intermediary institution, and the bond was sold to qualified investors, including asset management funds, pension funds, institutional investors and retail investors. Terms and conditions of this bond contain customary covenants which are not material for the Offering.

Following the completion of the first step of the Corporate Reorganization on April 28, 2017, EEDAŞ (the special purpose vehicle company to acquire electricity distribution and retail companies) merged with Enerjisa and then dissolved without liquidation, with Enerjisa as the surviving entity. In connection with this merger, all of EEDAŞ's assets and liabilities, including EEDAŞ's liabilities under the EEDAŞ Corporate Bond, were transferred to Enerjisa at their book values. See "*Business—Corporate Reorganization*".

Başkent EDAŞ Corporate Bonds

On August 15, 2016 and September 30, 2016, Başkent EDAŞ issued two CPI indexed corporate bonds of TL 200 million and TL 150 million, respectively. These issuances were made under the CMB issuance certificates dated July 26, 2016. Both bonds have tenors of three years and are due August 12, 2019 and September 27, 2019, respectively. The coupon rate is CPI + 400 bps for both bonds. Garanti Yatırım Menkul Kıymetler A.Ş. acted as the intermediary institution, and the bonds were sold to qualified investors, including asset management funds, pension funds, institutional investors and retail investors. Terms and conditions of this bond contain customary covenants which are not material for the Offering.

With the CMB resolution dated November 3, 2017 and numbered 39/1314, the CMB approved an issuance ceiling to Başkent EDAŞ with an amount of TL 1 billion for the bonds to be sold to qualified investors domestically without being offered to the public.

Credit Ratings

Fitch Ratings assigned EEDAŞ a national long-term rating at "AA(tur)" with a stable outlook on December 22, 2016. After the merger of EEDAŞ and Enerjisa on July 10, 2017, Fitch Ratings affirmed our national long-term rating at "AA(tur)" with a stable outlook. In addition, Fitch Ratings confirmed our national long-term rating at "AA(tur)" with a stable outlook on December 19, 2017.

In addition, Fitch Ratings assigned Başkent EDAŞ a national long-term rating at "AA(tur)" with a stable outlook on June 27, 2016, and affirmed this rating on June 22, 2017.

Cash Flows

The following table summarizes our cash flows for the periods indicated.

	Year ended December 31,			Nine months ended September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
Cash and cash equivalents at the beginning of the period	**340,635**	**112,669**	**152,103**	**152,103**	**74,570**
Cash flows from operating activities	98,044	1,021,362	1,859,439	1,197,596	1,196,612
Cash flows from investing activities	(1,642,809)	(2,286,473)	(2,709,132)	(2,091,581)	(1,283,447)
Cash flows from financing activities	1,316,799	1,304,545	772,160	899,079	167,459
Increase/(decrease) in cash and cash equivalents	(227,966)	39,434	(77,533)	5,094	80,624
Cash and cash equivalents at the end of the period	**112,669**	**152,103**	**74,570**	**157,197**	**155,194**

Cash Flows from Operating Activities

We derive our cash flows from operating activities primarily through;

(i) collections from reimbursements over RAB, financial income derived from the regulated asset base with a return equal to WACC, revenue requirement for operational expenses, system usage revenue, general illumination revenue, theft and loss revenue, under our distribution operations, and

(ii) collection of customer invoices for electricity sales under our retail sales activities.

Due to the regulated revenue requirement mechanisms in the distribution and retail segments, which constitute the basis for calculation of the Retail Energy Sales Tariff and Distribution Tariff, we may have significant cash inflow/outflows related to price equalization adjustments that are determined using demand estimations for the related period and adjusted with actual sales figures by the regulator two quarters after the relevant period.

Our cash flows used in operating activities primarily relate to;

(i) operational expenses, energy payment related with theft and loss and general illumination energy procurement and payments for energy procurement, under our distribution operations, and

(ii) energy procurement costs, and other market costs such as YEKDEM costs, market operation fees, imbalance costs, and energy supply adjustment costs.

Our cash flows from operating activities were TL 1,196,612 thousand for the nine months ended September 30, 2017 compared to TL 1,197,596 thousands of cash flows from operating activities for the nine months ended September 30, 2016. This change was primarily attributable to collections from regulated asset base with a return equal to WACC, regulated revenue requirement for operational expenses sales of electricity, increased system usage revenue, general illumination revenue, and theft and loss revenue and decreased operational expenses.

Our cash flows from operating activities were TL 1,859,439 thousand for the year ended December 31, 2016 compared to TL 1,021,362 thousand of cash flows from operating activities for the year ended December 31, 2015. This change was primarily attributable to collections from regulated asset base with a return equal to WACC, regulated revenue requirement for operational expenses sales of electricity, increased system usage revenue, general illumination revenue, theft and loss revenue and decreased operational expenses, increased energy payment related with theft and loss, general illumination energy sales and transmission cost. Our retail sales operations did not have any material impact in the changes in our cash flows from operating activities in 2016.

Our cash flows from operating activities were TL 1,021,362 thousand for the year ended December 31, 2015, compared to TL 98,044 thousand of cash flows from operating activities for the year ended December 31, 2014. This change was primarily attributable to (i) significantly higher operating income in retail business, mainly due to significant increase in collections from doubtful receivables related to the period before the acquisitions, (ii) higher profit margins, as free market activities increased in an environment where power prices were more favorable compared to 2014, and (iii) collections from regulated asset base with a return equal to WACC. On the other hand, revenue requirement for operational expenses, system usage revenues, general illumination revenues, decreasing costs associated with theft and loss together with the retrospective correction of theft and loss, and decreasing operational expenses, which is a result of higher OPEX outperformance, that also contributed to the change in our cash flows from operating activities.

Cash Flows used in Investing Activities

Our cash flows used in investing activities are primarily related to actual CAPEX based on tariff structure. Our CAPEX is mainly done for network and non-network (e.g., environment, expropriation, and safety) expansion investments, replacement and improvement investments, network operational system investments (e.g., GIS, SCADA, AMR system) and meter investments. We also generate cash flow coming from investing activities primarily through interest received from our repo and time deposit transactions.

Our cash flows used in investing activities were TL 1,283,447 thousand for the nine months ended September 30, 2017 compared to TL 2,091,581 thousands of cash flows used in investing activities for the nine months ended September 30, 2016. This change was primarily due to fulfilment of our payment obligations from the acquisition of the Ayedaş and Toroslar regions, which enabled us to make no acquisition related payments in 2017. The decrease in our cash flows used in investing activities was partially offset by an increase in CAPEX as a result of our front loaded CAPEX strategy (making more CAPEX in the earlier years of the tariff implementation periods to cover the later years in the same tariff implementation period).

Our cash flows used in investing activities were TL 2,709,132 thousand for the year ended December 31, 2016, compared to TL 2,286,473 thousand of cash flows used in investing activities for the year ended December 31, 2015. This change was primarily attributable to increase in CAPEX as a result of increased CAPEX requirement in the new implementation period starting in 2016, and front loaded CAPEX strategy. Our higher CAPEX outperformance in 2016 directly limited our investing cash outflows for our CAPEX. In the mid-term, our management aims to maintain the approximately 10% CAPEX outperformance.

Our cash flows used in investing activities were TL 2,286,473 thousand for the year ended December 31, 2015 compared to TL 1,642,809 thousand of cash flows used in investing activities for the year ended December 31, 2014. This change was primarily attributable to the increased CAPEX related with the additional CAPEX ceiling approved by EMRA in 2015 for Başkent and Toroslar region and fulfilment of missing investment which could not be performed in previous years.

Cash Flows from Financing Activities

We generate cash flows from financing activities primarily through bank loans and bonds issued. The cash flows we use in financing activities primarily relate to payment for outstanding bank borrowings.

Our cash flows from financing activities were TL 167,459 thousand for the nine months ended September 30, 2017 compared to TL 899,079 thousands of cash flows from financing activities for the nine months ended September 30, 2016. This change was primarily attributable to fulfilment of our payment obligations from the acquisition of the Ayedaş and Toroslar regions, which enabled us to make no acquisition related payments in 2017.

Our cash flows from financing activities were TL 772,160 thousand for the year ended December 31, 2016 compared to TL 1,304,545 thousand of cash flows from financing activities for the year ended December 31, 2015. This change was primarily attributable to drawing on bank loans in 2015 for the repayment of a Privatization Administration loan and refinancing the interest charge of an acquisition loan.

Our cash flows from financing activities were TL 1,304,545 thousand for the year ended December 31, 2015 compared to TL 1,316,799 thousand of cash flows from financing activities for the year ended December 31, 2014. This change was primarily attributable to an increase in share capital in 2014, partially offset by the more new bank loans utilized in 2015 compared to 2014.

Adjusted Net Working Capital

Although net working capital is generally presented as current assets *minus* current liabilities, our management tracks and monitors "adjusted net working capital" which is calculated "adjusted current assets (which excludes cash and cash equivalents, and financial assets from our current assets) *minus* "adjusted current liabilities" (which excludes short-term financial liabilities, short-term portion of long term financial liabilities, other financial liabilities and payables to the Privatization Administration).

The following table sets forth a breakdown of our adjusted net working capital as at the dates indicated.

	As of December 31,			As of September 30,
	2014	2015	2016	2017
	(Turkish Lira in thousands)			
Cash and cash equivalents	112,669	152,103	74,570	155,194
Financial assets	312,870	455,975	653,754	660,192
Trade receivables	1,471,367	1,545,331	1,720,529	2,166,983
Other receivables	217,707	272,263	393,471	208,756
Inventories	55,201	63,471	74,459	101,226
Other current assets[1]	72,155	43,319	22,767	198,728
Current assets[2]	**2,241,969**	**2,532,462**	**2,939,550**	**3,491,079**
Cash and cash equivalents	(112,669)	(152,103)	(74,570)	(155,194)
Financial assets	(312,870)	(455,975)	(653,754)	(660,192)
Adjusted current assets	**1,816,430**	**1,924,384**	**2,211,226**	**2,675,693**
Short-term financial liabilities	762,210	915,335	1,556,770	1.463,482
Short-term portion of long term financial liabilities	43,161	1,000,729	1,541,024	590,717
Other financial liabilities	17,185	20,630	25,087	29,097
Payables to Privatization Administration	1,237,732	1,188,456	—	—
Trade payables	816,488	826,990	1,117,668	1,060,293
Other payables	36,517	117,718	160,238	112,761
Payables for employee benefits	21,366	15,539	39,230	49,571
Other current liabilities[3]	359,496	495,393	510,742	909,833
Current liabilities	**1,233,867**	**1,455,640**	**1,827,878**	**2,132,458**
Short-term financial liabilities	(762,210)	(915,335)	(1,556,770)	(1.463,482)
Short-term portion of long term financial liabilities	(43,161)	(1,000,729)	(1,541,024)	(590,717)
Other financial liabilities	(17,185)	(20,630)	(25,087)	(29,097)
Payables to Privatization Administration	(1,237,732)	(1,188,456)	—	—
Adjusted current liabilities[4]	**1,233,867**	**1,455,640**	**1,827,878**	**2,132,458**
Adjusted net working capital[5]	**582,563**	**468,744**	**383,348**	**543,235**

(1) Other current assets consist of deferred VAT, pre-paid taxes and funds and other items.
(2) Adjusted current assets exclude cash and cash equivalents and financial assets.
(3) Other current liabilities consist of taxes and funds payable and other items.
(4) Adjusted current liabilities exclude short-term financial liabilities, short-term portion of long term financial liabilities, other financial liabilities and payables to the Privatization Administration.
(5) Adjusted net working capital indicates the difference between adjusted current assets and adjusted current liabilities.

As of September 30, 2017, our adjusted net working capital increased by TL 159,887 thousand to TL 543,235 thousand from TL 383,348 thousand as of December 31, 2016. The change was due to timing shift in our payables related to capital expenditures as of September 30, 2017.

As of December 31, 2016, our adjusted net working capital decreased by TL 85,396 thousand to TL 383,348 thousand from TL 468,744 thousand as of December 31, 2015. The positive impact caused by the increase in our trade receivables was more than offset by an increase in our trade payables. Our trade payables increased in 2016 as a result of higher electricity procurements from TETAŞ (paid in the following month) and lower procurements from EPİAŞ (paid in advance), in December 2016, compared to high procurements from EPİAŞ in December 2015 as a result of higher regulated sales in 2015. Our trade receivables increased by TL 175,198 thousand in 2016 compared to 2015 due to customers paying their invoices later compared to 2015, especially in the second half of 2016. However, we did not incur higher doubtful losses in 2016 as our doubtful receivable collection performance improved considerably in 2016. This improvement was due to increased field and legal proceeding activities, along with improvement in our SAP system.

As of December 31, 2015, our adjusted net working capital decreased by TL 113,819 thousand to TL 468,744 thousand from TL 582,563 thousand as of December 31, 2014. Increase in other payables and other current liabilities, amounting to a total of TL 217,098 thousand, contributed to our adjusted net working capital and offset the impact of an increase in trade receivables of TL 73,964 thousand. The increase in other payables was mainly attributable to an increase in retrospective corrections made by EMRA to our CAPEX reimbursements. EMRA makes retrospective corrections for the differences between the pre-approved CAPEX and actual realized CAPEX of any given year within an implementation period, where such corrections on the CAPEX reimbursement and return figures based on regulatory WACC are made at the beginning of the next implementation period. In addition, the increase in other current liabilities was mainly attributable to the revenue cap regulation, that is, the result of the difference between the actual realized revenue and revenue requirement determined by EMRA. Our revenue cap adjustment increased in 2015 due to higher realization of distribution revenue compared to the revenue cap. The increase in trade receivables was mainly attributable to increased revenue driven by higher sales volume, in particular in the regulated corporate customers.

Capital Expenditures

We primarily incur CAPEX related to network (e.g., such as cables, transformers, power cells, poles) and non-network (e.g., environment, expropriation, and safety) expansion investments, replacement and improvement investments, network operational system investments (e.g., GIS, SCADA, AMR system) and meter investments. Investments in the regions are mainly driven by demand in the region and the age structure of the existing network. While majority of the network investment is planned and executed to meet new demand, part of the CAPEX is related to replacement and refurbishment of network and general illumination.

The main CAPEX drivers across the three regions are similar in nature. The urban centers (İstanbul in the Ayedaş region, Ankara in the Başkent region, and Adana, Mersin, Hatay and Gaziantep in the Toroslar regions) face similar challenges. These centers can be classified as metropolitan areas. Metropolitan areas face urban transformation and expansion leading to new investment needs. The key drivers of the CAPEX planning are(i) capacity increase for new demand due to increase in number of customers and peak demand (horizontal and vertical growth), (ii) converting urban overhead lines into underground cabling, (iii) replacement of aged hardware, (iv) safety, (v) outage reduction, (vi) need for new ERP/IT systems, (vii) need for new OT systems (SCADA/OMS/DMS and other solutions), (viii) related expropriation and municipality charges, (ix) voltage conversion, (x) network improvement by building new distribution substations and kiosks, (xi) new street lighting investments due to lateral expansion and underground cabling, (xii) converting the mesh network into ring one in the cities to increase supply security, (xiii) replacement of meters after 10 years of usage, (xiv) new regulatory obligations, (xv) technical loss reduction, (xvi) power quality (reactive compensation), and (xvii) monitoring need of live network.

We have historically financed our capital expenditure requirements primarily through internally generated cash flows, and bank borrowings and bond issuances. Investment expenditures are reimbursed within the reimbursement period which is determined by taking into account the useful life of the related assets and the loan maturities in the financial markets. EMRA has set the reimbursement period as 10 years. As part of EMRA's tariff setting principles, a predetermined return rate (WACC plus PPI index) is applied annually to unrecovered part of CAPEX. Uncovered part as of the reporting date is classified as financial assets in our balance sheet.

For the years ended December 31, 2014, 2015 and 2016, and for the nine months ended September 30, 2016 and 2017, our total CAPEX were TL 525,427 thousand; TL 1,092,607 thousand, TL 1,560,405 thousand, TL 938,527 thousand and TL 1,356,791 thousand, respectively.

Regulatory Capital Expenditures

EMRA regulations specify the investment elements that can be taken into consideration in calculating the regulated portion of CAPEX by outlining a methodology for calculating a range of investment costs based on sector averages and aims to fit the costs provided by the distribution and retail companies into these ranges. The template form for presenting the regulated portion of CAPEX for RAB calculation is issued by EMRA. All distribution and retail companies are required to submit the regulated portion of their regulated CAPEX information to the tariff department at EMRA, which factors this information into their calculations. Such figures are prepared based on the Local GAAP financial statements, which differ significantly from IFRS or TFRS financial statements.

The regulated CAPEX represents the Local GAAP figures for the CAPEX that are taken into consideration while determining the Distribution Tariff and Retail Energy Sales Tariff. See "*Regulatory Overview—Regulation and Functioning of the Electricity Distribution and Retail Sale Market*". Our Local GAAP figures accounted for CAPEX of TL 525,361 thousand, TL 1,034,162 thousand, TL 1,464,049 thousand, TL 870,624 thousand and 1,042,844 thousand for the years ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2016 and 2017, respectively.

Contractual Obligations and Commercial Commitments

Our incumbent retail companies have various contractual obligations and commercial commitments to make future payments, primarily in relation to standard energy procurement agreements and protocols executed with TETAŞ, European Federation of Energy Traders Agreement (EFET) executed with Enerjisa Electricity Wholesale Company, TOR Agreement executed with TEDAŞ, distribution system usage agreements executed with relevant distribution companies (including our distribution companies), and market participant agreements executed with EPİAŞ for each market activity (day ahead, intra-day, and balancing power markets).

Under our distribution companies, we have various contractual obligations and commercial commitments to make future payments primarily in relation to (i) TOR agreements executed between TEDAŞ and our distribution companies, (ii) supplementary protocols to TOR agreements executed between TEDAŞ and our distribution companies, (iii) connection and system usage agreements executed between TEİAŞ and our distribution companies for each transformer station center of TEİAŞ, (iv) energy sale agreements and supplementary protocols executed between TETAŞ and our distribution companies for purchasing energy for the use of general illumination and theft and loss, (v) market participant agreements executed between EPİAŞ and our distribution companies for each market activity (day ahead, intra-day, and balancing power markets), (vi) distribution system usage agreements executed by and between supply license holders and distribution license holders.

The following table summarizes our future obligations under these contracts due by the periods, including the expected interest payments, indicated as of September 30, 2017.

	Less than Three Months	Three to Twelve Months	Between One and Five Years	More than Five Years	Total
			(Turkish Lira in thousands)		
Borrowings	760,731	1,855,901	6,172,090	—	8,788,722
Trade payables	1,060,293	—	—	—	1,060,293
Deferred income	—	449,713	4,835	—	454,548
Other payables	319,085	—	—	1,068,335	1,387,420
Other financial liabilities	6,969	22,129	137,448	125,182	291,728
Total liabilities	**2,147,078**	**2,327,078**	**6,314,373**	**1,193,517**	**11,982,711**

Investment Obligations

We are required to complete certain investment obligations such as network and non-network (e.g., environment, expropriation, and safety) expansion, replacement and improvement investments, network operational system investments (e.g., GIS, SCADA, AMR system) and meter investments pursuant to the Principles and Procedures Regarding Distribution Investments issued by EMRA. Implementation of these investments is monitored by EMRA by the reports we submit to EMRA on a yearly basis. Some of these investments (e.g., network and meter investments) are subject to unit prices announced by EMRA. According to the regulations, we are allowed to make transfers between the years after taking approval of EMRA.

Security Deposits

We collect security deposits from our customers to secure payments. For our regulated customers, the security deposit amount is determined by EMRA. We can freely determine the security deposits that we collect from our free customers. Instead of depositing security deposits in cash, our customers (other than our residential customers) may also deliver us a bank letter of guarantee as collateral. In accordance with the applicable laws and regulations, security deposits collected from our customers are returned to the customers within five days following the termination of the subscription agreement, after being revalued to the current date based on a specific revaluation method and subject to any deductions for outstanding obligations and liabilities of such customers.

We use the revaluation method, under which security deposits are revalued using the change in the CPI between the date of collection and two months prior to the end of the respective period. Revaluation loss is allocated to other operating expense in the statement of profit or loss. In addition, pursuant to TOR Agreements, we are under the obligation to transfer our regulated customer portfolio (along with the security deposits collected from such customers) to TETAŞ, at the end of our license period, if not extended.

Derivative Financial Instruments and Off-Balance Sheet Arrangements

Our financing activities and U.S. dollar indexed YEKDEM cost component of our retail companies are primarily exposed to the risk of changing interest rates and exchange rates. We use derivative financial instruments (primarily foreign currency forward and swap contracts) to hedge our risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. Our off-balance sheet arrangements include letter of guarantees received from supply and generation license holders (including our incumbent retail companies) operating in our distribution regions.

Our retail companies are exposed to variable YEKDEM costs related to free market sales activities which, among others, are affected by fluctuations of Turkish Lira against U.S. dollar. Our retail companies enter into forward contracts in order to mitigate fluctuations of YEKDEM costs arising from changes in foreign exchange rates. As of September 30, 2017, we had forward contracts related to YEKDEM hedge activities executed with various parties such as HSBC Bank A.Ş., TEB, TSKB, and Akbank, amounting to a total notional value of USD 118,470 thousand. In addition, we have foreign exchange swap and cross currency swap transactions to fully hedge foreign currency risk associated with each of our U.S. dollar denominated bank loans.

Our retail companies execute agreements with TETAŞ to procure energy for regulated customers. Energy procurement for regulated business is mandatory to be done from TETAŞ as long as TETAŞ provides adequate electricity volume. We have provided guarantee letters or collections mainly to TETAŞ and EPİAŞ for energy procurement activities. In addition, we provided letters of guarantee to TEDAŞ against fulfillment of liabilities with respect to TOR Agreement and to TEİAŞ against fulfillment of payment liabilities within the scope of system usage agreement executed by and between our distribution companies and TEİAŞ for every transmission connection point. We have also provided letters of guarantees to some of our retail companies against any unfulfilled liability arising from purchases.

Critical Accounting Policies

Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies are those described below. A detailed description of certain of the principal accounting policies we use in preparing our consolidated financial statements are set forth in Note 2.11 to the Interim Financial Statements. For key sources of estimation uncertainty, see Note 2.12 to the Interim Financial Statements.

Revenue Recognition

Our revenue consists of (i) the revenue we generate from electricity sales and services provided thereunder, (ii) finance income we generate from service concession agreements, and (iii) other sales revenue. In 2015, we accounted disconnection/connection and new connection fees under other sales revenue. Following an amendment in the relevant regulation, we have accounted these fees under distribution revenue as from January 1, 2016. Our revenue from electricity sales and services consists of our retail sales revenue, retail sales service revenue, and distribution revenue.

Our retail sales revenue is composed of the revenue generated from electricity sales to our customers. Our retail sales service revenue is composed of the revenue we generate by our regulated retail segment and from the retail sales service fee determined by EMRA, which is designed to compensate for operational costs and to cover uncontrollable cost items for our regulated customers. We recognize our retail sales revenue and retail sales service revenue upon delivery of electricity to customers or upon fulfilment of services. Delivery is deemed complete when (i) the risk and rewards associated with ownership has been transferred to the buyer as contractually agreed, (ii) compensation has been contractually established, and (iii) collection of the resulting receivable is probable. We measure the revenue from sale and delivery of electricity at the fair value of the consideration received or receivable. The estimated value of the electricity supplied but not invoiced to the customers is considered for the measurement of revenue.

Our distribution revenue is composed of distribution and, meter reading services, transmission and theft and loss components. Distribution and meter reading service components are considered within the content of service concession arrangements as per EMRA regulations. Additionally, according to the Electricity Market Law, the Tariff Regulation and other relevant regulations, our distribution, transmission and meter reading revenue is subject to a revenue cap. The realized revenue is determined to encompass our OPEX and investment requirements related to distribution and meter reading services. Moreover, our system usage revenue is a complete pass through item of transmission costs as charged by TEİAŞ. These regulations guarantee revenue generation to us regardless of the consumption level.

According to IFRIC 12, our distribution revenue differs from our regulated distribution revenue as a result of (i) the differences in the calculation methodology and revenue recognition relating to financial income, and (ii) CAPEX reimbursements, which are not recognized as part of our distribution revenues in our Financial Statements. Due to the fact that the distribution network assets built as a result of our realized CAPEX are actually not the property of our distribution companies, we are not booking any reimbursement revenues in our income statement for the CAPEX reimbursements provided by EMRA. We accrue interest revenue 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. Interest income related to service concession arrangements is recognized in accordance with IFRIC 12. Interest income on receivable from concession arrangement is recognized on a time-proportion basis using the effective interest method.

Financial Asset Model under IFRIC 12

In our implementation of the financial asset model under IFRIC 12, considering that under the concession agreement, a certain return rate (WACC + inflation) and a fixed income (reimbursement of CAPEX over 10 years) on annual CAPEX ceiling throughout the implementation periods were guaranteed. The financial asset model that we use recognizes the CAPEX relating to distribution activities as financial assets (receivables) in the balance sheet.

Accordingly:

(i) We implemented a financial asset model as per IFRIC 12 followed in line with the service concession agreements.

(ii) The relevant financial asset model, through utilizing certain assumptions such as inflation, WACC and CAPEX throughout the years, allows the calculation of cash outflows to be made for the CAPEX to be made until 2036 for Başkent region and 2042 for Ayedaş and Toroslar regions; cash inflows relating to CAPEX reimbursements and return on financial assets are realized in our balance sheet.

(iii) Nominal prices for the past periods in which the CAPEX was made, nominal prices based on inflation assumptions and CAPEX reimbursements and allowed return indicated in the revenue requirement tables announced by EMRA for the upcoming years in the tariff implementation period are taken into consideration for the calculation of our cash flows.

(iv) EMRA has not yet announced the fundamental parameters such as WACC, CAPEX ceiling, reimbursement period for the years following the implementation period (between 2020-2042), while it increased the WACC for the remaining years of the third implementation period from 11.91% to 13.61% upon its decision dated December 7, 2017. Those perimeters are announced before each tariff implementation period and cover only the following implementation period.

(v) Therefore, the estimated cash inflows and outflows are calculated based on an assumption that the existing tariff structure and CAPEX ceiling will stay intact until the end of the license term (WACC 11.91%, CAPEX ceiling: Başkent region TL 357 million; Ayedaş region TL 175 million; Toroslar region, TL 332 million).

(vi) As all capital reimbursements and interest income relating to the CAPEX above the CAPEX ceiling envisaged by EMRA for any implementation period are included in the revenue requirements and paid at the beginning of all implementation periods by EMRA, it is assumed that the capital reimbursements relating to the capital expenditures and interest income made/to be made in the third tariff implementation period (2016-2020) will be realized as cash inflow in the year of 2021.

(vii) As a result, we calculate the value of the financial asset on the internal rate of return (IRR) calculated by deducting the cash inflows assumed to be received and in the future due to the previously made and prospective CAPEX according to the internal rate of return method; and we recognize it in our balance sheet as a financial asset. In other words, the financial asset item in our balance sheet as of our reporting date is comprised of the sum of the fair values (as of the reporting date) of (i) the realized but not yet collected CAPEX receivables, and (ii) the interest income receivable calculated by applying the internal rate of return (IRR) on the receivable, which is not yet collected.

An example for Başkent EDAŞ is presented below:

TL Million	2016	2017	2018	2019	2020	2021-2036
Financial asset opening balance[4]	1,369	1,913	2,435	2,766	3,086	3,342
(+) CAPEX[1]	647	498	451	490	530	—
(+) Interest income[2]	280	478	466	525	578	—
(-) Reimbursement Amount[3]	(383)	(454)	(586)	(695)	(852)	—
Financial asset closing balance[4]	**1,913**	**2,435**	**2,766**	**3,086**	**3,342**	**—**
Internal rate of return (IVO or IRR)[5]	19.62	19.62	19.62	19.62	19.62	19.62
Weighted Average Cost of Capital (WACC)[6]	11.91	11.91	11.91	11.91	11.91	11.91
Annual Average Inflation Rate[7]	7.80	10.70	8.50	8.70	8.40	7.20

(1) Includes the CAPEX made along the years and to be made in the future. The numbers until 2020 are the nominal values of the CAPEX amounts approved by EMRA relating to the third implementation period and it is assumed that these real CAPEX amounts will stay intact between the years of 2021-2036. The table reflects the numbers indexed to the inflation rate.
(2) Interest income is calculated by applying the internal rate of return to the receivable amount as of the reporting date.
(3) Includes the annual reimbursement amount announced by the EMRA and collected via tariffs. It is assumed that the reimbursement amounts between the years of 2021-2036 will be the same as the real amounts in the third tariff implementation period. The table reflects the numbers indexed to the inflation rate.
(4) Represents the financial asset amount in the balance sheet as of the beginning / end of the period.
(5) Includes the internal return rate during the concession agreement, which is calculated by taking cash inflows, outflows, WACC and inflation rate. WACC is assumed to be 11.91% until the end of 2036.
(6) Represents the rate announced by EMRA.
(7) Represents the realized/estimated annual average CPI.

Service Concession Arrangements

Service concession arrangements are defined within the scope of IFRIC 12 as those whereby a government or other body grants contracts for the supply of public services (i.e., operations such as roads, energy distribution, prisons or hospitals) to private operators. Our electricity distribution business is in the scope of service concession agreements.

Considering the terms in the service concession arrangements, we apply a financial asset model where we recognize a financial asset to the extent that we have an unconditional contractual right to receive cash or another financial asset from, or at the direction of the grantor, as the right to receive cash for the distribution service is constituted through actual billing to subscribers where the distribution and meter reading service components of the billing are already specified or determinable through the regulations of EMRA.

We measure our financial assets at fair value, with the effective interest method which is calculated by discounting (i) the estimated future cash receipts with regards to the compensation of transfer of operational rights, and the (ii) initial and annual CAPEX made by us, through the expected life of the arrangement, and recognize the revenue on an effective interest method as "Finance Income from Service Concession Arrangements", which is a component of our EBITDA calculation.

Property, Plant and Equipment

We carry our property, plant and equipment at cost less accumulated depreciation and any accumulated impairment losses. We carry properties in the course of construction for production, supply or administrative purposes, or for the purposes that are not determined at cost less any recognized impairment loss. Cost includes professional fees. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

We recognize depreciation so as to write off the cost or valuation of our assets, other than freehold land and properties under construction, less their residual values over their estimated useful lives, using the straight- line method. We review the estimated useful lives, residual values and depreciation method at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. We depreciate our assets held under finance leases over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

We derecognize an item of property, plant and equipment upon disposal or when no future economic benefit is expected to arise from the continued use of such asset. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible Assets

Customer Contracts and Transfer of Operational Rights

We report our customer contracts at cost less accumulated amortization and accumulated impairment losses. We charge amortization on a straight-line basis over the estimated useful lives of customer contracts. The useful lives of customer contracts range between 25 and 30 years.

Computer Software

We capitalize our acquired computer software licenses 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 which range between three and five years.

Business Combinations and Goodwill

We account for the acquisition of subsidiaries and businesses by using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred, liabilities incurred to the former owners of the acquiree and the equity interests issued in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

(i) deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

(ii) liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of us entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and

(iii) assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to each of our cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

Financial Instruments

Financial Assets

Considering the terms of the TOR Agreements we execute which are defined as service concession agreements, we apply a financial asset model to our distribution assets under IFRIC 12. In this financial asset model, we recognize a financial asset to the extent that we have an unconditional contractual right to receive cash or another financial asset from, or at the direction of the grantor, as the right to receive cash for the distribution service is constituted through actual billing to subscribers where the distribution and meter reading service components of the billing are already specified or determinable through the regulations of EMRA. While measuring the value of this financial asset, we recognize the revenue we generate through the changes in our financial asset size, as an interest income, and recognize such income on a time-proportion basis using the effective interest method. Pursuant to this method, we multiply the portion of our capital expenditures, which are not compensated by EMRA through the regulated tariffs, by IRR, and reflect such amount on our cash flows, to capture the difference in our financial asset size.

We recognize and derecognize a financial asset on the trade date where the purchase or sale of a financial asset is made under a contract whereby terms of such contract require delivery of the financial asset within the timeframe established by the market concerned, and initially measure such financial asset at fair value, plus transaction costs except for a financial assets which is classified as at fair value through profit or loss, which is initially measured at fair value. Financial assets are classified into the following specified categories: (i) financial assets at fair value through profit or loss, (ii) held-to-maturity investments, (iii) financial assets that are available-for-sale, and (iv) loans and receivables.

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. We recognize the income on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

Impairment of Financial Assets

At each balance sheet date, we assess our financial assets, other than those at fair value through profit or loss for indicators of impairment. We impair our financial assets where there is objective evidence that the estimated future cash flows of the investment have been impacted as a result of one or more events that occurred after the initial recognition of the financial asset. For our financial assets that we carried at amortized cost, the amount of the impairment is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Objective evidence of impairment for a portfolio of receivables could consist of our past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days (except for irrigation and government receivables for which we apply 365 days average credit period), as well as observable changes in national or local economic conditions that correlate with default on receivables.

We reduce the carrying amount of a financial asset by the impairment loss directly with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, we write-off such receivable against the allowance account. We credit subsequent recoveries of amounts previously written-off against the allowance account. We recognize the changes in the carrying amount of our allowance account in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, we reverse the previously recognized impairment loss through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Borrowing Cost

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. We had no capitalized borrowing costs in 2016, 2015 and 2014.

All other borrowing costs are recognized in statement of profit or loss in the period in which they are incurred.

Financial Liabilities

We classify our financial liabilities as (i) financial liabilities at fair value through profit or loss, and (ii) other financial liabilities.

Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss. We state our financial liabilities at fair value through profit or loss at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other Financial Liabilities

We initially measure our other financial liabilities, including borrowings at fair value, net of transaction costs. We subsequently measure such financial liabilities at amortized cost using the effective interest method with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Derivative Financial Instruments

Our financing activities and U.S. dollar indexed YEKDEM cost component of our retail companies expose us primarily to the financial risks of changes in foreign exchange rates and interest rates. We use derivative financial instruments (primarily foreign currency forward and swap contracts) to hedge our risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. We initially recognize derivatives at fair value on the date the derivative contract and subsequently measure them at their respective fair value. If the derivative cannot meet the requirements of hedge accounting, we recognize the gain or loss relating to the fair value of the derivative immediately in the statement of profit or loss.

We calculate the fair value of our derivative instruments using listed prices. Where such prices are not available, we make estimations based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. If the fair value is positive then we recognize a derivative as an asset, and if the fair value is negative then we recognize such derivative as liability.

Provisions, Contingent Liabilities, Contingent Assets

We recognize provisions when there is a present obligation as a result of a past event, and it is probable that we will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Contingent liabilities are assessed continuously to determine probability of outflow of economically beneficial assets. For contingent liabilities, when an outflow of resources embodying economic benefits are probable, provision is recognized for this contingent liability in the period when the probability has changed, except for cases where a reliable estimate cannot be made.

When the outflow of economic benefits is probable but the amount cannot be measured reliably, we disclose this fact in the notes. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Taxation and Deferred Income Taxes

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 consolidated financial statements, have been calculated on a separate-entity basis. Income tax expense represents the sum of the tax currently payable and deferred tax.

Current Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the comprehensive 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. Our liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred Tax

We recognize the deferred tax on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. 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.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

Critical Judgments in Applying our Accounting Policies

Use of Estimates

The preparation of Financial Statements in conformity with IAS requires us to make (i) estimates and assumptions that affect the reported amounts of assets and liabilities and (ii) disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Impairment Test of Goodwill

Pursuant to IAS 36 (Impairment of Assets), we tested our goodwill as of September 30, 2017 in accordance with the accounting policy stated at Note 2.1 of the Interim Financial Statements. We carried the goodwill impairment test for retail and distribution cash generating units. Retail and distribution cash generating units are tested separately, based on two separate assumptions.

Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the consolidated balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below:

Service Concession Arrangements

We determine the financial asset and finance income balances recognized under service concession arrangements based on the cash flows derived from the tariffs announced by EMRA. The distribution revenue requirement for us during the 2nd tariff implementation period from 2011 to 2016 and the 3rd tariff implementation period from 2016 to 2020 was determined by EMRA considering the projected expenses and related tariffs which were published in 2010 and 2016, respectively. We expect the distribution revenue requirements from the end of 3rd tariff implementation period to the end of license (2036 for Başkent EDAŞ and 2042 for AYEDAŞ and Toroslar EDAŞ) to be based on the tariff components announced for the 3rd tariff implementation period. These tariffs are revised annual to reflect due to inflation based on changes in CPI pursuant to the Communiqué of Distribution System Revenue Requirements. When determining the projected cash inflows derived from the tariffs announced by EMRA in the upcoming periods, our management has made certain assumptions with respect to CAPEX, the expected CPI and WACC (weighted average cost of capital) rates.

Revenue recognition

We issue the invoices of our corporate customers on a monthly basis and at the end of each month, whereas the invoices of the residential and SME customers are issued continuously during each month. As a result, the total electricity supplied to the residential and SME customers during each month cannot be invoiced and income accruals are recognized as revenue at period-ends for these customer groups based on the actual billing performance.

Quantitative and Qualitative Disclosures about Risk

Risk Management

Our overall risk management program targets to minimize the potential adverse effects over our financial performance. We manage our capital to ensure that we will be able to continue operating on a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

Our risks resulting from operations include capital risk, credit risk, liquidity risk, market risk (including foreign currency risk and interest rate risk). Our principles for overall risk management generally seek to minimize the effects of the capital risk, interest rate risk, liquidity risk, foreign currency risk, and credit risk on our financial performance. We also consider the market value of all of our financial assets.

Capital Risk

When managing our capital, our objective is to safeguard our ability to continue as a going concern in order to provide returns for our shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce our cost of capital. See Note 26 to the Interim Financial Statements. Our capital structure consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital and reserves. We consider the cost of capital and the risks associated with each class of capital, and we aim to balance our overall capital structure through new share issues, and by issue of new debt or the redemption of existing debt.

The table below sets forth our net debt and total capital ratio as at the dates indicated:

	December 31,			September 30,
	2014	2015	2016	2017
	(Turkish Lira in thousands, except percentages)			
Total borrowings and payables to Privatization Administration	5,574,090	6,235,542	6,568,015	7,470,992
Less: Cash and cash equivalents	(112,669)	(152,103)	(74,570)	(155,194)
Net debt	**5,461,421**	**6,083,439**	**6,493,445**	**7,312,720**
Total equity	4,040,342	4,365,831	4,746,828	5,200,794
Total capital	**9,501,763**	**10,449,270**	**11,240,273**	**12,335,796**
Net debt/total capital ratio (%)	57.5	58.2	57.8	58.4

Pursuant to Turkish regulatory requirements published by the Public Oversight Accounting and Auditing Standards Authority (*Kamu Gözetimi, Muhasebe ve Denetim Standartları Kurumu*), we present our net debt/total capital ratio, whereby (i) net debt is calculated as total borrowings and payables to the Privatization Administration *less* cash, cash equivalents, and (ii) total capital is calculated as net debt *plus* total equity. Net debt/total capital ratio is calculated as net debt divided by total capital, which is subsequently multiplied by 100.

In addition to the net debt/total capital ratio, we monitor our net debt/adjusted EBITDA *plus* CAPEX reimbursements ratio, whereby our Adjusted EBITDA is considered to represent net income before financial income/(expense), income taxes, depreciation and amortization, net of interest income related to revenue cap regulation, and fair value differences arising from deposits and guarantees *plus* Enerjisa Electricity Wholesale Company related adjustments. Net debt/adjusted EBITDA *plus* CAPEX reimbursements ratio is calculated as net debt divided by adjusted EBITDA *plus* CAPEX reimbursements, which is subsequently multiplied by 100.

The following table shows the reconciliation of our net cash as of the dates indicated.

	December 31,			September 30,
	2014	2015	2016	2017
		(Turkish Lira)		
Profit for the period	**(276,714)**	**336,302**	**377,393**	**453,966**
Adjustments related to tax expense	13,007	126,605	136,809	150,137
Adjustments related to finance expense	639,991	606,854	797,837	755,404
Adjustments related to finance income	(68,647)	(31,484)	(39,729)	(73,344)
Adjustments to the depreciation and amortization	208,663	219,428	217,938	171,939
Enerjisa Electricity Wholesale Company related EBITDA adjustments(1)	15,547	(59,768)	(16,423)	—(3)
Adjustments related to finance (income) / cost based on revenue cap regulation	(5,313)	(2,496)	(19,370)	434
Adjustments related to fair value difference arising from deposits	42,627	36,118	40,287	53,791
Adjusted EBITDA	**569,161**	**1,231,559**	**1,494,742**	**1,512,327**
CAPEX reimbursements	210,181	200,333	443,235	443,778
Adjusted EBITDA *plus* CAPEX reimbursements	**779,342**	**1,431,892**	**1,937,977**	**1,956,105**
Net debt	**5,461,421**	**6,083,439**	**6,493,445**	**7,312,720**
Net debt/adjusted EBITDA plus CAPEX reimbursements ratio (x)	7.0	4.2	3.4	3.7

(1) Enerjisa Electricity Wholesale Company related EBITDA adjustments are made to reflect the effect of the transfer of large corporate customers to our retail companies' portfolios which were previously held under the customer portfolio of Enerjisa Electricity Wholesale Company. The portfolio transfer was completed on January 1, 2017. See "*Retail Operations—Overview*".

(2) Financial statements of Enerjisa Electricity Wholesale Company pertaining to the nine months ended September 30, 2016 have not been audited by Deloitte or EY, as Enerjisa Electricity Wholesale Company is not included in the IPO perimeter.

(3) As the portfolio transfer related to Enerjisa Electricity Wholesale Company was completed on January 1, 2017, we did not make any Enerjisa Electricity Wholesale Company related adjustment to our sales revenue for the nine months ended September 30, 2017.

Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to us. Our credit risks mainly arise from trade receivables. We manage this risk by the guarantees received from our customers. We evaluate the trade receivables based on our policies and procedures and as a result presented net of doubtful provision in the consolidated financial statements. We evaluate the adequacy of the provision set for the impaired trade receivable balances based on the aging analysis and consider the receivables, except for irrigation and government receivables, overdue by more than 180 days as impaired. We consider irrigation and government receivables overdue by more than 365 days as impaired.

Trade receivables consist of a large number of customers, spread across diverse industries within several different provinces. For credit risk of our financial instruments, see Note 26 to the Interim Financial Statements.

Liquidity Risk

Liquidity risk is the risk of not being able to meet our funding requirements. We aim to maintain an appropriate liquidity risk management framework for our short, medium and long-term funding and liquidity management requirements. For a detail overview of our remaining contractual maturity for our non-derivative financial liabilities, see Note 26 to the Interim Financial Statements.

Market Risk

Foreign Currency Risk

Transactions denominated in foreign currencies expose us to foreign currency risk. We undertake certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed by adjusting the unit price / tariff of the energy sold semi-annually. We are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar and euro. For foreign currency sensitivity analysis, see Note 26 to the Interim Financial Statements.

Interest Rate Risk

As of the date of this Offering Circular, except for our CPI indexed corporate bond amounting to TL 1,190 million, we do not have funding or investments linked to floating interest rates. Even though our existing loans are largely of fixed interest nature, we are still exposed to interest rate risk due to the need for financing our allowed CAPEX and additional CAPEX, our working capital needs (if any) and refinancing of our maturing loans. For our interest position, see Note 26 to the Interim Financial Statements. See "*—Enerjisa Corporate Bond*".

MANAGEMENT

Overview

Pursuant to the TCC and our articles of association, the Board of Directors is responsible for our management. According to our articles of association, the Board of Directors must consist of eight members appointed by our shareholders, including independent members (as defined by the CMB).

If any of our independent members of the Board of Directors does not satisfy the requirements for independence as defined in the applicable Turkish capital markets regulations, the CMB may require another independent member to be appointed to the Board of Directors within a certain time period.

Under Turkish law, members of the Board of Directors can be appointed from among shareholders as well as non-shareholders, and both natural persons and legal entities can be appointed as members of the Board of Directors. In the event a legal entity is appointed as a member of the Board of Directors, a natural person must be appointed by the legal entity member of the Board of Directors as its representative to exercise all rights and fulfil all duties of a member of the Board of Directors on behalf of such legal entity. See "*Description of Share Capital—Board of Directors*".

As of the date of this offering circular, none of the members of our Board of Directors is independent. However, in accordance with Turkish capital markets regulations, following the Offering, we plan to appoint two independent directors, who will replace two existing members. See "*—Post-Offering Changes to Board of Directors*".

Pursuant to our articles of association, the Board of Directors convenes at least four times in a year. The quorum for meetings of the Board of Directors is six members. The decision quorum of the Board of Directors is the affirmative votes of at least six members, provided that, if required by applicable laws, the affirmative votes of the independent members are obtained.

Each member is elected for a maximum term of three years. Members of the Board of Directors may be re-elected after their terms have expired. The re-election of independent members to the Board of Directors should be in accordance with the Corporate Governance Principles.

The table below sets forth certain information regarding each member of the Board of Directors as of the date of this Offering Circular:

Board of Directors

Name	Position	Year of birth	Year first elected	Year term ends
Mehmet Göçmen	Chairman	1957	2015	2018
Keith Plowman	Vice Chairman	1958	2015	2018
Eduard Hans-Jochen Kley	Board Member	1959	2015	2018
Eva-Maria Verena Volpert	Board Member	1960	2016	2018
Barış Oran	Board Member	1973	2015	2018
Fezal Okur Eskil	Board Member	1976	2017	2018
Alan Richard Bevan	Board Member	1967	2017	2018
Levent Demirağ	Board Member	1959	2017	2018

Mehmet Göçmen

Born in 1957, Mehmet Göçmen, upon graduating from Galatasaray High School and Middle East Technical University with Industrial Engineering degree, completed his master's degree at Syracuse University in United States in industrial engineering and operational research. <Starting his career in 1983 in Çelik Halat ve Tel Sanayi A.Ş., Mr. Göçmen served as the general manager of Lafarge Ekmel Beton A.Ş. and as the vice president for business development and foreign affairs in Lafarge Turkey between 1996 and 2002. From 2003 until 2008, Mr. Göçmen served as the general manager at Akçansa Çimento Sanayi ve Ticaret A.Ş. On August 1, 2008 he was appointed as the president of the Sabancı Holding Human Resources Group and on July 20, 2009, as the president of the Sabancı Holding Cement Group. In June 2014, he was appointed as the president of Sabancı Holding Energy Group and joined the Board of Directors in 2015. On March 30, 2017, Mr. Göçmen was appointed as the CEO of Sabancı Holding.

Keith Plowman

Keith Plowman, born in 1958, has a bachelor degree in engineering from the University of Wales and a master's degree in business administration from Aston University. He held a number of engineering, operational and leadership positions within Powergen/E.ON in project development, combined heat and power, renewables and thermal generation. In 2008, he was appointed as the managing director of E.ON Kraftwerke GmbH responsible for E.ON's thermal power stations. In 2011, he was given the responsibility for new businesses in Brazil and Turkey. He joined the Board of Directors of Enerjisa in April 2013 and became vice chairman in September 2015.

Eduard Hans-Jochen Kley

Jochen Kley, born in 1959, has graduated from University Mannheim, Germany majoring in business administration. In 1989, he started to work as auditor. From 1990 to 1992, he worked as the executive assistant to the CEO MVV, Mannheim. In 1993, Mr. Kley joined PreussenElektra AG, Hannover. Until 1997, he worked as department manager cost accounting and investment control. In 1998, Mr. Kley was appointed as managing director of PreussenElectra Netz GmbH & Co. KG, Hannover. From 2000 to 2005, he was managing director of E.ON Netz GmbH, Bayreuth, and then from 2006 to 2012, he served as senior vice president planning and controlling, E.ON AG, Düsseldorf. In 2012, Mr. Kley was appointed as the chairman and CEO of ZSE, Bratislava, Slovakia.

Eva-Maria Verena Volpert

Verena Volpert is the senior vice president of group finance of E.ON. She holds a degree in business administration. She joined E.ON in 2006 and is responsible for treasury, corporate and structured finance, financing, controlling, financial settlements, asset management and insurance. Before joining E.ON, she headed the finance department of the media company Bertelsmann.

Barış Oran

Barış Oran graduated from Boğaziçi University, department of business administration, and completed his MBA studies at the University of Georgia. In 1995, he started his career as an auditor at Pricewaterhouse Coopers and from 1998 to 2003, worked at Sara Lee Corp in Chicago IL, as an auditor and in finance and treasury/capital markets. Between 2003 and 2006, he worked as senior manager at Ernst and Young first at Minneapolis, MN and then in Europe, Middle East, Africa and India regions. He started working at Kordsa Global in 2006, and held positions of internal audit director, global finance director and CFO respectively. Mr. Oran was appointed as budgeting, consolidation and IR Director of Sabancı Holding in 2011; as the head of finance of Sabancı Holding in 2012 and as the CFO of Sabancı Holding in 2016. He is a member of Brisa, Enerjisa, Enerjisa Electricity Generation Company, Teknosa, Carrefoursa, Avivasa, Çimsa, Temsa and TÜSİAD (Turkish Industry and Business Association) board of directors and he is the chairman of Bimsa.

Fezal Okur Eskil

Fezal Okur Eskil graduated from Boğaziçi University, department of industrial engineering and completed her MS degree in industrial engineering and MBA studies at the Georgia Institute of Technology. In 2001, she started her career at AT Kearney in Chicago and until end of 2005, she worked as a management consultant focusing on both strategy and operations related engagements across a variety of industries. In 2006, she joined Eczacıbaşı Baxter for a year where she worked as an Operations Manager, then in 2007 she joined Philip Morris International in a regional supply chain executive role leading supply chain transformation efforts across Turkey, Greece, Serbia and Romania. At the end of 2007, she joined Sabancı Holding Strategy and Business Development Group, where she was appointed strategy and business development director in 2013. Fezal is focused on strategy and business development efforts in the energy, retail and insurance business units as well as new growth platforms for Sabancı Holding in adjacent and non-adjacent fields and also strategic portfolio management efforts. She currently is a member of Enerjisa and Carrefoursa board of directors.

Alan Richard Bevan

Alan Richard Bevan started working at E.ON in 2008 and later assigned as senior vice president responsible of mergers and procurement in 2010. He was appointed as a member of the board of directors of Enerjisa in November 2017.

Levent Demirağ

Levent Demirağ, who graduated from Ankara University Faculty of Political Science, has taken senior management positions at Sabancı Holding, since 1994. Currently, he serves as the Chief of Financial Affairs, Accounting and Legal Department of Sabancı Holding. He was appointed as a member of the board of directors of Enerjisa in November 2017. Alongside this position, he also serves in the board of directors of Bimsa, Temsa Otomotiv, Temsa İş Makinaları, Temsa Ulaşım ve Exsa companies.

Post-Offering Changes to Board of Directors

The mandatory Corporate Governance Principles for public companies require us to appoint independent members to our Board of Directors until the first general assembly to be convened after commencement of trading on Borsa İstanbul.

A company undergoing an initial public offering and a listing on Borsa İstanbul would initially be qualified as a Tier 3 company and, accordingly, would have to appoint at least two independent members to the board of directors until its first general assembly following its initial public offering. While Tier 1 and Tier 2 companies are required to have a number of independent members on the board of directors equal to at least one-third of the total number of members on their board of directors, the Corporate Governance Communiqué provides an exemption from this requirement to the joint ventures (except for the banks), having at least 51.0% of their share capital equally held by two separate legal entities such as Sabancı Holding and E.ON Turkey, which are independent from each other with regards to capital structure, management, or control, and having such equal control over the joint venture based on an agreement requiring positive votes of both parties for material decisions. Following the Offering, we will apply to the CMB for this exemption, and accordingly, once we are provided with such exemption, we plan to appoint two independent members to our Board of Directors, regardless of the tier classification of the CMB, until the first General Assembly to be convened after commencement of trading on Borsa İstanbul. We expect to hold the first General Assembly until the end of May 2018. See "*Corporate Governance—CMB Corporate Governance Principles*".

Senior Management

The table below sets forth certain information regarding each member of our senior management as of the date of this Offering Circular:

Name	Position	Year of birth	Year appointed
Kıvanç Zaimler	Chief Executive Officer (CEO)	1969	2016
Sascha Bibert	Chief Financial Officer (CFO)	1975	2014
Hakan Timur	Chief Officer, HR and Corporate Capabilities (CHRO)	1973	2016
Gül Erol	Chief Officer, Technology and Customer Solutions (CTO)	1973	2009
Abdullah Köksal	Chief Officer, Marketing (CMO)	1976	2017
Hüseyin Çağlar	Chief Officer, Sales (CSO)	1973	2016
Murat Pınar	Chief Officer, Distribution Business Unit (GM)	1970	2015

Kıvanç Zaimler

Kıvanç Zaimler, born in 1969, graduated from Istanbul Technical University with an industrial engineering degree in 1991, began his career in 1992 after a short engineering program at the Technical University of Berlin. He carried out various executive roles for Türk Elektrik Endüstrisi (TEE), RAM Foreign Trade Inc. and Aygaz. He joined Enerjisa as commercial director in 2008, carried out the coordination of Enerjisa's natural gas business line until 2013. In 2013, he was appointed as vice president of the Distribution Business Unit. During his time in this job, he managed the reorganization and the integration processes of an organization that was in charge of distributing electricity to 9 million customers and 20 million inhabitants in three distribution regions that included 14 cities. He was the vice president responsible for Enerjisa Sales Business Unit from August 2015 to March 2016. He established a consumer-oriented new brand positioning in Enerjisa's preparation process for the free market. Since March 1, 2016, he is the CEO of Enerjisa which manages a wide portfolio of generation, distribution, trade and sales of electricity. He also actively works in several sectoral NGOs (i.e., Vice Chairman of Elder (Association of Distribution System Operators), Vice Chairman of World Energy Council-Turkish

National Committee and YASED (International Investors Association)). Besides his previous professional basketball career and attendance of a large number of professional development programs, he is also educated in self-awareness and personal development and he voluntarily coaches and mentors.

Sascha Bibert

Following his graduation from high school in the US and Germany, Sascha Bibert attended university in London, Paris and Dortmund, majoring in finance related subjects. He began his career in 1999 in the banking sector as an analyst and portfolio manager. He joined Munich Re in 2005 as Head of investor & rating agency relations and entered the energy industry in 2009 at E.ON with the same responsibility. Before joining Enerjisa as CFO in September 2014, he was responsible for group accounting & controlling at E.ON. He also served as a supervisory and advisory board member of an energy from waste company, 51% owned by the private equity firm EQT.

Hakan Timur

With over 20 years of experience in his field including different industries and also international responsibilities, Mr. Timur joined Enerjisa in April 2016 as CHRO. Beginning from October 2017, he took HR & corporate capabilities (CHRO) role in Enerjisa. All human resources functions, such as talent management, total rewards management, industrial relations management, admin affairs management are within his scope. He also leads communication, process development and procurement functions. Mr. Timur has BA degree on economics from Istanbul University and MS degree on energy and technologies management from Sabancı University.

Gül Erol

Gül Erol, who holds BSc degree from METU Industrial Engineering, has been a Sabancı Holding associate for 21 years; acted in various roles initially at Bimsa between 1996 and 2009, and consecutively at Enerjisa since 2009. Mrs. Erol is currently chief technology officer of Enerjisa; responsible from stationing innovation strategy and culture, governing corporate ventures, operating customer solutions, and performing all aspects of information technologies throughout the company.

Abdullah Köksal

With over 16 years of experience, Mr. Köksal joined EEDAŞ in 2009. Mr. Köksal is responsible for energy management, strategic marketing, pricing and tariff management, product management, customer experience, business analysis, data management and marketing communication. Mr. Köksal has a Mechanical Engineering degree from Middle East Technical University and an MBA from City University of New York.

Hüseyin Çağlar

Mr. Çağlar joined Enerjisa in 2016 as chief sales officer leading the retail companies in three regions. Mr. Çağlar has over 20 years of local and global retail experience in Procter & Gamble and Vodafone with a mechanical engineering degree from Boğaziçi University.

Murat Pınar

Mr. Pınar joined Başkent EDAŞ in April 2010. Until August 2015, Mr. Pınar worked as the group director of Başkent EDAŞ, AYEDAŞ and Toroslar EDAŞ. As of today, Mr. Pınar carries out his position as the general manager of Başkent EDAŞ, AYEDAŞ and Toroslar EDAŞ. Mr. Pınar graduated from Karadeniz Technical University as an electrics and electronics engineer.

Other Information

As of the date of this Offering Circular, none of the members of the Board of Directors or senior management, for the previous five years:

- has had any convictions in relation to fraudulent offences; nor
- was member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation; nor

- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Compensation

The aggregate salaries and short and long-term benefits we paid to members of the Board of Directors and senior management for the years ended December 31, 2014, 2015, and 2016 amounted to TL 8,336 thousand, TL 8,228 thousand and TL 10,781 thousand, respectively. For the nine months ended September 30, 2016, and 2017, the aggregate salaries and short and long-term benefits we paid to members of the Board of Directors and senior management were TL 8,687 thousand, and TL 16,150 thousand.

As of the date of this Offering Circular, there were (i) no amounts set aside or accrued by the Company to provide pension, retirement or similar benefits to members of the Board of Directors and senior management or (ii) any service contracts between members of the Board of Directors or senior management, as the case may be, and the Company providing for any benefits upon termination of employment.

Shareholdings

As of the date of this Offering Circular, none of the members of the Board of Directors or senior management directly held any shares or options to acquire any shares.

Management Incentives

Since 1997 Enerjisa have a top management incentive scheme aimed at encouraging the retention of management and maximizing shareholder value. In 2008, the scope of the incentive scheme was expanded by including all managers and above level employees.

Within this management incentive scheme, we provide annual bonuses to members of our management team. The amount of annual bonus paid to individuals is based on the realization rate of pre-determined performance criteria (such as certain individual key performance indicators and company key performance indicators, including market capitalization) against the annual budget. The annual bonuses are calculated based on percentage of base pay and paid annually.

CORPORATE GOVERNANCE

Enerjisa is a privately held company, and Sabancı Holding and E.ON Turkey hold 100.0% of the share capital of the Company, as of the date of this Offering Circular. Sabancı Holding shares are listed on Borsa İstanbul. E.ON indirectly holds 100% of the share capital of E.ON Turkey. E.ON shares are listed on Deutsche Boerse AG ("**Deutsche Boerse**"). See "*Principal and Selling Shareholders*".

Following the Offering, as a public company we will be subject to certain mandatory and non-mandatory corporate governance rules set forth in the Corporate Governance Communiqué (as defined below), the TCC and the Capital Markets Law, among others. See also "*—CMB Corporate Governance Principles*", and "*—Board Committees—Corporate Governance Committee*".

CMB Corporate Governance Principles

Until the end of 2011, there were no mandatory corporate governance rules in Turkey. In 2003, the CMB issued a set of recommended principles for public companies, which applied to public companies on a "comply or explain" basis. On December 30, 2011, the CMB published its first piece of legislation, subsequently amended from time to time, relating to corporate governance which included certain compulsory and non-mandatory principles applicable to all companies incorporated in Turkey and listed on Borsa İstanbul. The CMB published the Corporate Governance Communiqué (II-17.1) (the "**Corporate Governance Communiqué**") in January 2014 which, upon its entry into force, superseded any previous legislation relating to corporate governance.

The Corporate Governance Communiqué contains principles relating to (i) the listed company's shareholders, (ii) public disclosure and transparency, (iii) the stakeholders of the listed company, (iv) the board of directors of the listed company and (v) related party transactions (the "**Corporate Governance Principles**"). A number of the Corporate Governance Principles are mandatory, and the remainder applies on a "comply or explain" basis. The Corporate Governance Communiqué classifies listed companies into three categories according to their market capitalization and the market value of their free-float shares, subject to recalculation on an annual basis, as determined by the CMB.

Companies having an average market capitalization above TL 3 billion and average market value of free-float shares above TL 750 million fall within Tier 1; companies that do not fall within Tier 1 and having average market capitalization above TL 1 billion and average market value of free-float shares above TL 250 million fall within Tier 2; and companies that do not fall within Tier 1 or Tier 2 and shares of which are traded on the Borsa İstanbul's Star Market (*Yıldız Pazar*), Main Market (*Ana Pazar*) or Collective Investment Products and Structured Products Market (*Kolektif Yatırım Ürünleri ve Yapılandırılmış Ürünler Pazarı*) fall within Tier 3. The CMB has classified 36 companies for the year 2018 as Tier 1 companies, to which all of the mandatory Corporate Governance Principles apply. Certain mandatory Corporate Governance Principles are not applicable to Tier 2 or Tier 3 companies and, as of January 1, 2018, there were 42 Tier 2 companies while the remainder is Tier 3 companies. A company offering its shares to the public or being listed on Borsa İstanbul for the first time falls within Tier 3. Such companies must meet the Corporate Governance Principles applicable to Tier 3 companies as of the date of their first general assembly of shareholders to be convened after commencement of trading on Borsa İstanbul. The classification of companies is subject to reclassification by the CMB. Upon announcement of the CMB's reclassification decision in the CMB's bulletin, a company, if its classification was changed, must meet the Corporate Governance Principles applicable to its new category as of the date of its first general assembly of shareholders to be convened after the announcement of the CMB's reclassification decision in the CMB's bulletin.

The mandatory Corporate Governance Principles for public companies relate to such matters as (i) the composition of the board of directors, (ii) appointment of independent members to the board of directors, (iii) board committees, (iv) specific corporate approval requirements for related party transactions, transactions that may result in a conflict of interest and certain other transactions deemed material by the Corporate Governance Communiqué and (v) shareholder information rights in connection with general assemblies of shareholders.

All Tier 1 and Tier 2 companies are required to have a number of independent members on the board of directors equal to at least one-third of the total number of members on the board of directors. However, such companies can apply for the CMB to limit the number of independent members on the board of directors to two, irrespective of the market value of the company's free-float shares, as long as at least 51.0% of their share capital is equally owned by two independent shareholders contractually sharing equal management control, but having no direct or indirect shareholding, management or audit relationship among themselves. Tier 3 companies do not have to satisfy the one-third ratio, although they are required to have at least two independent members on the board of directors. The Corporate Governance Communiqué further states that companies undergoing an initial public offering may appoint two independent members to the board of directors, regardless of their expected market capitalization and market value of free-float shares. Once the CMB announces its list setting forth the tiers of companies for the upcoming year, such companies must appoint the requisite number of independent members to their boards of directors at their upcoming general assemblies of shareholders depending on which tier they are subject to in such list.

A company undergoing an initial public offering and a listing on Borsa İstanbul would initially be qualified as a Tier 3 company and, accordingly, would have to appoint at least two independent members to the board of directors until its first general assembly of shareholders following its initial public offering. While Tier 1 and Tier 2 companies are required to have a number of independent members on the board of directors equal to at least one-third of the total number of members on their board of directors, the Corporate Governance Communiqué provides an exemption from this requirement to the joint ventures (except for the banks), having at least 51.0% of their share capital equally held by two separate legal entities such as Sabancı Holding and E.ON Turkey, which are independent from each other with regards to capital structure, management, or control, and having such equal control over the joint venture based on an agreement requiring positive votes of both parties for material decisions. Following the Offering, we will apply to the CMB for this exemption, and accordingly, once we are provided with such exemption, we plan to continue to appoint two independent members to our Board of Directors, regardless of the tier classification of the CMB. If any of our members of the Board of Directors that we classify as independent do not satisfy the requirements for independence as defined in the applicable Turkish capital markets regulations, the CMB may require another independent member to be appointed to the Board of Directors within a certain time period.

The Corporate Governance Communiqué introduced a pre-assessment process to determine the "independence" of individuals nominated as independent members to the board of directors of Tier 1 companies. Those nominated for such positions must be evaluated by the nomination committee of the board of directors of such companies against the applicable criteria stated in the Corporate Governance Communiqué. The board of directors is required to prepare a list of nominees based on this evaluation for final review by the CMB, which is authorized to issue a "negative view" on any nominee and prevent his/her appointment as an independent member of the board of directors. Tier 2 and Tier 3 public companies are not required to go through the CMB's pre-assessment process for the appointment of independent members to the board of directors, although the nominations must still be evaluated by the nomination committee of the board of directors of such companies. The Corporate Governance Communiqué also requires companies listed on Borsa İstanbul to establish certain other board committees, such as an audit committee, corporate governance committee and early risk detection committee. See "—*Board Committees*".

The CMB requires independent members of the board of directors to have the ability to execute their duties without being influenced by any other circumstances. According to the Corporate Governance Principles, to qualify as an independent member of the board of directors:

- at any time during the past five years, (i) no direct or indirect employment relationship in a management position undertaking important duties and responsibilities or no important commercial relationship should have taken place or (ii) no ownership (directly or indirectly above 5.0%) of equity, privileged equity or voting rights should exist between the independent member of the board of directors, his/her spouse or his/her relatives (up to second degree relatives), on the one hand, and the public company, a related party of the public company or a legal entity/shareholder possessing control of the public company, on the other hand;

- at any time during the past five years, the independent member of the board of directors should not have been a shareholder (holding 5.0% or more shares), an employee in a management position or a member of the board of directors in any entity providing or purchasing a significant level of goods and services to or from the public company within the framework of an agreement, most notably companies providing audit, rating and consultancy services;

- the independent member of the board of directors must have acquired the vocational education, knowledge and experience necessary to duly perform the duties he/she is to undertake in this position;

- the independent member of the board of directors should not be working full time in a governmental entity or institution after his/her appointment, unless he/she is a professor at a university who is allowed to act as an independent member of the board of directors according to the applicable legislation;

- the independent member of the board of directors should have strong ethical standards, professional reputation and experience allowing him/her to make positive contributions to the public company's activities, maintain his/her independence regarding any conflict of interest between the public company and the public company's shareholders and make decisions taking the rights of shareholders into consideration;
- the independent member of the board of directors should be in a position to spend sufficient time on the public company matters to be able to effectively oversee the activities of the public company and fully perform his/her duties as an independent member of the board of directors;
- the independent member of the board of directors should not have served on the company's board of directors for more than during the last ten-year period;
- the independent member of the board of directors should not serve as an independent member of the board of directors for more than three companies controlled by the same person, company or any legal entity controlled by the same shareholders controlling the company and for more than five listed companies; and
- the independent member of the board of directors should not be registered and announced as the representative of a legal entity director.

The Corporate Governance Principles further require that at least half of the independent members of the board of directors of a public company should be resident in Turkey. Residency is determined in accordance with the Income Tax Law No. 193. For more information on resident persons under Turkish income tax laws, see "*Taxation—Turkish Taxation*".

Members of the board of directors can be either natural persons or legal entities and are not required to own shares to serve on the board of directors. For a legal entity to serve as a member of the board of directors, it must appoint a natural person to exercise rights and duties on its behalf as a member of the board of directors.

Members of the board of directors cannot attend negotiations or vote on matters in which such members of the board of directors themselves, their spouses or their relatives (up to and including third degree relatives) have an interest or if their attendance would otherwise be contrary to objective principles of good faith. According to the TCC, members of the board of directors cannot enter into commercial relationships with the company or engage in any competing activities, unless permitted by the general assembly of shareholders. The Corporate Governance Communiqué further requires the board of directors to provide information to the general assembly of shareholders regarding any transaction that is entered into by the members of the board of directors, their spouses or their relatives (up to second degree relatives), which may result in a conflict of interest for, or compete with, the company or its subsidiaries.

In addition to the mandatory Corporate Governance Principles regarding the composition of the board of directors and the independent members of the board of directors, the Corporate Governance Communiqué introduced specific corporate approval requirements for all related party transactions, transactions creating any guarantee, pledge or mortgage in favor of third parties, transactions that may result in a conflict of interest with the company or its subsidiaries and certain other transactions deemed material by the Corporate Governance Communiqué. The Corporate Governance Communiqué imposes certain requirements to be observed by companies in relation to such transactions depending on the magnitude and the scope of the transaction, such as preparation of a valuation report and/or approval by the majority of independent members of the board of directors. If a related party transaction is not approved by the majority of the independent members of the board of directors in a meeting of the board of directors, then, upon disclosure of their grounds for objection on the Public Disclosure Platform, such transaction must be presented to the general assembly of shareholders for approval. See "*Related Party Transactions*".

As of the date of this Offering Circular, the Company complies with the Turkish rules and regulations relating to corporate governance.

Board Committees

Our articles of association require formation of corporate governance committees and adoption of these committees' working principles in accordance with the Corporate Governance Communiqué. In line with the corporate governance principles, the audit committee, corporate governance committee and early risk determination committee were established by our Board of Directors, on December 22, 2017 with the board resolution numbered 2017/126. Pursuant to the board resolution, our audit committee, corporate governance committee and early risk determination committee will commence their activities as of the date that the independent board members, who will be appointed in accordance with the Corporate Governance Communiqué following the Offering, take up their position or as of the date of the first ordinary general assembly meeting to be held following the Offering, at the latest. The working principles of the audit committee, corporate governance committee and early risk determination committee will also be adopted following the Offering.

Apart from the committees mentioned above, we also have some executive committees such as HR Committee, Executive Committee and Finance and Controlling Committee, which were established in accordance with the SHA.

Policies

The Board of Directors approved policies with respect to dividends, donation, remuneration and disclosure as required under the Corporate Governance Principles and with respect to anti-bribery and anti-corruption, on December 22, 2017.

Dividend Policy

See "*Dividends and Dividend Policy—Dividend Policy*".

Donation Policy

Pursuant to our donation policy, we may donate to and grant to the persons, non-governmental organizations, associations or foundations, universities, public institutions and organizations, all of which are active in the fields of education, culture, arts, environment and sport, within the principles stipulated in the capital markets legislation, with a corporate sense of social responsibility, without limited to those listed. Pursuant to article 17 of our articles of association, we can donate 1% of our consolidated profit to Sabancı University and/or Sabancı Association. In addition to the above, the total limit of donations to be made in the fiscal year is determined by the General Assembly.

Remuneration Policy

The purpose of our remuneration policy is to determine the remuneration system and benefits applicable to the members of board of directors and executive managers and to ensure that remuneration take into consideration business size, performance, business contribution, knowledge, skills and competencies; to increase employee motivation and loyalty through observing wage balance within our Company and among similar companies, and achieving competitiveness in the market; and to retain a competent workforce that will enable us to achieve our targets. Pursuant to our remuneration policy, our senior management is entitled to receive a base payment, and performance bonuses.

Disclosure Policy

The main purpose of the disclosure policy is to share its results fully, fairly, correctly, timely and transparently with the public, as well as capital markets participants equally as a principle pursuant to financial reporting standards and provisions of capital markets legislation. Pursuant to our disclosure policy, material disclosures are issued timely, correctly, transparently, sufficiently and free from misleading statements in order to assist decisions of persons and institutions who/which shall benefit from the disclosure.

Anti-Bribery and Anti-Corruption Policy

The main purpose of our anti-bribery and anti-corruption policy is to prevent bribery and corruption, to achieve full compliance with the applicable anti-bribery and anti-corruption legislation and to state the anti-bribery and anti-corruption principles contained in the code of business ethics of our Company. The policy applies to all of our employees, managers, board members as well as the relevant third parties (and their employees) that we outsource goods and services. The policy seeks to encourage our employees to report illegal and unethical activities. The policy also covers the provision of gifts given by customers or persons which a business relationship is established with and gifts offered or given to third parties by us. Pursuant to the policy, any breaches of this policy will be notified to our ethics board.

Investor Relations

Public companies in Turkey must establish an investor relations department, the obligations of which include protecting the rights of shareholders and coordinating communication with shareholders. The investor relations department has the following duties:

- keeping secure and updated records of each shareholder;
- responding inquiries from shareholders to the extent that such inquiries do not relate to matters that could be classified as commercial secrets or non-public or confidential information;
- ensuring that general assemblies of shareholders are convened in accordance with applicable laws, the articles of association and other internal regulations of the company;
- preparing relevant documents that may be submitted to shareholders for review prior to any general assembly of shareholders and distributed to shareholders at general assembly of shareholders;
- recording the results of voting at any general assembly of shareholders and sending reports regarding such results to the shareholders; and
- monitoring the public disclosure policies of the company and compliance therewith.

PRINCIPAL AND SELLING SHAREHOLDERS

As of the date of this Offering Circular, Sabancı Holding holds 50.0% and E.ON indirectly holds 50.0% (through its wholly owned subsidiary E.ON Turkey) of our shares. Sabancı Holding will hold 41.0% and E.ON will hold 41.0% of our shares after the Offering (40.0% and 40.0%, respectively, if all Additional Shares are sold).

The table below sets forth certain information with respect to the ownership of our shares as of January 22, 2018 (i) on an actual basis, (ii) as adjusted to reflect the Offering, and (iii) as adjusted to reflect the Offering assuming all Additional Shares are sold:

	Actual		As adjusted for the Offering		As adjusted for the Offering (including Additional Shares)	
	Number	% of outstanding share capital	Number	% of outstanding share capital	Number	% of outstanding share capital
Sabancı Holding	59,053,448,356	50.0	48,423,827,656	41.0	47,242,758,756	40.0
E.ON Turkey	59,053,448,356	50.0	48,423,827,656	41.0	47,242,758,756	40.0
Public	—	—	21,259,241,400	18.0	23,621,379,200	20.0
Total	**118,106,896,712**	**100.0**	**118,106,896,712**	**100.0**	**118,106,896,712**	**100.0**

Sabancı Holding

Sabancı Holding is the parent company of Sabancı Group, one of Turkey's leading conglomerates. Sabancı Group companies are market leaders in their respective sectors including financial services, energy, cement, retail and industrials. Sabancı Holding is listed on Borsa İstanbul, and has controlling interests in 10 companies that are also listed on Borsa İstanbul. Sabancı Group companies currently operate in 16 countries and market their products in several regions across Europe, Middle East, Asia, North Africa, North and South America.

Sabancı Holding's multinational business partners include such prominent companies as Ageas, Aviva, Bridgestone, Carrefour, E.ON, Heidelberg Cement, Philip Morris, and Marubeni (through Temsa Ulaşım Araçları Sanayi ve Ticaret A.Ş. ("**Temsa**")). In addition to coordination of finance, strategy, business development and human resources functions, Sabancı Holding determines Sabancı Group's vision and strategies.

In 2016, the combined revenue of Sabancı Holding was TL 54.0 billion (USD 17.8 billion) with operating profit of TL 7.4 billion (USD 2.5 billion). The Sabancı Family owns 56.44% of Sabancı Holding's share capital. Sabancı Holding's shares are traded on Borsa İstanbul with a free-float rate of 40.2%, which is the largest float rate among holding companies. Depositary receipts are quoted on the SEAQ International and PORTAL.

E.ON

E.ON is an investor-owned energy company based in Essen, Germany. E.ON's operations are segmented into three operating units, energy networks, customer solutions, and renewables. E.ON is mainly active in Germany, UK, US, Sweden, East-Central Europe and Turkey. E.ON has around 43,000 employees and reported over EUR 38 billion of sales in 2016 (group figure according to IFRS). Energy networks segment consists of power and gas distribution networks and related activities. The customer solutions segment serves as the platform for working with the customers to actively shape Europe's energy transition. This includes supplying customers in Europe with power, gas, and heat as well as with products and services that enhance their energy efficiency and autonomy and provide other benefits. The renewables segment consists of onshore wind and solar energy and offshore wind energy and other. Additionally, E.ON plans, builds, operates, and manages renewable generation assets.

Shareholders' Agreement

Sabancı Holding and DD Turkey (the "**Parties**") entered into an initial shareholders agreement on December 3, 2012, which was later amended on April 25, 2013 and February 6, 2015. The Parties entered a new shareholders agreement on September 12, 2017 governing Enerjisa Enerji A.Ş. (the "**SHA**"), among others, in order to reflect the changes arising from the Offering. Certain portions of the SHA are reflected into our Articles of Association. See "*Description of Our Share Capital*". In addition, the SHA governs the following:

- Under the SHA, the Parties agree that Enerjisa will be governed and managed as one company and the Parties intend to hold joint control of Enerjisa.
- According to our articles of association and the SHA, the Board of Directors must consist of eight members appointed by our shareholders. As per the SHA, Sabancı and E.ON has the right to nominate three board members each, whereas the remaining two directors will be independent. Sabancı and E.ON will also each nominate one independent director who satisfies the independency criteria as per Turkish capital markets regulations.
- The chairman of the Board of Directors will be elected from amongst the directors nominated by Sabancı, and the vice-chairman will be elected from amongst the directors nominated by E.ON.
- The chief executive officer of Enerjisa is nominated by Sabancı, and the chief financial officer of Enerjisa is nominated by E.ON, both of whom will be subject to appointment by our Board of Directors.
- The SHA governs the management of Enerjisa and its subsidiaries, executive powers and authorities required for the approval of certain corporate actions.
- In addition, the SHA also contemplates certain restrictions in case one of the Parties decides to fully or partially exit Enerjisa.

RELATED PARTY TRANSACTIONS

The following is a description of transactions with our related parties (as defined under IAS 24—Related Party Disclosures, "related party transactions"). This section should be read in conjunction with the Financial Statements and notes thereto included elsewhere in this Offering Circular and the information contained in "Presentation of Financial and Other Information" and "Management's Discussion and Analysis of Results of Operations and Financial Condition".

Introduction

As of the date of this Offering Circular, Sabancı Holding holds 50.0% and E.ON indirectly holds 50.0% (through its wholly owned subsidiary E.ON Turkey) of our shares. Sabancı Holding will hold 41.0% and E.ON will hold 41.0% of our shares after the Offering (40.0% and 40.0%, respectively, if all Additional Shares are sold). See "*Principal and Selling Shareholders*".

The CMB is authorized to impose sanctions on publicly traded companies if the transactions they conclude with related parties are not on an arm's length basis. In addition to the sanctions that may be imposed by the CMB on related party transactions, Turkish tax regulations also impose certain sanctions on related party transactions, which are governed by the transfer pricing and disguised profit distribution rules. Pursuant to the Corporate Governance Communiqué, the affirmative votes of the majority of the independent members of the Board of Directors are required for resolutions in connection with material related party transactions into which a public company enters.

The independent members of the Board of Directors may refrain from voting or vote against a related party transaction. In such cases, if which the affirmative votes of the majority of the independent members of the Board of Directors cannot be obtained, such event must be publicly disclosed via the Public Disclosure Platform and the related party transaction in question must be submitted the general assembly of shareholders for their approval.

Parties to the related party transaction and related parties of such persons cannot attend or vote in the general assemblies. There is no quorum requirement for these general assemblies and attendees may resolve to accept or reject the related party transaction with the simple majority of the votes. If the related party transaction is not approved by the general assembly, the company will be prohibited from entering into such related party transaction. The CMB regulations applicable to us and the Corporate Governance Communiqué also provide certain provisions with respect to related party transactions. See "*Corporate Governance*".

Scope of Related Parties

We transact with several related parties within the Sabancı Group, including Akbank, Bimsa Uluslararası İş, Bilgi ve Yönetim Sistemleri A.Ş. ("**Bimsa**"), Çimsa Çimento Sanayi A.Ş. ("**Çimsa**"), Enerjisa Electricity Generation Company, and Enerjisa Electricity Wholesale Company.

Related Party Transactions between EEDAŞ and Enerjisa

As part of the Corporate Reorganization, on April 28, 2017, EEDAŞ merged with Enerjisa and then dissolved without liquidation, through a spin-off transaction which was completed on August 25, 2017, as a result of which Enerjisa was the surviving entity.

Before the merger and spin-off transactions between EEDAŞ and Enerjisa, EEDAŞ entered into several related party transactions with Enerjisa including loan agreements executed between EEDAŞ and Enerjisa as described below in "*—Financing Transactions with Enerjisa*". As a consequence of the merger and spin-off transactions, all of EEDAŞ's assets and liabilities were transferred to Enerjisa at their book values. Therefore, as of the date of this Offering Circular, Enerjisa's liabilities to EEDAŞ were eliminated in the Corporate Reorganization process.

Summary of Related Party Transactions

Related Party Transactions with Akbank and Enerjisa

The table below sets forth a breakdown of our short and long term liabilities arising from the loans provided by Akbank (and, prior to the Corporate Reorganization, loans provided by Enerjisa to EEDAŞ) as of the dates indicated:

	As of December 31,			As of September 30,
	2014	2015	2016	2017
	(Turkish Lira in thousands)			
Short-term liabilities				
Akbank	223,611	400,916	1,486,450	987,569
Enerjisa[(1)]	—	99,000	83,502	—
Total	**223,611**	**499,916**	**1,569,952**	**987,570**
Long-term liabilities				
Akbank	830,000	1,209,469	1,050,000	2,312,800
Enerjisa[(1)]	—	20,000	—	—
Total	**830,000**	**1,229,469**	**1,050,000**	**2,312,800**

(1) As part of the Corporate Reorganization, EEDAŞ merged with Enerjisa on April 28, 2017 and then dissolved without liquidation, as a result of which Enerjisa was the surviving entity. The spin-off transaction was completed on August 25, 2017. As a consequence of this merger and spin-off, all of EEDAŞ's assets and liabilities were transferred to Enerjisa at their book values. Therefore, Enerjisa's liabilities to EEDAŞ were eliminated in the Corporate Reorganization process.

See "*—Financing Transactions with Akbank*" and "*—Financing Transactions with Enerjisa*" below for more information.

Related Party Transactions with Other Related Parties

The table below sets forth a breakdown of our short-term trade receivables from and payables to our related parties as of the dates indicated:

	As of December 31,			As of September 30,
	2014	2015	2016	2017
	(Turkish Lira in thousands)			
Short-term trade receivables from related parties				
Çimsa	—	300	13,518	10,539
Enerjisa Electricity Wholesale Company	17,099	3,906	2,242	244
Bimsa	—	—	—	—
Enerjisa[(1),]	—	52	41	—
Enerjisa Electricity Generation Company	86	1,309	—	814
Others	—	557	—	19,836
Short-term trade payables to related parties				
Çimsa	—	—	—	—
Enerjisa Electricity Wholesale Company	(58,233)	(114,098)	(111,738)	(104,225)
Bimsa	(79)	(13,440)	(7,164)	(140)
Enerjisa[(1)]	(3,109)	(749)	(2,575)	—
Enerjisa Electricity Generation Company	(6)	(20)	—	—
Others	(1,825)	(1,692)	(4,584)	(88)
Balance	**(46,067)**	**(123,875)**	**(110,260)**	**(73,020)**

(1) As part of the Corporate Reorganization, EEDAŞ merged with Enerjisa on April 28, 2017 and then dissolved without liquidation, as a result of which Enerjisa was the surviving entity. The spin-off transaction was completed on August 25, 2017. As a consequence of this merger and spin-off, all of EEDAŞ's assets and liabilities were transferred to Enerjisa at their book values. Therefore, Enerjisa's liabilities to EEDAŞ were eliminated in the Corporate Reorganization process.

The table below sets forth a breakdown of our short-term non-trade receivables from our related parties as of the dates indicated:

	As of December 31,			As of September 30,
	2014	2015	2016	2017
	(Turkish Lira in thousands)			
Çimsa	—	—	—	—
Enerjisa Electricity Wholesale Company	—	28	—	—
Others	—	39	2	—
Balance	**—**	**67**	**2**	**—**

As of December 31, 2014, 2015, and 2016, and September 30, 2017 we did not have any long-term trade receivables from or payables to our related parties. In addition, as of the same dates, we did not have any long-term non-trade receivables from or payables to our related parties. Furthermore, as of the same dates, we did not have any short-term non-trade payables to our related parties.

Other Income and Expenses from Related Party Transactions

The table below sets forth a breakdown of our other income from our related parties as of the dates indicated:

	As of December 31,			As of September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
Other income[(1)]					
Enerjisa Electricity Generation Company	1,009	1,409	1,000	722	6,090
Enerjisa Electricity Wholesale Company	263	469	—	401	975
Enerjisa[(2)]	—	469	—	80	—
Others	—	—	—	—	48
Total	**1,272**	**2,347**	**1,000**	**1,203**	**7,113**

(1) Other income from our related parties includes service fee charges.
(2) As part of the Corporate Reorganization, EEDAŞ merged with Enerjisa on April 28, 2017 and then dissolved without liquidation, as a result of which Enerjisa was the surviving entity. The spin-off transaction was completed on August 25, 2017. As a consequence of this merger and spin-off, all of EEDAŞ's assets and liabilities were transferred to Enerjisa at their book values. Therefore, Enerjisa's liabilities to EEDAŞ were eliminated in the Corporate Reorganization process.

The table below sets forth a breakdown of our other expenses we incur in relation to our related party transactions as of the dates indicated:

	As of December 31,			As of September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
Other expenses[(1)]					
Enerjisa[(2)]	11,654	11,351	13,098	10,530	—
Enerjisa Electricity Wholesale Company	448	6,371	7,974	4,214	2,924
Bimsa	105	3,161	6,131	2,380	5,206
Others	1,909	2,637	775	4,627	2,916
Total	**14,116**	**23,520**	**27,978**	**21,751**	**11,046**

(1) Other expenses we incur in relation to our related party transactions include management fees, energy portfolio consultancy charges and IT consultancy charges.
(2) As part of the Corporate Reorganization, EEDAŞ merged with Enerjisa on April 28, 2017 and then dissolved without liquidation, as a result of which Enerjisa was the surviving entity. The spin-off transaction was completed on August 25, 2017. As a consequence of this merger and spin-off, all of EEDAŞ's assets and liabilities were transferred to Enerjisa at their book values. Therefore, Enerjisa's liabilities to EEDAŞ were eliminated in the Corporate Reorganization process.

For more detailed information on our related party transactions, see Note 5 to the Interim Financial Statements.

Financing Transactions with Akbank

We have entered into several general loan agreements with Akbank for the purpose of meeting our working capital needs and to finance regulatory CAPEX. As of September 30, 2017, the total outstanding loans extended to us by Akbank amounted to TL 2,352 million and USD 266.9 million (the principal amounts for such loans are 2,290 million and USD 263.6 million, respectively). Foreign currency risks associated with the U.S. dollar denominated loans are fully hedged through foreign exchange swap and cross currency swap instruments. As of September 30, 2017, our total short-term liabilities arising from the loans provided by Akbank amounted to TL 987,570 thousand (including principal and interest accruals) and our total long-term liabilities arising from the loans provided by Akbank amounted to TL 2,312,800 thousand (including principal and interest accruals).

The table below sets forth a breakdown of the interest received from and interest paid to Akbank as of the dates indicated:

	As of December 31,			As of September 30,	
	2014	2015	2016	2016	2017
	(Turkish Lira in thousands)				
Interest received					
Akbank	34,312	12,347	14,884	20,042	19,099
Interest paid					
Akbank	72,377	152,029	257,432	177.333	296,389

The table below sets forth a breakdown of the cash and cash equivalents in Akbank accounts as of the dates indicated:

	As of December 31,			As of September 30,
	2014	2015	2016	2017
	(Turkish Lira in thousands)			
Akbank	70,863	87,772	12,921	81,795
Total	**70,863**	**87,772**	**12,921**	**81,795**

We had demand deposits, time deposits at and executed repurchase agreement with Akbank. The table below sets forth a breakdown of the demand deposits, time deposits and repurchase agreements with Akbank as of the dates indicated:

	As of December 31,			As of September 30,
	2014	2015	2016	2017
	(Turkish Lira in thousands)			
Demand deposits	3,067	32,366	4,307	31,469
Time deposits	—	—	—	47,026
Repurchase agreements	67,796	55,406	8,614	3,300
Total	**70,863**	**87,772**	**12,921**	**81,795**

Financing Transactions with Enerjisa

Before the merger and spin-off transactions between EEDAŞ and Enerjisa, EEDAŞ entered into several loan agreements with Enerjisa for the purpose of optimizing its cash position. However, as a consequence of the merger and spin-off transactions, all of EEDAŞ's assets and liabilities were transferred to Enerjisa at their book values. Therefore, as of the date of this Offering Circular, Enerjisa's liabilities to EEDAŞ were eliminated in the Corporate Reorganization process.

The table below sets forth a breakdown of the interest paid to Enerjisa as of the dates indicated:

	As of December 31,			As of September 30,
	2014	2015	2016	2017
	(Turkish Lira in thousands)			
Enerjisa	—	2,452	11,884	—

Electricity Purchases from Enerjisa Electricity Wholesale Company

For our retail sales to free customers we purchase electricity, which we subsequently sell to our customers, from Enerjisa Electricity Wholesale Company. We enter into bilateral agreements with Enerjisa Electricity Wholesale Company for such purchases.

For the years ended December 31, 2014, 2015 and 2016 for the nine months ended September 30, 2016 and 2017, we purchased electricity from Enerjisa Electricity Wholesale Company amounting to TL 1,418,047, TL 2,213,661, TL 1,448,832, TL 1,095,601 and TL 608,826, respectively. For the same periods, Enerjisa Electricity Wholesale supplied approximately 21.1%, 30.8%, 24.6%, 24.1%, and 12.1% of the total electricity we sold to our customers.

Following the completion of the second phase of the Corporate Reorganization, we established a trade business unit under Enerjisa for management of our electricity sourcing operations. These sourcing management operations for Enerjisa were previously conducted by a unit under Enerjisa Electricity Wholesale Company, and following establishment of this trade business unit, we became able to manage our electricity sourcing operations on our own.

Electricity Sales to Sabancı Group Companies

We sell electricity to our related parties, including Enerjisa Electricity Wholesale Company, Çimsa and Akbank. We enter into bilateral agreements with our related parties for such sales. The table below sets forth a breakdown of our sales to our related parties as of the dates indicated:

	As of December 31,			As of September 30,
	2014	2015	2016	2017
	(Turkish Lira in thousands)			
Electricity sales				
Enerjisa Electricity Wholesale Company	100,434	74,068	40,747	237
Çimsa	2,099	27,233	20,988	57,934
Akbank	—	489	825	17,828
Others	—	202	3,844	52,949
Total electricity sales	**102,533**	**101,992**	**66,404**	**128,948**
Percentage to the total revenue (%)	**1.3**	**1.1**	**0.7**	**1.5**

DESCRIPTION OF SHARE CAPITAL

The following is a description of the rights attaching to the shares, which rights are derived from the TCC, the Capital Markets Law, the CMB regulations and the articles of association of Enerjisa.

Overview

The current issued share capital of Enerjisa is TL 1,181,068,967.12 divided into 118,106,896,712 shares, each with a nominal value of TL 0.01, all of which are in registered form and fully paid.

We adopted the authorized share capital system. The maximum amount of our authorized share capital ceiling is TL 4,000,000,000, divided into 400,000,000,000 shares, each with a nominal value of TL 0.01 and the Board of Directors is authorized to issue new shares up to this maximum amount without the approval of shareholders. Within this authorized share capital limit, our Board of Directors is also authorized to issue new shares at a premium to their nominal value of TL 0.01 per share, or, under certain circumstances, issue shares at a price below the nominal value of TL 0.01 per share. The Board of Directors is also authorized to restrict the pre-emption rights of our shareholders in connection with such new share issuances. However, if the Board of Directors restricts the pre-emption rights of our shareholders, the new share issuance within the authorized share capital ceiling can only be 10.0% of our issued share capital.

The current approval for the authorized share capital obtained from the CMB is valid for the period between 2017 and 2021 (for a term of five years). Following the expiration of this five years' period, the General Assembly may resolve to extend this period for another term of five years.

Term, Object and Purpose

Enerjisa was incorporated in December 21, 2011 as a joint stock company under the TCC, with the trade name Enerjisa Enerji A.Ş. and is registered with the İstanbul Trade Registry under number 800865. Enerjisa is incorporated for an indefinite term.

Pursuant to Article 4 of our articles of association, our primary objectives are to participate in companies which perform electricity distribution, supply and retail sale activities, but we are not limited to those objectives.

Pre-emptive Rights

Turkish companies may increase their share capital through various methods, including through the issuance of new shares, and such issuance may be in the form of a rights issue or a bonus issue. Absent a resolution adopted at a general assembly of shareholders stating otherwise, the existing shareholders of a Turkish company have pre-emptive rights to subscribe for new shares in proportion to their respective shareholdings each time the company undertakes a share capital increase. For rights issues when pre-emptive rights of shareholders are not restricted, the boards of directors of Turkish companies generally recommend that new shares be issued at their nominal value. This entitles the existing shareholders to subscribe for shares at a significant discount to the market price of the shares at the time of such issuance. However, new shares may also be issued at premium or at prices higher than or, subject to the CMB's consent, lower than their nominal value. Pre-emptive rights entitle existing shareholders to subscribe only for the same class of shares they hold.

Shareholders must exercise their pre-emptive rights within a subscription period announced by the company, which may not be less than 15 days or more than 60 days. Pursuant to the CMB Communiqué on Sale of Capital Markets Instruments (II-5.2), in a share capital increase of a public company, any shares remaining after the exercise of the pre-emptive rights must be sold on the stock exchange. Such remaining shares may not be sold at a price lower than their nominal value. However, this requirement does not apply in the context of a share capital increase of a public company relating to a class of shares that does not have a trading sequence on Borsa İstanbul. If such remaining shares are not sold on the stock exchange, those shares must be sold at least at a price calculated by reference to Borsa İstanbul primary market of the daily weighted average of the last two days of the public offering period relating to new shares issued due to such share capital increase. If a primary market is not constituted for the offering or there are no transactions in the primary market, such shares must be sold at least at the daily weighted average price of the shares formed in the secondary market on the last day of the exercise period for the pre-emptive right. If there are no transactions in the secondary market on the last day of the exercise period for the pre-emptive right, the sale price will be equal to the daily weighted average price on the last transaction date in the secondary market. In any case, any shares remaining after the exercise of pre-emptive rights may not be sold at a price lower than their nominal value. If the listed shares provide a different set of rights to shareholders of such shares, as compared to the unlisted shares, the sale price may be determined by different methods subject to the prior approval of the CMB.

Pre-emptive rights of shareholders related to a rights issue may be restricted, in whole or in part, either (i) by a two-thirds vote of shareholders present at a general assembly of shareholders of a public company or a majority vote if at least half of the shareholders were present at the general assembly of shareholders, unless a higher quorum is required under the articles of association of such public company or (ii) for companies that have adopted the authorized share capital system (such as us), by a resolution adopted by the board of directors to such effect, provided that such authority has been conferred upon the board of directors under the company's articles of association. The CMB rules stipulate that such authority may be conferred upon the board of directors of companies that have received permission from the CMB to adopt the authorized share capital system. Our Company has adopted the authorized share capital system, and the pre-emptive rights of our shareholders may be restricted by a resolution to be adopted by the Board of Directors. However, if the Board of Directors restricts the pre-emption rights of our shareholders, the new share issuance within the authorized share capital ceiling can only be 10.0% of our issued share capital.

Shareholders are entitled to file a lawsuit against the decisions of the board of directors relating to share capital increases under the authorized share capital system. Such a lawsuit against the board of directors' decisions should be filed within 30 days from the date of announcement of such board of directors' decision.

Under Turkish law, bonus issues may be undertaken to convert all or a portion of a company's revaluation internal funds and reserves, distributable earnings and profits from the sale of equity participations and fixed assets into share capital. See "*Dividends and Dividend Policy*". Bonus issues are distributed to the shareholders *pro rata* to their respective shareholdings as of the date of the bonus issue. According to the provisions of the TCC, (i) capital reserve funds, which are set aside for contingencies but not allocated for a special purpose, (ii) a portion of statutory reserves which can be freely disposed of and (iii) funds which are permitted by law to appear on the balance sheet and be added to capital, may be converted into share capital, and share capital may be increased by utilizing such internal sources, reserves and funds.

Dividends

See "*Dividends and Dividend Policy*".

Liquidation Rights

Pursuant to the TCC, shareholders of a joint stock company have the right to receive a *pro rata* share of any proceeds arising from the liquidation of such company. The articles of association, however, may restrict this right of the shareholders. As of the date of this Offering Circular, no privileged rights with regard to any surplus in case of liquidation have been granted to any of our shareholders.

General Assembly of Shareholders

Under the TCC, the general assembly of shareholders of a joint stock company must convene for ordinary meetings which must be held within three months after the end of each financial year. If necessary, the general assembly of shareholders of a joint stock company may convene for extraordinary meetings.

The General Assembly convenes upon notice by the Board of Directors to our shareholders at least three weeks prior to the date of the General Assembly. Once Enerjisa is a public company, notices, including any postponements and re-scheduling of the General Assembly, and the agenda of such General Assembly must be published in the Trade Registry Gazette, on its website and the Public Disclosure Platform at least three weeks prior to the date of the General Assembly, excluding the date of publication and the date of the General Assembly.

Pursuant to our articles of association, the General Assembly is to be held at the Company's headquarters, located at Sabancı Center Kule 2, 4. Levent—Beşiktaş / İstanbul, Turkey, or another location in İstanbul, or another location determined by the Board of Directors in accordance with the applicable laws. Extraordinary meetings of the General Assembly may be convened by the Board of Directors or upon request of the shareholders representing at least 5.0% of our share capital. If the Board of Directors does not fulfil the request of the shareholders, such shareholders may ask permission from the court to convene the General Assembly.

The following matters are required by the TCC to be included in the agenda for each ordinary General Assembly:

- the appointment of the chairman of the General Assembly;
- the review of the annual report of the Board of Directors and the auditor's report;
- the review of the annual financial statements and the approval, amendment or rejection of the balance sheet and profit and loss accounts prepared for the preceding financial year;
- the allocation and distribution of profit for the preceding financial year as a dividend;
- the release of the Board of Directors from liability in respect of actions taken by them during the preceding financial year;
- the approval of the compensation of the members of the Board of Directors and the statutory auditors; and
- the appointment or re-election of members of the Board of Directors and statutory auditors of Enerjisa whose term of office has expired.

Shareholders representing at least 5.0% of our share capital may, by written notice to be served through the notary public, require any additional matters to be included on the agenda for discussion at any of General Assembly. If the Board of Directors does not fulfil such request, such shareholders may ask permission from the court to include additional items on the agenda. Additionally, public companies must include on the agenda of the General Assembly the matters that the CMB requires to be discussed or disclosed to shareholders.

With respect to our shares which are entered in the book-entry system, the Central Registry Agency will prepare a list of our shareholders of record, which will be taken into consideration for the relevant General Assembly. Shareholders whose names are included in the list may attend the General Assembly by presenting their identity cards. Any shareholder not wishing to attend General Assembly in person may appoint another person as a proxy.

Unless otherwise ordered by the TCC, the Capital Markets Law or our articles of association, the presence in person or by proxy of the shareholders representing 50.0% plus one of the outstanding shares constitutes the meeting quorum at any duly convened ordinary or extraordinary General Assembly. Except as otherwise required by law, all actions of the shareholders are taken by affirmative vote of 50.0% plus one of the outstanding shares. Pursuant to our articles of association, the shareholders shall exercise their voting rights in the General Assembly pro rata to the aggregate nominal values of their shares. The votes shall be cast as open votes by means of showing hands and/or participation via electronic platform. However, written votes are required if requested by the shareholders owning one twentieth of the issued share capital or if proxies are collected upon a call in accordance with the relevant capital markets legislation.

In addition to the foregoing, the General Assembly called to consider any of the following matters requires the indicated supermajority approval:

- change of the jurisdiction of incorporation of the company or increases in the obligations of the shareholders, which requires attendance and unanimous affirmative decision of shareholders or proxies representing 100.0% of the share capital;
- restriction of pre-emptive rights and authorization of the Board of Directors to restrict pre-emptive rights under the authorized share capital system, and share capital reduction. Although the regulations do not require a meeting quorum, pursuant to our articles of association shareholders representing 50.0% plus one of the outstanding shares need to be present at the meeting, therefore our articles of association is applicable in terms of the meeting quorum. Decisions are taken by the affirmative vote of 66.7% of the shareholders that are present at the duly convened General Assembly. If, however, shareholders representing at least 50.0% of the share capital are present at the General Assembly, decisions are taken by the affirmative vote of the simple majority of the shares represented by shareholders that are present;
- material transactions under the Capital Markets Law, which include, among others, material changes in the scope of activity, merger, demerger, change in corporate status, dissolution, transfer or establishment of a right *in rem* on, or the rental of, a material amount of assets, acquisition or lease of a material amount of assets from related parties, creation of any privileges or the change in the scope or subject matter of existing privileges and delisting. Although the regulations do not require a meeting quorum, pursuant to our articles of association shareholders representing 50.0% plus one of the outstanding shares need to be present at the meeting, therefore our articles of association will be applicable in terms of the meeting quorum. Decisions are taken by the affirmative vote of 66.7% of the shareholders that are present at the duly convened General Assembly. If, however, shareholders representing at least 50.0% of the share capital are present at the General Assembly, decisions are taken by the affirmative vote of the simple majority of the shares represented by shareholders that are present.

The Corporate Governance Communiqué introduced specific corporate approval requirements for all related party transactions, transactions creating any guarantee, pledge or mortgage in favor of third parties, transactions that may result in a conflict of interest with the company or its subsidiaries and certain other transactions deemed material by the Corporate Governance Communiqué. The Corporate Governance Communiqué imposes certain requirements to be observed by companies in relation to such transactions, depending on the magnitude and the scope of the transaction, such as preparation of a valuation report and/or approval of the majority of independent members of the board of directors. If such transaction is not approved by the majority of the independent members of the board of directors, the relevant transaction has to be put to vote at a general assembly of shareholders. The parties to the transaction and their related parties cannot vote to approve the transaction at the general assembly of shareholders, to ensure the participation of other shareholders in the decision. No meeting quorum is required for such general assemblies of shareholders, and resolutions are passed by simple majority of those entitled to vote at the relevant general assembly of shareholders. Resolutions of the board of directors or the general assembly of shareholders passed in violation of the principles set forth in this paragraph are not valid. See "*Corporate Governance*".

According to the TCC, resolutions adopted at a duly convened general assembly of shareholders are valid and binding on the shareholders who did not attend the meeting.

Under the TCC and the Capital Markets Law, shareholders are entitled to initiate cancellation lawsuits against the decisions of the general assembly of shareholders if such shareholders (i) voted against the decisions of the general assembly of shareholders and registered their dissenting vote in the minutes of the general assembly of shareholders or (ii) regardless of their presence at the general assembly of shareholders, claim that the notice of such general assembly of shareholders was not duly given or the agenda was not duly announced, thus affecting the decision of the general assembly of shareholders. Such lawsuit against a decision of the general assembly of shareholders should be filed within three months from the date of such decision. Prior approval of the CMB and the Ministry of Customs and Trade must be obtained for any amendment to our articles of association.

Electronic General Assembly

In accordance with the requirements of the TCC and the Capital Markets Law, following the Offering, our shareholders will be entitled to participate in General Assemblies through the electronic platform operated by the Central Registry Agency where such General Assemblies are streamed in real time. Shareholders who request to participate in a General Assembly through the electronic platform one day prior to the relevant General Assembly may attend the meeting by using the electronic platform, provided that they obtain electronic signatures in advance. All announcements and other documents that must be submitted for the review of our shareholders will also be made available through the electronic platform. During the General Assembly, shareholders may electronically vote and submit a maximum of two written opinions for each agenda item, limited to 600 characters each. Through the electronic platform, shareholders also may appoint a proxy to attend the General Assembly physically or through the electronic platform on their behalf.

The electronic platform operated by the Central Registry Agency archives all documents provided for the attention of the shareholders, voting information, resolutions, attendee and shareholding information and similar information for 20 years, accessible to the company and its shareholders.

Voting Rights

Our shareholders are entitled to one vote per share held on all matters submitted to a shareholder vote. Any shareholder not wishing to attend a General Assembly in person may appoint another person as a proxy and may exercise its voting rights through its proxy.

Transfer of Shares

Except as otherwise discussed below, the transfer of our shares is permitted under our articles of association and must be made in accordance with the relevant legislation. The transfer of our shares is effective upon book-entry registration with accounts maintained by the Central Registry Agency.

According to the CMB's Communiqué on Shares (VII-128.1), shareholders holding at least 10.0% of the shares in a company undertaking an initial public offering or, irrespective of their shareholding, by shareholders exercising management control over such company, cannot sell their shares on the stock exchange below the offer price within a period of one year after the commencement of trading of the shares on the exchange. See

"*Plan of Distribution—Lock-Up Arrangements*". Investors who purchase shares in the company from such shareholders in the initial public offering will not be subject to this restriction. Further, shares that are acquired by such relevant shareholders on the stock exchange after the commencement of trading of the shares will not fall within this restriction. However, if an investor purchases shares from such shareholder outside the stock exchange, the shares purchased in the transaction will also be subject to the restriction.

Turkish law requires non-resident investors to trade Turkish equity securities through a licensed Turkish bank or a licensed brokerage firm. In addition, the CMB regulations require banks or brokerage firms to trade shares in a company listed on a Turkish stock exchange exclusively on such stock exchange. Accordingly, following the Offering, non-resident investors may transfer the Offer Shares only on Borsa İstanbul and only through a licensed bank or a licensed brokerage firm. Further, transfer of Offer Shares realized through a licensed bank or a licensed brokerage firm is subject to a registration requirement in compliance with the relevant rules of Borsa Istanbul. See "*Transfer Restrictions*".

In addition, pursuant to the Electricity Market Licensing Regulation, any direct or indirect acquisition of the shares representing 5.0% or more of a license holder company's share capital (including Enerjisa) or any acquisition resulting in change of the control of a license holder company is subject to the prior approval of EMRA. In addition, irrespective of the above thresholds, creation of pledges over shares of, and creation of account pledge over the accounts of a license holder company are also subject to prior approval by EMRA. However, these share transfer restrictions do not apply for any direct or indirect acquisition of shares of a license holder that are listed on a stock exchange. Therefore, following the Offering, any direct or indirect acquisition of our shares that are listed on Borsa İstanbul would not be subject to this restriction. See "*Regulatory Overview—Share Transfers of Electricity Market License Holders*".

Mandatory Offer

If any party or parties acting together acquire management control of a public company, such party or parties are required to make an offer to the other shareholders to buy their shares and apply to the CMB for the approval of the tender offer and provide the associated disclosure documentation within six business days following the acquisition of the shares and voting rights granting management control and to commence the offer transactions within two months following the acquisition pursuant to the Tender Offer Communiqué (II-26.1) (the "**Tender Offer Communiqué**"). Acquisition of management control occurs when a person individually or acting together with others, owns, directly or indirectly, more than 50.0% of the voting rights of a company, or, regardless of any voting rights owned directly or indirectly, acquires privileged shares that grant the power to elect directors constituting the majority of the board of directors or to nominate the majority of the board of directors for election at the general assembly of shareholders. The CMB may grant an exemption from the mandatory offer obligation under certain circumstances, such as acquisition of management control as a consequence of a mandatory shareholding structure change to reinforce the financial standing of the company or acquisition of management control in the parent of the company without the intent to acquire management control in the company. The Capital Markets Law and the Tender Offer Communiqué state that, if the tender offer process is not initiated within two months (or extended until the end of such requested extension), then the voting rights of those who are in violation of their mandatory offer obligations will automatically be suspended and such shareholders will be prevented from voting at the general assembly of shareholders until the completion of the tender offer process, unless the CMB determines otherwise. Further, such shareholders will be subject to an administrative fine totaling up to the tender offer price.

The tender offer obligation is deemed not to be applicable under certain specific circumstances, including (i) if management control is acquired upon a voluntary tender offer for 100.0% of the shares of all shareholders, (ii) without an acquisition of shares, if management control is acquired by a written agreement which is approved by the general assembly of shareholders, and the shareholders who cast and registered their dissenting votes were granted exit rights in accordance with the relevant CMB legislation, (iii) if shares are transferred within a group of companies controlled by the same person, (iv) if a shareholder with management control loses but then re-acquires such control before acquisition of management control by a third party or (v) the transfer of a portion of shares by parties with management control to third parties in such a manner as to grant the acquiring party with joint control or a lesser control under a written agreement.

Pursuant to the Tender Offer Communiqué, a voluntary tender offer may also be launched for all or a part of a public company's shares upon the approval of the CMB for such voluntary tender offer.

Pursuant to the Communiqué on Squeeze-out and Sell-out Rights (II-27.2), a shareholder (or shareholders acting in concert) holding 98.0% of the total voting rights of a public company (the ratio is 97.0% for the rights which will arise prior to December 31, 2017) (i.e., controlling shareholder) has the right to squeeze out minority shareholders following the completion of a three-month sell-out right period. The squeeze-out right is triggered when a person or corporation becomes a controlling shareholder or, in the case of an existing controlling shareholder, makes additional purchases.

Protection of Minority Shareholders

Under Turkish law, a minority shareholder in a public company that holds, either as a single shareholder or together as a group with other shareholders, 5.0% or more of the company's outstanding share capital has certain rights, including, among others, to require the board of directors:

- to call an extraordinary general assembly of shareholders;
- to include a particular matter on the agenda for an ordinary or extraordinary general assembly of shareholders;
- to request the appointment of special auditors to investigate a particular matter;
- to postpone negotiation of financial statements and any related matters for one month;
- to request that a court replace the company's independent auditor for just cause; and
- to request a court decision to dissolve a company for just cause (in which case the court may also resolve, instead of dissolution, on the acquisition of the plaintiff minority shareholder's shares by the remaining shareholders or another equitable remedy).

Pursuant to the Communiqué on Material Transactions and Retirement Right (II-23.1) (the "**Communiqué on Material Transactions and Retirement Right**"), material transactions, including, among others, the transactions listed below, can be adopted only through a decision by the general assembly of shareholders:

- merger, demerger, change in corporate status or dissolution;
- disposal or lease of, or the creation of a right *in rem* on, all or a material part of, a public company's assets;
- material change in a public company's scope of activity;
- creation of new privileges or a change in the scope of existing privileges;
- de-listing;
- acquisition or lease of a material part of assets from related parties; and
- in case of a share capital increase through rights issue, in the event the funds arising from the capital increase are more than the share capital of the company and that such funds are to be used partially or completely for the payment of debts arising from non-cash asset transfers from related parties to the company;

where the materiality threshold is triggered by certain percentages envisaged under the Communiqué on Material Transactions and Retirement Right. The Communiqué on Material Transactions and Retirement Right allows shareholders who cast a dissenting vote against such transactions and record their dissenting votes in the minutes of the general assembly of shareholders (other than those who are unfairly prevented from attending the general assembly of shareholders or if the relevant general assembly of shareholders is not duly called) to request that the company acquire their shares at a price based on the weighted average stock price for the 30-day period preceding the public disclosure of the relevant material transaction. Upstream merger of a public company, de-listing and creation of new privileges or a change in the scope of existing privileges are structured as tender offers, the pricing of which is based on the retirement right price. Such price per share to be paid to the dissenting shareholder is also disclosed to the public together with the agenda of the relevant general assembly of shareholders.

Board of Directors

Pursuant to our articles of association and the TCC, the Board of Directors is responsible for our supervision. Our articles of association require that the Board of Directors be comprised of eight members appointed by our shareholders, including the minimum number of independent members required by the Corporate Governance Principles. Under Turkish law, members of the board of directors can be appointed from among natural persons and legal entities and are not required to own shares to serve on the board of directors. For a legal entity to serve as a member of the board of directors, it must appoint a natural person to exercise the director's rights and duties on behalf of the legal entity.

Under Turkish law, members of the board directors cannot attend negotiations or vote on matters in which such members of the board of directors themselves, their spouses or their relatives (up to and including second degree) have an interest or if their attendance would otherwise be contrary to objective principles of good faith. According to the TCC, members of the Board of Directors cannot enter into commercial relationships with us or engage in any competing activities, unless permitted by the General Assembly. The Corporate Governance Communiqué further requires the Board of Directors to provide information to the General Assembly regarding any transaction that is entered into by members of the Board of Directors, their spouses or relatives (up to and including second degree), which may result in a conflict of interest for, or compete with, us or our subsidiaries. See "*Corporate Governance—CMB Corporate Governance Principles*".

The Corporate Governance Principles set forth under the Corporate Governance Communiqué require that a listed company's board of directors be comprised of at least five members and the requisite number of independent members be appointed to the board of directors in accordance with the Corporate Governance Principles. Pursuant to the Corporate Governance Communiqué, a company offering its shares to the public or being listed on Borsa İstanbul for the first time falls within Tier 3 and, accordingly, needs to appoint two independent members to its board of directors as of the date of its first general assembly of shareholders to be convened after commencement of trading on Borsa İstanbul. While Tier 1 and Tier 2 companies are required to have a number of independent members on the board of directors equal to at least one-third of the total number of members on their board of directors, the Corporate Governance Communiqué provides an exemption from this requirement for joint ventures (except for banks), having at least 51.0% of their share capital equally held by two separate legal entities (such as Sabancı Holding and E.ON Turkey), which are independent from each other in terms of capital structure, management, or control, and which have equal control over the joint venture based on an agreement requiring the affirmative vote of both parties for material decisions. Following the Offering, we will apply to the CMB for this exemption, and once we are provided with such exemption, we plan to continue to appoint two independent members to our Board of Directors, regardless of the tier classification of the CMB. See "*Corporate Governance—CMB Corporate Governance Principles*".

Reports to Shareholders

As a public company, we will produce an activity report in Turkish, including audited accounts prepared in accordance with the rules and regulations of the CMB. Copies of such activity report may be obtained on request within three weeks preceding the date of each annual ordinary General Assembly as required by Turkish law.

Pursuant to the provisions of the TCC, the balance sheet, the profit and loss account, the annual report and proposals regarding the distribution of profits, as well as the auditors' report, must be made available to the shareholders at our head office at least 15 days in advance of the General Assembly. The balance sheet, the profit and loss account and the annual report are to be kept available to our shareholders at our head office for a period of one year from the date of the relevant General Assembly.

We will also prepare unaudited quarterly financial statements for the first and third quarters and audited semi-annual financial statements for the first six months of each financial year, which will be publicly disclosed in accordance with the CMB regulations.

Turkish capital markets legislation does not require listed companies to prepare financial statements in accordance with IFRS or to disclose such financial statements. However, certain listed companies prepare and disclose financial statements prepared in accordance with IFRS. Following the Offering, we intend to prepare financial statements in accordance with both in IFRS and TFRS.

See "*The Turkish Securities Market—Borsa İstanbul—Disclosure Requirements—Disclosure Requirements Relating to Financial Statements*".

Disclosure of Material Events

Disclosure of material events by public companies is primarily regulated by the CMB's Disclosure Communiqué (II-15.1) (the "**Disclosure Communiqué**"). Under the Disclosure Communiqué, the CMB makes a distinction between "inside information" and "continuous information". Rather than identifying each material event requiring disclosure in the Disclosure Communiqué, the CMB leaves specific disclosure decisions regarding inside information to the companies' individual discretion on a case-by-case basis. Pursuant to the Disclosure Communiqué, in the event of the existence of any news or rumors relating to the issuer disclosed for the first time through media institutions or by other communication means which is likely to affect the value and/or the price of the issuer's shares, capital markets instruments or investors' investment decisions, issuers are obliged to make disclosures on the accuracy and adequacy of such news or rumors. Interpretations, analysis, assessments and predictions made on the issuer company based on the issuer's public disclosures do not fall within the scope of this principle.

In addition, pursuant to Article 198 of the TCC, persons becoming direct or indirect holders of 5.0%, 10.0%, 20.0%, 25.0%, 33.0%, 50.0%, 67.0% or 100.0% of the issued share capital of a Turkish company are required to notify the company of such acquisition and, thereafter, to notify the company of their transactions in its shares when the total number of the shares they hold falls below or exceeds such thresholds within ten days following completion of the relevant transactions. Information notified to the company has to be registered, within ten days after receipt of such notification, with the relevant trade registry and publicly announced in the Trade Registry Gazette.

Inside Information

The Disclosure Communiqué defines "inside information" as any information or event not disclosed to the public which may impact investors' investment decisions or is likely to affect the value and/or the price of the shares or relevant capital markets instruments of the issuer. If any inside information comes to the attention of any persons, (i) who hold, directly or indirectly, 10.0% or more of the share capital or the voting rights of the issuer company or (ii) regardless of such threshold, who hold privileged shares which give their holders the right to nominate or elect members to the board of directors of such issuer (and which the issuer is not itself aware of), such persons must make a public disclosure regarding such inside information. Public companies may suspend the disclosure of inside information by taking full responsibility for any non-disclosure to protect its legitimate interests, if (i) such suspension does not mislead investors, (ii) the company is able to keep any related inside information confidential, and (iii) the board of directors resolves on the necessary precautions to protect the interests of the issuer and not to mislead investors, or an officer authorized by the board of directors approves such precautions in writing.

Once the suspension conditions are eliminated, the issuer company must disclose the inside information on the Public Disclosure Platform, including disclosing the suspension decision and the reasons for the suspension. Inside information must be publicly disclosed if it cannot be kept confidential.

Continuous Information

The following changes in share ownership or management control in a company must be publicly disclosed under the Disclosure Communiqué by the persons conducting the relevant transactions:

- a person or persons acting together becoming direct or indirect holders of 5.0%, 10.0%, 15.0%, 20.0%, 25.0%, 33.0%, 50.0%, 67.0% or 95.0% of the issued share capital or voting rights of a public company in Turkey are required to disclose such acquisitions on the Public Disclosure Platform and, thereafter, to disclose on the Public Disclosure Platform their transactions in the shares or voting rights of such company, when the total number of the shares or voting rights they hold falls below or exceeds such thresholds;
- the founding shareholder and the shareholders are required to disclose on the Public Disclosure Platform any direct or indirect acquisition of 5.0%, 10.0%, 15.0%, 20.0%, 25.0%, 33.0%, 50.0%, 67.0% or 95.0% of the issued share capital or voting rights of the company by investment funds belonging to a founding shareholder as well as its transactions in the shares or voting rights of the company, when the total number of the shares or voting rights that it holds falls below such thresholds;
- persons with managerial responsibility in a public company, persons with close relations to any such persons, or the majority shareholder in a public company are required to disclose their transactions relating to the shares or other capital markets instruments of such company as of the date when the aggregate value of the transactions performed by such persons reaches TL 250,000 (individually or together) in one calendar year; and
- companies are required to make necessary updates within two business days' of any changes relating to the general information that the company disclosed on the Public Disclosure Platform. The Central Registry Agency is responsible for updating the shareholding list, setting forth a public company's natural person and legal entity shareholders who hold directly 5.0% or more of the shares or voting rights of such public company.

Any changes in rights attached to different classes of shares in public companies must be disclosed on the Public Disclosure Platform and changes relating to the voting rights must be notified to the Central Registry Agency.

Timing of Disclosures

Disclosures regarding changes in ownership of shares or management control in a company set forth above are required to be made no later than 9:00 a.m. İstanbul time on the third business day following the occurrence of the event triggering the disclosure requirement. Disclosures regarding other events, including the disclosure of inside information, are required to be made immediately upon the occurrence or discovery of the relevant event.

Auditors

Pursuant to our articles of association, we are required to comply with the provisions of the TCC and the Capital Markets Law and the relevant secondary legislation in relation to audit, which includes, among other things, the audit of our financial statements and the activity report of the Board of Directors. As a company that is subject to the provisions of the Capital Markets Law, we are required to have our annual accounts audited by an independent audit firm authorized by the Public Oversight, Accounting and Audit Standards Authority (*Kamu Gözetimi Muhasebe ve Denetim Standartları Kurumu*) and recognized by the CMB, to be appointed by our shareholders at the General Assembly for each fiscal year.

The Annual Financial Statements included in this Offering Circular have been audited by Deloitte in accordance with IFRS, as stated in their report appearing in the F-pages to this Offering Circular. The Interim Financial Statements included in this Offering Circular have been audited by EY in accordance with IFRS, as stated in their report appearing in the F-pages to this Offering Circular. See "*Presentation of Financial and Other Information*", and "*Independent Auditors*".

Share Buybacks

The Capital Markets Law and the Communiqué on Share Buyback (II-22.1) (the "**Share Buyback Communiqué**") allow public companies to buy back their own shares and accept their own shares as pledge and sell out or pay the consideration of the shares that are bought back. If a public company plans to buy back its shares, its board of directors must prepare a share buyback program and submit it to the general assembly for approval. The share buyback transaction must be approved by the general assembly. The general assembly must also authorize the Board of Directors to perform the transaction.

The Share Buyback Communiqué does not set out a special quorum for approval of a buyback program. Unless a higher quorum is required in a company's articles of association, the general assembly must adopt the procedures (i) convene with shareholders representing at least 25% of the share capital present and (ii) adopt the resolution with the affirmative votes of shareholders that represent the majority of the votes present. For publicly listed companies, if a share buyback is required for a company to avoid an immediate and material loss, the board of directors can initiate the buyback process without obtaining the approval of the general assembly of shareholders. The total number of shares which can be acquired by a company and/or its subsidiaries in one day cannot exceed 25% of the daily transaction volume average for the 20 days prior to the transaction day. The program's duration can be a maximum of three years for publicly listed companies. This period may be extended to five years if the program applies to the employees of a public company or its affiliates. The board of directors must disclose the program to the public pursuant to the public disclosure requirements of the Capital Markets Law, and publish it on the company's website at least three weeks prior to the general assembly of the shareholders. Once a company completes the buyback of its shares, it will not be allowed to exercise any of the rights attached thereto, except dividend and pre-emption rights. Accordingly, these shares will not be taken into account in the calculation of the general assembly of shareholders quorum.

On July 21, 2016 and July 25, 2016, the CMB announced on its official website that the authorization of the board of directors by the general assembly, the 10% limitation on the size of the shares buyback program and the transaction principle limiting the daily transaction volume's average with 25% would not be applicable until a further announcement. Currently, publicly held companies can exceed the 10% limitation and buy back further shares. Publicly held companies with a buyback program in effect as of the announcement date will also be able to acquire their own shares within the scope of the announcement in the market where such company's shares are traded.

THE TURKISH SECURITIES MARKET

The following information has been derived from publicly available information and has not been independently verified by us, the Selling Shareholders or the Managers.

Introduction

There has been an organized securities market in Turkey since 1866, although it was substantially dormant until the late 1970s. In 1981, the first Capital Markets Law (Law No. 2499) was enacted, which established the CMB as the main regulatory body with responsibility for the supervision and regulation of the Turkish securities markets. The İstanbul Stock Exchange was re-established in 1985 and re-commenced operations in early 1986. The Capital Markets Law (Law No. 6362), which became effective on December 31, 2012, introduced significant changes to the Turkish securities markets with respect to the regulation of the issuance of capital markets instruments, corporate governance of public companies, market participants and the Turkish capital markets infrastructure. The Capital Markets Law primarily preserves the existing supervisory and regulatory authority of the CMB and Borsa İstanbul, a joint stock company in which the Treasury owns 73.6% of the share capital, with the remainder held by market participants, including the former members of the İstanbul Stock Exchange and the İstanbul Gold Exchange.

The Capital Markets Board

The principal function of the CMB is to foster the development of the securities markets in Turkey and thereby contribute to the efficient allocation of financial resources in the Turkish economy and to ensure adequate protection for investors. The CMB supervises and regulates, among others, public companies and issuers of capital markets instruments, market infrastructure institutions including stock exchanges and central custody and settlement institutions, banks and other financial intermediaries, mutual funds, investment companies, real estate appraisal companies and rating agencies that offer their services to institutions operating in the capital markets.

As the capital markets regulator, the CMB promulgates regulations relating to Turkish capital markets and the rules that participants in such markets are required to observe. CMB regulations require the CMB's approval for all securities to be publicly offered in Turkey as well as certain private placements and the issuance of new securities by Turkish companies. A Turkish language prospectus filed with the CMB for approval is required to include all information reasonably necessary to enable a prospective investor to assess the merits of the issuer and the proposed investment. The CMB may refrain from granting its approval in the event that it is not satisfied with the level of disclosure in the prospectus. The type and scope of information required to be disclosed to the public under the CMB regulations may be less detailed than disclosure requirements in more developed markets, such as the United Kingdom. See "*Risk Factors—Turkish disclosure standards may require a less detailed disclosure than rules in certain other countries*".

In connection with its supervisory role, the CMB requires companies subject to its jurisdiction to prepare and publish independently audited financial statements and annual reports in accordance with the accounting principles and standards set forth by the CMB. In addition, unaudited quarterly reports are required to be filed in respect of each financial period ending in March and September, and a semi-annual report, subject to limited review by the independent auditors, must be filed with the CMB in respect of the first six months of each year.

In the event of any special circumstances, such as a merger or acquisition or the disposal of or encumbrance on a material part of the public company's assets, the CMB may require that additional information be disclosed by such public company or by directors or major shareholders of such public company to protect the interests of minority investors. Furthermore, any situation that may have a material effect on the operations and the financial situation of a company participating in the capital markets must be immediately disclosed to the CMB.

The board of the CMB is intended to be composed of seven members, one of whom is to be the chairman and one of whom is to be the acting chairman of the CMB. The term of office of the members of the CMB is five years. The members whose terms have expired may be reappointed for a second term.

The quorum for the meetings of the CMB is five members, and resolutions may be adopted in such meetings with the affirmative votes of at least four members present at the meeting. The chairman, and in the absence of the chairman, the acting chairman has the decisive vote in the event of a tie. Currently, the headquarters of the CMB are located in Ankara, the capital of Turkey, and the CMB has offices in İstanbul, although the CMB is eventually set to move its headquarters to İstanbul under the Capital Markets Law.

Borsa İstanbul

The establishment of Borsa İstanbul was envisaged in the Capital Markets Law, as the successor to the İstanbul Stock Exchange and other securities exchanges in Turkey, for the purposes of creating a single platform. Upon registration of its articles of association with the İstanbul Trade Registry on April 3, 2013, Borsa İstanbul automatically assumed all of the assets, rights and obligations of the İstanbul Stock Exchange and the İstanbul Gold Exchange. Pursuant to the Capital Markets Law, shareholders of Turkish Derivatives Exchange were granted an option right to subscribe for Borsa İstanbul's share capital in return for Turkdex's take-over by Borsa İstanbul. This option right was exercised by Turkdex shareholders. On May 6, 2014, Turkdex was liquidated following its facilitated merger with Borsa İstanbul. On January 20, 2014, Borsa İstanbul declared that it entered into a strategic cooperation agreement with Nasdaq OMX which entitled Nasdaq OMX to subscribe for 5.0% of Borsa İstanbul's share capital, with an option to increase this by an additional 2.0% of Borsa İstanbul's share capital. On January 20, 2015, Borsa İstanbul entered into a strategic partnership with the London Stock Exchange in exchange for the London Stock Exchange's subscription for its shares. This was followed by another strategic partnership with the EBRD and, on December 11, 2015, EBRD signed a strategic partnership agreement to acquire a 10.0% ownership share in Borsa İstanbul.

Governance

Borsa İstanbul is currently the only active stock exchange in Turkey and is located in İstanbul. Borsa İstanbul is composed of two main corporate bodies: the general assembly of shareholders and the board of directors. Shareholders are represented at the general assembly of shareholders *pro rata* to the nominal value of the shares they hold in Borsa İstanbul. Pursuant to its decree No. 29175, dated September 1, 2014, and published in the Official Gazette on November 14, 2014, the Council of Ministers enabled the Class B shares of Borsa İstanbul to be offered to public until December 31, 2015, if it does not exceed 42.75% of Borsa İstanbul's share capital. A one-year extension was further granted to this period, enabling the public offering of Class B shares of Borsa İstanbul until December 31, 2016. Borsa İstanbul is governed by a board of directors composed of ten members, two of whom are elected from among the persons nominated by Class A shareholders and three of whom are elected from among the persons nominated by Class C shareholders. The remaining members of Borsa İstanbul's board of directors are elected by the general assembly of shareholders. Member nominees to the board of directors representing Class C shareholders are elected by the general assembly of shareholders among the persons proposed by the Union of Chambers and Commodity Exchanges of Turkey, the Union of Capital Markets and investment corporations.

The term of office of the members of the board of directors is three years with the exception of the chairman, who serves for a term of four years. The quorum for the meetings of Borsa İstanbul's board of directors is the majority of the members of the board of directors (i.e., six out of ten) and the presence of the chairman, and resolutions may be adopted in such meetings with the affirmative votes of the majority of the members of the board of directors in attendance. In the event of deadlock, negotiation of such resolution is postponed to the next meeting of the board of directors. If there is deadlock at the second meeting, such resolution is deemed to be rejected.

Trading and Settlement

In December 1993, Borsa İstanbul launched a computerized trading system known as Electronic Purchase and Sale System. Borsa İstanbul operates two computer dealing rooms at its premises and approximately 120 brokers are eligible to trade under the auspices of Borsa İstanbul. The brokers, after receiving orders by telephone, enter positions and transact sales by computer, as would be done in the treasury departments of most investment banks. Since December 2001, Borsa İstanbul members have also been able to route their orders directly to Borsa İstanbul's automated trading system through interface software called Ex-API. Through Ex-API, members route the orders (either collected or derived by their own back office systems) directly to Borsa İstanbul's automated trading system and instantly receive order and trade confirmations. The electronic communication acts as a sales contract. At the end of each trading session, Borsa İstanbul gives all brokers a breakdown of all the transactions that they have completed.

Trading is expected to be migrated to the new FIXAPI system in the near future to allow trading information to be communicated electronically between brokers, buy-side institutions and markets. Borsa İstanbul members have been able to place their orders through the FIXAPI system since October 2012. Software applications that will be used for sending orders through the FIXAPI system are required to be certified by Borsa İstanbul. Members can develop their own application and complete the certification process or use certified applications by Borsa İstanbul. Through FIXAPI, members can route orders directly to Borsa İstanbul's automated trading system and instantaneously receive order and trade confirmations. The electronic communication, the "sales order submission", acts as a sales contract. At the end of each trading session, each broker is required to submit a written breakdown of all the transactions that they have completed using the Electronic Purchase and Sale System. With the adoption of FIXAPI, it is expected that the number of foreign institutional investors, liquidity providers and market makers accessing Borsa İstanbul market will increase.

Updated trading prices for stocks traded on Borsa İstanbul are conveyed in real time to data vendors such as Bloomberg and Reuters for international dissemination. Immediately after each trading session, Borsa İstanbul publishes on its website a bulletin that sets out the high and low sales price, the closing sales price, trading volume and weighted average sales price. All transactions are on a cash basis, and settlement must take place on the second business day after the execution of a trade. The majority of equity securities traded on Borsa İstanbul are in bearer form. In practice, shares in registered form that are traded on Borsa İstanbul are represented by share certificates endorsed in blank, enabling such shares to be transferred as if they were in bearer form.

Borsa İstanbul currently operates five main markets, namely (i) the stock market, (ii) emerging companies market (a second stock market established for small- and medium-sized enterprises with growth potential), (iii) debt instruments market, (iv) precious stones and metals market and (v) the futures and options market.

Trading on Borsa İstanbul stock market is conducted on each business day in Turkey, with a single and continuous trading session taking place from 9:40 a.m. to 6:10 p.m. İstanbul time.

The stock market currently consists of the following seven market segments:

- the Star Market (*Yıldız Pazar*), on which the shares of large-sized companies with a market value of free-float shares of at least TL 100 million and other companies listed on BIST-100 index are traded;
- the Collective Investment Products and Structured Products Market (*Kolektif Yatırım Ürünleri ve Yapılandırılmış Ürünler Pazarı*), on which the shares of securities investment companies, real estate investment companies, venture capital investment companies, warrants issued by intermediary institutions and exchange-traded funds are traded;
- the Main Market (*Ana Pazar*), on which the shares of mid-sized companies with a market value of free-float shares between TL 25 million and TL 100 million are traded;
- the Emerging Companies Market (*Gelişen İşletmeler Pazarı*), on which the shares of emerging companies with a market value of free-float shares smaller than TL 25 million are traded;
- the Pre-Market Trading Platform (*Piyasa Öncesi İşlem Platformu*), on which the shares of certain companies determined by the CMB pursuant to its decision No. 17/519 dated June 3, 2011, have been admitted to trading;
- the Watch List Companies Market (*Yakın İzleme Pazarı*), on which the shares of companies under special surveillance and investigation due to extraordinary situations with respect to transactions on Borsa İstanbul, insufficient compliance with disclosure requirements or other events that may necessitate a temporary or permanent suspension of the trading are traded; and
- the Equity Market for Qualified Investors (*Nitelikli Yatırımcı İşlem Pazarı*), on which the shares of companies that are (i) issued for direct sale to CMB Qualified Investors without being publicly offered and (ii) are traded only among CMB Qualified Investors.

In addition to these seven market segments, an Official Auction Market (*Resmi Müzayede Pazarı*) may be opened when necessary, allowing the trading of stocks by courts, executive offices and other official entities in a separate market.

There is one other market, namely the Primary Market (*Birincil Piyasa*), on which the shares in companies being publicly offered and listed for the first time on Borsa Istanbul and any additional shares offered following rights offerings of companies listed on Borsa Istanbul are traded. In addition to these markets, there are two different transaction structures that are conducted on the Equity Market. Block trades of listed stocks are conducted as specifically regulated wholesale transactions (*Toptan Satış İşlemleri*) and pre-emption rights during rights issues (granting the right to subscribe for newly issued shares) are traded separately as pre-emption right transactions (*Yeni Pay Alma Hakları İşlemleri*).

The minimum transaction amount on Borsa İstanbul is one round lot that is equal to TL 1.00 in nominal value. Therefore, our shares will trade as a round lot of 100 Offer Shares.

Turkish capital markets legislation requires shares in a company listed on a Turkish securities exchange to be traded exclusively on that exchange. The CMB has announced that this requirement applies only to brokerage firms licensed to trade on a securities exchange and to orders placed with them by investors, but transfers between principals that do not involve a public offering may be transacted outside a securities exchange. However, Turkish foreign exchange legislation requires non-resident investors to execute their trades in listed securities through a licensed Turkish bank or a licensed brokerage firm.

Listing Requirements

Borsa İstanbul requires that a company meet certain criteria involving profitability, market value of the shares offered to the public, amount of shares offered to the public as a percentage of the share capital of the company and shareholders' equity. Accordingly, a company must satisfy the conditions for listing on the Star Market and Main Market set forth in the following table:

Minimum Threshold	Star Market		Main Market	
	Group 1	Group 2	Group 1	Group 2
Free-float market value	TL 250 million	TL 100 million	TL 50 million	TL 25 million
Market capitalization	TL 1 billion	TL 400 million	—	—
Net Income	Last 2 years	Last 2 years	Last 2 years	Last 2 years
Free-float percentage	5.0%	10.0%	15.0%	25.0%
Equity / Capital	>0.75	>1	>1	>1.25

The following conditions also apply to companies seeking to list on Borsa İstanbul:

- a minimum of two calendar years must have elapsed since the company's incorporation;
- financial status of the company must enable it to carry out its business operations in a sound manner;
- there must not be any encumbrance on the company's shares preventing a shareholder from exercising his or her rights, and the articles of association of the company must not include any provision limiting the transfer and trading of its listed shares;
- there must not be any material legal dispute which may affect the operation and activities of the company it must be documented by a legal counsel which have no relation with the company, that the establishment and activities of the company and the legal status of the share certificates comply with the legislation to which they are subject; and
- the company must not have stopped operation for more than three months within the last two calendar years for reasons other than those that are acceptable to Borsa İstanbul, and there must not be any requests or proceedings for the liquidation or arrangements in bankruptcy of the company or any other similar proceedings identified by Borsa İstanbul.

Pursuant to an amendment dated July 31, 2017 in the Listing Directive of Borsa İstanbul, the board of Borsa İstanbul is authorized to approve the application of a company that fails to meet the net income or equity to capital ratio requirements for listing on the Star Market, provided that (i) such company has recorded operating profit in the preceding financial year and the relevant interim period, and (ii) maintained an equity to capital ratio greater than 0.5; (iii) the public offering includes offering of the newly issued shares, and (iv) other conditions for listing on the Star Market are fulfilled. The board of Borsa İstanbul will take into consideration applicant company's projections on operations, financial structure and use of proceeds generated from the offering.

Dematerialization of Shares and the Central Registry Agency

Since November 2005, shares traded on Borsa İstanbul and physically held by Takasbank, the central securities depositary of Turkey, have been dematerialized in their entirety and are now held through the Central Registry Agency, a private entity owned by various market participants and regulated by the CMB. Newly issued shares are no longer printed, but entered into the book-entry system of the Central Registry Agency.

Takasbank (Istanbul Settlement and Custody Bank)

İstanbul Takas ve Saklama Bankası A.Ş. ("**Takasbank**") is the clearing, settlement and custody center for Borsa İstanbul and the ISIN number issuance authority for Turkey. Apart from these functions, Takasbank operates both the money market and the securities lending and borrowing market, provides banking services including cash loans to members, and other services such as cross-border settlement and custody.

Trading Prices and Fluctuations

Trading prices for securities listed on Borsa İstanbul are generally limited to a trading session range established by Borsa İstanbul. Accordingly, traders are not permitted to place orders at prices that are 20.0% higher or 20.0% lower than the base price of the relevant security for the preceding trading session. The base price is the price that is taken as the basis for determining the highest and lowest price limits within which the stock may be traded in one trading session. The base price is determined as the closing price for the relevant security recorded in the immediately preceding trading day. The stock market director, however, may double, and the chairman of Borsa İstanbul may lift, the limits for a particular trading session either ex officio or upon application by a certain number of exchange members. In the absence of such actions by the official of Borsa İstanbul officials, price fluctuations of stocks traded on Borsa İstanbul must be within the range established for each session. If required by extraordinary adverse circumstances, the chairman of Borsa İstanbul may suspend trading in any listed security for up to five business days and suspend operations of Borsa İstanbul for a period of up to three days. The board of directors of Borsa İstanbul is authorized to suspend trading in any listed security for more than five business days. The CMB may suspend the operations of Borsa İstanbul for a period of up to 15 days upon the request of the board of directors, and the relevant Minister of State may order a suspension of up to one month upon the request of the CMB. Only the Council of Ministers of Turkey may suspend the operations of Borsa İstanbul for a period exceeding one month.

Since Borsa İstanbul recommenced operations in 1986, its operations have been suspended several times: first, due to the 1999 earthquake, for six business days (August 17, 1999 to August 24, 1999); second, after the terrorist attacks of September 11, 2001, for one business day; third, following the terrorist attacks in İstanbul on November 11, 2003, for two business days; and fourth, for preparations relating to the introduction of the Turkish Lira on December 30, 2004, for two business days. In addıtıon, Borsa İstanbul's operations have been suspended due to a technical malfunction on (i) January 9, 2014, from 10:51 a.m. to 15:40 p.m., (ii) July 22, 2014, from 9:52 a.m. to 10:55 a.m., and (iii) July 22, 2014, delaying the continuous auction session, from 9:35 a.m. to 9:50 a.m.

Disclosure Requirements

Public companies whose shares are traded on Borsa İstanbul are required to comply with the information and disclosure requirements of the CMB. There are two types of disclosure requirements, one relating to financial statements and the other relating to material events.

Disclosure Requirements Relating to Financial Statements

Pursuant to the Communiqué No: II-14.1 on the Principles Regarding Financial Reporting in Capital Markets and the Communiqué on Public Disclosure Platform No:128.6, financial statements must be presented on a quarterly basis in accordance with TFRS:

- Annual Results: Audited year-end consolidated financial statements and reports prepared in accordance with TFRS must be published on the Public Disclosure Platform within a period of 70 days following the end of the accounting period (if companies are not required to submit consolidated financial statements, the period is 60 days following the end of the accounting period);

- Second Quarter: Interim condensed consolidated six-month financial statements must be published on the Public Disclosure Platform within 50 days following the end of the accounting period (if companies are not required to submit consolidated financial statements, the period is 40 days following the end of the accounting period); and

- First and Third Quarter: Unaudited first quarter and third quarter consolidated financial statements must be published on the Public Disclosure Platform within 40 days following the end of the accounting period (if companies are not required to submit consolidated financial statements, the period is extended to 30 days following the end of the accounting period). If the first and third quarter financial statements are independently audited, then such financial statements must be published on the Public Disclosure Platform within 40 days and 50 days, respectively, for companies preparing unconsolidated and consolidated financial statements.

Pursuant to the Disclosure Communiqué, companies may make public disclosures relating to future forecasts through a decision of the board of directors or the written consent of the persons authorized by the board of directors. Companies may disclose their future forecasts to public at most four times in a calendar year by either making public disclosures on the Public Disclosure Platform or making relevant explanations under activity reports. If there is a material change within the scope of future forecasts, disclosure of the material change is required. Pursuant to our disclosure policy, we can disclose our future forecasts. See "*Corporate Governance—Policies—Disclosure Policy*".

Turkish capital markets legislation does not require listed companies to prepare financial statements in accordance with IFRS or to disclose such financial statements. However, certain listed companies prepare and disclose financial statements prepared in accordance with IFRS. Following the Offering, we intend to prepare financial statements in accordance with both in IFRS and TFRS. See "*Presentation of Financial and Other Information—Disclosure of Financial Statements following the Offering*".

Disclosure of Inside Information

See "*Description of Share Capital—Disclosure of Material Events—Inside Information*".

Disclosure of Beneficial Interests in Shares

See "*Description of Share Capital—Disclosure of Material Events—Continuous Information*".

Timing of Disclosure

Disclosures regarding (i) changes related to shareholding structure and management control, (ii) rights attached to shares and (iii) a company's acquisition of its own shares are required to be made no later than 8:00 a.m. on the third business day following the occurrence of the event triggering the disclosure requirement. Disclosures regarding other events, including the disclosure of inside information, are required to be made immediately upon the occurrence or discovery of the relevant event.

Public Disclosure Platform

All listed companies are required to disclose their financial statements, explanatory notes, material events and all other information are required to be disclosed through the Public Disclosure Platform, an electronic system developed jointly by the CMB, Borsa İstanbul and the Scientific and Technological Research Council of Turkey (*Türkiye Bilimsel ve Teknolojik Araştırma Kurumu*) that uses internet and electronic signature technologies.

The Public Disclosure Platform enables all users to access both current and past notifications of a listed company, to obtain current announcements and up-to-date general information about listed companies in an open and timely manner and to make basic comparisons among and analysis of listed companies.

The internet address of the Public Disclosure Platform is www.kap.gov.tr.

Financial Crimes

Insider trading is defined in the Capital Markets Law as benefiting, or permitting others to benefit, from non-public information that may affect the value and/or price of securities or the investment decisions of investors. Benefiting from non-public information is the essential component of this crime. For an act to constitute an insider trading violation, the information must be utilized in a manner that provides an unfair advantage over other investors. The violation may be committed by the management of the issuer, its subsidiaries or controlling shareholders, the shareholders of the issuer or their controlling shareholders, persons that are informed of inside information in connection with the execution of their work, profession or duties, persons acquiring inside information with the intention to commit crime or persons that are or that should be aware of the fact that the information they have access to constitutes inside information.

Insider trading violations are punishable by prison terms of two to five years or monetary fines. However, the minimum monetary fine imposed may not be less than twice the monetary benefit obtained through such actions. Also, administrative fines may be prescribed by the CMB ranging from TL 30,961 to TL 387,009 for 2018 (subject to annual re-evaluation by the CMB). The Capital Markets Law exempts certain transactions, including those that are undertaken within the framework of share buyback or employee stock option programs in accordance with the CMB regulations, from the scope of insider trading crime. Other crimes, such as market manipulation, unauthorized public offering, abuse of confidence, forgery, withholding of information and documents to impede public company audits, fraud in legal books, accounting records and financial statements and reports, breach of confidentiality obligations and engaging in activities unauthorized by the CMB, are also punishable by prison terms and monetary fines.

Market manipulation is defined in the Capital Markets Law as (i) making purchases and sales, giving orders, cancelling orders, changing orders or realizing account activities with the purpose of creating inaccurate, misleading or deceptive representations on the prices of capital market instruments, their price fluctuations, supplies and demands and (ii) giving false, misleading or deceptive information, spreading rumors, giving notices, making comments or preparing or distributing reports to affect the prices of capital market instruments, their values or the decisions of investors. Market manipulation activities are punishable by prison terms of two to five years or monetary fines. However, the minimum monetary fine imposed may not be less than twice the monetary benefit obtained through such actions. Also, administrative fines may be prescribed by the CMB ranging from TL 30,961 to TL 774,736 for 2018 (subject to annual re-evaluation by the CMB).

Improper public offering is defined in the Capital Markets Law as (i) making a public offering of capital market instruments in the absence of a published and approved prospectus or selling capital market instruments in the absence of an approved certificate of issuance and (ii) performing unauthorized activities in the capital markets.

Abuse of confidence and forgery is defined in the Capital Markets Law as (i) selling, using, pledging, hiding or disowning by any investment firm, fund board or collateral custodian of capital market instruments, cash and any kind of other assets delivered or submitted to such investment firm, fund board or collateral custodian due to their capital markets activities or their role as a custodian or for them to manage or guarantee irrespective of the name under which such instruments are delivered or submitted, (ii) decreasing the profits or assets of a public company by carrying out disguised transactions through applying prices, fees and charges that are different to the prices, fees and charges applied in similar transactions or (iii) decreasing the profits or assets of a public company or its subsidiaries and affiliates, or preventing such entities from increasing their profit or assets, by carrying out transactions which are in violation of arm’s length principles, market practices and prudency and honesty principles, with another company or an individual with whom he/she is related, directly or indirectly, as management, auditor or shareholder, such as applying prices, fees and charges that are different to the prices, fees and charges applied in similar transactions.

Withholding information and documents, as regulated under the Capital Markets Law, to prevent any auditing activities of the public company is (i) not providing any or less than the required information, documents and registers, including those kept in electronic mediums, that are requested by the CMB or as required pursuant to the Capital Markets Law and (ii) preventing the CMB from carrying out its auditing duties and failing to comply with the Capital Markets Law with respect to auditing obligations.

Intentional irregularities in legal books, accounting records and financial statements and reports is (i) intentionally failing to keep the books and records in compliance with legal obligations, (ii) failing to preserve the books and documents in compliance with its preservation obligations during the legal period, (iii) preparing financial statements and reports that do not reflect the truth, (iv) opening accounts contrary to facts, (v) committing any kind of fraudulent accounting activities on records and (vi) drawing up wrong or misleading independent audit and assessment reports.

Obligation of confidentiality is the sharing of information and documents with others as requested by the CMB to carry out its auditing activities pursuant to the framework of the examination or auditing activity.

The CMB is further authorized by the Capital Markets Law to fine any non-criminal market disrupting actions harming the reliable, transparent and consistent operation of organized markets by imposing administrative monetary fines ranging from TL 30,961 to TL 387,009 for 2018, (subject to annual re-evaluation by the CMB) which, in any event, cannot be lower than twice the monetary benefit obtained through such actions. Notwithstanding these sanctions, the effectiveness of the legislation depends largely on the extent to which its provisions are observed by intermediaries and investors and enforced by the CMB. To the extent these provisions are not observed or enforced, prices of securities traded on Borsa İstanbul may be affected by trading based on material non-public information.

Trading Restrictions

The CMB is also entitled to prohibit persons, temporarily or permanently, from engaging in stock exchange operations if any of the following conditions are met:

- There exists a reasonable doubt about a capital market transaction following an inspection.
- A complaint is filed with a public prosecutor regarding market abuse, market disruption or insider trading.
- A person engages in trading activity in favor of third parties prohibited from stock operations.

A temporary prohibition lasts six months which can be extended one single time for the same period, if market abuse and disruption or insider trading are committed by using the accounts of third parties during the temporary prohibition period, the prohibition becomes permanent and can last up to five years.

Market Volatility

Borsa Istanbul is a highly volatile market. Trading on Borsa İstanbul and on its predecessor, the İstanbul Stock Exchange, has historically been characterized by a high degree of short-term speculative trading, which is at least partially attributable to the relatively underdeveloped institutional investor based in Turkey and to the relatively small but growing size of the retail investor base, which is composed primarily of high-net-worth individuals. See "*Risk Factors—Risks Relating to an Investment in the Offer Shares—Borsa Istanbul is smaller and less liquid than other major exchanges and may be more volatile, which may adversely affect the ability to trade the Offer Shares purchased in the Offering*".

FOREIGN INVESTMENT AND EXCHANGE CONTROLS

The following is a summary of the relevant Turkish laws in force as of the date of this Offering Circular. This summary does not purport to be a comprehensive description of all the foreign investment and exchange control considerations that may be relevant to your decision to purchase the Offer Shares.

Until the promulgation of Decrees 28 and 30 on the Protection of the Value of the Turkish Currency in 1983, which granted Turkish citizens limited rights to hold and trade foreign currencies, Turkish exchange regulations strictly controlled exchange movements. After the establishment of a foreign exchange market in August 1988, the exchange rate of the Turkish Lira began to be determined by market forces banks in Turkey currently set their own foreign exchange rates independently of those announced by the Central Bank. Pursuant to Decree 32, as amended, issued in August 1989, the Turkish government abolished restrictions on the convertibility of the Turkish Lira by facilitating exchange of the proceeds of transactions in Turkish securities by foreign investors, enabling Turkish citizens to purchase securities on foreign securities exchanges, permitting residents and non-residents to buy foreign currencies without limitation and to transfer such foreign currencies abroad and permitting Turkish companies to invest abroad, without ministerial approval.

Decree 32 provides that persons not resident in Turkey may purchase and sell shares of Turkish companies, if such transactions are effected through a bank or broker authorized under Turkish capital markets legislation and the relevant gains and the purchase price are transferred through a bank licensed in Turkey. Decree 32 further provides that a non-resident person may freely repatriate dividends received and proceeds of sale in respect of such shares. Decree 32 requires that the dividends received and the proceeds of sale in respect of such shares be transferred through Turkish banks. Law No. 4875 on Direct Foreign Investments, which replaced Law No. 6224 in June 2003, defines foreign direct investment as, among other things, share acquisitions outside a stock exchange or through a stock exchange where the foreign investor owns 10.0% or more of the shares or voting power. Pursuant to Law No. 4875, foreign investment in Turkey is no longer subject to prior approval. As a result of the adoption of Law No. 4875, and subject to the provisions of Decree 32, foreign investors are now subject to the same requirements as a domestic investor when investing in a Turkish company, except for the acquisitions of real property. Pursuant to a ruling of the Constitutional Court of Turkey, foreign investors are not allowed to freely acquire real property by way of acquiring a Turkish company that holds real property, as such acquisitions are subject to certain restrictions. Pursuant to the Land Registry Law No. 2644, foreign investors are not allowed to freely acquire real property. Turkish companies that have 50.0% or more of their shares held by foreign investors may only acquire real property to perform the activities set forth in their articles of association. In addition, Law No. 4875 requires a public Turkish company to notify the Foreign Investment Directorate in the event non-resident holders acquire 10.0% or more of the share capital or voting rights of such public company.

TAXATION

The following discussion is a summary of certain Turkish tax considerations relating to an investment in the Offer Shares. The discussion is based on current law and is for general information only. The discussion below is not intended to constitute a complete analysis of all tax consequences relating to ownership of our shares. You should consult your own tax advisors concerning the tax consequences of your particular situation. The discussion is based upon laws and relevant interpretations thereof in effect as of the date of this Offering Circular, all of which are subject to change, possibly with retroactive effect.

Turkish Taxation

Tax Status of Shareholders

Under Turkish income tax laws, there are two types of tax status in determination of income tax liabilities of taxpayers. Those who are residents in Turkey ("**Residents**") are subject to Turkish income taxation on their worldwide income. Those who are not residents in Turkey ("**Non-Residents**") are subject to Turkish income taxation on their Turkish source income only.

Natural persons are considered Residents in Turkey, if (i) they are domiciled in Turkey in accordance with the Turkish Civil Code, or (ii) excluding temporary departures they stay in Turkey for more than six months in a calendar year. If neither of the given two conditions is satisfied, natural persons are considered Non-Residents for Turkish tax purposes.

Legal entities are treated as Residents in Turkey if they are incorporated in Turkey under relevant Turkish laws, or if their effective places of management are in Turkey despite the fact that they are incorporated outside of Turkey. If neither of the given two conditions is satisfied, legal entities are considered Non-Residents for Turkish tax purposes.

Dividend income is considered "Turkish source income" if the capital is invested in Turkey. As for capital gains, they are treated as Turkish source income if the transaction leading to the gains is concluded in Turkey, or the payment for consideration is made in Turkey, or the payment is accounted for in Turkey even if the payment is made outside of Turkey.

Dividends to be paid under the Offer Shares and capital gains to arise upon disposal of the Offer Shares at Borsa İstanbul will be considered to be Turkish source income.

Distributions on the Offer Shares

Dividends distributed by Turkish resident companies are subject to an income withholding tax of 15.0% if they are paid to Resident or Non-Resident individuals or Non-Resident entities which do not hold such shares through a fixed place of business or a permanent representative which constitutes a "**Permanent Establishment**" in Turkey. Under Turkish income tax laws, if the dividend is not distributed in cash but converted to share capital, obtaining the shares issued to such effect is not subject to withholding tax.

If a double taxation treaty is in effect between Turkey and the country where the beneficial owner of the dividend is resident and if that treaty provides a lower rate, then a treaty-reduced withholding tax rate set forth in the double taxation treaty may apply under certain conditions.

Within the framework of the taxation regime, withholding tax is the final tax for dividend income earned from Turkey by Non-Residents. Non-Residents without any Permanent Establishment in Turkey are not required to file an annual or special tax return for dividends taxed through withholding.

Dividend income distributed by a Turkish Resident company and received by Resident entities and Non-Resident entities with a Permanent Establishment in Turkey is not subject to withholding tax and is also exempted from corporate tax in Turkey. Non-Resident entities holding shares through their Permanent Establishments in Turkey will be required to apply a branch profits repatriation withholding tax at a rate of 15.0%, upon remittance of such profits to their headquarters unless a lower tax rate in the relevant treaty is available.

Resident individuals are required to file an annual tax return for their dividend income. One half of the gross amount of cash dividends received by Resident individuals from Turkish companies is exempt from income tax.

If the remaining amount exceeds the threshold amount (TL 30,000 for 2018) together with other income subject to declaration, this remaining amount should be declared in the annual tax return. Withholding tax charged on total gross dividend will be credited against income tax calculated on the tax return. If the dividend is not distributed in cash but as bonus shares acquisition of such bonus is not subject to declaration.

Sale, Exchange or Other Disposition of the Offer Shares

For the period between January 1, 2006 and December 31, 2020, taxation of capital gains upon disposal of shares traded on Borsa İstanbul is governed by the Temporary Article 67 of the Income Tax Law, under which the capital gains are taxed through a withholding mechanism carried out by the Turkish banks or brokerage houses acting as intermediaries.

The statutory rate of the withholding tax is 15.0%. However, the applicable withholding tax on the capital gains arising from the disposal of shares traded on Borsa İstanbul, other than the shares of securities investment companies, is currently 0.0% for all Resident and Non-Resident investors, in accordance with the Decree 2006/10731, as amended by the Decree 2010/926 and by the Decree 2012/3141. Furthermore, withholding tax on capital gains is not triggered at all if the relevant shares are held for more than one year.

The withholding tax applied, albeit currently at 0.0%, is a Turkish final tax on the capital gains, as far as the Non-Residents are concerned, unless the shares are held through a Permanent Establishment in Turkey; in which case the capital gains will be a part of the income of the Permanent Establishment and be subject to taxation in Turkey as such. The withholding tax is also a final tax for Resident individuals, unless capital gains are classified as commercial income as a result of which such income will be subject to taxation through the submission of the annual income tax return. As for the Resident entities, capital gains are treated as a part of their corporate income and are subject to corporate income taxation in the usual manner.

You are advised to consider that the Turkish government is authorized to regulate and amend the applicable rates at any time. Therefore, there can be no guarantee that the 0.0% withholding tax will be maintained in the future.

Where the withholding tax rate is redetermined at a rate higher than 0.0%, Resident and Non-Resident individuals may voluntarily file a special annual tax return for the purpose of offsetting losses arising from a transaction against the capital gains of another transaction, provided that the securities traded on Borsa İstanbul are in the same category of securities as classified by the Ministry of Finance (e.g., fixed income securities, variable income securities, etc.).

Withholding tax liability is a liability of custodians, banks and brokerage houses that serve as intermediaries responsible for collection of taxes on income derived by investors from the sale or purchase of shares. Declarations with respect to withholding tax liability are filed quarterly by the custodians, banks or brokerage houses. For Non-Residents, application of withholding tax is primarily the responsibility of the Turkish custodian banks. In the event that these investors use such a custodian banks, other banks and brokerage firms will have no liability for the application of withholding tax.

If the holder transfers Offer Shares from one custodian, bank or brokerage house to another, the receiving entity must be informed by the transferring entity of the purchase date and the purchase value of such Offer Shares in order to be able to take such information into account in the calculation of withholding tax. However, notification regarding purchase date and value may also be filed with the Ministry of Finance if Offer Shares are transferred from one holder to another or physical delivery is made.

Taxation of Investment and Mutual Funds

As of January 1, 2006, non-resident investment funds have been subject to the same taxation principles as other Non-Resident entities.

Turkish Tax Treaties

Turkey has double taxation treaties in effect with certain countries. Many of these treaties provide for non-taxation in Turkey of capital gains on the Offer Shares, usually subject to a one-year holding period. Additionally, some of these treaties provide an exemption regardless of the length of the holding period for capital gains derived by residents of the relevant countries as a result of sale of the shares of a Turkish company. Prospective investors are advised to consult their tax advisers with respect to the tax treatment of the Offer Shares under these treaties.

As of the date of this Offering Circular, Turkey has relevant double taxation treaties in effect with the following countries:

Albania	Ireland	Qatar
Algeria	Israel	Romania
Australia	Italy	Russian Federation
Austria	Japan	Saudi Arabia
Azerbaijan	Jordan	Serbia
Bahrain	Kazakhstan	Singapore
Bangladesh	Kosovo	Slovakia
Belarus	Kuwait	Slovenia
Belgium	Kyrgyzstan	South African Republic
Bosnia and Herzegovina	Latvia	South Korea
Brazil	Lebanon	Spain
Bulgaria	Lithuania	Sudan
Canada	Luxembourg	Sweden
Croatia	Macedonia	Switzerland
Czech Republic	Malaysia	Syria
Denmark	Malta	Tajikistan
Estonia	Mexico	Thailand
Ethiopia	Moldova	Tunisia
Egypt	Mongolia	Turkmenistan
Finland	Morocco	Turkish Republic of Northern Cyprus
France	The Netherlands	Ukraine
Georgia	New Zealand	United Arab Emirates
Germany	Norway	United Kingdom
Greece	Oman	United States of America
Hungary	Pakistan	Uzbekistan
India	People’s Republic of China	Yemen
Indonesia	Poland	
Iran	Portugal	

Source: Presidency of Revenues Administration

Tax Treaty with the United States

A generally applicable tax treaty for the prevention of double taxation of income between Turkey and the United States (the “**Turkey-U.S. Treaty**”) applies to all types of income.

Under Article 10 of the Turkey-U.S. Treaty, withholding tax on dividends paid to a company resident in the United States which beneficially owns at least 10.0% of the voting stock of a Turkish company paying the dividend is limited to 15.0% of gross dividends paid. In all other cases, the withholding tax rate is limited to 20.0% of the gross dividend paid. However, as there is no reduced rate under the Turkey-U.S. Treaty, the local withholding tax rate will be applicable. See “*—Turkish Taxation—Distributions on the Offer Shares*”.

According to Article 13 of the Turkey-U.S. Treaty, for so long as the shares are listed on Borsa İstanbul, capital gains derived by residents of the United States from the disposition of the shares to a Turkish Resident are not taxable in Turkey. As stated above under “*—Turkish Taxation—Sale, Exchange or Other Disposition of the Offer Shares*”, the current withholding tax imposed by Turkey on the disposition of shares by Non-Residents is 0.0% and such 0.0% withholding tax is the final tax in Turkey. See “*Risk Factors—Risks Related to Taxation—Distribution of Dividends to Our Shareholders May Become Subject to Withholding Tax in the Future*”.

United States Federal Income Taxation

The following discussion is a summary of certain U.S. federal income tax consequences generally applicable to U.S. Holders (as defined below) of the acquisition, ownership and disposition of Offer Shares. This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the “Code”), the U.S. Treasury regulations promulgated thereunder, administrative guidance and court decisions and the income tax treaty between the United States and the Government of the Republic of Turkey (the “**Treaty**”), in each case as of the date hereof, all of which are subject to change, possibly with retroactive effect, and to differing interpretations. This discussion addresses only those U.S. Holders that purchase their Offer Shares in the Offering and will hold their Offer Shares as "capital assets" within the meaning of Section 1221 of the Code (generally, property held for investment). This discussion does not address any aspect of non-U.S. tax law or U.S. state, local, alternative minimum, net investment, estate, gift or other tax law that may be applicable to a U.S. Holder. This discussion does not constitute tax advice and does not address all aspects of U.S. federal income taxation that may be relevant to particular U.S. Holders in light of their personal circumstances, or to any U.S. Holders subject to special treatment under the Code, such as:

- banks, mutual funds and other financial institutions;
- real estate investment trusts and regulated investment companies;
- traders in securities who elect to apply a mark-to-market method of accounting;
- tax-exempt organizations or governmental organizations;
- insurance companies;
- dealers or brokers in securities or foreign currency;
- individual retirement and other deferred accounts;
- U.S. Holders whose functional currency is not the U.S. dollar;
- former citizens or long-term residents of the United States;
- persons subject to the alternative minimum tax;
- persons that actually or constructively own 10% or more of the total voting power or value of all of the Company's outstanding stock;
- persons that are resident or ordinarily resident in or have a permanent establishment in a jurisdiction outside the United States;
- persons who hold their Offer Shares as part of a straddle, hedging, conversion, constructive sale or other risk reduction transaction;
- persons who purchase or sell their Offer Shares as part of a wash sale for tax purposes;
- "S corporations," partnerships or other entities or arrangements classified as partnerships for U.S. federal income tax purposes, or other pass-through entities (and investors therein); and
- persons who received their Offer Shares through the exercise of employee stock options or otherwise as compensation or through a tax-qualified retirement plan.

For purposes of this discussion, a "U.S. Holder" means a beneficial owner of Offer Shares that for U.S. federal income tax purposes is: (i) an individual who is a citizen or resident of the United States; (ii) a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States, any state thereof or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership, including for this purpose any arrangement or entity that is treated as a partnership for U.S. federal income tax purposes, holds or disposes of Offer Shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships for U.S. federal income tax purposes and the partners in such partnerships are urged to consult their tax advisors about the U.S. federal income tax consequences of the acquisition, ownership and disposition of Offer Shares.

This discussion is for informational purposes only and is not tax advice. U.S. Holders of Offer Shares should consult their tax advisors with respect to the U.S. federal income tax consequences to them of the acquisition, ownership and disposition of Offer Shares in light of their particular circumstances, as well as any tax consequences of such matters arising under the U.S. federal tax laws other than those pertaining to income tax, including estate or gift tax laws, or under any state, local or non-U.S. tax laws or under any applicable income tax treaty.

Dividends

Subject to the discussion below under *"—Passive Foreign Investment Company*" the gross amount of distributions paid with respect to the Offer Shares (other than certain pro rata distributions of shares to all shareholders), including the amount of any taxes withheld, will be treated as dividends to the extent paid out of the Company's current or accumulated earnings and profits (as determined under U.S. federal income tax principles). To the extent, if any, that the amount of any such distribution exceeds the Company's current or accumulated earnings and profits, it will be treated first as a tax-free return of the U.S. Holder's tax basis in the Offer Shares and thereafter as capital gain. However, the Company does not intend to calculate its earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will generally be reported as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above. The dividends will be treated as foreign-source income and will not be eligible for the dividends-received deduction generally available to corporations in respect of dividends received from other U.S. corporations.

With respect to certain non-corporate U.S. Holders, including individual U.S. Holders, dividends will generally be taxed at the lower capital gains rate applicable to "qualified dividend income," provided that (i) the Company is eligible for the benefits of the Treaty, which the Company expects to be, (ii) the Company is not a passive foreign investment company (as discussed below under *"—Passive Foreign Investment Company*") for its taxable year in which the dividend is paid and the preceding taxable year, and (iii) certain holding period and other requirements are met.

Dividends paid in a currency other than U.S. dollars will be included in a U.S. Holder's income in a U.S. dollar amount determined by reference to the exchange rate in effect on the date of actual or constructive receipt, whether or not the non-U.S. currency is converted into U.S. dollars at that time. If a dividend paid in non-U.S. currency is converted into U.S. dollars on the day the dividend is received, the U.S. Holder generally will not recognize foreign currency gain or loss on such conversion. If it is not converted into U.S. dollars on the date of receipt, such U.S. Holder will have a basis in the non-U.S. currency equal to the U.S. dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other distribution of such non-U.S. currency generally will be treated as ordinary income or loss to such U.S. Holder and generally will be income or loss from sources within the United States for foreign tax credit limitation purposes.

Subject to applicable limitations, Turkish taxes withheld from dividends on the Offer Shares at a rate not exceeding the rate provided in the Treaty (if applicable) will be creditable against the U.S. Holder's U.S. federal income tax liability (or at a U.S. Holder's election, may be deducted in computing taxable income if the U.S. Holder has elected to deduct all foreign income taxes for the taxable year). The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific "baskets" of income. For this purpose, the dividends should generally constitute "passive category income," or in the case of certain U.S. Holders, "general category income." The rules governing foreign tax credits are complex, and U.S. Holders should consult their tax advisers regarding the creditability of foreign taxes based on their particular circumstances.

Dispositions

Subject to the discussion below under *"—Passive Foreign Investment Company*", a U.S. Holder will generally recognize capital gain or loss on any sale, exchange, redemption, or other taxable disposition of its Offer Shares in an amount equal to the difference between the amount realized for the Offer Shares and such U.S. Holder's tax basis in the Offer Shares, each determined in U.S. dollars. Any such capital gain or loss will be long-term if the U.S. Holder's holding period in the Offer Shares exceeds one year. Long-term capital gains of non-corporate taxpayers are generally eligible for reduced rates of taxation. Any gain or loss generally will be treated as U.S. source gain or loss. The deductibility of capital losses is subject to limitations under the Code.

A U.S. Holder's tax basis in the Offer Shares generally will be the U.S. dollar value of the non-U.S. currency amount paid to purchase the Offer Shares determined by reference to the exchange rate on the date of purchase. If the Offer Shares are treated as traded on an ''established securities market,'' a cash basis U.S. Holder (or, if it elects, an accrual basis U.S. Holder) will determine the U.S. dollar value of the cost of such Offer Shares by translating the amount paid at the spot rate of exchange on the settlement date of the purchase.

A U.S. Holder that receives a currency other than U.S. dollars on the sale or other disposition of the Offer Shares generally will realize an amount equal to the U.S. dollar value of the non-U.S. currency received determined by reference to the exchange rate on the date of sale or other disposition (or in the case of Offer Shares traded on an ''established securities market'' that are sold by a cash basis or electing accrual basis taxpayer, the settlement date). A U.S. Holder will recognize exchange gain or loss if the U.S. dollar value of the currency received at the spot rate on the settlement date differs from the amount realized. A U.S. Holder will have a tax basis in the currency received equal to the U.S. dollar value of the currency on the settlement date. Any gain or loss realized on a subsequent conversion or other disposition of the non-U.S. currency for a different U.S. dollar amount will be exchange gain or loss and generally will be treated as U.S. source ordinary income or loss for foreign tax credit limitation purposes.

Passive Foreign Investment Company

A non-U.S. corporation will be classified as a passive foreign investment company ("**PFIC**") for U.S. federal income tax purposes in any taxable year in which the corporation satisfies either of the following requirements:

- at least 75% of its gross income is "passive income"; or
- at least 50% of the average gross fair market value of its assets is attributable to assets that produce "passive income" or are held for the production of "passive income."

Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from the disposition of investment assets, subject to various exceptions. In addition, there is a look-through rule for investments in subsidiary corporations. Under this rule, if a non-U.S. corporation owns (directly or indirectly) at least 25% of another corporation, the non-U.S. corporation is treated as owning a proportionate share of the assets of the other corporation and earning its proportionate share of the income of the other corporation for purposes of determining if the non-U.S. foreign corporation is a PFIC.

Based upon the composition of its income, its assets and the nature of its business, the Company believes that it was not a PFIC for the tax year ending 31 December 2017, and expects that it will not be classified as a PFIC for its current taxable year or the foreseeable future. There can be no assurance, however, that the Company will not be considered to be a PFIC for any particular year because PFIC status is factual in nature, depends upon factors not wholly within the Company's control, generally cannot be determined until the close of the taxable year in question, and is determined annually. If the Company were a PFIC in any taxable year, materially adverse U.S. federal income consequences could result for U.S. Holders. If the Company were a PFIC for any taxable year during which a U.S. Holder owned Offer Shares, gains recognized by such U.S. Holder on a sale or other disposition of the Offer Shares would be allocated ratably over the U.S. Holder's holding period for such shares. The amount allocated to the taxable year of the sale or other disposition and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect and an interest charge would be imposed on the amount allocated to each such taxable year. Further, any distribution on the Offer Shares in excess of 125% of the average of the annual distributions on such Offer Shares received by a U.S. Holder during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation in the same manner as gain, as described immediately above . If the Company is classified as a PFIC in any year that a U.S. Holder is a shareholder, the Company generally will continue to be treated as a PFIC for that U.S. Holder in all succeeding years, even if the Company ceases to satisfy the requirements of being a PFIC. U.S. Holders should consult their tax advisers regarding the application of the PFIC rules to their investment in the Offer Shares.

Backup Withholding and Information Reporting

Payments of dividends to a U.S. Holder and proceeds from the sale or other disposition of Offer Shares may, under certain circumstances, be subject to information reporting and backup withholding, unless the U.S. Holder provides proof of an applicable exemption or, in the case of backup withholding, furnishes its taxpayer identification number and otherwise complies with all applicable requirements of the backup withholding rules. Backup withholding is not an additional tax and generally will be allowed as a refund or credit against the U.S. Holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

Foreign Asset Reporting

Certain U.S. Holders are required to report information relating to an interest in the Offer Shares, subject to certain exceptions (including an exception for Offer Shares held in accounts maintained by certain financial institutions) by filing IRS Form 8938 (Statement of Specified Foreign Financial Assets) with their U.S. federal income tax return. U.S. Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of Offer Shares.

PLAN OF DISTRIBUTION

The Offering

The Selling Shareholders are offering 21,259,241,400 Offer Shares in the Offering, which consists of (a) the International Offering of 18,070,355,100 Offer Shares outside the United States and Turkey to institutional investors in offshore transactions in reliance on Regulation S under the Securities Act and in the United States only to QIBs as defined in and in reliance on Rule 144A and (b) the Domestic Offering of 3,188,886,300 Offer Shares to retail and institutional investors in Turkey in reliance on Regulation S. The allocation of Offer Shares between the International Offering and the Domestic Offering is subject to change in accordance with applicable Turkish regulations.

In addition, 2,362,137,800 Additional Shares are expected to be sold by the Selling Shareholders on the Closing Date for the purpose of covering over-allotments. Ak Yatırım as the Stabilization Manager may, after consultation with and in coordination with the Global Coordinators, effect transactions with a view to supporting the market price of the shares on Borsa İstanbul.

The Offer Price Range is TL [●] to TL [●] per round lot of 100 Offer Shares. The Offer Price Range may be decreased through public disclosure without prior approval of the CMB before or after commencement of the domestic bookbuilding period.

(i) Price range adjustment prior to start of domestic bookbuilding: Domestic bookbuilding is permitted to commence the second day following the disclosure relating to the downward adjustment of the price.

(ii) Price range adjustment during the domestic bookbuilding: At least two business days must be added to the domestic bookbuilding period disclosed in the Domestic Prospectus.

The Company has applied for listing of the Offer Shares on the Borsa İstanbul under the symbol "ENJSA".

Subject to the terms and conditions set out in the international underwriting agreement executed on or before the date of this Offering Circular (the "**International Underwriting Agreement**") among the Company, the Selling Shareholders and the Joint Bookrunners, the Selling Shareholders have agreed to sell to the Joint Bookrunners, and the Joint Bookrunners have agreed to procure purchasers for, or failing which, to purchase from the Selling Shareholders, the Offer Shares to be sold pursuant to the International Offering. In addition, subject to the terms and conditions set out in the International Underwriting Agreement, the Joint Bookrunners have agreed to procure purchasers for, or failing which, to purchase Additional Shares to be sold by the Selling Shareholders to cover over-allotments, if any, in the International Offering.

Concurrently with the International Offering, the Selling Shareholders are offering Offer Shares in the Domestic Offering pursuant to the Domestic Prospectus. The Domestic Offering is being made pursuant to an intermediary and consortium agreement with a syndicate of Turkish financial institutions (the "**Domestic Syndicate**") led by Ak Yatırım.

The following table sets forth the number of Offer Shares (including the Additional Shares) that the Joint Bookrunners and the Domestic Syndicate have agreed to severally, and not jointly, procure purchasers for (or, in the case of the Joint Bookrunners, pursuant to the International Underwriting Agreement, failing which to purchase) in the Offering pursuant to the agreements described above.

Manager	Number of Shares
Citigroup	[●]
HSBC	[●]
BofA Merrill Lynch	[●]
Deutsche Bank	[●]
Domestic Syndicate (led by Ak Yatırım, as Domestic Lead Manager)	[●]
Total	**[●]**

Prior to the Offering, there has been no public market for the Company's securities. No assurance can be given as to the liquidity of the trading market for the Offer Shares. See "*Risk Factors—Risks Related to an Investment in the Offer Shares—The Offer Shares may experience price and volume fluctuations*" and "*Risk Factors—Risks Related to an Investment in the Offer Shares—Borsa İstanbul is smaller and less liquid than other major exchanges and may be more volatile, which may adversely affect the ability to trade our Offer Shares purchased in the Offering*".

The Joint Bookrunners may resell Offer Shares in the United States to QIBs in reliance on Rule 144A. Any offer or sale of the Offer Shares in reliance on Rule 144A will be made by broker-dealers who are registered as such under the Exchange Act.

Over-allotment and Stabilization

In case the total amount of final subscription becomes higher than the amount of the Offer Shares, the Selling Shareholders may exercise an option (the "**Over-allotment Option**"), to sell up to 2,362,137,800 additional Offer Shares at the Offer Price per Offer Share for the purpose of covering over-allotments. Assuming the Over-allotment Option is exercised in full, the Offering will amount to 23,621,379,200 Offer Shares. The Selling Shareholders have agreed to allocate proceeds (calculated to be an amount equal to 11.11% of the gross proceeds of the Offering) from the sale of up to 2,362,137,800 Additional Shares to Ak Yatırım) as the Stabilization Manager to conduct price stabilization activities. On or prior to the Closing Date, the Selling Shareholders will deposit the Stabilization Funds in a special investment account with the Stabilization Manager and grant to the Stabilization Manager exclusive discretionary authority to undertake stabilization activities with the Stabilization Funds.

The Stabilization Manager may, after consultation with and in coordination with the Global Coordinators, use the Stabilization Funds to effect transactions with a view to supporting the market price of the shares on Borsa İstanbul at levels higher than those which might otherwise prevail for a limited period after the Offer Price is announced. In accordance with the regulations of the CMB, stabilizing activities may be carried on for the Stabilization Period (i.e., a maximum period of 30 days following the commencement of trading of the shares on Borsa İstanbul) and may be effected only on Borsa İstanbul. Orders can be given only to stop a decline in the share price, may not be given at prices above the Offer Price and must otherwise comply with the regulations of the CMB and Borsa İstanbul.

Such transactions must be brought to an end at the expiry of the Stabilization Period or, if earlier, once the Stabilization Funds have been fully utilized. No representation is made as to the magnitude or effect of any such stabilizing or other transactions and any such activities or transactions would not constitute a guarantee of any share price. The Stabilization Manager is not obliged to engage in stabilization activities and may discontinue any of these activities at any time upon providing notice of this on the Public Disclosure Platform.

Following the Stabilization Period, the Stabilization Manager will transfer to the Selling Shareholders (a) if no stabilization activities were conducted, the total amount of the Stabilization Funds, or (b) if stabilization activities were conducted, the Offer Shares purchased through stabilization activities together with the remaining amount of the Stabilization Funds.

Investor Tranches

The Offer Shares (excluding Additional Shares) are expected to be allocated as follows:

	Offer Shares	
Investor tranche	**Number**	**%**
International institutional investors[1]	18,070,355,100	85.0
Domestic institutional investors	2,125,924,200	10.0
Domestic retail investors	1,062,962,100	5.0
Total	**21,259,241,400**	**100.0**

(1) Constituting of institutional investors outside the United States and Turkey to in offshore transactions in reliance on Regulation S under the Securities Act and in the United States only to QIBs as defined in and in reliance on Rule 144A.

The amounts and percentages above are subject to change under the following conditions:

(i) The investor tranches are applicable for the Offer Shares (excluding Additional Shares), as the Additional Shares are not subject to mandatory allocation rules of the CMB. Therefore, if the Over-allotment Option is exercised, the Additional Shares will be allocated without any restriction;

(ii) If there is insufficient demand to meet the threshold in any of the investor tranches, the unsubscribed portion in that specific investor tranche can be completed through the over-subscribed investor tranches; and

(iii) Even if there is sufficient demand, the investor tranche for the international institutional investors can be decreased by 20.0% of the original allocation set forth above to meet any excess demand of domestic retail investors.

Lock-up Arrangements

The Company has agreed that, subject to certain exceptions, for a period of 180 days from the date of the trading of the Offer Shares on the Borsa İstanbul, neither the Company nor any of its affiliates nor any person acting on its or their behalf will, without the prior written consent of the Global Coordinators, which consent shall not be unreasonably withheld or delayed,

- directly or indirectly, issue, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any of the Company's shares, or any securities convertible into or exercisable or exchangeable for the Company's shares, or file any registration statement under the Securities Act or any similar document with any other securities regulator, stock exchange, or listing authority with respect to any of the foregoing;
- enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Company's shares, whether any such transaction described herein or above is to be settled by delivery of the Company's shares or other securities, in cash or otherwise; or
- publicly announce such an intention to effect any such transaction.

The foregoing restrictions shall not apply to the sale of Offer Shares to be sold hereunder.

The Selling Shareholders have agreed that subject to certain exceptions, for a period of 180 days from the date of the trading of the Offer Shares on the Borsa İstanbul neither the Selling Shareholders nor any of their respective affiliates nor any person acting on its or their behalf will, without the prior written consent of the Global Coordinators, which consent shall not be unreasonably withheld or delayed,

- directly or indirectly, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any of the Company's shares or any securities convertible into or exercisable or exchangeable for the Company's shares or request or demand that the Company file any registration statement under the Securities Act or any similar document with any other securities regulator, stock exchange or listing authority with respect to any of the foregoing; or
- enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Company's shares, whether any such transaction described herein or above is to be settled by delivery of the Company's shares or such other securities, in cash or otherwise.

The foregoing shall not apply to: (i) the sale of the Offer Shares to be sold hereunder, (ii) accepting a general offer made to all holders of the Company's shares on terms which treat all such holders alike or executing and delivering an irrevocable commitment or undertaking to accept such a general offer, (iii) selling or otherwise disposing of the Company's shares pursuant to any offer by the Company to purchase its own shares which is made on identical terms to all holders of shares in the Company, (iv) transferring the Company's shares to any affiliate of the Selling Shareholder provided that the transferee undertakes to comply with the restrictions described above, (v) transferring the Company's shares where a disposal is required by law or by any competent authority or by order of a court of competent jurisdiction and (vi) with respect to Sabancı Holding, trading of Offer Shares through on-exchange transactions by affiliates of Sabancı Holding for general portfolio management and investment purposes in the ordinary course of business of such affiliates. In case any of the Company's shares are returned to the Selling Shareholders by the stabilization manager following the stabilization period, upon request of the Selling Shareholders, the Global Coordinators shall consider in good faith the grant of the consent of the Global Coordinators for the sale of such Company shares by the Selling Shareholders.

In addition, for a period of one calendar year from the date of the trading of the Offer Shares on Borsa İstanbul, the Selling Shareholders have agreed not to sell any of its shares on exchange, at a price lower than the Offer Price and it will not enter into any transactions, which may result in the sale of its shares on exchange at a price lower than the Offer Price; and if the Selling Shareholders, during such one period sells shares through an off-exchange transaction, the buyers of such shares will also be bound by this restriction and the Selling Shareholders are obligated to make disclosure in accordance with the CMB regulations relating to disclosure of special events, in case of any sale or transfer (wholly or partially) of such shares in compliance with this restriction.

For a discussion of certain restrictions on sales by shareholders who are not resident in Turkey, see "*Transfer Restrictions—Transferability of Offer Shares*".

Other Relationships

Certain of the Managers and/or their respective affiliates have or are currently engaged in, or may, in the future, from time to time, engage in, commercial banking, investment banking and financial advisory and ancillary activities in the ordinary course of their business with the Company and/or the Selling Shareholders or any parties related to any of them, in respect of which they have and may in the future, receive customary fees and commissions. As a result of these transactions, these parties may have interests that are not being aligned, or could possibly conflict with, the interests of investors.

In connection with the Offering, each of the Managers and any of its affiliates acting as an investor for its own account may take up the Offer Shares and Additional Shares (if any) as a principal position and, in that capacity, may retain, purchase or sell for its own account such securities and any securities of the Company or related investments, and may offer or sell such securities or other investments otherwise than in connection with the Offering. Accordingly, references in this Offering Circular to the Offer Shares or the Additional Shares being offered or placed should be read as including any offering or placement of securities to any of the Managers and any affiliate acting in such capacity. In addition, certain of the Managers or their affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which such Managers (or their affiliates) may from time to time acquire, hold or dispose of Offer Shares. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Subscription, Settlement and Trading

Payment for the Offer Shares is expected to be in Turkish Lira in same-day funds. Prospective purchasers of the Offer Shares who do not maintain a custody account in Turkey must open a custody account with a recognized Turkish depositary in order to make payments of Turkish Lira and receive Offer Shares. Prospective purchasers must provide details of such custody accounts to the Managers no later than February 12, 2018. The Offer Shares will be delivered to the purchaser's Turkish custody account on or about the Closing Date by means of book-entry registration, subject to timely and satisfactory provision of account details.

Selling Restrictions

No action has been or will be taken in any jurisdiction other than Turkey that would permit a public offering of the Offer Shares, or the possession, circulation or distribution of this Offering Circular or any other material relating to the Company or the Offer Shares in any jurisdiction where action for that purpose is required.

Each purchaser of Offer Shares will be deemed to have made certain acknowledgements, representations and agreements as described under "*Transfer Restrictions*".

Turkey

The Domestic Prospectus for use in the Domestic Offering has been prepared in accordance with the relevant Turkish regulations, and the Offering and the Domestic Prospectus relating to the Domestic Offering is expected to be approved by the CMB on or about February 2, 2018 pursuant to the provisions of the Capital Markets Law. Such approval does not constitute a guarantee by the CMB with respect to the Offer Shares, the Company or the accuracy of the statements in the Domestic Prospectus and such approval cannot be regarded as an investment recommendation regarding the Offer Shares. Neither Borsa İstanbul nor the CMB has approved the Offer Price (including the Offer Price Range), nor does either have any authority over the determination of the Offer Price (including the Offer Price Range). Neither this Offering Circular nor any other offering material related to the International Offering may be used in connection with the general offering to the public in Turkey for the purpose of the sale of Offer Shares. Prospective investors proposing to purchase the Offer Shares in the Domestic Offering should procure a Domestic Prospectus from an authorized institution.

United States

The Offer Shares have not been and will not be registered under the Securities Act, or qualified for sale under the laws of any state or other jurisdiction of the United States. The Offer Shares may not be offered, sold, pledged, taken up, exercised, resold, transferred or delivered directly or indirectly in the United States (as defined in Regulation S) absent registration or pursuant to an exemption from or in a transaction not subject to, the registration requirements of the Securities Act. The Offer Shares will be offered and sold in the United States only to QIBs in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and outside the United States in offshore transactions in reliance on Regulation S.

Until the expiration of 40 days after the later of the commencement of the Offer and the original issue or sale date of the Offer Shares offered in the Offer, an offer, sale or transfer of the shares within the United States by a dealer may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to an exemption from registration under the Securities Act.

United Kingdom

This Offering Circular is only being distributed to and is only directed at: (i) persons who are outside the United Kingdom, or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act, 2000 (Financial Promotion) Order 2005 (the "**Order**") or (iii) high net-worth entities falling within Articles 49(2)(a) to (d) of the Order, and other persons to whom it may lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on, or relied on, by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

European Economic Area

In relation to each member state of the EEA which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), no Offer Shares have been offered or will be offered pursuant to the Offering to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Offer Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that offers of Offer Shares may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(i) to any legal entity which is a qualified investor as defined under the Prospectus Directive;

(ii) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Bookrunners for any such offer; or

(iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Offer Shares shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a Relevant Member State.

For the purposes of this provision, the expression an "offer to the public" in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and any Offer Shares to be offered so as to enable an investor to decide to purchase any Offer Shares, as the same may be varied for that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State. The expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including Directive 2010/73/EU, to the extent implemented in each Relevant Member State), and includes any relevant implementing measure in each Relevant Member State.

In the case of any Offer Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, warranted and agreed to and with the Managers and the Company that the Offer Shares acquired by it have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, or in circumstances in which the prior consent of the Managers has been obtained to each such proposed offer or resale. The Company and the Managers and each of their respective affiliates and others will rely upon the truth and accuracy of the foregoing representation, warranty, acknowledgment and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the Managers of such fact in writing may, with the consent of the Managers, be permitted to purchase the Offer Shares.

Hong Kong

This Offering Circular has not been, and will not be, registered as a prospectus under the Companies Ordinance (Cap. 32) of Hong Kong (the Companies Ordinance), nor has it been authorized by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "**SFO**"). No action has been taken in Hong Kong to authorize or register this Offering Circular or to permit the distribution of this Offering Circular or any documents issued in connection with it. Accordingly, the Offer Shares have not been and will not be offered or sold in Hong Kong other than: (i) to "professional investors" (as defined in the SFO or any rules made under that ordinance); or (ii) in other circumstances that do not result in this Offering Circular being a "prospectus" (as defined in the Companies Ordinance) or that do not constitute an offer to the public within the meaning of that ordinance.

No advertisement, invitation or document relating to the Offer Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Offer Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance).

No person allotted Offer Shares may sell, or offer to sell, such shares in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such shares.

The contents of this Offering Circular have not been reviewed by any Hong Kong regulatory authority. Potential investors are advised to exercise caution in relation to the offer. Potential investors in doubt about any contents of this Offering Circular should obtain independent professional advice.

Switzerland

The Offer Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("**SIX**") or on any other stock exchange or regulated trading facility in Switzerland. This Offering Circular has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland.

Neither this Offering Circular nor any other offering or marketing material relating to the Offer Shares or the Offering may be publicly distributed or otherwise made publicly available in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Offering, the Company or the Offer Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Offering Circular will not be filed with, and the offer of Offer Shares will not be supervised by, the Swiss Financial Market Supervisory Authority, and the offer of Offer Shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("**CISA**"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Offer Shares.

Dubai International Financial Centre ("DIFC")

This Offering Circular relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("**DFSA**"). This Offering Circular is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Offering Circular nor taken steps to verify the information set forth herein and has no responsibility for the Offering Circular. The shares to which this Offering Circular relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this Offering Circular you should consult an authorized financial adviser. In relation to its use in the DIFC, this Offering Circular is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the Offer Shares may not be offered or sold directly or indirectly to the public in the DIFC.

Japan

The Offer Shares offered in this Offering Circular have not been registered under the Securities and Exchange Law of Japan. The Offer Shares have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except: (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law; and (ii) in compliance with any other applicable requirements of Japanese law.

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Offer Shares may not be circulated or distributed, nor may the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than: (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"); (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with, the conditions of any other applicable provision of the SFA, in each case, subject to compliance with conditions set forth in the SFA.

Where the Offer Shares are purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- where no consideration is or will be given for the transfer; or
- where the transfer is by operation of law.

TRANSFER RESTRICTIONS

As a result of the following restrictions, we advise you to contact legal counsel prior to making any resale, pledge or transfer of the Offer Shares. The Offering is being made in reliance on Rule 144A and Regulation S. The Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction and, accordingly, may not be offered or sold within the United States, except to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and outside the United States in accordance with Regulation S. Terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as so defined.

Regulation S

Each purchaser of the Offer Shares outside the United States, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged as follows:

(1) it (a) is aware that the sale of the Offer Shares to it is being made pursuant to and in accordance with Rule 903 or 904 of Regulation S, (b) is, or at the time such Offer Shares are purchased will be, the beneficial owner of those Offer Shares and (c) is located outside the United States (within the meaning of Regulation S) and it is purchasing the Offer Shares in an offshore transaction meeting the requirements of Regulation S;

(2) it is not our or the Selling Shareholders' affiliate or a person acting on behalf of such an affiliate;

(3) it understands that the Offer Shares have not been and will not be registered under the Securities Act and may not be offered, resold, pledged or otherwise transferred, except (a) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S or (b) to a person whom the seller and any person acting on its behalf reasonably believes to be a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, in each case, in accordance with any applicable securities laws of any state of the United States; and

(4) it acknowledges that we, the Selling Shareholders, the Managers and our respective affiliates will rely upon the truth and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs.

We will not recognize any resale or other transfer, or attempted resale or other transfer, in respect of the Offer Shares made other than in compliance with the foregoing restrictions.

Rule 144A

Each purchaser of the Offer Shares within the United States, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged as follows:

(1) it acknowledges that the Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;

(2) it is:

   (i) a QIB;

   (ii) aware, and each beneficial owner of such Offer Shares has been advised, that the sale to it is being made in reliance on Rule 144A; and

   (iii) acquiring such Offer Shares for its own account or for the account of a QIB;

(3) it agrees (or if it is acting for the account of another person, such person, has confirmed to it that such person agrees) that it (or such person) will not offer, resell, pledge or otherwise transfer those Offer Shares except (i) to a person whom it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S or (iii) in accordance with Rule 144 under the Securities Act (if available), in each case, in accordance with any applicable securities laws of any state of the United States. The purchaser will, and each subsequent holder is required to, notify any subsequent purchaser from it of the Offer Shares of the resale restrictions referred to in (i), (ii) and (iii) above. No representation can be made as to the availability of the exemption provided by Rule 144 for resale of the Offer Shares;

(4) notwithstanding anything to the contrary in the foregoing paragraphs, the Offer Shares may not be deposited into any unrestricted depositary facility established or maintained by a depositary bank, unless and until such time as the Offer Shares are no longer "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act;

(5) if it is acquiring the Offer Shares for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and

(6) it acknowledges that we, the Selling Shareholders, the Managers and our respective affiliates will rely upon the truth and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs.

We will not recognize any resale or other transfer, or attempted resale or other transfer, in respect of the Offer Shares made other than in compliance with the foregoing restrictions.

Prospective purchasers are hereby notified that sellers of our shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Transferability of Offer Shares

Subject to the limitations described herein, the Offer Shares may be sold and transferred by means of book-entry registration with accounts maintained with the Central Registry Agency. See "*Description of Share Capital—Transfer of Shares*".

Turkish law requires non-resident investors to trade Turkish equity securities through a licensed Turkish bank or a licensed brokerage firm. In addition, the CMB regulations require banks or brokerage firms to trade shares of a company listed on a Turkish stock exchange exclusively on such exchange. The CMB has indicated that this requirement applies only to intermediary institutions (banks or brokers) licensed for trading on the stock exchange and to trade orders placed with them by investors. Accordingly, following the Offering, our shareholders who are not resident in Turkey may transfer the Offer Shares on Borsa İstanbul, through a bank or a brokerage firm. Further, trading of Offered Shares realized by a bank or a brokerage firm through off-exchange transactions shall be subject to registration requirements as per the relevant rules of Borsa İstanbul.

Pursuant to the Electricity Market Licensing Regulation, any direct or indirect acquisition of the shares representing 10.0% or more of a license holder company's share capital or any acquisition resulting in change of the control of a license holder company is subject to prior approval of EMRA. The 10.0% threshold is lowered to 5.0% for public companies holding a license. In addition, irrespective of the above thresholds, creation of pledges over shares of and creation of account pledge over the accounts of distribution license holder companies and incumbent retail companies are also subject to prior approval of EMRA. However, these share transfer restrictions do not apply for any direct or indirect acquisition of shares of a license holder that are listed on a stock exchange.

LEGAL MATTERS

Certain legal matters with respect to the Offering will be passed upon for the Company by White & Case LLP as to United States federal law and English law. Certain legal matters relating to Turkish law will be passed upon for the Company by Çakmak—Gökçe Avukatlık Bürosu. Certain legal matters with respect to the Offering will be passed upon for the Managers by Herbert Smith Freehills LLP as to United States federal law and English law. Certain legal matters relating to Turkish law will be passed upon for the Managers by Paksoy Ortak Avukat Bürosu.

INDEPENDENT AUDITORS

The Annual Financial Statements as of and for the years ended December 31, 2014, 2015 and 2016, included in this Offering Circular have been audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (member of Deloitte Touche Tohmatsu Limited), independent auditors, whose reports thereon are included in this Offering Circular.

The Interim Financial Statements of Enerjisa as of and for the nine months ended September 30, 2017 and 2016, included in this Offering Circular, have been audited by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. Maslak Mahallesi Eski Büyükdere Caddesi No: 27 Orjin Maslak Plaza Sarıyer/İstanbul (member of Ernst & Young Global Limited), independent auditors, as stated in their report appearing herein.

GLOSSARY

As used in this Offering Circular, the following terms shall have the meanings indicated:

2004 Strategy Paper	the strategy paper issued by the High Planning Council on March 17, 2004
2009 Strategy Paper	the strategy paper issued by the High Planning Council on May 18, 2009
1st tariff implementation period	regulated tariff implementation period set by EMRA covering between September 1, 2006, and December 31, 2010
2nd tariff implementation period	regulated tariff implementation period set by EMRA covering between January 1, 2011, and December 31, 2015
3rd tariff implementation period	regulated tariff implementation period set by EMRA covering between January 1, 2016, and December 31, 2020, which is the current tariff implementation period
4th tariff implementation period	regulated tariff implementation period which will begin on January 1, 2021, and is expected to cover the five year period until December 31, 2025
Akbank	Akbank T.A.Ş.
AMR system	automatic meter reading system
AYEDAŞ	İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş., the distribution company, 100.0% owned by Enerjisa
Ayedaş region	the region covering the Asian part of the İstanbul province, where AYEDAŞ is the authorized distribution company and AYEPSAŞ is the incumbent retail company
AYEPSAŞ	İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş., the retail company, 100.0% owned by Enerjisa
Başkent EDAŞ	Başkent Elektrik Dağıtım A.Ş., the distribution company, 100.0% owned by Enerjisa
Başkent EPSAŞ	Enerjisa Başkent Elektrik Perakende Satış A.Ş., the retail company, 100.0% owned by Enerjisa
Başkent region	the region covering Ankara, Kastamonu, Bartın, Zonguldak, Karabük, Çankırı and Kırıkkale provinces, where Başkent EDAŞ is the authorized distribution company and Başkent EPSAŞ is the incumbent retail company
Bimsa	Bimsa Uluslararası İş, Bilgi ve Yönetim Sistemleri A.Ş., a Sabancı Group company
Borsa İstanbul	Borsa İstanbul A.Ş. (formerly *İstanbul Menkul Kıymetler Borsası*)
CAGR	compound annual growth rate
CAPEX	capital expenditures which comprise (i) capital expenditures related to network (e.g., such as cables, transformers, power cells, poles), (ii) non-network (e.g., environment, expropriation, and safety), (iii)

	expansion investments, (iv) replacement and improvement investments, (v) network operational system investments (e.g., GIS, SCADA, AMR system), and (vi) meter investments
Capital Markets Law	Capital Markets Law No. 6362 published in the Official Gazette dated December 30, 2012 and numbered 28513
CCPP	combined cycle power plant
Central Bank	Central Bank of Turkey (*Türkiye Cumhuriyeti Merkez Bankası*)
Çimsa	Çimsa Çimento Sanayi A.Ş., a Sabancı Group company
CMB	Capital Markets Board of Turkey (*T.C. Başbakanlık Sermaye Piyasası Kurulu*)
Communiqué on Material Transactions and Retirement Right	Communiqué on Material Transactions and Retirement Right (II-23.1) issued by the CMB on December 24, 2013
Communiqué on the Regulation of Distribution Systems Revenues	Communiqué on the Regulation of Distribution Systems Revenues published in the Official Gazette No: 24843, dated August 11, 2002, and repealed on January 1, 2016
Communiqué on the Regulation of Retail Energy Sales Fee	Communiqué on the Regulation of Retail Energy Sales Fee published in the Official Gazette No: 29578, dated December 30, 2015, and last amended on January 5, 2017
Company	Enerjisa Enerji A.Ş.
Competition Authority	the Turkish Competition Authority
Competition Law	Competition Law No. 4054 published in the Official Gazette dated December 7, 1994 and numbered 22140
corporate customers	customers consuming equal to or more than 400 MWh per year
Corporate Governance Communiqué	Corporate Governance Communiqué (II-17.1) issued by the CMB on January 3, 2014
Corporate Reorganization	separation of the conventional electricity generation and wholesale (upstream) businesses from the more customer centric distribution and retail (downstream) businesses through the (i) acquisition of EEDAŞ by Enerjisa, (ii) spin-off of upstream and downstream businesses, and (iii) transfer of solar power business to the Enerjisa Generation and Trading Company in 2017
Corporate Tax Law	Turkish Corporate Tax Law No. 5220 published in the Official Gazette dated June 21, 2006 and numbered 26205
CPI	consumer price index
CRM	customer relations management
Disclosure Communiqué	Disclosure Communiqué (II-15.1) issued by the CMB on January 23, 2014
distribution connection point	connection points located at the premises of end-users, used for connection to Enerjisa's distribution networks

Distribution Tariff	regulated distribution tariff which is determined by EMRA, including (i) the cost of operating and maintaining the distribution network, (ii) reimbursement of CAPEX and return on RAB (related to WACC), (iii) cost of supplying energy for theft and loss and general illumination, (iv) transmission fees (calculated through transmission tariffs), (v) fixed meter reading fees, (vi) meter replacement costs, and (vii) other costs
E.ON	E.ON SE
E.ON Turkey	DD Turkey Holdings S.A.R.L., an indirect subsidiary of E.ON SE (together with all of its affiliated undertakings)
EBRD	European Bank for Reconstruction and Development
EEDAŞ	Enerjisa Elektrik Dağıtım A.Ş.
EFET	European Federation of Energy Traders
EIA	Environmental Impact Assessment, which is conducted pursuant to the EIA Regulation
EIA Regulation	Environmental Impact Assessment Regulation published in the Official Gazette dated November 25, 2014, and numbered 29186
EIU	The Economist Intelligence Unit
Electricity Customer Services Regulation	Electricity Market Customer Services Regulation published in the Official Gazette No: 28994, dated May 8, 2014, and last amended on October 20, 2016
Electricity Market Balancing and Settlement Regulation	Electricity Market Balancing and Settlement Regulation published in the Official Gazette No: 27200, dated April 14, 2009, and last amended on May 16, 2017
Electricity Market Law	Electricity Market Law No: 6446 published in the Official Gazette No: 28603, dated March 30, 2013, and last amended on July 1, 2017
Electricity Market Licensing Regulation	Electricity Market Licensing Regulation published in the Official Gazette No: 28809, dated November 2, 2013, and last amended on June 9, 2017
eligible customers	(i) customers consuming equal to or more than the eligibility limit determined by EMRA (i.e., 2.4 MWh per year for 2017, reducing to 2.0 MWh per year for 2018), (ii) customers in the premises connected to transmission lines (i.e., lines with 36 kV and above high voltage level) and (iii) customers in organized industrial zones, irrespective of their consumption level
EMRA	Energy Market Regulatory Authority (*T.C. Enerji Piyasası Düzenleme Kurumu*)
end-users	users connected to Enerjisa’s distribution networks, including the customers of other retail companies
Energy Market Notification Regulation	Energy Market Notification Regulation published in the Official Gazette dated May, 27, 2014, and numbered 29012

Energy Market Notification Regulation	Energy Market Notification Regulation published in the Official Gazette No: 29012, dated May 27, 2014, and last amended on November 27, 2014
Enerjisa	Enerjisa Enerji A.Ş.
Enerjisa Electricity Generation Company	Enerjisa Enerji Üretim A.Ş
Enerjisa Electricity Wholesale Company	Enerjisa Elektrik Enerjisi Toptan Satış A.Ş.
Enerjisa Natural Gas Wholesale Company	Enerjisa Doğal Gaz Toptan Satış A.Ş.
Environmental Law	Environmental Law No. 2872 published in the Official Gazette No. 18132, dated August 11, 1983
Environmental Regulation	Environmental Permit and License Regulation published in Official Gazette No. 29115, dated September 10, 2014
EPİAŞ	Enerji Piyasaları İşletme A.Ş., the organized marketplace and market operator for spot transactions and balancing operations, along with settlement and reconciliation of market participants
EÜAŞ	Elektrik Üretim Anonim Şirketi, a state-owned generation license holder
Eurostat	statistical office of the European Union
free customers	eligible customers who purchase electricity from Enerjisa in free market conditions (i.e., not under the regulated Retail Energy Sales Tariff)
GDP	gross domestic product
GIS	geographical information system
GWh	gigawatt hour, which is equal to 10^6 kWh
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
imbalance costs	costs incurred as a result of the balancing mechanism (i.e., the mechanism to ensure that the total electricity demand and generation in Turkey match each other) where the costs of imbalance management by EPİAŞ are reflected on generation and retail companies
inactive customers	customers that were not invoiced due to lack of customer usage for the twelve-month period immediately prior to that date
ineligible customers	customers consuming less than the relevant eligibility limit (i.e., 2.4 MWH per year for 2017, reducing to 2.0 MWh per year for 2018) save for premises connected to transmission lines or located in organized industrial zones
İşkur	Türkiye İş Kurumu

IVR	interactive voice response
kWh	the power transmitted in kilowatts multiplied by the time in hours, which is commonly used as a billing unit to measure the electricity delivered to end-users by electric utilities
Market Management System	market management system (*Piyasa Yönetim Sistemi*) operated by EPİAŞ
MENR	Ministry of Energy and Natural Resources of Turkey
MWh	megawatt hour, which is equal to 10^3 kWh
National Tariff	regulated national tariff which is determined by EMRA on a quarterly basis, composed of, among other components, the Retail Energy Sales Tariff and the Distribution Tariff
OPEX	operating expenses such as costs related to customer services, invoicing and collection services, severance payments, transmission tariff expenses, and expenses related to the utilization of forestry areas
over-the-counter transactions	over-the-counter transactions executed off-exchange and with third party private suppliers or free customers
PFIC	passive foreign investment company defined for U.S. federal income tax purposes
Principles and Procedures of Distribution System Investments	Principles and Procedures of the Determination and the Realization of the Expense of Electricity Market Distribution System Investment published in the Official Gazette No: 27967 dated June 17, 2011
PTT	Posta ve Telgraf Teşkilatı A.Ş. (*Turkish Post Office*) (“**PTT**”)
Public Disclosure Platform	Public Disclosure Platform (*Kamuyu Aydınlatma Platformu)*, the electronic platform operated by Borsa İstanbul where information that is required to be publicly disclosed in accordance with the Turkish capital markets legislation is submitted in an electronically signed format and disclosed to the public
profit margin	profit for the period divided by revenue for the same period
RAB	regulated asset base which is determined after investments are subjected to unit cost benchmarking
regulated customers	ineligible customers and eligible customers who purchase electricity from Enerjisa through the regulated Retail Energy Sales Tariff
Regulation of Retail Energy Sales Fee	Regulation of Retail Energy Sales Fee published in the Official Gazette No: 29453 dated August 22, 2015, and last amended on December 13, 2016
residential and SME customers	customers consuming up to 400 MWh per year
Retail Energy Sales Tariff	regulated retail sales tariff which is determined by EMRA, including (i) energy procurement costs, (ii) gross profit margin (which is currently set at 2.38% for the period between 2016 and 2020), and (iii) other market costs and costs associated with the provision of the retail services

Sabancı Group	Hacı Ömer Sabancı Holding A.Ş. and its subsidiaries and affiliates
Sabancı Holding	Hacı Ömer Sabancı Holding A.Ş.
SAIDI	system average interruption duration indices
SAIFI	system average interruption frequency indices
SCADA	supervisory control and data acquisition system used for remote monitoring and control of electricity distribution network
Share Buyback Communiqué	Communiqué on Share Buyback (II-22.1) issued by the CMB on January 3, 2014
spot market transactions	spot market transactions executed through EPİAŞ
Takasbank	İstanbul Clearing, Settlement and Custody Bank (*İstanbul Takas ve Saklama Bankası A.Ş.*)
Tariff Regulation	Energy Market Tariff Regulation published in the Official Gazette No: 29453 dated August 22, 2015, and last amended on December 13, 2016
TAS	Turkish Accounting Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority (*Kamu Gözetimi, Muhasebe ve Denetim Standartları Kurumu*)
TCC	Turkish Commercial Code No. 6102 published in the Official Gazette dated February 14, 2011 and numbered 27846
TEAŞ	Türkiye Elektrik Üretim A.Ş., the government owned electricity generation corporation
TEDAŞ	Türkiye Elektrik Dağıtım A.Ş., the government owned electricity distribution corporation
TEİAŞ	Türkiye Elektrik İletim A.Ş., the government owned electricity transmission corporation
TEK	Türkiye Elektrik Kurumu (*Turkish Electricity Authority*), state owned company formerly responsible for generation, transmission, and distribution of electricity in Turkey
Tender Offer Communiqué	Tender Offer Communiqué (II-26.1) issued by the CMB on January 23, 2014
Tes-İş	Türkiye Enerji, Su ve Gaz İşçileri Sendikası (*Union of Turkish Energy, Water and Gas Employees*), the Turkish trade union of the employees of energy, water, and gas utility companies, including EEDAŞ, AYEDAŞ, Başkent EDAŞ, and Toroslar EDAŞ
TETAŞ	Türkiye Elektrik Ticaret ve Taahhüt A.Ş., the government owned electricity trade and contracting corporation
TFRS	Turkish Financial Reporting Standards
TOR Agreements	transfer of operating right agreements
Toroslar EDAŞ	Toroslar Elektrik Dağıtım A.Ş., the distribution company, 100.0% owned by Enerjisa

Toroslar EPSAŞ	Enerjisa Toroslar Elektrik Perakende Satış A.Ş., the retail company, 100.0% owned by Enerjisa
Toroslar region	the region covering the Adana, Gaziantep, Hatay, Kilis, Mersin and Osmaniye provinces, where Toroslar EDAŞ is the authorized distribution company and Toroslar EPSAŞ is the incumbent retail company
Treasury	Under Secretariat of Treasury of the Prime Ministry of Turkey (*T.C. Başbakanlık Hazine Müsteşarlığı*)
Turkey	The Republic of Turkey
Turkish State Meteorological Service	Turkish State Meteorological Service (*T.C. Orman ve Su İşleri Bakanlığı, Meteroloji Genel Müdürlüğü*)
Turkstat	Turkish Statistical Institute
TWh	terawatt hour, which is equal to 10^9 kWh
U.S. or United States	The United States of America
United Kingdom	The United Kingdom of Great Britain and the Northern Ireland
value added tax	value added tax imposed at 18.0% on the taxable services provided by the Company, pursuant to the Value Added Tax Law No. 3065 published in the Official Gazette dated November 2, 1984 and numbered 18563
Verbund	Verbund International GmbH
WACC	weighted average cost of capital
WFM	work force management system
YEKDEM	renewable energy resources support mechanism, the subsidization mechanism to support renewable energy generation in Turkey

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ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2017 TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR’S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of Enerjisa Enerji A.Ş.

Opinion

We have audited the consolidated financial statements of Enerjisa Enerji A.Ş. (the “Company”) and its subsidiaries (together will be referred to as the “Group”), which comprise the consolidated statement of financial position as at September 30, 2017 and the interim consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the nine months periods ended September 30, 2017 and 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at September 30, 2017 and its financial performance and its cash flows for the nine months periods ended September 30, 2017 and 2016 in accordance with International Financial Reporting Standards (“IFRS”s).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“IESBA Code”) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

The consolidated financial statements of the Group in accordance with IFRS’s as of December 31, 2016, were audited by another audit firm whose independent auditor’s report thereon dated November 10, 2017 expressed an unqualified opinion.

The consolidated financial statements as at and for the nine months period ended September 30, 2017, on which we have previously issued our independent auditor’s report dated November 10, 2017 have been restated as the result of the corrections and reclassifications detailed in Note 2.4.

Responsibilities of management and Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

Board of Directors are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of 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.

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

The partner in charge of the audit resulting in this independent auditor's report is Erdem Tecer.

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

Erdem Tecer, SMMM
Partner in charge

January 12, 2018
İstanbul, Turkey

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

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INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are also expressed in thousands unless otherwise indicated.)

	Notes	Audited / current period 30 September 2017	Audited / prior period 31 December 2016
ASSETS			
Current Assets		**3,491,079**	**2,939,550**
Cash and Cash Equivalents	27	155,194	74,570
Financial Assets	10	660,192	653,754
Trade Receivables	6	2,166,983	1,720,529
Due from related parties	*5*	*31,433*	*15,801*
Due from third parties		*2,135,550*	*1,704,728*
Other Receivables	7	208,756	393,471
Due from related parties	5	-	2
Due from third parties		*208,756*	*393,469*
Derivative Financial Instruments	25	-	3,886
Inventory	8	101,226	74,459
Prepaid Expenses	9	197,386	14,156
Assets Related with Current Taxes	23	1,202	238
Other Current Assets	16	140	4,487
Non-Current Assets		**13,506,806**	**12,191,898**
Other Receivables	7	490,921	230,735
Due from third parties		*490,921*	*230,735*
Financial Assets	10	4,873,333	3,639,552
Property, Plant and Equipment	11	85,150	58,010
Intangible Assets	12	7,748,097	7,891,350
Goodwill		*2,730,031*	*2,730,031*
Other intangible assets		*5,018,066*	*5,161,319*
Prepaid Expenses	9	2,345	1,516
Deferred Tax Assets	23	177,878	247,703
Other Non-Current Assets	16	129,082	123,032
TOTAL ASSETS		**16,997,885**	**15,131,448**

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2017
(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are also expressed in thousands unless otherwise indicated.)

LIABILITIES	Notes	Audited / current period 30 September 2017	Audited / prior period 31 December 2016
Current Liabilities		**4,215,754**	**4,950,759**
Short-Term Financial Liabilities	24	1,463,482	1,556,770
Short-Term Portion of Long Term Financial Liabilities	24	590,717	1,541,024
Other Financial Liabilities	24	29,097	25,087
Trade Payables	6	1,060,293	1,117,668
Due to related parties	*5*	*104,453*	*126,061*
Due to third parties		*955,840*	*991,607*
Payables for Employee Benefits	15	49,571	39,230
Other Payables		112,761	160,238
Due to third parties	*7*	*112,761*	*160,238*
Derivative Instruments	*25*	37,095	-
Deferred Income	9	449,713	165,733
Income Tax Liability	23	31,165	6,316
Short-Term Provisions		177,374	167,879
Provisions for employment benefits	*15*	*22,085*	*29,462*
Other short-term provisions	*13*	*155,289*	*138,417*
Other Short-Term Liabilities	16	214,486	170,814
Long-Term Liabilities		**7,581,337**	**5,433,861**
Long-Term Financial Liabilities	24	5,121,987	3,200,000
Other Financial Liabilities	24	262,631	245,134
Other Payables		1,068,335	880,004
Due to third parties	*7*	*1,068,335*	*880,004*
Deferred Income	9	4,835	25,617
Long-Term Provisions		73,106	56,442
Provisions for employment benefits	*15*	*73,106*	*56,442*
Deferred Tax Liabilities	23	1,050,443	1,026,664
Equity		**5,200,794**	**4,746,828**
Registered Share Capital	17	1,181,069	3,964,528
Adjustment to Share Capital	17	2,836,364	-
Total Share Capital		**4,017,433**	**3,964,528**
Other Funds		4,340	4,340
Accumulated other comprehensive expenses that will not be reclassified subsequently to profit or		(7,209)	(7,209)
Accumulated loss on remeasurement of defined benefit plans		*(7,209)*	*(7,209)*
Restricted Profit Reserves	17	180,038	139,190
Retained Earnings		552,226	268,586
Profit for the Period		453,966	377,393
TOTAL LIABILITIES AND EQUITY		**16,997,885**	**15,131,448**

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

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are also expressed in thousands unless otherwise indicated.)

	Notes	Audited / current period 1 January- 30 September 2017	Audited / prior period 1 January- 30 September 2016
Revenue	18	8,591,508	6,919,414
Cost of Sales (-)	19	(6,137,141)	(4,986,163)
GROSS PROFIT		**2,454,367**	**1,933,251**
General Administrative Expenses (-)	20	(1,035,284)	(816,398)
Other Income from Operating Activities	21	115,712	105,120
Other Expenses from Operating Activities (-)	21	(248,632)	(150,228)
OPERATING PROFIT BEFORE FINANCE INCOME / (EXPENSE)		**1,286,163**	**1,071,745**
Finance Income	22	73,344	35,402
Finance Expense (-)	22	(755,404)	(557,378)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**604,103**	**549,769**
Tax Expense from Continuing Operations		**(150,137)**	**(127,956)**
Current Tax Expense	23	(56,533)	(124,733)
Deferred Tax Expense	23	(93,604)	(3,223)
INCOME FOR THE PERIOD FROM CONTINUING OPERATIONS		**453,966**	**421,813**
PROFIT FOR THE PERIOD		**453,966**	**421,813**
OTHER COMPREHENSIVE EXPENSE			
Other Comprehensive Income or Expenses not to be Reclassified to Profit or Loss in Subsequent Periods		-	-
Gain/loss on measurement of defined benefit obligation		-	-
Income Tax Relating to Other Comprehensive Income/ (Loss) Items that not to be Reclassified Profit or Loss in Subsequent Periods		-	-
TOTAL COMPREHENSIVE INCOME		**453,966**	**421,813**
Earnings per share from continued operations			
Earnings per share (kr)	17	0.38	0.36

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are also expressed in thousands unless otherwise indicated.)

					Accumulated other comprehensive expenses not to be reclassified to profit or loss in subsequent periods			
	Share Capital	Adjustment to Share Capital	Restricted Profit Reserves	Other Funds	Accumulated Loss on Remeasurement of Defined Benefit Plans	(Accumulated Losses) / Retained Earnings	Profit for the Period	Total Equity
Balance as at 1 January 2016	**4,389,585**	**-**	**53,303**	**4,340**	**(10,813)**	**(406,886)**	**336,302**	**4,365,831**
Transfers	-	-	85,887	-	-	250,415	(336,302)	-
Total comprehensive income	-	-	-	-	-	-	421,813	421,813
Balance as at 30 September 2016	**4,389,585**	**-**	**139,190**	**4,340**	**(10,813)**	**(156,471)**	**421,813**	**4,787,644**
Balance as at 1 January 2017 (*)	**3,964,528**	**-**	**139,190**	**4,340**	**(7,209)**	**268,586**	**377,393**	**4,746,828**
Transfers	-	-	40,848	-	-	336,545	(377,393)	-
Restructing effect of companies under common control (**)	(2,783,459)	2,836,364	-	-	-	(52,905)	-	-
Total comprehensive income	-	-	-	-	-	-	453,966	453,966
Balance as at 30 September 2017	**1,181,069**	**2,836,364**	**180,038**	**4,340**	**(7,209)**	**552,226**	**453,966**	**5,200,794**

(*) It has been decided by the Board of Directors of the Company to make a capital reduction pursuant to Article 474 of the Turkish Commercial Code in order to recover the deficit in the carry forward-losses in the balance sheet with the decision numbered 14 taken on November 30, 2016. As a result of this transaction, the capital account has been deducted from previous years' losses and no change has occurred in total equity.

(**) With the decision of the Board of Directors on April 20, 2017, Enerjisa Enerji A.Ş. merged with Enerjisa Elektrik Dağıtım A.Ş. ("EEDAŞ") and the subsidiaries of EEDAŞ together with all their assets and liabilities with the take over method. In addition, on August 25, 2017, the Group's electricity generation and wholesale business areas were separated and structured under another company. As a result of these transactions, necessary corrections are made in the registered share capital and the statutory capital after merger and split has been reached. Adjustment to share capital represents the portion of registered share capital which has been treated as a capital reserve in the statutory books after the merger and split process (Note 1), due to local regulations. Such amount has been classified as adjustment to share capital to comply with the International Financial Reporting Standards ("IFRS") requirements.

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 SEPTEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated. Currencies other than TL are also expressed in thousands unless otherwise indicated.)

	Notes	Audited / current period 1 January- 30 September 2017	Audited / prior period 1 January- 30 September 2016
Cash Flows from Operating Activities		**1,196,612**	**1,197,596**
Profit for the period		**453,966**	**421,813**
Profit for the period from continued operations		453,966	421,813
Adjustments to reconcile net profit for the period		**714,711**	**528,410**
Adjustments related to the depreciation and amortization	11,12	171,939	161,633
Adjustments related to the depreciation of tangible assets	11	9,887	5,415
Adjustments related to the amortization of intangible assets	12	162,052	156,218
Adjustments related to impairment loss	6	245,713	151,678
Adjustments related to impairment loss recognised on receivables	6	245,713	151,678
Adjustments related to provisions		48,210	16,090
Adjustments related to provisions for employee benefits		31,338	23,146
Adjustments related to provision for employee termination benefits and unused vacation provision		27,864	21,268
Adjustments related to provision for bonus		3,474	1,878
Adjustments related to legal case provisions		16,872	(7,056)
Adjustments related to interest (income) and expenses, net		637,589	496,750
Adjustments related to interest income	22	(73,344)	(35,402)
Adjustments related to interest expense	22	710,933	532,152
Unrealized foreign exchange loss	22	33,169	18,130
Adjustments related to tax expense	23	150,137	127,956
Adjustments related to change in fair value (gain)		40,981	-
Adjustments related to change in fair value gain of derivative instruments		40,981	-
Other adjustments to reconcile profit/loss	27	(613,027)	(443,827)
Changes in operating assets and liabilities		**(672,903)**	**(292,465)**
Adjustments related to (increase) in trade receivables		(692,167)	(570,650)
Adjustments related to (increase) in trade receivables from related parties		(15,632)	(213,562)
Adjustments related to (increase) in trade receivables from third parties		(676,535)	(357,088)
Adjustments related to (increase) in inventories		(26,767)	(38,490)
Adjustments related to (increase) in other receivables and current assets		(290,818)	(66,099)
Adjustments related to (increase) in other receivables from third parties		(290,818)	(66,099)
Adjustments related to (increase) in trade payables		(57,375)	114,103
Adjustments related to (decrease) in trade payables to related parties		(21,608)	(67,269)
Adjustments related to increase in trade payables to third parties		(35,767)	181,372
Adjustments related to increase in other payables and expense accruals		394,224	268,671
Adjustments related to increase in other payables to third parties		394,224	268,671
Cash Generated From Operating Activities		**495,774**	**657,758**
Payments for employment benefits		(22,236)	(18,981)
Employee termination benefits paid		(22,236)	(18,981)
Tax payments		(33,818)	(61,562)
Tax payments		(33,818)	(61,562)
Other cash in-flows	27	756,892	620,381
Cash Flows from Investing Activities		**(1,283,447)**	**(2,091,581)**
Cash used for purchase of tangible and intangible assets	11,12	(54,894)	(12,752)
Cash used for property, plant and equipment purchases	11	(36,467)	(218)
Cash used for purchase of intangible assets	12	(18,427)	(12,534)
Interest received	22	73,344	35,402
Other cash out-flows	27	(1,301,897)	(2,114,231)
Cash Flows from Financing Activities		**167,459**	**899,079**
Cash in-flows from borrowings		27,321,241	10,209,579
Financial liabilities received		27,321,241	10,209,579
Cash out-flows from borrowings		(26,556,337)	(8,791,516)
Repayments of the financial liabilities		(26,556,337)	(8,791,516)
Interest paid		(597,445)	(518,984)
Increase in cash and cash equivalents		80,624	5,094
Cash and cash equivalents at the beginning of the period	27	74,570	152,103
Cash and cash equivalents at the end of the period	27	**155,194**	**157,197**

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

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are also expressed in thousands unless otherwise indicated.)

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS OF THE GROUP

Enerjisa Enerji A.Ş. (the "Company") and its subsidiaries will be referred as the "Group" for consolidated financial statements. The Company is established on 26 December 2011 as a joint venture between Hacı Ömer Sabancı Holding A.Ş. ("Sabancı") and Verbund International GmbH ("Verbund International"). On 4 December 2012, Verbund and DD Turkey Holdings S.A.R.L., E.ON SE ("E.ON") entered into a Share Purchase Agreement for the sales and transfer of all Verbund shares in the Company to E.ON and the transfer is finalized on 24 April 2013.

The Company is registered in Turkey and the address of the headquarters is as follows:

Sabancı Center, Kule 2, Kat 5, 4. Levent, 34330, Istanbul, Turkey.

The Company served as the parent company for generation, trading, sale, distribution and retail service of electricity business lines until 25 August 2017. On 28 April 2017 as the first stage of the restructuring, the Company merged with Enerjisa Elektrik Dağıtım A.Ş. ("EEDAŞ") by taking over its all assets and liabilities along with its subsidiaries (distribution and retail service companies). On 25 August 2017 as the second stage of the restructuring, the Company transferred three subsidiaries (electricity generation, wholesale trading and natural gas trading) by spin-off method with the carrying amounts to a newly established company called Enerjisa Üretim Santralleri A.Ş. ("EÜSAŞ"). On 25 September 2017, the Company has sold its subsidiary which operates in solar energy generation to the generation company that is owned by EÜSAŞ. As a result of these transactions, the Company's main activities under the new structure are customer-focused electricity distribution and retail service.

The interim consolidated financial statements of the Group have been prepared comparatively with consolidated financial statements of EEDAŞ as of 31 December 2016 and as of and for the nine months period ending 30 September 2016, considering the Company, as the successor of EEDAŞ which represents substantially the same business and assets of the Group.

Subsidiaries consolidated in the interim consolidated financial statements as of 30 September 2017 and their activities are as follows:

Başkent Elektrik Dağıtım A.Ş.("BAŞKENT EDAŞ")	Distribution of electricity
İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş. ("AYEDAŞ")	Distribution of electricity
Toroslar Elektrik Dağıtım A.Ş. ("TOROSLAR EDAŞ")	Distribution of electricity
Enerjisa Başkent Elektrik Perakende Satış A.Ş. ("EPS")	Retail service of electricity
Enerjisa İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş. ("AEPSAŞ")	Retail service of electricity
Enerjisa Toroslar Elektrik Perakende Satış A.Ş. ("TOROSLAR EPSAŞ")	Retail service of electricity

Group's operations are substantially carried out only in Turkey.

The Group has 9,551 employees as of 30 September 2017 (31 December 2016: 9,085 employees).

The consolidated financial statements were authorized for issue by the Board of Directors of the Company on 10 November 2017. The General Assembly and certain regulatory bodies have the power to amend the consolidated financial statements after the issue.

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS OF THE GROUP (Continued)

BAŞKENT EDAŞ and EPS:

BAŞKENT EDAŞ has been acquired by EEDAŞ as of 28 January 2009 by privatization bid for the consideration of USD 1,225 thousands. BAŞKENT EDAŞ currently operates in province including Ankara, Kırıkkale, Kastamonu, Zonguldak, Bartın, Çankırı and Karabük and holds the licence that gives the right for distribution of electricity in these provinces for 30 years starting from the date of Transfer of Operation Rights ("TOR") agreement signed with Türkiye Elektrik Dağıtım A.Ş. ("TEDAŞ") on 31 March 2006.

As of 1 January 2013, BAŞKENT EDAŞ. is obliged to carry out the distribution and the retail sales activities under separate legal entities in accordance with Electricity Market Law. On 12 September 2012, EPS was established with the same shareholder structure and as of 31 December 2012, BAŞKENT EDAŞ A.Ş. has transferred some of its assets and liabilities to EPS, due to the fact that, legal unbundling and the unbundling related transactions have been registered as of 31 December 2012. Starting from 1 January 2013, BAŞKENT EDAŞ has undertaken only the distribution activities. In addition, with the new regulation applied by Energy Market Regulatory Authority ("EMRA"), the Company started retail sales only for illumination customers starting from 1 April 2013.

AYEDAŞ and AEPSAŞ:

AYEDAŞ has been acquired by EEDAŞ as of 31 July 2013 by privatization bid for the consideration of USD 1,227 thousands. AYEDAŞ currently operates in Anatolian Side of İstanbul and holds the license that gives the right for distribution of electricity in this province until 31 December 2042 starting from the date of TOR agreement signed with TEDAŞ on 24 July 2006.

Starting from 1 January 2013, AYEDAŞ is obliged to carry out the distribution and the retail sales activities under separate legal entities in accordance with Electricity Market Law. On 13 December 2012, AEPSAŞ was established with the same shareholder structure and as of 31 December 2012, AYEDAŞ has transferred some of its assets and liabilities to AEPSAŞ due to the legal unbundling. The aforementioned unbundling transactions have been registered as of 31 December 2012 and AEPSAŞ started retail sales operations on 1 January 2013 according to the Retail Sales License obtained due to unbundling. Starting from 1 January 2013, AYEDAŞ has undertaken only distribution activities. In addition, with the new regulation applied by EMRA, the Company started retail sales only for illumination customers starting from 1 April 2013.

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS OF THE GROUP (Continued)

TOROSLAR EDAŞ and TOROSLAR EPSAŞ:

TOROSLAR EDAŞ has been acquired by EEDAŞ as of 30 September 2013 by privatization bid for the consideration of USD 1,725 thousands. TOROSLAR EDAŞ currently operates in Adana, Gaziantep, Hatay, Kilis, Mersin and Osmaniye and holds the license that gives the right for distribution of electricity in these provinces until 31 December 2042 starting from the date of TOR agreement signed with TEDAŞ on 24 July 2006.

Starting from 1 January 2013, TOROSLAR EDAŞ is obliged to carry out the distribution and the retail sales activities under separate legal entities in accordance with Electricity Market Law. On 13 December 2012, TOROSLAR EPSAŞ was established with the same shareholder structure and as of 31 December 2012, TOROSLAR EDAŞ has transferred some of its assets and liabilities to TOROSLAR EPSAŞ due to the legal unbundling. The aforementioned unbundling transactions have been registered as of 31 December 2012 and TOROSLAR EPSAŞ started retail sales operations on 1 January 2013 according to the Retail Sales License obtained due to unbundling. Starting from 1 January 2013, TOROSLAR EDAŞ has undertaken only distribution activities. In addition, with the new regulation applied by EMRA, TOROSLAR EDAŞ started retail sales only for illumination customers starting from 1 April 2013.

In 2006, EMRA has set a unique pricing mechanism for all of the electricity distribution companies in Turkey which will be effective for the period between 1 January 2006 and 31 December 2012 which is called the "transition period". In accordance with this pricing mechanism, distribution companies in Turkey have already determined their regional tariffs for the period between 1 January 2006 and 31 December 2010 and by using these regional tariffs, EMRA has already determined the national tariffs for the same period. In December 2010, EMRA has announced new tariff for the period between 1 January 2011 and 31 December 2015; and also in December 2015, EMRA has announced new tariff for the period between 1 January 2016 and 31 December 2020.

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

The accompanying interim consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain assets and liabilities being carried by their fair values.

In order to determine the historical cost, the fair values paid for assets are considered.

2.2 Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB").

2.3 Functional and Presentation of Currency

The individual financial statements of each Group entity are prepared 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 Turkish Liras ("TL"), which is the functional currency of the Group, and the presentation currency for the consolidated financial statements. The effective functional currency of the subsidiaries of the Group is also defined as 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 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. Gains and losses arising on settlement and translation of foreign currency items are included in the consolidated statement of comprehensive income.

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

2.4 Comparative Information and Reclassification of Prior Period Consolidated Financial Statements

The interim consolidated financial statements of the Group have been prepared comparatively with consolidated financial statements of EEDAŞ as of 31 December 2016 and as of for the nine months period ending 30 September 2016, considering the Company, as the successor of EEDAŞ which represents substantially the same business and assets of the Group in order to give information about financial position and performance trends.

If the presentation or classification of the financial statements is changed, in order to maintain consistency, financial statements of the prior periods are also reclassified in line with the related changes. The Group do not have any material reclassifications and corrections in current year.

The Group has reissued its consolidated financial statements as of September 30, 2017, which was issued on November 10, 2017, as the result of the corrections and reclassifications explained below:

In Note 5, the Group has previously reported the loans provided by its related parties as TL 1,165,679 as current liabilities and TL 1,530,000 as non-current liabilities. The related amounts have been corrected as TL 987,570 for current liabilities and TL 2,312,800 for non-current liabilities and the tables in Note 5 have been restated according to these corrections. The restatement does not have any effect on the statement of financial position, statement of profit or loss or statement of cash flows.

The Group has identified a reclassification error between short term financial liabilities account amounting to TL 1,285,764 and trade payables due to third parties account amounting to TL 1,133,558 in the previously issued statement of financial position as of September 30, 2017. The related amounts have been restated as TL 1,463,482 for short term financial liabilities and TL 955,840 for trade payables due to third parties and the statement of financial position and statement of cash flow have been restated according to this reclassification correction.

2.5 Changes in Accounting Policies

The significant changes that were made on accounting policies applied retrospectively and the financial statements of preceding period are restated. No changes has been observed at the accounting policies of the Group in the current year.

2.6 Changes and Misstatements in Accounting Estimates

If changes in accounting estimates are related to only one period, the changes are applied prospectively in the current period in which changes are made. If changes in accounting estimates are related to future periods, the changes are applied prospectively both in the current period in which changes are made and also in future periods. No change has been observed at the accounting estimates of the Group in the current year.

The accounting misstatements which are identified are applied retrospectively and consolidated financial statements of preceding period are restated. No material misstatement has been observed in order to restate the financial statements of the Group in the current year.

2.7 Going Concern

The Group has prepared its consolidated financial statements in accordance with going concern principle.

2.8 Seasonality of the Group's operations

The results of Group's operations do not show a significant change by season.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are also expressed in thousands unless otherwise indicated.)

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

2.9 Basis of Consolidation

The details of the Company's subsidiaries at 30 September 2017 and 31 December 2016 are as follows (As of 31 December 2016 the subsidiaries of EEDAŞ):

Subsidiaries	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group %		Principal activity
		30 September 2017	31 December 2016	
Başkent Elektrik Dağıtım A.Ş.	Ankara	100	100	Electricity distribution services
Enerjisa Elektrik Perakende Satış A.Ş.	Ankara	100	100	Electricity retail services
İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş.	İstanbul	100	100	Electricity distribution services
Enerjisa İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş.	İstanbul	100	100	Electricity retail services
Toroslar Elektrik Dağıtım A.Ş.	Adana	100	100	Electricity distribution services
Enerjisa Toroslar Elektrik Perakende Satış A.Ş.	Adana	100	100	Electricity retail services

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

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

2.9 Basis of Consolidation (Continued)

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

In business combinations involving entities under common control, assets and liabilities subject to a business combination are recognised at their carrying amounts in the consolidated financial statements. In addition, statements of income are consolidated from the beginning of the financial year in which the business combination takes place. Similarly, comparative consolidated financial statements are restated retrospectively for comparison purposes. As a result of these transactions, no goodwill is recognised.

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

2.10 New and Revised International Financial Reporting Standards

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at 30 September 2017 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and International Financial Reporting Interpretation Committee ("IFRIC") interpretations effective as of 1 January 2017. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2017 are as follows:

IAS 7 Statement of Cash Flows (Amendments)

The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ended 31 December 2017.

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

The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Group applies this relief, it shall disclose that fact. The amendments did not have an impact on the financial position or performance of the the Group.

Annual Improvements to IFRSs - 2014-2016 Cycle

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

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

The amendments did not have an impact on the financial position or performance of the Group.

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

2.10 New and Revised International Financial Reporting Standards (Continued)

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

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

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

Amendments issued to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. An entity shall apply those amendments prospectively. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 effective date is 1 January 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Group does not expect that the standard have significant impact on the financial position or performance of the Group. Contracts with customer in which the sale of service is generally expected to be only performance obligation thus are not expected to have an impact on the performance of the Group. In addition to this, the Group is also assessing the net or gross presentation of pass through items which are included in expenses and also accounted as revenue by reflecting directly to the customers. Besides, currently discounts and bonuses can be reliably measured on a quarterly basis accordingly they are recognized at annual and interim financial statements.

***Clarifications to IFRS 15 'Revenue from Contracts with Customers'* (Amendment)**

IASB has published final clarifications to IFRS 15 in April 2016. The amendments address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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

2.10 New and Revised International Financial Reporting Standards (Continued)

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called ‘own credit’ issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

IFRS 16 Leases

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

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

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

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

IFRS 4 Insurance Contracts (Amendments)

In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

2.10 New and Revised International Financial Reporting Standards (Continued)

ii) Standards issued but not yet effective and not early adopted (Continued)

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

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds. The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

Annual Improvements to IFRSs - 2014-2016 Cycle

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

- <u>IFRS 1</u> First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.

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

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

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

2.10 New and Revised International Financial Reporting Standards (Continued)

ii) Standards issued but not yet effective and not early adopted (Continued)

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in "IAS 12 Income Taxes" when there is uncertainty over income tax treatments.

When there is uncertainty over income tax treatments, the interpretation addresses:
(a) whether an entity considers uncertain tax treatments separately;
(b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
(c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
(d) how an entity considers changes in facts and circumstances.

An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact. On initial application, an entity shall apply the interpretation either retrospectively applying IAS 8, or retrospectively with the cumulative effect of initially applying the Interpretation recognised at the date of initial application.

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

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures (Amendments)

In October 2017, the IASB issued amendments to *IAS 28* Investments in *Associates and Joint Ventures*. The amendments clarify that a company applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

IFRS 9 Financial Instruments excludes interests in associates and joint ventures accounted for in accordance with IAS 28 Investments in Associates and Joint Ventures. In this amendment the IASB clarified that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method. A company applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

2.10 New and Revised International Financial Reporting Standards (Continued)

ii) Standards issued but not yet effective and not early adopted (Continued)

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

In October 2017, the IASB issued minor amendments to IFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortised cost.

Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortised cost some prepayable financial assets with so-called negative compensation.

The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted.

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

2.11 Summary of Significant Accounting Policies

Business Combinations

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

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

2.11 Summary of Significant Accounting Policies (Continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually (Note: 2.10), or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Related Parties

A related party is a person or entity that is related to the entity that is preparing its financial statements

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

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

(b) An entity is related to a reporting entity if any of the following conditions applies:

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

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

2.11 Summary of Significant Accounting Policies (Continued)

Related Parties (Continued)

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Revenue Recognition

Distribution part of the revenue is composed of distribution, meter reading services, transmission and theft and loss components. Distribution and meter reading service components are considered within the content of service concession arrangements due to the regulations of EMRA. Additionally, according to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations, the Group's distribution, transmission and meter reading services are subject to revenue caps which cover operating expenses and investment requirements related to distribution and meter reading services. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by Türkiye Elektrik İletim A.Ş. ("TEİAŞ"). These regulations guarantee revenue to the Group during the transition period regardless of the consumption level. The under billings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years.

Revenue recognition principles other than the assets classified as due from service concession arrangements under IFRIC 12 are as follows:

Revenue, excluding the distribution business, is recognized upon delivery of electricity to customers or upon fulfilment of services. Delivery is deemed complete when the risk and rewards associated with ownership has been transferred to the buyer as contractually agreed, compensation has been contractually established and collection of the resulting receivable is probable.

Gross profit to be gained from the regulatory portfolio of the Company is determined by EMRA and the revenue of the Company related to the regulated portfolio is computed in accordance with the provisions of "Regulation of Retail Energy Sales Prices" issued by EMRA on 30 December 2015 and "Amendments to Regulation of Retail Energy Sales Prices" published on 20 December 2016 by considering revenue requirements to cover the operational expenses and the doubtful receivable expenses are reflected in the consolidated financial statements in accordance with IAS 18.

Revenue from the sale and delivery of electricity is measured at the fair value of the consideration received or receivable. The estimated value of the electricity supplied but not invoiced to the customers is considered for the measurement of revenue.

Revenue is recognised on an accrual basis at the time the electricity is distributed, at the invoiced values. Net sales represent the invoiced value of electricity distributed less TRT energy contribution share, sales commission and excluding sales taxes.

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

2.11 Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

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.

Interest income related to service concession arrangements is recognized in accordance with Service Concession Arrangements ("IFRIC 12"). Interest income on receivable from concession arrangement is recognized on a time-proportion basis using the effective interest method.

Service concession arrangements

Service concession arrangements are defined within scope of IFRIC 12 as those whereby a government or other body grants contracts for the supply of public services – operations such as roads, energy distribution, prisons or hospitals – to private operators. The Group's electricity distribution and meter reading service businesses are in the scope of service concession agreements.

Considering the Group's terms in the service concession arrangements, a financial asset model where the Group recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor has been applied, since the right to receive cash for the distribution and meter reading services are constituted through actual billing to subscribers where the distribution and meter reading service components of the billing are already specified or determinable through the regulated by EMRA.

The Group has measured the financial asset at fair value, with the effective interest method which is calculated by discounting estimated future cash receipts with regards to the compensation of TOR and the initial and annual capital expenditures made by the Group, through the expected life of the arrangement and set "Financial Asset" on the consolidated balance sheet and recognizes the revenue on an effective interest method as "Finance Income from Service Concession Arrangements" in profit or loss and other comprehensive income.

Inventories

Inventories mainly include electricity equipment and materials related to the Group's electricity distribution business. Inventories are stated at the lower of cost or net realizable value. The cost of inventories is determined on a weighted average basis. Additional costs, incurred to bring the inventories to the intended usable condition or position, are included in determination of cost.

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

2.11 Summary of Significant Accounting Policies (Continued)

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, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, 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. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognized from statement of financial position (balance sheet) upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Customer contracts and relations and Transfer of Operational Rights

Customer contracts and relations and Transfer of Operational Rights 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 useful lives of customer contracts and relations range between 25-30 years.

Computer software

Acquired computer software licenses 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 (3-5 years).

Financial leasing transactions

Leasing - the Group as Lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

2.11 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the 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.

Borrowing cost

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. There were no capitalized borrowing costs in 2016 and 2017.

All other borrowing costs are recognized in statement of profit or loss in the period in which they are incurred.

Financial instruments

Financial assets

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss (FVTPL)', 'held-to-maturity investments', 'available-for-sale' financial assets and 'loans and receivables'.

Effective interest method

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

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Loans and receivables

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

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

2.11 Summary of Significant Accounting Policies (Continued)

Financial Instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

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

Objective evidence of impairment for a portfolio of receivables include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days as well as observable changes in national or local economic conditions that correlate with default on receivables. Only the increase in the portfolio of payments exceeding the average of 365 days for irrigation and public receivables is taken into account.

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits 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 subject to an insignificant risk of changes in value.

Financial liabilities

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

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss. Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

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

2.11 Summary of Significant Accounting Policies (Continued)

Financial Instruments (Continued)

Financial liabilities (Continued)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Derivative financial instruments

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. Financial liabilities are classified as at fair value through profit and loss where the financial asset and liability is either held for trading or it is designated as at fair value through profit and loss. Financial liabilities at fair value through profit and loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

The Group designs certain derivatives as hedges of the fair value of the recognized assets or liabilities or firm commitments (fair value hedges). Fair value is generally determined by using the quoted prices in an active market. A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized and settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Offsetting

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

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

2.11 Summary of Significant Accounting Policies (Continued)

Provisions, contingent liabilities, contingent assets

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities are assessed continuously to determine probability of outflow of economically beneficial assets. For contingent liabilities, when an outflow of resources embodying economic benefits are probable, provision is recognized for this contingent liability in the period when the probability has changed, except for cases where a reliable estimate cannot be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When the outflow of economic benefits from the Group is probable but the amount cannot be measured reliably, the Group discloses this fact in the notes.

Earnings per share

Earnings per share disclosed in the consolidated statement of profit or loss and other comprehensive income are determined by dividing net earnings by the weighted average number of shares that have been outstanding during the related period.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings on equity items. Such kind of bonus shares are taken into consideration in the computation of earnings per share as issued share certificates. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the period has been adjusted in respect of bonus shares issues without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued and each earlier year.

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

2.11 Summary of Significant Accounting Policies (Continued)

Segment reporting

Group has electricity distribution and retail operating segments, which includes the information used from management to evaluate performance and taking decision for resource allocation. These segments are managed separately because it is influenced by different economic situations and business positions in terms of risk and return.

Operating segments are reported in a manner consistent with the reporting provided to the chief operating decision- makers. The chief operating decision-makers are responsible for the decisions related to the allocation of resources to the segments and assessment of performance of segments.

Government grants

The Company has obtained the investment incentive certificate from the Ministry of Economy on 15 January 2016 and utilizes VAT exemption for machinery equipment purchases from domestic suppliers in the scope of renewal of existing investments.

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

2.11 Summary of Significant Accounting Policies (Continued)

Taxation and deferred income taxes

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 tax currently payable and deferred tax.

Current tax expense

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

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

2.11 Summary of Significant Accounting Policies (Continued)

Subsequent events

Subsequent events; even if they occur after any announcement related with profit or public announcement of other chosen financial information, covers any event between the balance sheet date and the publication date of the balance sheet.

In the case that events requiring an adjustment to the financial statements occur subsequent to the balance sheet date, the Group makes the necessary corrections on the financial statements.

Employment benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19").

The retirement benefit obligation recognized in the statement of the financial position represents the present value of the defined benefit obligation. Calculated whole actuarial gains and losses are recognized in other comprehensive income.

Vacation rights

The liabilities related to unused vacation rights are accrued when they are entitled.

Defined contribution plans

The Group pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Statement of cash flow

In statement of cash flows, cash flows are classified according to operating, investing and financing activities.

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

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

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

Share capital and dividends

Common shares are classified as equity.

Dividends on common shares are recognized in equity in the period in which they are approved and declared. Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are also expressed in thousands unless otherwise indicated.)

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

2.12 Significant Accounting Estimates and Assumptions

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

Critical judgments in applying the Group's accounting policies

Use of Estimates

The preparation of consolidated financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Impairment test of Goodwill

Pursuant to IAS 36 *Impairment of Assets*, the Group tested goodwill as of 30 September 2017 in accordance with the accounting policy stated at (Note: 2.11). The goodwill impairment test is carried out for Retail and Distribution Cash Generating Units ("CGUs").

As of 30 September 2017, the following assumptions were used to determine the recoverable amount of Retail CGU:

CGU:	**Retail**
Base used for the recoverable amount:	Value in use
Source:	Forecasted cash flows
WACC (TL):	15.5%
Annual weighted electricity demand increase rate:	4%
Annual average inflation rate:	10.7%

The net present value of Retail CGU was calculated by discounting the TL post-tax free cash flows, which is the functional currency of the Group. The Group compared the recoverable amount calculated based on the aforementioned assumptions to the total value of Retail CGU and no impairment was identified.

As of 30 September 2017, the following assumptions were used to determine the recoverable amount of Distribution CGU:

CGU:	**Distribution**
Base used for the recoverable amount:	Value in use
Source:	Forecasted cash flows for the license period
WACC (TL):	14.3%
Annual weighted electricity demand increase rate:	4%
Annual average inflation rate:	10.7%

The net present value of Distribution CGU was calculated by discounting the post-tax free cash flows for the discrete period from 2016 to 2036 for BEDAŞ and from 2016 to 2042 for AYEDAŞ and TOROSLAR EDAŞ. This calculation includes the discounted values of the TL cash flows of Distribution CGU which is the functional currency of the Group. The Group compared the recoverable amount calculated based on the aforementioned assumptions to the total value of Distribution CGU and no impairment was identified.

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

2.12 Significant Accounting Estimates and Assumptions (Continued)

Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the consolidated balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below:

Service concession arrangements

The Group determines the financial asset and financial income balances recognized under service concession arrangements based on the cash flows derived from the tariffs announced by EMRA. The distribution revenue requirement of the Group during the second (2011 - 2016) and third tariff periods (2016 - 2020) was determined by EMRA considering the projected expenses and related tariffs which were published in 2010 and 2016. Moreover, distribution revenue requirements from the end of third tariff period to the end of license (2036 for BEDAŞ and 2042 for AYEDAŞ and TOROSLAR EDAŞ) are expected by the Group management based on the tariff components announced for the third tariff period. These tariffs are revised yearly due to inflation, based on the changes in the Electricity Market Index ("EMI" is defined as change in CPI on the communique of Distribution System). In determination of the aforementioned projected cash inflows in the upcoming periods the Group management made estimates related to the CPI rate and the WACC rate determined in the latest tariff period continued to be used until the end of the license period.

Revenue recognition

Invoices of the subscribers other than residential and commercial groups are issued monthly at the end of each month by the Group whereas the invoices of the residential subscribers are issued continuously during each month due to the high number of subscribers in this group. Commercial group subscribers are also issued continuously during the month due to the high number of customers in this group although the subscribers with high consumption level are billed at the end of the month. As a result, the total electricity supplied to the residential and commercial subscribers during each month cannot be invoiced and income accruals are recognized as revenue at period-ends for these customer groups based on the actual billing performance.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are also expressed in thousands unless otherwise indicated.)

NOTE 3 - SHARES IN OTHER PARTIES

Subsidiaries:

			Proportion of ownership (%)	
Name of Subsidiary	Principal activity	Place of incorporation and operation	30 September 2017	31 December 2016
BEDAŞ	Electricity distribution services	Ankara	100	100
EPS	Electricity retail services	Ankara	100	100
AYEDAŞ	Electricity distribution services	İstanbul	100	100
AEPSAŞ	Electricity retail services	İstanbul	100	100
TOROSLAR EDAŞ	Electricity distribution services	Adana	100	100
TOROSLAR EPSAŞ	Electricity retail services	Adana	100	100

Group Structure:

		Number of subsidiaries wholly owned by the Group	
Principal Activity	Place of incorporation and operation	30 September 2017	31 December 2016
Electricity distribution services	Ankara, İstanbul, Adana	3	3
Electricity retail services	Ankara, İstanbul, Adana	3	3

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are also expressed in thousands unless otherwise indicated.)

NOTE 4 - SEGMENT REPORTING

The business activities of the Group are managed and organized according to the services provided in the electricity market. The Group has two main operating segments; electricity distribution and retail. The principal activity of distribution segment is the transmission of electricity over lines to the end users through distribution networks, by also providing infrastructure investments due to the regulated tariffs announced by EMRA; whereas the retail segment conduct retail sales of electricity to the customers. The Group performs segment reporting according to IFRS 8 in order to provide unbiased and transparent information to the investor. The Group management follows the performance of the business segments with operating profit and net profit for the period, as well as financial and non-financial indicators. In addition to the requirements for segment reporting, Group management have included this information in their reporting footnotes, considering that some financial statement readers may use this information in their analyzes.

The following table contains information on the Group's sales and profit from its operations for the period ended 30 September 2017 and 30 September 2016.

1 January - 30 September 2017	**Distribution**	**Retail**	**Unallocated (*)**	**Elimination**	**Total**
Net sales	3,213,518	7,737,248	2,054	(2,361,312)	8,591,508
-Internal	*2,361,312*	-	-	*(2,361,312)*	-
-External	*852,206*	*7,737,248*	*2,054*	-	*8,591,508*
Cost of sales (-)	(1,042,898)	(7,443,205)	(12,350)	2,361,312	(6,137,141)
Gross profit / (loss)	**2,170,620**	**294,043**	**(10,296)**	**-**	**2,454,367**
Operating expenses (-)	(726,676)	(171,821)	(171,042)	34,255	(1,035,284)
Other income / (expense) from operating activities - net	(98,720)	(13,789)	13,844	(34,255)	(132,920)
Operating profit / (loss)	**1,345,224**	**108,433**	**(167,494)**	**-**	**1,286,163**
Financial income	13,569	149,602	83,388	(173,215)	73,344
Financial expenses (-)	(474,745)	(5,654)	(448,220)	173,215	(755,404)
Profit /(loss) before taxation on income	**884,048**	**252,381**	**(532,326)**	**-**	**604,103**
Current tax expense (-)	(42,980)	(13,553)	-	-	(56,533)
Deferred tax income / (expense)	(84,092)	(40,822)	31,310	-	(93,604)
Net profit / (loss) for the period	**756,976**	**198,006**	**(501,016)**	**-**	**453,966**

(*) Out of TL 171,939 depreciation and amortization expenses, TL 156,069 represents amortization expenses of intangible assets (Note 12), which is presented as unallocated under operating expenses. The majority of financial expenses under unallocated part mainly represent costs of loans utilized for the acquisitions of distribution and retail business.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 4- SEGMENT REPORTING (Continued)

1 January - 30 September 2016	**Distribution**	**Retail**	**Unallocated (*)**	**Elimination**	**Total**
Net sales	2,579,297	6,506,909	1,302	(2,168,094)	6,919,414
-Internal	*2,168,094*	-	-	*(2,168,094)*	-
-External	*411,203*	*6,506,909*	*1,302*	-	*6,919,414*
Cost of sales (-)	(1,012,518)	(6,141,083)	(656)	2,168,094	(4,986,163)
Gross profit	**1,566,779**	**365,826**	**646**	**-**	**1,933,251**
Operating expenses (-)	(543,022)	(145,213)	(157,303)	29,140	(816,398)
Other income / (expense) from operating activities - net	(18,128)	2,158	2	(29,140)	(45,108)
Operating profit / (loss)	**1,005,629**	**222,771**	**(156,655)**	**-**	**1,071,745**
Financial income	16,065	88,041	(127)	(68,577)	35,402
Financial expenses (-)	(313,541)	(3,722)	(308,692)	68,577	(557,378)
Profit /(loss) before taxation on income	**708,153**	**307,090**	**(465,474)**	**-**	**549,769**
Current tax expense (-)	(59,388)	(65,345)	-	-	(124,733)
Deferred tax income / (expense)	(37,711)	3,274	31,214	-	(3,223)
Net profit / (loss) for the period	**611,054**	**245,019**	**(434,260)**	**-**	**421,813**

(*) Out of TL 161,633 depreciation and amortization expenses, TL 156,069 represents amortization expenses of intangible assets (Note 12), which is presented as unallocated under operating expenses. The majority of financial expenses under unallocated part mainly represent costs of loans utilized for the acquisitions of distribution and retail business.

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NOTE 4- SEGMENT REPORTING (Continued)

The information below includes information about the Group's financial status of its business segments related to the period ended 30 September 2017 and 31 December 2016.

As at 30 September 2017	Distribution	Retail	Unallocated (*)	Elimination	Total
Segment assets					
Cash and cash equivalents	7,001	82,538	65,655	-	155,194
Trade receivables	1,221,260	1,474,567	1,852	(530,696)	2,166,983
Inventories	101,226	-	-	-	101,226
Due from service concession arrangements	5,533,525	-	-	-	5,533,525
Property, plant and equipment	46,211	-	38,939	-	85,150
Intangible assets	2,351	38,394	7,707,352	-	7,748,097
Other receivables and assets	1,784,543	1,200,852	702,172	(2,479,857)	1,207,710
Total assets	**8,696,117**	**2,796,351**	**8,515,970**	**(3,010,553)**	**16,997,885**
Segment liabilities					
Bank borrowings	3,714,872	-	3,461,314	-	7,176,186
Other financial liabilities	291,728	-	-	-	291,728
Trade payables	600,588	985,594	4,808	(530,697)	1,060,293
Derivative financial instruments	18,148	7,218	11,729	-	37,095
Other payables and liabilities	1,609,010	954,861	3,147,774	(2,479,856)	3,231,789
Total liabilities	**6,234,346**	**1,947,673**	**6,625,625**	**(3,010,553)**	**11,797,091**

(*) The majority of intangible assets under unallocated part represent customer contracts, transfer of operating rights and goodwill (Note 12). The majority of bank borrowings under unallocated part represent loans utilized for the acquisitions of distribution and retail business. The related amounts were not distributed to the segments since the Group management follows the performances of the operating segments excluding this related assets and liabilities.

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NOTE 4- SEGMENT REPORTING (Continued)

As at 31 December 2016	Distribution	Retail	Unallocated (*)	Elimination	Total
Segment assets					
Cash and cash equivalents	22,351	52,219	-	-	74,570
Trade receivables	1,030,167	1,005,813	236	(315,687)	1,720,529
Inventories	74,059	-	400	-	74,459
Derivative financial instruments	-	3,886	-	-	3,886
Due from service concession arrangements	4,293,306	-	-	-	4,293,306
Property, plant and equipment	53,655	-	4,355	-	58,010
Intangible assets	3,106	25,376	7,862,868	-	7,891,350
Other receivables and assets	1,406,108	1,233,365	1,802	(1,625,937)	1,015,338
Total assets	**6,882,752**	**2,320,659**	**7,869,661**	**(1,941,624)**	**15,131,448**
Segment liabilities					
Bank borrowings	3,371,943	-	2,925,851	-	6,297,794
Other financial liabilities	270,221	-	-	-	270,221
Trade payables	774,461	657,193	1,701	(315,687)	1,117,668
Other payables and liabilities	590,057	1,085,460	2,649,357	(1,625,937)	2,698,937
Total liabilities	**5,006,682**	**1,742,653**	**5,576,909**	**(1,941,624)**	**10,384,620**

(*) The majority of intangible assets under unallocated part represent customer contracts, transfer of operating rights and goodwill (Note 12). The majority of bank borrowings under unallocated part represent loans utilized for the acquisitions of distribution and retail business. The related amounts were not distributed to the segments since the Group management follows the performances of the operating segments excluding this related assets and liabilities.

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NOTE 5 - RELATED PARTY TRANSACTIONS

The immediate parents and ultimate controlling parties of the Group are Sabancı (incorporated in Turkey) and E.ON (incorporated in Germany). Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

Transactions with related parties are classified according to the following groups and include all related party disclosures:

(1) Sabancı Holding and E.ON group companies
(2) Shareholder

Details of transactions between the Group and other related parties are disclosed below.

Related Party Bank Balances- Akbank T.A.Ş. (1)	30 September 2017	31 December 2016
Demand deposits	31,469	4,307
Time deposits	47,026	-
Repurchase agreements	3,300	8,614
	81,795	12,921

Loans provided by related parties	Original currency	Maturity	30 September 2017 Current liabilities	30 September 2017 Non-current liabilities
Akbank T.A.Ş. (1)	TL	1 December 2017	156,665	-
Akbank T.A.Ş. (1)	TL	1 December 2017	167,341	-
Akbank T.A.Ş. (1)	TL	30 March 2018	250,179	-
Akbank T.A.Ş. (1)	USD	6 July 2018	359,508	-
Akbank T.A.Ş. (1)	TL	29 July 2019	7,116	297,000
Akbank T.A.Ş. (1)	USD	5 August 2019	5,311	225,000
Akbank T.A.Ş. (1)	TL	9 September 2019	1,557	200,000
Akbank T.A.Ş. (1)	USD	27 September 2019	434	357,800
Akbank T.A.Ş. (1)	TL	9 January 2020	15,106	480,000
Akbank T.A.Ş. (1)	TL	2 June 2020	16,199	300,000
Akbank T.A.Ş. (1)	TL	2 June 2020	7,924	150,000
Akbank T.A.Ş. (1)	TL	30 September 2020	230	303,000
			987,570	2,312,800

As of 30 September 2017, the interest rates of TL intercompany loans utilized are in the range of 12.86%-16.07% (31 December 2016: 10.20% - 14.53%). As of 30 September 2017, the interest rates of USD intercompany loans utilized are in the range of 4.88%- 4.99% (31 December 2016: None).

As of 30 September 2017 and 31 December 2016, the Group has not given any collateral for the loans.

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NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

			31 December 2016	
Loans provided by related parties	Original currency	Maturity	Current liabilities	Non-current liabilities
Akbank T.A.Ş. (1)	TL	2 January 2017	49,800	-
Akbank T.A.Ş. (1)	TL	2 January 2017	189,650	-
Akbank T.A.Ş. (1)	TL	28 January 2017	18,000	-
Akbank T.A.Ş. (1)	TL	29 March 2017	19,000	-
Akbank T.A.Ş. (1)	TL	2 June 2017	404,000	-
Akbank T.A.Ş. (1)	TL	29 September 2017	494,000	-
Akbank T.A.Ş. (1)	TL	1 December 2017	162,000	-
Akbank T.A.Ş. (1)	TL	2 December 2017	150,000	-
Akbank T.A.Ş. (1)	TL	30 March 2018	-	250,000
Akbank T.A.Ş. (1)	TL	29 July 2019	-	297,000
Akbank T.A.Ş. (1)	TL	9 September 2019	-	200,000
Akbank T.A.Ş. (1)	TL	30 September 2020	-	303,000
Enerjisa Enerji A.Ş. (2) (*)	TL	23 January 2017	83,502	-
			1,569,952	1,050,000

(*)As of 31 December 2016, since the comparable financial statements of the Group are essentially EEDAŞ, which represents the asset and operations of the Group. As of 31 December 2016, as explained in Note 1, since the comparative financial statements represents EEDAŞ's financial statements, it represents the loan given to EEDAŞ by Enerjisa Enerji A.Ş..

Related party derivative instruments – Akbank T.A.Ş. (1)

	30 September 2017			
	Contract Amount (USD)	Contract Amount (TL)	Asset	Liability
Forward exchanges	15,683	55,708	-	(2,118)
Cross currency swap	163,595	581,106	-	(18,148)
Foreign exchange swap	100,000	355,210	-	(11,163)
	279,278	992,024	-	(31,429)

	31 December 2016			
	Contract Amount (USD)	Contract Amount (TL)	Asset	Liability
Forward exchanges	41,363	145,565	3,886	-
	41,363	145,565	3,886	-

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NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

	30 September 2017		
	Receivables		Payables
	Current		Current
Balances with Related Parties	Trade	Non-trading	Trade
Sabancı Üniversitesi (1)	275	-	-
Akbank T.A.Ş. (1)	3,259	-	-
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş. ("Bimsa") (***) (1)	-	-	140
Çimsa Çimento Sanayi A.Ş. (1)	10,539	-	-
Akçansa Çimento T.A.Ş. (1)	12,848	-	-
Carrefoursa A.Ş. (1)	125	-	-
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. (1)	244	-	104,225
Enerjisa Enerji Üretim A.Ş. (1)	814	-	-
AvivaSA Emeklilik ve Hayat A.Ş. (1) (**)	-	-	6
Aksigorta A.Ş. (**) (1)	22	-	48
Hacı Ömer Sabancı Holding A.Ş. (2) (*)	939	-	34
Tursa Sabancı Turizm ve Yatırım İşletmeleri A.Ş. (1)	2,199	-	-
Brisa Bridgestone Sabancı Lastik San. Tic. A.Ş. (1)	169	-	-
	31,433	-	104,453

	31 December 2016		
	Receivables		Payables
	Current		Current
Balances with Related Parties	Trade	Non-trading	Trade
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş. (***) (1)	-	-	7,164
Çimsa Çimento Sanayi A.Ş. (1)	13,518	-	-
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. (1)	2,242	-	111,738
Aksigorta A.Ş. (1) (**)	-	-	2,304
Enerjisa Enerji A.Ş. (2)	41	-	2,575
Other	-	2	2,280
	15,801	2	126,061

(*) Includes rent expenses that is invoiced to the group companies by shareholder, Sabancı.

(**) Includes premiums covered under the policies signed with Aksigorta A.Ş. and Avivasa Emeklilik ve Hayat A.Ş..

(***) Includes IT consulting and software fees that are billed to the group companies by Bimsa, one of the group companies.

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NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

Key management compensation

Key management includes Chairman and members of the Board of Directors, General Manager, Heads of Units and Directors. The compensation paid or payable to key management for employee services is shown below:

	1 January- 30 September 2017	1 January- 30 September 2016
Short-term employee benefits	15,841	8,143
Long-term employee benefits	202	91
Termination benefits	107	453
	16,150	8,687

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NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

	1 January - 30 September 2017					
Transactions with Related Parties	Electricity sales	Electricity purchases	Interest received	Interests paid	Other income	Other expenses
Akbank T.A.Ş. (1)	17,828	-	19,099	296,389	-	-
Hacı Ömer Sabancı Holding (2) (*)	3,364	-	-	-	-	263
Sabancı Üniversitesi (1)	2,054	-	-	-	-	-
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş. (1) (***)	-	-	-	-	-	5,206
Çimsa Çimento Sanayi A.Ş. (1)	57,934	-	-	-	-	-
Akçansa Çimento T.A.Ş. (1)	38,993	-	-	-	-	-
Carrefoursa A.Ş. (1)	586	-	-	-	-	-
Enerjisa Enerji Üretim A.Ş. (1)	-	-	-	-	6,090	-
Temsa Global San. ve Tic. A.Ş. (1)	2,055	-	-	-	-	-
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. (1) (****)	237	507,190	-	-	975	2,924
Aksigorta A.Ş. (1) (**)	26	-	-	-	-	2,425
Brisa (1)	740	-	-	-	-	-
Enerjisa Doğalgaz Toptan Satış A.Ş. (1)	-	-	-	-	48	-
Avivasa Emeklilik ve Hayat A.Ş. (1) (**)	343	-	-	-	-	228
Tursa Sabancı Turizm ve Yatırım İşletmeleri A.Ş. (1)	2,168	-	-	-	-	-
Exsa Export San. Mamülleri Satış ve Araştırma A.Ş. (1)	2	-	-	-	-	-
Teknosa İç ve Dış Ticaret A.Ş.	2,618	-	-	-	-	-
	128,948	507,190	19,099	296,389	7,113	11,046

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NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

	1 January - 30 September 2016					
Transactions with Related Parties	Electricity sales	Electricity purchases	Interest received	Interests paid	Other income	Other expenses
Akbank T.A.Ş. (1)	465	-	20,042	177,333	-	-
Sabancı Üniversitesi (1)	1,303	-	-	-	-	1,500
Hacı Ömer Sabancı Vakfı (1)	-	-	-	-	-	1,500
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş. (1) (***)	-	-	-	-	-	2,380
Çimsa Çimento Sanayi A.Ş. (1)	5,859	-	-	-	-	-
Brisa (1)	13	-	-	-	-	-
Carrefoursa A.Ş. (1)	104	-	-	-	-	-
Enerjisa Enerji Üretim A.Ş. (1)	-	-	-	-	722	-
Enerjisa Enerji A.Ş. (1) (****)	-	-	-	15,144	80	10,530
Temsa Global San. ve Tic. A.Ş. (1)	2,412	-	-	-	-	-
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. (1) (****)	36,733	447,264	-	-	401	4,214
Philip Morrissa (1)	5	-	-	-	-	-
Kordsa (1)	3	-	-	-	-	-
Sasa Polyster Sanayi AŞ. (1)	237	-	-	-	-	-
Exsa Export San. Mamülleri Satış ve Araştırma A.Ş. (1)	5	-	-	-	-	-
Aksigorta A.Ş. (1) (**)	6	-	-	-	-	1,387
Avivasa Emeklilik ve Hayat A.Ş. (1) (**)	-	-	-	-	-	240
Teknosa İç ve Dış Ticaret A.Ş.	31	-	-	-	-	-
	47,176	447,264	20,042	192,477	1,203	21,751

(*) Includes rent expenses that is invoiced to the group companies by shareholder, Hacı Ömer Sabancı Holding A.Ş..

(**) Includes premiums covered under the policies signed with Aksigorta A.Ş. and Avivasa Emeklilik ve Hayat A.Ş..

(***) Includes IT consulting and software fees that are billed to the group companies by Bimsa, one of the group companies.

(****) Include consultancy fees invoiced to the group companies.

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NOTE 6 - TRADE RECEIVABLES AND PAYABLES

6.1 Trade Receivables:

Current Trade Receivables	30 September 2017	31 December 2016
Trade receivables	3.326.130	2.737.656
Due from related parties (Note 5)	31.433	15.801
Allowance for doubtful receivables (-)	(1.190.580)	(1.032.928)
	2.166.983	1.720.529

As of 30 September 2017, trade receivables amounting TL 1,521,772 (31 December 2016: TL 1,287,924) were neither past due nor impaired. Interest is charged at 1.40% (31 December 2016: 1.40%) per month on the outstanding receivable balances.

As of 30 September 2017, trade receivables amounting TL 645,211 (31 December 2016: TL 432,605) were past due but not impaired. The balance relates to many independent public and private subscribers. The aging analysis of these trade receivables as of 30 September 2017 and 31 December 2016 is as follows:

Aging of Receivables that are Due but not Impaired

	30 September 2017	31 December 2016
Up to 3 months	425,802	333,392
3 to 6 months	162,266	94,918
Over 6 months	57,143	4,295
	645,211	432,605

As of 30 September 2017, trade receivables of TL 1,190,580 (31 December 2016: TL 1,032,928) were considered as impaired and a provision was provided for these trade receivables. The provision for trade receivables is provided based on the aging analysis taken from the billing and collection system. Group management considers the receivables overdue by more than 180 days as impaired by taking the past default experience into consideration. In addition, Group management considers irrigation and government receivables overdue by more than 365 days as impaired.

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NOTE 6- TRADE RECEIVABLES AND PAYABLES (Continued)

6.1 Trade Receivables (Continued):

Movements of the provision for allowance of trade receivables are as follows:

	1 January- 30 September 2017	1 January- 30 September 2016
Balance at beginning of the year	(1,032,928)	(894,662)
Charge for the period	(245,713)	(151,678)
Amounts collected during the year	88,061	79,879
Closing balance	(1,190,580)	(966,461)

The Group received guarantee letters amounting to TL 1,360,054 (31 December 2016: TL 477,204) and deposits and guarantees amounting to TL 1,068,332 (31 December 2016: TL 880,004) as collateral for its electricity receivables.

6.2 Trade Payables:

Current Trade Payables	30 September 2017	31 December 2016
Trade payables	955,840	991,607
Due to related parties (Note 5)	104,453	126,061
	1,060,293	1,117,668

Trade payables mainly arise from the Group's electricity purchases made from Türkiye Elektrik Ticaret ve Taahhüt A.Ş. ("TETAŞ") and Enerji Piyasaları İşletme A.Ş. ("EPİAŞ"). The average credit period on purchases of electricity is between 18 - 20 days.

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NOTE 7 - OTHER RECEIVABLES AND PAYABLES

7.1 Other Receivables:

Other Current Receivables	30 September 2017	31 December 2016
Income accruals (*)	154,542	275,666
Due from related parties	-	2
Deposits paid	17,128	25,624
Receivables from personnel	765	176
Allowance for other doubtful receivables (-)	(3,123)	(3,123)
Sundry receivables	39,444	95,126
	208,756	393,471

Other Non-Current Receivables	30 September 2017	31 December 2016
Deposits paid (**)	195,897	161,011
Income accruals (*)	253,789	33,879
Sundry receivables (***)	41,235	35,845
	490,921	230,735

(*) According to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations the Group's distribution, transmission and meter reading services have revenue caps which cover operating expenses and investment requirements related to distribution and meter reading. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by Türkiye Elektrik İletim A.Ş.. These regulations guarantee a revenue to the Group regardless of the consumption level of subscribers. The under billings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years. The effects of the under billings, which means the actual revenue is below the revenue cap set by EMRA, are accounted as income accruals at the Group's consolidated financial statements.

(**) The balance represents subscription fees refunded to the subscribers, subscribed before 31 March 2006 for EPS and 24 July 2006 for AEPSAŞ and TOROSLAR EPSAŞ (Note 1) when they leave the system. The balances were paid to the subscribers based on their indexed amounts as required by EMRA periodically. According to the TOR Agreement signed with TEDAŞ, retail companies (EPS, AEPSAŞ and TOROSLAR EPSAŞ) are obliged to keep deposits refunded with their fair values and the net balance of deposits received and paid will be paid back to TEDAŞ at the end of the license periods.

(***) The Group management has assessed that the severance payment provision can be taken with the revenue requirement according to the tariff structure changing with the third tariff period and has imposed an accrued income for the severance payment provision calculated.

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NOTE 7 - OTHER RECEIVABLES AND PAYABLES (Continued)

7.1 Other Receivables (Continued):

Movement of allowance for other doubtful receivables is as follows:

	1 January- 30 September 2017	1 January- 30 September 2016
Opening balance	(3,123)	(3,123)
Closing balance	(3,123)	(3,123)

7.2 Other Payables:

Other Current Payables	30 September 2017	31 December 2016
Other payable	101,672	123,510
Deposits received	11,089	8,492
Lighting payables	-	28,236
	112,761	160,238

Other Non-Current Payables	30 September 2017	31 December 2016
Deposits received (*)	1,068,335	880,004
	1,068,335	880,004

(*) The Group receives deposits from the customers subscribed after 31 March 2006 for EPS and 24 July 2006 for AEPSAŞ and TOROSLAR EPSAŞ (Note 1) upon their subscription on behalf of TEDAŞ and these deposits are initially recorded at their fair values as the subscription fee charged to customers represents the fees announced by EMRA. According to the TOR Agreements signed with TEDAŞ, retail companies (EPS, AEPSAŞ and TOROSLAR EPSAŞ) are obliged to carry the deposits received by their revalued amounts and the net balance of deposits received and paid will be paid back to TEDAŞ at the end of the license period.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 8 - INVENTORIES

	30 September 2017	31 December 2016
Spare parts and equipments	97,406	72,531
Other inventories	3,820	1,928
	101,226	74,459

NOTE 9 - PREPAID EXPENSES AND DEFERRED INCOME

9.1 Prepaid Expenses:

Short-term Prepaid Expenses	30 September 2017	31 December 2016
Prepaid expenses	5,879	11,317
Inventory advances given	3,645	2,411
Personnel advances	1,136	345
Other advances given (*)	186,726	83
	197,386	14,156

(*) The majority of the amount consists of advances given to EPİAŞ for electricity purchases (31 December 2016: None).

Long-term Prepaid Expenses	30 September 2017	31 December 2016
Prepaid expenses	2,345	1,516
	2,345	1,516

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 9 - PREPAID EXPENSES AND DEFERRED INCOME (Continued)

9.2 Deferred Income

Short Term Deferred Income	30 September 2017	31 December 2016
Deferred income (*)	420,837	165,711
Advances received	28,876	22
	449,713	165,733

Long Term Deferred Income	30 September 2017	31 December 2016
Deferred income (*)	4,835	25,617
	4,835	25,617

(*) According to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations the Group's distribution, transmission and meter reading services have revenue caps which cover operating expenses and investment requirements related to distribution and meter reading. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by Türkiye Elektrik İletim A.Ş.. These regulations guarantee revenue to the Group regardless of the consumption level of subscribers. The under billings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years. The effects of the overbillings, which means the actual revenue is above the revenue cap set by EMRA, are accounted as deferred income at the Group's consolidated financial statements.

NOTE 10 – FINANCIAL ASSETS

As explained in Note 2.12, considering the terms in the service concession arrangement, the Group has recognized the discounted estimated future cash receipts through the expected life of the arrangement, as financial asset. The detail of the financial assets recognized under the service concession arrangement is as follows:

	Financial assets		Present value of financial assets	
	30 September 2017	31 December 2016	30 September 2017	31 December 2016
Within one year	1,714,739	1,341,573	660,192	653,754
1-3 years	8,875,811	5,998,298	548,279	439,837
3-5 years	11,836,130	8,055,606	1,019,777	584,614
More than 5 years	38,129,824	33,556,570	3,305,277	2,615,101
	60,556,504	48,952,047	5,533,525	4,293,306
Future financial income	(55,022,979)	(44,658,741)	-	-
	5,533,525	4,293,306	5,533,525	4,293,306
Current financial asset			660,192	653,754
Non - current financial asset			4,873,333	3,639,552
			5,533,525	4,293,306

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 11 - PROPERTY, PLANT AND EQUIPMENTS

	Machinery and equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
Cost					
Opening balance as of 1 January 2017	15,061	36,946	25,670	-	77,677
Additions	280	-	5,132	31,055	36,467
Disposals	-	-	-	-	-
Assets transferred on merger with the shareholder	-	-	2,049	-	2,049
Closing balance as of 30 September 2017	15,341	36,946	32,851	31,055	116,193
Accumulated Depreciation					
Opening balance as of 1 January 2017	(1,052)	(15,775)	(2,840)	-	(19,667)
Charge for the period	(1,276)	(4,449)	(4,162)	-	(9,887)
Disposals	-	-	-	-	-
Accumulated depreciation transferred on merger with the shareholder	-	-	(1,489)	-	(1,489)
Closing balance as of 30 September 2017	(2,328)	(20,224)	(8,491)	-	(31,043)
Carrying value as of 30 September 2017	13,013	16,722	24,360	31,055	85,150

	Machinery and equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
Cost					
Opening balance as of 1 January 2016	4,806	36,946	213	-	41,965
Additions	-	208	-	10	218
Disposals	-	-	-	-	-
Closing balance as of 30 September 2016	4,806	37,154	213	10	42,183
Accumulated Depreciation					
Opening balance as of 1 January 2016	-	(10,974)	(141)	-	(11,115)
Charge for the period	(360)	(5,021)	(34)	-	(5,415)
Disposals	-	-	-	-	-
Closing balance as of 30 September 2016	(360)	(15,995)	(175)	-	(16,530)
Carrying value as of 30 September 2016	4,446	21,159	38	10	25,653

	Useful Life
Plant, machinery and equipment	5 years
Vehicles	3 years
Furniture and fixtures	5 years

Depreciation expense of TL 9,266 and TL 621 are accounted in administrative expenses and cost of sales, respectively (2016 administrative expenses: TL 5,415 and cost of sales: TL 0).

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NOTE 12 - INTANGIBLE ASSETS

	Customer contracts and related relationships	Transfer of operating rights	Goodwill	Computer software	Other intangible assets	Total
Cost						
Opening balance as of 1 January 2017	4,390,673	1,650,121	2,730,031	1,152	28,480	8,800,457
Additions	-	-	-	-	18,427	18,427
Disposals	-	-	-	-	-	-
Assets transferred on merger with the shareholder	-	-	-	-	1,679	1,679
Closing balance as of 30 September 2017	4,390,673	1,650,121	2,730,031	1,152	48,586	8,820,563
Accumulated Amortization						
Opening balance as of 1 January 2017	(699,371)	(208,586)	-	(1,150)	-	(909,107)
Charge for the period	(113,768)	(42,300)	-	-	(5,984)	(162,052)
Disposals	-	-	-	-	(343)	(343)
Accumulated amortization transferred on merger with the shareholder	-	-	-	-	(964)	(964)
Closing balance as of 30 September 2017	(813,139)	(250,886)	-	(1,150)	(7,291)	(1,072,466)
Carrying value as of 30 September 2017	3,577,534	1,399,235	2,730,031	2	41,295	7,748,097

	Customer contracts and related relationships	Transfer of operating rights	Goodwill	Computer software	Other intangible assets	Total
Cost						
Opening balance as of 1 January 2016	4,390,673	1,650,121	2,730,031	1,152	-	8,771,977
Additions	-	-	-	-	12,534	12,534
Closing balance as of 30 September 2016	4,390,673	1,650,121	2,730,031	1,152	12,534	8,784,511
Accumulated Amortization						
Opening balance as of 1 January 2016	(547,263)	(152,031)	-	(324)	-	(699,618)
Charge for the period	(113,768)	(42,300)	-	(77)	(73)	(156,218)
Closing balance as of 30 September 2016	(661,031)	(194,331)	-	(401)	(73)	(855,836)
Carrying value as of 30 September 2016	3,729,642	1,455,790	2,730,031	751	12,461	7,928,675

Amortization expense of TL 162,052 (30 September 2016: TL 156,218) is included in administrative expenses.

Customer contracts and related relationships and transfer of operating rights are separately recognized during the business combination according to IFRS 3.

On 31 March 2006 BEDAŞ and on 24 July 2006, AYEDAŞ and TOROSLAR EDAŞ signed TOR Agreements with TEDAŞ. In accordance with the TOR agreement, TEDAŞ transferred the operating rights of the distribution system, the distribution facilities, and the other movables and immovable which are crucial for the operation of the distribution facilities to BEDAŞ until the end of 2036 and to AYEDAŞ and TOROSLAR EDAŞ until the end of 2042. Based on the future cash flows fair value of the TOR agreements are determined. The residual value of TOR after the portion recognized as financial asset which calculated based on IFRIC 12 (Note 10) is recognized as intangible asset based on IFRS 3.

In recognition of customer contracts and related relationships; relationships with the different customer groups are identified and a fair value for retail customers is estimated by Group management.

NOTE 12 - INTANGIBLE ASSETS (Continued)

Customer contracts and related relationships and TOR amortization is calculated on a straight line basis in a range between 25-30 years and charged to operating expenses.

As of September 30, 2017, there is no impairment on goodwill (31 December 2016: None).

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NOTE 13 - PROVISIONS

Current Provisions	30 September 2017	31 December 2016
Legal claims (*)	155.289	138.417
	155.289	138.417

(*) Legal claims are set for the probable cash outflows related to the legal disputes. As of 30 September 2017, actual provision amount for the legal claims are determined according to the assessment made by the Group management in which there is high probability that the legal cases will be finalized against the Group.

The Group is charging the theft and loss costs to the subscribers in accordance with the tariff determined by EMRA. There are legal cases filed by the subscribers to claim back the theft and loss amounts from the Group claiming that they are unfair. Some cases are finalized against the Group while some others in favor of the Group at local courts and consumer arbitrage committees. In June of 2016, statement of "In applications filed in respect of the amounts determined by EMRA within the scope of income and tariff regulations, the authority of the consumer arbitration committees and the courts is limited to the control of compliance with the regulatory procedures of EMRA." has been added to article 17 of Law No. 6446. By this article, it has been determined that in the cases for the theft and loss amounts, the courts can only examine if the theft and loss amounts incurred in accordance with the regulations of the EMRA and it has been ruled that no judgement can be made whether the theft and loss amounts will be collected or not. As of reporting date, the total amount of ongoing cases against the Group is TL 136,208 (31 December 2016: TL 176,134).

Movements of provisions are as follows:

	Legal claims	Total
Balance at 1 January 2017	138.417	138.417
Additional provisions recognized	41.152	41.152
Reversal of provisions	(24.280)	(24.280)
Balance at 30 September 2017	155.289	155.289

	Legal claims	Total
Balance at 1 January 2016	145.220	145.220
Additional provisions recognized	31.726	31.726
Reversal of provisions	(38.529)	(38.529)
Balance at 31 December 2016	138.417	138.417

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NOTE 14 - COMMITMENT AND CONTINGENCIES

30 September 2017	TL Amount	TL
A. Total amount of Collateral Pledge Mortgage (CPM) given on behalf of the legal entity	36.627	36.627
-Collateral (*)	*36.627*	*36.627*
B. Total amount of CPM given against the subsidiaries included in full consolidation	1.412.883	1.412.883
-Collateral	*1.412.883*	*1.412.883*
Total	1.449.510	1.449.510

31 December 2016	TL Amount	TL
A. Total amount of Collateral Pledge Mortgage given on behalf of the legal entity	25.395	25.395
-Collateral (*)	*25.395*	*25.395*
B. Total amount of CPM given against the subsidiaries included in full consolidation	1.598.516	1.598.516
-Collateral	*1.598.516*	*1.598.516*
Total	1.623.911	1.623.911

(*) The amount represents the collaterals given regarding the acquisitions of new regions.

Investment obligations

Annual expansion, replacement, and improvement investments that are stated in TOR and required to be completed by the Group have been determined during the preparation of the tariffs. These investments have been included in the first implementation period tariffs approved by EMRA and as a result the Group is obliged to make these determined investments. Implementation of these investments is monitored by EMRA by the reports received from the Group at the end of each year. Some of these investments are subject to unit prices per announced by EMRA. According to the regulations, the Group is allowed to make transfers between the years after taking approval of EMRA. As of 30 September 2017, Group has obligation to make investment.

Energy Sales Agreements

Distribution and retail companies signed Energy Sales Agreements ("ESA") with TETAŞ and Elektrik Üretim A.Ş. ("EÜAŞ") in order to obtain their energy needs during the year. These energy sales agreements have been established based on regulated prices. During the year, the Group is obliged to purchase the energy quantity stated in these agreements. At the current operating conditions and market structure, the Group's energy needs are higher than the contracted quantities and the Group makes purchases regularly from EPİAŞ. As a result, the Group management does not expect any liability related to the Energy Sales Agreements arising from not fulfilling the requirements of Energy Sales Agreements.

Competition Board Investigation

Further to a preliminary inquiry in November 2016, The Competition Board resolved to commence an investigation in December 2016 to check if the Company's subsidiaries are in compliance with the 4054 numbered Competition Law. Company received the Competition Board's investigation report on January 5, 2018, which alleges that Company's subsidiaries have abused their dominant position and should be imposed administrative fines. As next step, Company will submit the second written defense statement against the allegations in the investigation report within the regulatory period. The investigation report is not binding on the Competition Board, which may or may not agree with the findings in the investigation report. Investigation process is expected to be finalized by the end of August 2018.

The submission of the investigation report to the Company's subsidiaries cannot be interpreted as the undertakings of the related subsidiaries have violated the Competition Law or the subsidiaries will be punished. The Company and its subsidiaries execute its transactions within the Competition Law and other regulations.

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NOTE 15 - EMPLOYMENT BENEFITS

Payables Related to Employee Benefits:

	30 September 2017	31 December 2016
Social security premiums payable	32,855	23,151
Payable to personnel	16,716	16,079
	49,571	39,230

Short-term Provisions Related to Employee Benefits:

	30 September 2017	31 December 2016
Bonus provisions	1,117	12,398
Provisions for unused vacation	20,968	17,064
	22,085	29,462

The movement for bonus and unused vacation provisions are as follows:

	Bonus provisions	Unused vacation provision	Total
Balance at 1 January 2017	12,398	17,064	29,462
Additional provisions recognized	-	3,474	3,474
Reversal / payments of provisions	(14,322)	-	(14,322)
Obligation transferred on merger with the shareholder	3,041	430	3,471
Balance at 30 September 2017	1,117	20,968	22,085

	Bonus provisions	Unused vacation provision	Total
Balance at 1 January 2016	9,536	14,104	23,640
Additional provisions recognized	-	1,878	1,878
Reversal / payments of provisions	(9,536)	(579)	(10,115)
Balance at 30 September 2016	-	15,403	15,403

Long-term Provisions Related to Employee Benefits:

	30 September 2017	31 December 2016
Provision for employment termination benefits	73,106	56,442
	73,106	56,442

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NOTE 15 - EMPLOYMENT BENEFITS (Continued)

Under Turkish Labor Law, the Group is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated without due cause, who is called up for military service, dies or 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 TL 4,732.48 (full digit) (31 December 2016: TL 4,297.21 (full digit) for each period of service at 30 September 2017.

The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. *IAS 19 Employee Benefits* requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability.

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 30 September 2017, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 6.50% and a discount rate of 10.30%, resulting in a real discount rate of approximately 3.57% (31 December 2016: inflation rate of 7.00% and discount rate of 11.30%, discount rate of approximately 4.02%) Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration as 3.28 % for employees with 0-15 years of service, and 0% for those with 16 or more years of service (31 December 2016: 5.44 % for employees with 0-15 years of service, and 0% for those with 16 or more years of service). Ceiling amount of TL 4,426.16 which is in effect since 1 January 2017 is used in the calculation of Groups' provision for retirement pay liability (1 January 2016: TL 4,092.53).

As of 30 September 2017 and 31 December 2016, the Company management has assessed that the severance payment provision can be taken with the revenue requirement according to the tariff structure changing with the "Third Tariff Period" and has imposed an allowance for the severance payment provision calculated.

The movement for retirement pay provisions is as follows:

	2017	2016
Provision at 1 January	56,442	58,825
Service cost	22,724	19,854
Interest cost	1,666	1,413
Retirement pay paid	(7,914)	(18,981)
Obligation transferred on merger with the shareholder	188	-
Provision at 30 September	73,106	61,111

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NOTE 16 - OTHER ASSETS AND LIABILITIES

16.1 Other Current Assets:

	30 September 2017	31 December 2016
Deferred VAT	63	3.587
Prepaid taxes and funds	-	181
Other	77	719
	140	4.487

16.2 Other Non-current Assets:

	30 September 2017	31 December 2016
Deferred VAT	129,082	123,032
	129,082	123,032

16.3 Other Current Liabilities:

	30 September 2017	31 December 2016
Taxes and funds payable	206,325	166,702
Other	8,161	4,112
	214,486	170,814

NOTE 17 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

17.1 Share Capital:

	30 September 2017		31 December 2016	
Shareholders	Share (%)	TL	Share (%)	TL
Hacı Ömer Sabancı Holding A.Ş.	50	590,534.5	50	1,982,264
DD Turkey Holdings S.A.R.L. (E.ON)	50	590,534.5	50	1,982,264
	100	1,181,069	100	3,964,528
Adjustment to share capital (*)		2,836,364		-
Total share capital		4,017,433		3,964,528

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NOTE 17 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

17.1 Share Capital (Continued):

It has been decided by the Board of Directors of the Company to make a capital reduction pursuant to Article 474 of the Turkish Commercial Code in order to recover the deficit in the carry forward-losses in the balance sheet with the decision numbered 14 taken on November 30, 2016. As a result of this transaction, the capital account has been deducted from previous years' losses and no change has occurred in total equity.

With the decision of the Board of Directors on 20 April 2017, Enerjisa Enerji A.Ş. merged with Enerjisa Elektrik Dağıtım A.Ş. ("EEDAŞ") and the subsidiaries of EEDAŞ together with all their assets and liabilities with the take over method. In addition, on August 25, 2017, the Group's electricity generation and wholesale business areas were separated and structured under another company. As a result of these transactions, necessary corrections are made in the registered share capital and the statutory capital after merger and split has been reached.

Adjustment to share capital represents the portion of registered share capital which has been treated as a capital reserve in the statutory books after the merger and split process (Note 1), due to local regulations. Such amount has been classified as adjustment to share capital to comply with the IFRS requirements.

At 30 September 2017, the capital of the Company comprising 118,106,900 thousand (31 December 2016: 396,452,800 thousand) registered ordinary shares of TL 0.01 each (31 December 2016: TL 0.01 each).

17.2 Earnings per share:

Earnings per share for each class of share disclosed in the consolidated statements of profit or loss and other comprehensive income is determined by dividing the profit for the period attributable to ordinary eqıity holders of the parent entity by the weighted average number of shares that have been outstanding during the year.

	1 January 30 September 2017	1 January 30 September 2016
Profit for the period	453.966	421.813
Weighted average shares (*)	118.106.900.000	118.106.900.000
Earnings per share (kr)	0,38	0,36

(*) For the period ended 30 September 2017 and 2016, earnings per share are computed based on the current number of shares after the reduced capital pursuant to Article 474 of the Turkish Commercial Code in 2016, so as to be comparable with the current period.

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NOTE 17 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

17.3 Restricted Profit Reserves:

	30 September 2017	31 December 2016
Restricted Profit Reserves	180,038	139,190
	180,038	139,190

The Company, reserves 5% of the historical statutory profit as first legal reserve, until the total reserve reaches 20% of the historical paid in share capital. The other legal reserve is appropriated at the rate of 10% per annum of all cash dividend distributions after the payment of dividends to the shareholders at a rate of 5%. According to Turkish Commercial Law, general legal reserves can only be used if it does not exceed the capital or issued capital for close the losses, continue the business when business is not going well or end the unemployment and to take suitable precautions to reduce the results of unemployment.

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NOTE 18 – REVENUE

	1 January- 30 September 2017	1 January- 30 September 2016
Revenue from electricity sales and services provided	7,924,061	6,458,878
Retail sales revenue	*5,271,754*	*4,233,745*
Retail sales service revenue	*182,578*	*185,030*
Distribution revenue	*2,469,729*	*2,040,103*
Finance income from service concession arrangements	665,392	459,233
Other sales	2,055	1,303
	8,591,508	6,919,414

NOTE 19 - COST OF SALES

	1 January- 30 September 2017	1 January- 30 September 2016
Energy purchases	(5.622.011)	(4.545.717)
System usage costs	(492.861)	(439.420)
Other	(22.269)	(1.026)
	(6.137.141)	(4.986.163)

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NOTE 20 - GENERAL ADMINISTRATIVE EXPENSES

	1 January-30 September 2017	1 January-30 September 2016
General administrative expenses (-)	(1,035,284)	(816,398)
	(1,035,284)	(816,398)

Details of general administrative expenses are as follows:

	1 January-30 September 2017	1 January-30 September 2016
Payroll and employee benefit expenses	(479,030)	(388,756)
Depreciation and amortization expenses	(171,939)	(161,633)
Material expenses	(117,607)	(71,496)
Outsourcing expenses	(57,199)	(24,659)
Rent expenses	(39,762)	(28,995)
Attorney expenses	(33,813)	(29,111)
Consulting expenses	(24,340)	(28,836)
Maintenance expenses	(18,233)	(12,154)
Tax and duties	(17,104)	(10,409)
Security expenses	(16,750)	(17,032)
Travel expenses	(9,955)	(8,094)
Insurance expenses	(9,158)	(7,385)
Communication and IT expenses	(7,328)	(2,039)
Other expenses	(33,066)	(25,799)
	(1,035,284)	(816,398)

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NOTE 21 - OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

21.1 Other Income From Operating Activities:

	1 January-30 September 2017	1 January-30 September 2016
Late payment interest from electricity receivables	67,749	56,268
Power theft penalties	28,536	8,768
Rent income	4,413	3,833
Interest income related to revenue cap regulation	1,426	14,528
Penalty income	151	128
Lawsuit income	-	15,523
Income from derivative financial instruments	-	225
Other income	13,437	5,847
	115,712	105,120

21.2 Other Expenses From Operating Activities:

	1 January-30 September 2017	1 January-30 September 2016
Provision for doubtful and other receivables	(157.652)	(71.799)
Valuation differences arising from deposits and guarantees	(53.791)	(29.934)
Loss from derivative financial instruments	(20.160)	-
Interest expense related to revenue cap regulation	(1.860)	-
Penalty expenses	(63)	(28.236)
Other expenses	(15.106)	(20.259)
	(248.632)	(150.228)

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NOTE 22 - FINANCE INCOME AND EXPENSES

22.1 Finance Income:

	1 January- 30 September 2017	1 January- 30 September 2016
Interest revenue from repurchase agreements	73,344	35,402
	73,344	35,402

22.2 Finance Expenses:

	1 January- 30 September 2017	1 January- 30 September 2016
Interest expense of borrowings (*)	(710,933)	(532,152)
Bank commission expenses	(11,302)	(7,096)
Foreign exchange gains / (losses) - net	(33,169)	(18,130)
	(755,404)	(557,378)

(*) As of 30 September 2017, there is no interest expense related to payables of Privatization Administration (30 September 2016: TL 41,780).

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NOTE 23 - TAXATION ON INCOME

Assets Related with Current Taxes	30 September 2017	31 December 2016
Prepaid taxes and funds	1,202	238
	1,202	238

	30 September 2017	31 December 2016
Current Tax Liability		
Current corporate tax provision	58,905	148,215
Less: prepaid taxes and funds	(27,740)	(141,899)
	31,165	6,316

Income Tax Recognized in Profit or Loss	1 January- 30 September 2017	1 January- 30 September 2016
Current tax expense	56,533	124,733
Deferred tax expense / (income) relating to the origination and reversal of temporary differences, net	93,604	3,223
Total tax expense	150,137	127,956

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 period.

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 the tax-exempt earnings, other exempt income and other deductions (losses of previous periods, investment incentives utilized).

Valid rate of corporate tax in 2017 is 20% (31 December 2016: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was applied as 20% in 2017 (2016: 20%). Losses are allowed to be carried 5 years maximum to be deducted from the taxable profit of the following years. Tax carry back is not allowed.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied is 15%. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are also expressed in thousands unless otherwise indicated.)

NOTE 23 - TAXATION ON INCOME (Continued)

Deferred tax

The Company recognizes deferred tax assets and liabilities on the temporary timing differences between the legal books and the financial statements prepared in accordance with IFRS. Such differences generally arise from timing differences of some revenue and expense balances in legal books and financial statements prepared in accordance with IFRS and are explained below.

For calculation of deferred tax assets and liabilities, the rate of 20% (2016: 20%) is used.

Deferred Tax (assets) / liabilities	30 September 2017	31 December 2016
Differences arising from customer contracts and transfer of operational rights	995,354	1,026,568
Carrying amount differences of property,plant and equipment, intangible assets and concession arrangement differences	(98,944)	(126,332)
Provision for employment termination benefits	(2,031)	(1,737)
Provision for doubtful receivables	8,965	(4,693)
Provision for lawsuits	(30,248)	(24,088)
Provision for unused vacation	(2,796)	(2,366)
Effect of revenue cap adjustments	8,578	21,879
Late penalty payments	(17,092)	(13,576)
Adjustments due to system migration	20,976	20,976
Carry forward tax loss	(96,019)	(112,936)
Other	85,822	(4,734)
	872,565	778,961

	30 September 2017	31 December 2016
Deferred tax (asset)	(177.878)	(247.703)
Deferred tax liability	1.050.443	1.026.664
Deferred tax (asset) / liability, net	872.565	778.961

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 23 - TAXATION ON INCOME (Continued)

Deferred tax (Continued)

Movement of deferred tax (assets)/liabilities is as follows:

	1 January-30 September 2017	1 January-30 September 2016
Opening balance	778,961	789,466
Charged to income statement	93,604	3,223
Charged to other comprehensive income/expense	-	-
Closing balance	872,565	792,689

Tax Reconciliation:	1 January-30 September 2017	1 January-30 September 2016
Profit from operations before tax	604.103	549.769
	20%	20%
Tax at the domestic income tax rate of 20% (2016: 20%)	120.821	109.954
Tax effects of:		
- expenses that are not deductible in determining taxable profit	5.774	867
- unused tax losses	24.082	17.011
- other	(540)	124
Income tax expense recognised in profit or loss	150.137	127.956

Deferred tax assets may only be recognised to the extent it is probable that sufficient taxable profit will be available in the future. In case of a probable tax advantage, deferred income tax asset is calculated for unused carry forward tax losses and unused investment incentive.

At 30 September 2017, the Group recognized deferred tax assets amounting to TL 480,095 for unused carry forward tax losses amounting to TL 96,019 since it was considered as probable that there would be sufficient taxable income in the subsequent periods to utilise such assets based on the forecasts made (31 December 2016: TL 564,681 and TL 112,936 respectively).

The expiration dates of previous years' losses on which deferred tax asset was recognized are as follows:

	1 January-30 September 2017	1 January-31 December 2016
Expiring in 2018	66.111	90.338
Expiring in 2019	196.045	323.717
Expiring in 2020	140.857	71.963
Expiring in 2021	77.082	78.663
	480.095	564.681

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NOTE 23 - TAXATION ON INCOME (Continued)

Deferred tax (Continued)

The expiration dates of previous years' losses on which deferred tax asset was unrecognized are as follows:

	1 January- 30 September 2017	1 January- 31 December 2016
Expiring in 2017	51.636	44.911
Expiring in 2018	153.005	145.352
Expiring in 2019	378.350	371.246
Expiring in 2020	172.023	139.393
Expiring in 2021	119.063	113.443
Expiring in 2022	26.260	-
	900.337	814.345

NOTE 24 - FINANCIAL INSTRUMENTS

24.1 Financial Liabilities:

	30 September 2017	31 December 2016
Short-term liabilities	1,463,482	1,556,770
Short-term portion of bonds issued	5,866	14,382
Short-term portion of long-term liabilities	584,851	1,526,642
Total short term financial liabilities	2,054,199	3,097,794
Long-term liabilities	3,970,414	2,850,000
Bonds issued	1,151,573	350,000
Total long term financial liabilities	5,121,987	3,200,000
Total financial liabilities	7,176,186	6,297,794

The financial liabilities are repayable as follows:

	30 September 2017	31 December 2016
To be paid within 1 year	2,054,199	3,097,794
To be paid between 1-2 years	2,174,845	2,850,000
To be paid between 2-3 years	1,880,000	350,000
To be paid between 3-4 years	732,142	-
To be paid between 4-5 years	335,000	-
	7,176,186	6,297,794

As of 30 September 2017 and 31 December 2016, the Group has not given any collateral for above financial liabilities.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 24 - FINANCIAL INSTRUMENTS (Continued)

24.1 Financial Liabilities (Continued):

As of 30 September 2017 and 31 December 2016, details of short and long term financial liabilities in terms of currencies are as follows:

Currency Type	Weighted average effective interest rate	30 September 2017 Current	30 September 2017 Non-current
TL	12.98%	1,636,383	3,387,614
USD	4.78%	365,654	582,800
EUR	2.68%	46,296	-
		2,048,333	3,970,414

Currency Type	Weighted average effective interest rate	31 December 2016 Current	31 December 2016 Non-current
TL	12.37%	3,083,412	2,850,000
		3,083,412	2,850,000

As of 30 September 2017 and 31 December 2016, details of bond are as follows:

Currency Type	Weighted average effective interest rate (*)	30 September 2017 Current	30 September 2017 Non-current
TL	CPI + 4%-5%	5,866	1,151,573
		5,866	1,151,573

Currency Type	Weighted average effective interest rate (*)	31 December 2016 Current	31 December 2016 Non-current
TL	CPI + 4%	14,382	350,000
		14,382	350,000

(*) As of 30 September 2017, the interest is CPI-indexed variable interest and the annual real coupon rates varies from 4% to 5% (31 December 2016: 4%).

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 24 - FINANCIAL INSTRUMENTS (Continued)

24.2 Other Financial Liabilities:

	30 September 2017	31 December 2016
Other current financial liabilities	29,097	25,087
Other non-current financial liabilities	262,631	245,134
	291,728	270,221

The other financial liabilities are repayable as follows:

	30 September 2017	31 December 2016
To be paid within 1 year	29,097	25,087
To be paid between 1-2 years	37,175	25,568
To be paid between 2-3 years	29,845	26,071
To be paid between 3-4 years	30,468	26,597
To be paid between 4-5 years	31,119	34,491
To be paid between 5+ years	134,024	132,407
	291,728	270,221

As of 30 September 2017 and 31 December 2016, details of short and long term other financial liabilities in terms of currencies are as follows:

		30 September 2017	
Currency Type	Weighted average effective interest rate	Current	Non-current
Euro	4,70%	29.097	262.631
		29.097	262.631

		31 December 2016	
Currency Type	Weighted average effective interest rate	Current	Non-current
Euro	4.70%	25.087	245.134
		25.087	245.134

Other financial liabilities represent the payables to TEDAŞ for the capital expenditures denominated in Euro.

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NOTE 25 – DERIVATIVE INSTRUMENTS

The Group utilizes forward exchange contracts in order to mitigate foreign exchange rate risk arising from feed-in-tariff cost. Furthermore, in order to mitigate the foreign exchange risk arising from foreign denominated bank loans, the Group entered into forward exchanges, cross currency and foreign exchange swap transactions. The details and fair values of the agreements as of 30 September 2017 and 31 December 2016 are as follows:

	Contract Amount (USD)	Contract Amount (TL)	Asset	Liability
Forward exchanges	118.470	420.817	-	(7.784)
Cross currency swap	163.595	581.106	-	(18.148)
Foreign exchange swap	100.000	355.210	-	(11.163)
	382.065	1.357.133	-	(37.095)

	31 December 2016			
	Contract Amount (USD)	Contract Amount (TL)	Asset	Liability
Forward exchanges	41.363	145.565	3.886	-
	41.363	145.565	3.886	-

As of 30 September 2017 and 31 December 2016, movements in fair value of derivative financial instruments can be analyzed as follows:

	30 September 2017	30 September 2016
Opening balance	(3.886)	-
Derivative financial instruments at fair value designated through income/expense	40.981	-
Derivative financial instruments at fair value designated through other comprehensive income/expense	-	-
Total derivative financial liabilities / (assets)	37.095	-

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NOTE 26 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

26.1 Capital risk management:

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

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital and reserves.

The Group management considers the cost of capital and the risks associated with each class of capital. The management of the Group aims to balance its overall capital structure through new share issues, and by issue of new debt or the redemption of existing debt.

	30 September 2017 TL	31 December 2016 TL
Total borrowings (Note 24)	7,467,914	6,568,015
Less: cash and cash equivalents (Note 27)	(155,194)	(74,570)
Net debt	7,312,720	6,493,445
Total equity	5,200,794	4,746,828
Total capital	12,513,514	11,240,273
Net debt / Total capital ratio	58%	58%

26.2 Financial risk factors:

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by finance department. Finance department identifies and evaluates financial risks in close co-operation with the Group's operating units.

26.2.1 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's credit risks mainly arise from trade receivables. The Group manages this risk by the guarantees received from customers. Trade receivables, are evaluated based on the Group's policies and procedures and as a result presented net of doubtful provision in the consolidated financial statements. Group management evaluates the adequacy of the provision set for the impaired trade receivable balances based on the aging analysis and considers the receivables overdue by more than 180 days as impaired. In addition, Group management considers irrigation and government receivables overdue by more than 365 days as impaired.

Trade receivables consist of a large number of customers, spread across diverse industries within several different provinces. Credit risk of the financial instruments is as the follows:

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NOTE 26 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

26.2 Financial risk factors (Continued):

26.2.1 Credit risk management (Continued)

Credit risk exposure based on financial instrument categories

	Receivables							
	Trade receivables		Other receivables					
			Current		Non-current			
30 September 2017	Related party	Third party	Related party	Third party	Related party	Third party	Bank deposits&repos	Financial assets excluding cash
Maximum net credit risk as of the balance sheet date (*)	31,433	2,135,550	-	208,756	-	490,921	155,194	5,533,525
The part of maximum risk under guarantee	-	2,428,386	-	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	31,433	1,490,339	-	208,756	-	490,921	155,194	5,533,525
B. Net book value of financial assets that are due but not impaired	-	645,211	-	-	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-	-	-
-Past due	-	1,190,580	-	3,123	-	-	-	-
-Impairment	-	(1,190,580)	-	(3,123)	-	-	-	-

(*) The factors such as collaterals received, that increase the credit reliability have not been taken into consideration in determination of the amount.

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NOTE 26 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

26.2 Financial risk factors (Continued):

26.2.1 Credit risk management (Continued)

Credit risk exposure based on financial instrument categories

	Receivables							
	Trade receivables		Other receivables					
			Current		Non-current			
31 December 2016	Related party	Third party	Related party	Third party	Related party	Third party	Bank deposits&repos	Financial assets excluding cash
Maximum net credit risk as of the balance sheet date (*)	15,801	1,704,728	2	393,469	-	230,735	74,570	4,293,306
The part of maximum risk under guarantee	-	1,357,208	-	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	15,801	1,272,123	2	393,469	-	230,735	74,570	4,293,306
B. Net book value of financial assets that are due but not impaired	-	432,605	-	-	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-	-	-
-Past due	-	1,032,928	-	3,123	-	-	-	-
-Impairment	-	(1,032,928)	-	(3,123)	-	-	-	-

(*) The factors such as collaterals received, that increase the credit reliability have not been taken into consideration in determination of the amount.

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NOTE 26 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

26.2 Financial risk factors (Continued):

26.2.2 Liquidity risk management

The Group aims to maintain an appropriate liquidity risk management framework for the Group's short, medium and long-term funding and liquidity management requirements.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

The maturities of the financial liabilities determined with respect to the contracts including the expected interest payments as of 30 September 2017 and 31 December 2016 are as follows:

30 September 2017

Maturity analysis of non-derivative financial liabilities	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	Unallocated (IV)
Non-derivative financial liabilities						
Borrowings	7,176,186	8,788,722	760,731	1,855,901	6,172,090	-
Trade payables	1,060,293	1,060,293	1,060,293	-	-	-
Deferred income	454,548	454,548	-	449,713	4,835	-
Other payables	1,181,096	1,387,420	319,085	-	-	1,068,335
Other financial liabilities	291,728	291,728	6,969	22,129	137,448	125,182
Total liabilities	10,163,851	11,982,711	2,147,078	2,327,743	6,314,373	1,193,517

31 December 2016

Maturity analysis of non-derivative financial liabilities	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	Unallocated (IV)
Non-derivative financial liabilities						
Borrowings	6,297,794	7,867,019	677,672	2,686,931	4,502,416	-
Trade payables	1,117,668	1,117,668	1,117,668	-	-	-
Deferred income	191,350	195,293	-	165,733	29,560	-
Other payables	1,040,242	1,094,754	132,518	82,232	-	880,004
Other financial liabilities	270,221	285,751	8,912	17,480	118,288	141,071
Total liabilities	8,917,275	10,560,485	1,936,770	2,952,376	4,650,264	1,021,075

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NOTE 26 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

26.2 Financial risk factors (Continued):

26.2.3 Market risk management

26.2.3.1 Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed by adjusting the unit price / tariff of the energy sold semi-annually.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is disclosed below.

	30 September 2017		
	USD	**EUR**	**TL equivalent**
Cash and cash equivalents	5.039	12	17.953
Financial liabilities	(267.012)	(11.043)	(994.750)
Other financial liabilities	-	(69.585)	(291.728)
Derivative financial instruments	(10.443)	-	(37.095)
Trade payables	(29.129)	(3.207)	(116.914)
Net foreign currency position	(301.545)	(83.823)	(1.422.534)

	31 December 2016		
	USD	**EUR**	**TL equivalent**
Derivative financial instruments	1.104	-	3.886
Other financial liabilities	-	(72.838)	(270.221)
Trade payables	(6.216)	(6.655)	(46.565)
Other payables	-	(24.138)	(89.550)
Net foreign currency position	(5.112)	(103.631)	(402.450)

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NOTE 26 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

26.2 Financial risk factors (Continued):

26.2 3 Market risk management (Continued)

26.2.3.1 Foreign currency risk management (Continued)

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and EUR.

The following table details the Group's sensitivity to a 10% increase and decrease in the TL against the relevant foreign currencies. 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 currency rates. The sensitivity analysis includes only 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 or loss before taxation on income where the TL strengthens against the relevant currency.

	TL effect of USD		**TL effect of EUR**	
	2017	**2016**	**2017**	**2016**
Profit and loss	(107,112)	(1,799)	(35,142)	(38,446)

26.2.3.2 Interest rate risk management

As of 30 September 2017 and 31 December 2016, the Group has no floating rate interest rate risk although the Group has CPI indexed bond obligation since the revenues under the concession agreement are also indexed to CPI.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Fair value of financial instruments

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and the tariff structure imposed by EMRA.

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NOTE 26 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

26.2 Financial risk factors (Continued):

Categories of financial instruments and fair values

30 September 2017	Loans and receivables	Derivative instruments	Financial liabilities at amortized cost	Carrying value	Note
Financial assets					
Cash and cash equivalents	155,194	-	-	155,194	27
Trade receivables (including related parties)	2,166,983	-	-	2,166,983	5-6
Financial assets	5,533,525	-	-	5,533,525	10
Prepaid expenses	199,731	-	-	199,731	9
Other assets	129,222	-	-	129,222	16
Other receivables	699,677	-	-	699,677	7
Financial liabilities					
Borrowings	-	-	7,176,186	7,176,186	24
Trade payables (including related parties)	-	-	1,060,293	1,060,293	5-6
Deferred income	-	-	454,548	454,548	9
Derivatives	-	37,095	-	37,095	25
Other payables	-	-	1,181,096	1,181,096	7
Other financial liabilities	-	-	291,728	291,728	24

31 December 2016	Loans and receivables	Derivative instruments	Financial liabilities at amortized cost	Carrying value	Note
Financial assets					
Cash and cash equivalents	74,570	-	-	74,570	27
Trade receivables (including related parties)	1,720,529	-	-	1,720,529	5-6
Derivatives	-	3,886		3,886	25
Financial assets	4,293,306	-	-	4,293,306	10
Prepaid expenses	15,672	-	-	15,672	9
Other assets	127,519	-	-	127,519	16
Other receivables	624,206	-	-	624,206	7
Financial liabilities					
Borrowings	-	-	6,297,794	6,297,794	24
Trade payables (including related parties)	-	-	1,117,668	1,117,668	5-6
Deferred income	-	-	191,350	191,350	9
Other payables	-	-	1,040,242	1,040,242	7
Other financial liabilities	-	-	270,221	270,221	24

(*) The Group management considers the carrying amount of financial instruments approximate their fair values.

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NOTE 26 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

26.2 Financial risk factors (Continued):

Assets and liabilities subject to valuation and fair value of financial instruments

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 classification of the Group's financial assets and liabilities at fair value is as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

In the consolidated balance sheet, derivative financial instrument is recognized at fair value. The fair value of derivative financial instrument is determined by using valuation technique, which can be regarded as level 2.

The Company has also deposits and guarantees received and financial assets that are subject to inflation indexation.

The following table gives information about how the fair values of these financial assets, liabilities and assets subject to valuation are determined.

Financial assets/(financial liabilities)	Fair value / revalued amount		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	30 September 2017	31 December 2016				
Derivatives	(37,095)	3,886	Level 2	Market Value	-	-
Deposits paid	195,897	161,011	-	CPI	-	-
Deposits and gurantees received (Note :7)	1,068,335	880,004	-	CPI	-	-
Financial assets	5,533,525	4,293,306	-	CPI	-	-

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NOTE 27 - EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

	30 September 2017	31 December 2016
Cash at banks	102,347	55,956
Demand deposits	*102,347*	*55,956*
Repurchase agreements	52,847	18,614
	155,194	74,570

As at 30 September 2017, TL 77,983 of the Group's demand deposits are blocked at different banks (31 December 2016: TL 28,961). These blocked deposits are related to the collections made through bank branches which are made available for use by banks 1 or 2 days after the collection depending on the agreements with related banks.

As of 30 September 2017 repurchase agreements consist of short term TL balances with original maturities between 1-3 days (31 December 2016: 1-3 days). The weighted average effective interest rate of TL repurchase agreements is 13.58% as at 30 September 2017 (31 December 2016: 11.80%).

Details of "Other adjustments to reconcile profit / (loss)" that presented on cash flow statement as follows:

	1 January 30 September 2017	1 January 30 September 2016
Adjustments related to finance (income) / cost based on revenue cap regulation	(1.426)	(14.528)
Adjustments related to investment revenue recognised relate to service concession arrangements	(665.392)	(459.233)
Adjustments related to valuation differences arising from deposits	53.791	29.934
	(613.027)	(443.827)

Details of "Other cash in-flows generated from operating activities" that presented on cash flow statement as follows:

	1 January 30 September 2017	1 January 30 September 2016
Net collections from financial assets related to service concession arrangements	756,892	620,381
	756,892	620,381

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 27 - EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

Details of "Other cash-out flows from investing activities" that presented on cash flow statement as follows:

	1 January 30 September 2017	1 January 30 September 2016
Capital expenditures related to service concession arrangements	(1,301,897)	(925,775)
Payment to Privatization Administration	-	(1,188,456)
	(1,301,897)	(2,114,231)

NOTE 28 - EVENTS AFTER THE REPORTING DATE

Following the approval of Capital Markets Board with decision numbered 28/961 on 21 July 2017; bonds with the nominal amount of TL 100,000 are issued by the Group on 20 October 2017 with 1,456 days maturity, CPI based variable interests, coupon payments at every six months and capital payment at the end of the maturity.

The application made by Başkent Elektrik Dağıtım A.Ş., a subsidiary of the Group, to the Capital Markets Board for the issuance of debt instruments amounting to TL 1,000,000 to be sold to qualified investors domestically without being offered to the public was approved with the decision dated 3 November 2017 and decision numbered 39/1314.

On 27 September 2017, the draft legislation change on corporate income tax is announced by the Minister of Finance have been sent to the Grand National Assembly of Turkey which an increase in corporate tax rate from 20% to 22% is proposed for companies for incomes related to the years 2018-2019 and 2020. As of date of the report, the legislation has been enacted.

The Company has established 100% subsidiary Enerjisa Müşteri Çözümleri A.Ş. with capital of TL 52.000 on 29 December 2017, in order to conduct its activities in customer solutions and distributed energy.

The following legislative amendments, which are expected to have impact on the Company's financial outlook, will be in place from 1 January 2018 onwards.

a. For distribution companies, weighted average cost of capital (WACC) rate employed in revenue requirement calculations for the 3rd tariff period has increased from 11.91% to 13.61%, applicable for years between 2018 and 2020, as per EMRA's legislation dated 7 December 2017 numbered 7501-12.

b. As per EMRA's legislation change dated 15 December 2017, 2.38% regulated gross margin applicable to regulated sales of retail companies will also be applied on feed-in-tariff costs regarding regulated sales.

c. Upon the recent decision of EMRA dated 23 November 2017, distribution companies are granted an additional operating expenses allowance to cover for the costs of additional repair and maintenance personnel employed upon the requirement enacted by Ministry of Energy and Natural Resources. The additional operating expenses allowance per recruited repair and maintenance personnel per annum is TL 63.

NOTE 28 - EVENTS AFTER THE REPORTING DATE (Continued)

d. Upon the detection of electricity theft, distribution companies are granted the right to record 20% of invoiced amounts as income regardless of collection of such invoices. Upon the recent legislation change of EMRA dated 16 December 2017, distribution companies are able to record 40% of such invoiced theft accruals in their profit and loss statements for the years between 2018 and 2020. In addition, 75% of the actual collections made after legal proceedings are also kept by the distribution companies.

e. Applicable for the first quarter of 2018, EMRA has announced that, distribution tariff has been increased by 12-13% and the reactive energy fee by 6.9-7.1% for the customer/tariff groups in national tariff.

f. The Quality Factor encouraging distribution companies to improve their call center performances, health and safety obligations, and customer satisfaction scores; and as well as to reduce outages and increase technical quality standards, have been revised to be maximum of 5% of the yearly revenue requirement.

g. Pursuant to the EMRA resolution dated 30 November 2017 and numbered 7474, the eligibility limit was further reduced to 2,000 kWh for 2018.

ENERJİSA ELEKTRİK
DAĞITIM A.Ş. AND
ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL
STATEMENTS FOR THE
YEARS ENDED 31 DECEMBER 2016,
31 DECEMBER 2015 AND
31 DECEMBER 2014
AND THE INDEPENDENT
AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Enerjisa Elektrik Dağıtım A.Ş.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Enerjisa Elektrik Dağıtım A.Ş. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, 31 December 2015 and 31 December 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial positions of the Group as at 31 December 2016, 31 December 2015 and 31 December 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (*IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As discussed in Note 2.4.b to the consolidated financial statements, the Group previously issued consolidated financial statements in accordance with IFRS dated 26 July 2017. These consolidated financial statements have been updated to include disclosures with respect to earnings per share (Note 27) and segment reporting (Note 28) and to correct some minor errors in the previously issued consolidated financial statements. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of 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.

- Obtain an understanding of 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (cont'd)

- 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.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Ankara, 10 November 2017

ENERJİSA ELEKTRİK DAĞITIM A.Ş. AND ITS SUBSIDIARIES

CONTENT **PAGE**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

	Notes	Current Period 31 December 2016	Prior Period 31 December 2015	Prior Period 31 December 2014
ASSETS				
Current Assets		**2,939,550**	**2,532,462**	**2,241,969**
Cash and Cash Equivalents	25	74,570	152,103	112,669
Financial Assets	9	653,754	455,975	312,870
Trade Receivables	5	1,720,529	1,545,331	1,471,367
Due from related parties	*4*	*15,801*	*6,124*	*17,185*
Due from third parties		*1,704,728*	*1,539,207*	*1,454,182*
Other Receivables	6	393,471	272,263	217,707
Due from related parties	*4*	*2*	*67*	-
Due from third parties		*393,469*	*272,196*	*217,707*
Derivative Financial Instruments		3,886	-	-
Inventory	7	74,459	63,471	55,201
Prepaid Expenses	8	14,156	13,412	12,041
Assets Related with Current Taxes	22	238	5,980	20,322
Other Current Assets	15	4,487	23,927	39,792
Non-Current Assets		**12,191,898**	**11,488,597**	**10,521,490**
Other Receivables	6	230,735	382,182	302,476
Due from third parties		*230,735*	*382,182*	*302,476*
Financial Assets	9	3,639,552	2,565,064	1,469,322
Property, Plant and Equipment	10	58,010	30,850	128
Intangible Assets	11	7,891,350	8,072,256	8,281,023
Goodwill		*2,730,031*	*2,730,031*	*2,730,031*
Other intangible assets		*5,161,319*	*5,342,225*	*5,550,992*
Prepaid Expenses	8	1,516	1,876	4,140
Deferred Tax Assets	22	247,703	278,930	348,069
Other Non-Current Assets	15	123,032	157,439	116,332
TOTAL ASSETS		**15,131,448**	**14,021,059**	**12,763,459**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

LIABILITIES	**Notes**	**Current Period 31 December 2016**	**Prior Period 31 December 2015**	**Prior Period 31 December 2014**
Current Liabilities		**4,950,759**	**4,580,790**	**3,294,155**
Short-Term Financial Liabilities	23	1,556,770	915,335	762,210
Short-Term Portion of Long Term Financial Liabilities	23	1,541,024	1,000,729	43,161
Other Financial Liabilities	23	25,087	20,630	17,185
Trade Payables	5	1,117,668	826,990	816,488
Due to related parties	*4*	*126,061*	*129,999*	*63,252*
Due to third parties		*991,607*	*696,991*	*753,236*
Payables for Employee Benefits	14	39,230	15,539	21,366
Other Payables	6	160,238	117,718	36,517
Due to third parties		*160,238*	*117,718*	*36,517*
Payables to Privatization Administration	6	-	1,188,456	1,237,732
Deferred Income	8	165,733	173,289	75,161
Income Tax Liability	22	6,316	8,875	-
Short-Term Provisions		167,879	167,334	163,689
Provisions for employment benefits	*14*	*29,462*	*22,114*	*19,142*
Other short-term provisions	*12*	*138,417*	*145,220*	*144,547*
Other Short-Term Liabilities	15	170,814	145,895	120,646
Long-Term Liabilities		**5,433,861**	**5,074,438**	**5,428,962**
Long-Term Financial Liabilities	23	3,200,000	2,878,000	2,098,000
Other Financial Liabilities	23	245,134	232,392	239,728
Other Payables	6	880,004	735,201	608,063
Due to third parties		*880,004*	*735,201*	*608,063*
Payables to Privatization Administration	6	-	-	1,176,074
Deferred Income	8	25,617	101,624	158,385
Long-Term Provisions		56,442	58,825	38,555
Provisions for Employment Benefits	*14*	*56,442*	*58,825*	*38,555*
Deferred Tax Liabilities	22	1,026,664	1,068,396	1,110,157
Equity		**4,746,828**	**4,365,831**	**4,040,342**
Paid-in Capital	16	3,964,528	4,389,585	4,389,585
Other Funds		4,340	4,340	4,340
Accumulated other comprehensive income or expenses that will not be reclassified subsequently to profit or loss		(7,209)	(10,813)	-
Accumulated gain/loss on remeasurement of defined benefit plans		*(7,209)*	*(10,813)*	-
Restricted Profit Reserves	16	139,190	53,303	53,303
Retained Earnings and Accumulated Losses		268,586	(406,886)	(130,172)
Profit for the Period		377,393	336,302	(276,714)
TOTAL LIABILITIES AND EQUITY		**15,131,448**	**14,021,059**	**12,763,459**

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

ENERJİSA ELEKTRİK DAĞITIM A.Ş.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

	Notes	Current Period 1 January- 31 December 2016	Prior Period 1 January- 31 December 2015	Prior Period 1 January- 31 December 2014
Sales Revenue (net)	17	9,103,380	9,153,614	8,064,421
Cost of Sales (-)	18	(6,500,956)	(7,108,120)	(6,753,511)
Gross Profit		**2,602,424**	**2,045,494**	**1,310,910**
General Administrative Expenses (-)	19	(1,227,836)	(1,079,790)	(967,303)
Other Income from Operating Activities	20	144,651	123,333	104,204
Other Expenses from Operating Activities (-)	20	(246,929)	(50,760)	(140,174)
OPERATING PROFIT BEFORE FINANCE INCOME / (EXPENSE)		**1,272,310**	**1,038,277**	**307,637**
Finance Income	21	39,729	31,484	68,647
Finance Expense (-)	21	(797,837)	(606,854)	(639,991)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**514,202**	**462,907**	**(263,707)**
Tax Expense from Continuing Operations		**(136,809)**	**(126,605)**	**(13,007)**
Current Tax Expense	22	(148,215)	(96,524)	(51,485)
Deferred Tax Income / (Expense)	22	11,406	(30,081)	38,478
INCOME FOR THE PERIOD FROM CONTINUING OPERATIONS		**377,393**	**336,302**	**(276,714)**
PROFIT FOR THE PERIOD		**377,393**	**336,302**	**(276,714)**
OTHER COMPREHENSIVE INCOME / (EXPENSE)				
Other Comprehensive Income or Expenses that will not be Reclassified Subsequently to Profit or Loss		**3,604**	**(10,813)**	**-**
Gain/loss on measurement of defined benefit obligation	14	4,505	(13,516)	-
Income Tax Relating to Other Comprehensive Income/ (Loss) Items that will not be Reclassified Subsequently Profit/ (Loss)	22	(901)	2,703	-
TOTAL COMPREHENSIVE INCOME / (EXPENSE)		**380,997**	**325,489**	**(276,714)**
Basic earnings / (losses) per share from continued operations				
Basic earnings / (losses) per share (kr.)	27	0.10	0.08	(0.07)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

				Accumulated other comprehensive income or expenses that will not be reclassified subsequently to profit or loss			
	Paid-in capital	Restricted profit reserves	Other funds (**)	Accumulated gain/loss on remeasurement of defined benefit plans	Retained earnings and Accumulated losses	Profit for the period	Total Equity
Balance as at 1 January 2014	**3,489,585**	**54,894**	**-**	**-**	**(38,884)**	**(92,879)**	**3,412,716**
Issue of share capital	900,000	-	-	-	-	-	900,000
Transfers	-	(1,591)	4,340	-	(91,288)	92,879	4,340
Total comprehensive income	-	-	-	-	-	(276,714)	(276,714)
Balance as at 31 December 2014	**4,389,585**	**53,303**	**4,340**	**-**	**(130,172)**	**(276,714)**	**4,040,342**
Transfers	-	-	-	-	(276,714)	276,714	-
Total comprehensive income	-	-	-	(10,813)	-	336,302	325,489
Balance as at 31 December 2015	**4,389,585**	**53,303**	**4,340**	**(10,813)**	**(406,886)**	**336,302**	**4,365,831**
Transfers (*)	(425,057)	85,887	-	-	675,472	(336,302)	-
Total comprehensive income	-	-	-	3,604	-	377,393	380,997
Balance as at 31 December 2016	**3,964,528**	**139,190**	**4,340**	**(7,209)**	**268,586**	**377,393**	**4,746,828**

(*) It has been decided by the Board of Directors of the Company to make a capital reduction pursuant to Article 474 of the Turkish Commercial Code in order to recover the deficit in the carry forward-losses in the balance sheet with the BOD decision taken on November 30, 2016. As a result of this transaction, the capital account has been deducted from previous years' losses and no change has occurred in total equity.

(**) The aforementioned amount has been transferred to equity due to the finalization of the reconciliation with regards to the unbundling of Başkent Elektrik Dağıtım A.Ş. from TEDAŞ in 2006.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2016, 31 DECEMBER 2015 AND 31 DECEMBER 2014

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

	Notes	Current Period 1 January- 31 December 2016	Prior Period 1 January- 31 December 2015	Prior Period 1 January- 31 December 2014
Cash Flows from Operating Activities		**1,859,439**	**1,021,362**	**98,044**
Profit for the period		**377,393**	**336,302**	**(276,714)**
Profit for the period from continued operations		377,393	336,302	(276,714)
Adjustments to reconcile profit/loss for the period		**800,945**	**829,795**	**777,037**
Adjustments related to the depreciation and amortization	10,11	217,938	219,428	208,663
Adjustments related to the depreciation of property, plant and equipment	10	8,552	10,661	-
Adjustments related to the amortization of intangible assets	11	209,386	208,767	208,663
Adjustments related to impairment loss	5	264,351	179,111	149,668
Adjustments related to impairment loss recognised on receivables	5	264,351	179,111	149,668
Adjustments related to provisions		20,999	18,295	20,681
Adjustments related to provisions for employee benefits		27,802	17,622	30,796
Adjustments related to provision for employee termination benefits		20,454	14,650	24,987
Adjustments related to provision for bonus and unused vacation provision	14	7,348	2,972	5,809
Adjustments related to legal case provisions		(6,803)	673	(10,115)
Adjustments related to interest (income) and expenses		695,445	543,852	566,417
Adjustments related to interest income	21	(39,729)	(31,484)	(58,692)
Adjustments related to interest expense	21	735,174	575,336	625,109
Unrealized foreign exchange loss	21	54,114	19,837	(9,955)
Adjustments related to tax expense	22	136,809	126,605	13,007
Other adjustments to reconcile profit/loss	25	(588,711)	(277,333)	(171,444)
Changes in operating assets and liabilities		**(7,081)**	**(462,595)**	**(664,912)**
Adjustments related to (increase) in trade receivables		(439,549)	(253,075)	(248,569)
Adjustments related to (increase) / decrease in trade receivables from related parties		(9,677)	11,061	(220)
Adjustments related to (increase) in trade receivables from third parties		(429,872)	(264,136)	(248,349)
Adjustments related to (increase) in inventories		(10,988)	(8,270)	(6,289)
Adjustments related to decrease / (increase) in other receivables and current assets		62,507	(437,045)	(330,100)
Adjustments related to decrease / (increase) in other receivables from third parties		62,507	(437,045)	(330,100)
Adjustments related to increase in trade payables		290,678	10,502	70,739
Adjustments related to (decrease) / increase in trade payables to related parties		(3,938)	66,747	24,268
Adjustments related to increase / (decrease) in trade payables to third parties		294,616	(56,245)	46,471
Adjustments related to increase in other payables and expense accruals		90,271	225,293	(150,693)
Adjustments related to increase in other payables to third parties		90,271	225,293	(150,693)
Cash Generated From Operating Activities		**1,171,257**	**703,502**	**(164,589)**
Payments for employment benefits		(18,332)	(7,896)	(39,136)
Employee termination benefits paid	14	(18,332)	(7,896)	(39,136)
Tax payments	22	(145,032)	(73,307)	(48,225)
Tax payments	16	(145,032)	(73,307)	(48,225)
Other cash in-flows	25	851,546	399,063	349,994
Cash Flows from Investing Activities		**(2,709,132)**	**(2,286,473)**	**(1,642,809)**
Cash used for purchase of tangible and intangible assets	10,11	(64,192)	(41,383)	-
Cash used for property, plant and equipment purchases	10	(35,712)	(41,383)	-
Cash used for purchase of intangible assets	11	(28,480)	-	-
Interest received	21	39,729	31,484	58,692
Other cash out-flows	25	(2,684,669)	(2,276,574)	(1,701,501)
Capital expenditures related to service concession arrangements		(1,496,213)	(1,051,224)	(525,427)
Payment to Privatization Administration		(1,188,456)	(1,225,350)	(1,176,074)
Cash Flows from Financing Activities		**772,160**	**1,304,545**	**1,316,799**
Cash in-flows from borrowings		21,337,887	16,127,177	8,547,470
Loans received		21,337,887	16,127,177	8,547,470
Cash out-flows from borrowings		(19,924,143)	(14,416,888)	(7,475,914)
Repayments of the borrowings		(19,924,143)	(14,416,888)	(7,475,914)
Interest paid		(641,584)	(405,744)	(654,757)
Proceeds on issue of equity shares		-	-	900,000
(Decrease) / increase in cash and cash equivalents		(77,533)	39,434	(227,966)
Cash and cash equivalents at the beginning of the period	25	152,103	112,669	340,635
Cash and cash equivalents at the end of the period	25	**74,570**	**152,103**	**112,669**

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

1. ORGANIZATION AND OPERATIONS OF THE GROUP

Enerjisa Elektrik Dağıtım A.Ş. (the "Company") and its subsidiaries will be referred as the "Group" for consolidated financial statements. The Company was incorporated in İstanbul, Turkey on 24 October 2008. The address of its registered office is Sabancı Center, 4. Levent, Beşiktaş. As of 31 December 2016 total employees of the Group are 9,085 (31 December 2015: 8,421; 31 December 2014: 7,535).

The Company, which was a joint venture of Hacı Ömer Sabancı Holding A.Ş. ("Sabancı") and Österreichische Elektrizitätswirthcshafts-Aktiengesellschaft has officially acquired 100% of the shares of Başkent Elektrik Dağıtım A.Ş. ("BEDAŞ") as of 28 January 2009 by successful finalization of privatization bid for the consideration of USD 1,225 million. BEDAŞ currently operates in Ankara, Kırıkkale, Kastamonu, Zonguldak, Bartın, Çankırı and Karabük provinces and holds the licence that gives the right for distribution of electricity in these provinces for 30 years starting from the date of Transfer of Operation Rights ("TOR") agreement signed with Türkiye Elektrik Dağıtım A.Ş. ("TEDAŞ") on 31 March 2006. Following the privatization bid, the shares held by of Österreichische Elektrizitätswirthcshafts-Aktiengesellschaft were transferred to Verbund International GMBH ("Verbund"). In December 2011, Sabancı and Verbund transferred their shares to Enerjisa Enerji A.Ş. which was established in December 2011 as a joint venture of Sabancı and Verbund.

On 4 December 2012, Verbund International and E.ON SE ("E.ON") entered into a Share Purchase Agreement for the sale and transfer of all Verbund shares in Enerjisa Enerji A.Ş. to E.ON and the transfer was finalized on 24 April 2013.

The Company, has officially acquired 100% of the shares of the İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş. ("AYEDAŞ") and Enerjisa İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş. ("AEPSAŞ") as of 31 July 2013, and acquired 100% of the shares of the Toroslar Elektrik Dağıtım A.Ş. ("TOROSLAR EDAŞ") and Enerjisa Toroslar Elektrik Perakende Satış A.Ş. ("TOROSLAR EPSAŞ") as of 30 September 2013 by successful finalization of privatization bids for the consideration of USD 1,227 million and USD 1,725 million, respectively.

AYEDAŞ and AEPSAŞ currently operate in Anatolian Side of İstanbul and AYEDAŞ holds the licence that gives the right for distribution of electricity in this province until 31 December 2042 starting from the date of TOR agreement signed with TEDAŞ on 24 July 2006.

TOROSLAR EDAŞ and TOROSLAR EPSAŞ currently operate in Adana, Gaziantep, Hatay, Kilis, Mersin and Osmaniye and TOROSLAR EDAŞ holds the licence that gives the right for distribution of electricity in these provinces until 31 December 2042 starting from the date of TOR agreement signed with TEDAŞ on 24 July 2006.

In 2006, the Energy Market Regulatory Authority ("EMRA") has set a unique pricing mechanism for all of the electricity distribution companies in Turkey which was be effective for the period between 1 January 2006 and 31 December 2012 which is called the "transition period". In accordance with this pricing mechanism, distribution companies in Turkey have already determined their regional tariffs for the period between 1 January 2006 and 31 December 2010 and by using these regional tariffs, EMRA has already determined the national tariffs for the same period. In December 2010, EMRA announced new tariff for the period between 1 January 2011 and 31 December 2016. In December 2016, EMRA announced new tariff for the period between 1 January 2016 and 31 December 2020.

1. ORGANIZATION AND OPERATIONS OF THE GROUP (cont'd)

As of 1 January 2013, distribution companies (BEDAŞ, AYEDAŞ and TOROSLAR EDAŞ) are obliged to carry out the distribution and the retail sales activities under separate legal entities in accordance with Electricity Market Law. After the establishment of retail companies (Enerjisa Elektrik Perakende Satış A.Ş., AEPSAŞ and TOROSLAR EPSAŞ) with the same shareholder structure, as of 31 December 2012 the distribution companies have transferred some of their assets and liabilities to retail companies due to the legal unbundling and the unbundling transactions have been registered as of 31 December 2012.

Further to a Board of Directors resolution dated 20 April 2017, the Company has merged with its shareholding company, Enerjisa Enerji A.Ş also being the surviving entity. The merger has been registered as of 28 April 2017.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain assets and liabilities being carried by their fair values.

In order to determine the historical cost, the fair values paid for assets are considered.

2.2 Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board.

2.3 Functional Currency

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 Group, and the presentation currency for the consolidated financial statements.

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 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. Gains and losses arising on settlement and translation of foreign currency items are included in the consolidated statement of comprehensive income.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.4.a Comparative Information and Reclassification of Prior Period Consolidated Financial Statements

Consolidated financial statements of the Group have been prepared comparatively with prior period in order to give information about financial position and performance trends. If the presentation or classification of the financial statements is changed, in order to maintain consistency, financial statements of the prior periods are also reclassified in line with the related changes.

The nature, amount and reasons for each of the reclassifications are described below:

- In 2014, the Group had presented "Financial Assets" amounting to TL 161,237 in "Non-current Financial Assets". In the current year, it has been recognized in 'Current Financial Assets' (Note: 10).
- In 2014 the Group had presented "Provision for doubtful and other receivables" amounting to TL 74,468 in "General Administrative Expenses". In the current year it has been reclassified under "Other Expenses From Operating Expenses".

2.4.b Previously Issued Consolidated Financial Statements

The Group previously issued consolidated financial statements in accordance with IFRS dated 26 July 2017. These consolidated financial statements have been updated to include disclosures with respect to earnings per share (Note 27) and segment reporting (Note 28). Additionally, without having any impact on the consolidated statements of financial position, profit or loss and other comprehensive income, changes in the equity and cash flows, some minor errors are also corrected in the previously issued consolidated financial statements.

2.5 Changes in Accounting Policies

The signficant changes that were made on accounting policies applied retrospectively and the financial statements of preceding period are restated. No changes has been observed at the accounting policies of the Group in the current year.

2.6 Changes and Misstatements in Accounting Estimates

If changes in accounting estimates are related to only one period, the changes are applied prospectively in the current period in which changes are made. If changes in accounting estimates are related to future periods, the changes are applied prospectively both in the current period in which changes are made and also in future periods. No changes has been observed at the accounting estimates of the Group in the current year.

The accounting misstatements which are identified are applied retrospectively and consolidated financial statements of preceding period are restated. No material misstatement has been observed in order to restate the financial statements of the Group in the current year.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Basis of Consolidation

The details of the Company's subsidiaries at 31 December 2016, 31 December 2015 and 31 December 2014 are as follows:

Subsidiaries

	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group %			Principal activity
		2016	2015	2014	
Başkent Elektrik Dağıtım A.Ş. ("BEDAŞ")	Ankara	100	100	100	Electricity distribution services
Enerjisa Elektrik Perakende Satış A.Ş. ("EPS")	Ankara	100	100	100	Electricity retail services
İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş. ("AYEDAŞ")	İstanbul	100	100	100	Electricity distribution services
Enerjisa İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş. ("AEPSAŞ")	İstanbul	100	100	100	Electricity retail services
Toroslar Elektrik Dağıtım A.Ş. ("TOROSLAR EDAŞ")	Adana	100	100	100	Electricity distribution services
Enerjisa Toroslar Elektrik Perakende Satış A.Ş. ("TOROSLAR EPSAŞ")	Adana	100	100	100	Electricity retail services

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Basis of Consolidation

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.8 New and Revised International Financial Reporting Standards

a) Amendments to IFRSs affecting amounts reported and/or disclosures in the consolidated financial statements

None.

b) New and revised IFRSs applied with no material effect on the consolidated financial statements

IFRS 14	*Regulatory Deferral Accounts* [1]
Amendments to IFRS 11	*Accounting for Acquisition of Interests in Joint Operations* [1]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation* [1]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants* [1]
Amendments to IAS 27	*Equity Method in Separate Financial Statements* [1]
Annual Improvements to 2012-2014 Cycle	*IFRS 5, IFRS 7, IAS 19, IAS 34* [1]
Amendments to IAS 1	*Disclosure Initiative* [1]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception* [1]

[1] Effective for annual periods beginning on or after 1 January 2016.

IFRS 14 *Regulatory Deferral Accounts*

IFRS 14 *Regulatory Deferral Accounts* permits an entity, which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

IFRS 14 was issued by the IASB on 30 January 2014 and is applied to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016.

Amendments to IFRS 11 *Accounting for Acquisition of Interests in Joint Operations*

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11,
- disclose the information required by IFRS 3 and other IFRSs for business combinations.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.8 New and Revised International Financial Reporting Standards (cont'd)

b) New and revised IFRSs applied with no material effect on the consolidated financial statements (cont'd)

Amendments to IAS 16 and IAS 38 ***Clarification of Acceptable Methods of Depreciation and Amortisation***

This amendment clarifies that that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Amendments to IAS 16 and IAS 41 ***Agriculture: Bearer Plants***

This amendment include 'bearer plants' within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16. The amendment also introduces a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of IAS 41.

Amendments to IAS 27 ***Equity Method in Separate Financial Statements***

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

Annual Improvements 2012-2014 Cycle

IFRS 5: Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

IFRS 7: Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

IAS 19: Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

IAS 34: Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

Amendments to IAS 1 ***Disclosure Initiative***

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.8 New and Revised International Financial Reporting Standards (cont'd)

b) <u>New and revised IFRSs applied with no material effect on the consolidated financial statements</u> (cont'd)

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

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

c) <u>New and revised IFRSs in issue but not yet effective</u>

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealized Losses* [1]
Amendments to IAS 7	*Disclosure Initiative* [1]
IFRS 9	*Financial Instruments* [2]
IFRS 15	*Revenue from Contracts with Customers* [2]
Amendments to IFRS 15	*Revenue from Contracts with Customers* [2]
Amendments to IFRS 2	*Classification and Measurement of Share-Based Payment Transactions* [2]
IFRS 16	*Leases* [3]
Amendments to IFRS 4	Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'
	Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'
IFRIC 22	*Foreign Currency Transactions and Advance Consideration* [2]
Amendments to IAS 40	*Transfers of Investment Property* [2]
Annual Improvements to IFRS Standards 2014–2016 Cycle	*IFRS 1* [2], *IFRS 12* [1], *IAS 28* [2]
IFRS 17	*Insurance Contracts* [4]
IFRIC 23	*Uncertainty over Income Tax Treatments* [2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation* [2]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures* [2]

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.8 New and Revised International Financial Reporting Standards (cont'd)

b) New and revised IFRSs in issue but not yet effective (cont'd)

[1] Effective for annual periods beginning on or after 1 January 2017.
[2] Effective for annual periods beginning on or after 1 January 2018.
[3] Effective for annual periods beginning on or after 1 January 2019.
[4] Effective for annual periods beginning on or after 1 January 2021.

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

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses*

This amendment clarifies the following aspects:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

Amendments to IAS 7 *Disclosure Intiative*

This amendment clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

IFRS 9 *Financial Instruments*

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 is amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 is issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income ("FVTOCI") measurement category for certain simple debt instruments.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts,
- Recognize revenue when the entity satisfies a performance obligation.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.8 New and Revised International Financial Reporting Standards (cont'd)

b) New and revised IFRSs in issue but not yet effective (cont'd)

Amendments to IFRS 15 ***Revenue from Contracts with Customers***

This amendment clarifies three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and provides some transition relief for modified contracts and completed contracts.

Amendments to IFRS 2 ***Classification and Measurement of Share-Based Payment Transactions***

This amendment clarifies the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity settled.

IFRS 16 ***Leases***

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

Amendments to IFRS 4 ***Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'***

This amendment provides optional approaches for entities that issue insurance contracts within the scope of IFRS 4, and the entities are permitted to stop applying them before the new insurance standard is applied.

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

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Amendments to IAS 40 ***Transfers of Investment Property***

The amendments to IAS 40 Investment Property:

- Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.8 New and Revised International Financial Reporting Standards (cont'd)

c) New and revised IFRSs in issue but not yet effective (cont'd)

Annual Improvements to IFRS Standards 2014–2016 Cycle

- **IFRS 1:** Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
- **IFRS 12:** Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.
- **IAS 28:** Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

IFRS 17 *Insurance Contracts*

This new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

IFRIC 23 *Uncertainty over Income Tax Treatments*

This interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances.

Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

This amendment amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*

This amendment clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The Group evaluates the effects of these standards, amendments and improvements on the consolidated financial statements.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.9 Summary of Significant Accounting Policies

Business Combinations

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.9 Summary of Significant Accounting Policies (cont'd)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually (Note: 2.10), or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Related Parties

A related party is a person or entity that is related to the entity that is preparing its financial statements

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

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

(b) An entity is related to a reporting entity if any of the following conditions applies:

i. 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).

ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

iii. Both entities are joint ventures of the same third party.

iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

vi. The entity is controlled or jointly controlled by a person identified in (a).

vii. A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.9 Summary of Significant Accounting Policies (cont'd)

Related Parties (cont'd)

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Revenue Recognition

Distribution part of the revenue is composed of distribution, meter reading services, transmission and theft and loss components. Distribution and meter reading service components are considered within the content of service concession arrangements due to the regulations of Energy Market Regulatory Authority ("EMRA"). Additionally, according to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations, the Company's distribution, transmission and meter reading services are subject to revenue caps which cover operating expenses and investment requirements related to distribution and meter reading services. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by TEİAŞ. These regulations guarantee revenue to the Group during the transition period regardless of the consumption level. The underbillings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years.

Revenue, excluding the distribution business, is recognized upon delivery of electricity to customers or upon fulfilment of services. Delivery is deemed complete when the risk and rewards associated with ownership has been transferred to the buyer as contractually agreed, compensation has been contractually established and collection of the resulting receivable is probable.

Revenue from the sale and delivery of electricity is measured at the fair value of the consideration received or receivable. The estimated value of the electricity supplied but not invoiced to the customers is considered for the measurement of revenue.

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.

Interest income related to service concession arrangements is recognized in accordance with Service Concession Arrangements ("IFRIC 12"). Interest income on receivable from concession arrangement is recognised on a time-proportion basis using the effective interest method.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.9 Summary of Significant Accounting Policies (cont'd)

Service Concession Arrangements

Service concession arrangements are defined within scope of IFRIC 12 as those whereby a government or other body grants contracts for the supply of public services – operations such as roads, energy distribution, prisons or hospitals – to private operators. The Group's electricity distribution and meter reading service businesses are in the scope of service concession agreements.

Considering the Group's terms in the service concession arrangements, a financial asset model where the Group recognises a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor has been applied, since the right to receive cash for the distribution and meter reading services are constituted through actual billing to subscribers where the distribution and meter reading service components of the billing are already specified or determinable through the regulated by the Energy Market Regulatory Authority ("EMRA").

The Group has measured the financial asset at amortized cost, with the effective interest method which is calculated by discounting estimated future cash receipts with regards to the compensation of TOR and the initial and annual capital expenditures made by the Group, through the expected life of the arrangement and presented as "Financial Asset" on the consolidated balance sheet and recognizes the revenue on an effective interest method as "Finance Income from Service Concession Arrangements".

Inventories

Inventories mainly include electricity equipment and materials related to the Group's electricity distribution business. Inventories are stated at the lower of cost or net realizable value. The cost of inventories is determined on a weighted average basis. Additional costs, incurred to bring the inventories to the intended usable condition or position, are included in determination of cost.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated and carried at cost less accumulated impairment.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.9 Summary of Significant Accounting Policies (cont'd)

Property, Plant and Equipment (cont'd)

Depreciation is recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, 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. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible Assets

Customer contracts and relations and transfer of operational rights ("TOR")

Customer contracts and relations 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 useful lives of customer contracts and relations range between 25-30 years.

Computer software

Acquired computer software licenses 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 (3-5 years).

Computer software development costs recognized as assets are amortized over their estimated useful lives.

Financial Leasing Transactions

Leasing - the Group as Lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Impairment of Non-financial Assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the 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. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.9 Summary of Significant Accounting Policies (cont'd)

Borrowing Cost

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. There were no capitalized borrowing costs in 2016, 2015 and 2014.

All other borrowing costs are recognized in statement of profit or loss in the period in which they are incurred.

Financial Instruments

Financial assets

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss (FVTPL)', 'held-to-maturity investments', 'available-for-sale' financial assets and 'loans and receivables'.

Effective interest method

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

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Loans and receivables

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

Impairment of financial assets

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.9 Summary of Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

Financial assets (cont'd)

Impairment of financial assets (cont'd)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, except for irrigation and government receivables, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits 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 subject to an insignificant risk of changes in value.

Financial liabilities

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

Financial liabilities at Fair value through Profit or Loss

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss. Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.9 Summary of Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

Financial liabilities (cont'd)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Derivative Financial Instruments

The Group's financing activities expose it primarily to the financial risks of changes in for exchange rates and interest rates. The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. Derivatives are initially recognized at fair value on the date the derivative contract and are subsequently measured at their respective fair value. If the derivative cannot meet the requirements of hedge accounting the gain or loss relating to the fair value of the derivative is recognized in the statement of profit/loss immediately.

The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. If the fair value is positive then the derivative is recognized as asset, the fair value is negative then it is recognized as liability.

Provisions, Contingent Liabilities, Contingent Assets

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Contingent liabilities are assessed continuously to determine probability of outflow of economically beneficial assets. For contingent liabilities, when an outflow of resources embodying economic benefits are probable, provision is recognized for this contingent liability in the period when the probability has changed, except for cases where a reliable estimate cannot be made.

When the outflow of economic benefits from the Group is probable but the amount cannot be measured reliably, the Group discloses this fact in the notes.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.9 Summary of Significant Accounting Policies (cont'd)

Earnings per share

Earnings per share disclosed in the consolidated statement of profit or loss and other comprehensive income is determined by dividing net earnings by the weighted average number of shares that have been outstanding during the related period.

Segment reporting

Group has electricity distribution and retail operating segments, which includes the information used from management to evaluate performance and taking decision for resource allocation. These segments are managed seperately because it is influenced by different economic situations and business positions in terms of risk and return.

Operating segments are reported in a manner consistent with the reporting provided to the chief operating decision- makers. The chief operating decision-makers are responsible for the decisions related to the allocation of resources to the segments and assessment of performance of segments.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Government Grants

The Company has obtained the investment incentive certificate from the Ministry of Economy on January 15, 2016 and utilizes VAT exemption for machinery equipment purchases from domestic suppliers in the scope of renewal of existing investments.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.9 Summary of Significant Accounting Policies (cont'd)

Taxation and Deferred Income Taxes

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 tax currently payable and deferred tax.

Current tax

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

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Current and deferred tax for the period

Current and deferred taxes are recognized as in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity.

2 BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.9 Summary of Significant Accounting Policies (cont'd)

Subsequent Events

Subsequent events; even if they occur after any announcement related with profit or public announcement of other chosen financial information, covers any event between the balance sheet date and the publication date of the balance sheet.

In the case that events requiring an adjustment to the financial statements occur subsequent to the balance sheet date, the Group makes the necessary corrections on the financial statements.

Employment Benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19").

The retirement benefit obligation recognized in the statement of the financial position represents the present value of the defined benefit obligation. Calculated whole actuarial gains and losses are recognized in other comprehensive income.

Statement of Cash Flow

In statement of cash flows, cash flows are classified according to operating, investing and financing activities.

Share Capital and Dividends

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

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.10 Significant Accounting Estimates and Assumptions

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

Critical judgments in applying the Group's accounting policies

Use of Estimates

The preparation of consolidated financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Impairment test of Goodwill

Pursuant to IAS 36, Impairment of Assets, the Group tested goodwill as of 31 December 2016 in accordance with the accounting policy stated at (Note: 2.9). The goodwill impairment test is carried out for Retail and Distribution Cash Generating Units ("CGUs").

The following assumptions were used to determine the recoverable amount of Retail CGU:

CGU:	**Retail**
Base used for the recoverable amount:	Value in use
Source:	Forecasted cash flows
WACC (TL):	14.5%

The net present value of Retail CGU was calculated by discounting the TL post-tax free cash flows, which is the functional currency of the Group. The Group compared the recoverable amount calculated based on the aforementioned assumptions to the total value of Retail CGU and no impairment was identified.

The following assumptions were used to determine the recoverable amount of Distribution CGU:

CGU:	**Distribution**
Base used for the recoverable amount:	Value in use
Source:	Forecasted cash flows for the license period
WACC (TL):	13%

The net present value of Distribution CGU was calculated by discounting the post-tax free cash flows for the discrete period from 2016 to 2036 for BEDAŞ and from 2016 to 2042 for AYEDAŞ and TOROSLAR EDAŞ. This calculation includes the discounted values of the TL cash flows of Distribution CGU which is the functional currency of the Group. The Group compared the recoverable amount calculated based on the aforementioned assumptions to the total value of Distribution CGU and no impairment was identified.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.10 Significant Accounting Estimates and Assumptions (cont'd)

Critical Accounting Judgments and Key Sources of Estimation Uncertainty (cont'd)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the consolidated balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below:

Service concession arrangements

The Group determines the financial asset and financial income balances recognized under service concession arrangements based on the cash flows derived from the tariffs announced by EMRA. The distribution revenue requirement of the Group during the second (2011 - 2016) and third tariff periods (2016 - 2020) was determined by EMRA considering the projected expenses and related tariffs which were published in 2010 and 2016. Moreover, distribution revenue requirements from the end of third tariff period to the end of license (2036 for BEDAŞ and 2042 for AYEDAŞ and TOROSLAR EDAŞ) are expected by the Group management based on the tariff components announced for the third tariff period. These tariffs are revised yearly due to inflation, based on the changes in the Electricity Market Index ("EMI" is defined as change in CPI on the communique of Distribution System). In determination of the aforementioned projected cash inflows in the upcoming periods the Group management made expectations related to the CPI and WACC rates.

Revenue recognition

Invoices of the subscribers other than residential and commercial groups are issued monthly at the end of each month by the Group whereas the invoices of the residential subscribers are issued continuously during each month due to the high number of subscribers in this group. Commercial group subscribers are also issued continuously during the month due to the high number of customers in this group although the subscribers with high consumption level are billed at the end of the month. As a result, the total electricity supplied to the residential and commercial subscribers during each month cannot be invoiced and income accruals are recognized as revenue at period-ends for these customer groups based on the actual billing performance.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

3. SHARES IN SUBSIDIARIES

Subsidiaries:

			Proportion of ownership (%)		
Name of Subsidiary	Principal activity	Place of incorporation and operation	31 December 2016	31 December 2015	31 December 2014
BEDAŞ	Electricity distribution services	Ankara	100	100	100
EPS	Electricity retail services	Ankara	100	100	100
AYEDAŞ	Electricity distribution services	İstanbul	100	100	100
AEPSAŞ	Electricity retail services	İstanbul	100	100	100
TOROSLAR EDAŞ	Electricity distribution services	Adana	100	100	100
TOROSLAR EPSAŞ	Electricity retail services	Adana	100	100	100

Group Structure:

		Number of subsidiaries wholly owned by the Group		
Principal Activity	Place of incorporation and operation	31 December 2016	31 December 2015	31 December 2014
Electricity distribution services	Ankara, İstanbul, Adana	3	3	3
Electricity retail services	Ankara, İstanbul, Adana	3	3	3

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

4. RELATED PARTY TRANSACTIONS

The immediate parents and ultimate controlling parties of the Group are Hacı Ömer Sabancı Holding A.Ş. (incorporated in Turkey) and E.ON SE ("E.ON"- incorporated in Germany). Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

Details of transactions between the Group and other related parties are disclosed below.

Related Party Bank Balances- Akbank T.A.Ş.	31 December 2016	31 December 2015	31 December 2014
Demand deposits	4,307	32,366	3,067
Repurchase agreements	8,614	55,406	67,796
	12,921	87,772	70,863

Loans provided by related parties	Original currency	Maturity	31 December 2016 Current liabilities	31 December 2016 Non-current liabilities
Akbank T.A.Ş.	TL	2 January 2017	49,800	-
Akbank T.A.Ş.	TL	2 January 2017	189,650	-
Akbank T.A.Ş.	TL	28 January 2017	18,000	-
Akbank T.A.Ş.	TL	29 March 2017	19,000	-
Akbank T.A.Ş.	TL	2 June 2017	404,000	-
Akbank T.A.Ş.	TL	29 September 2017	494,000	-
Akbank T.A.Ş.	TL	1 December 2017	162,000	-
Akbank T.A.Ş.	TL	2 December 2017	150,000	-
Akbank T.A.Ş.	TL	30 March 2018	-	250,000
Akbank T.A.Ş.	TL	29 July 2019	-	297,000
Akbank T.A.Ş.	TL	9 September 2019	-	200,000
Akbank T.A.Ş.	TL	30 September 2020	-	303,000
Enerjisa Enerji A.Ş.	TL	23 January 2017	83,502	-
			1,569,952	1,050,000

As of 31 December 2016, the interest rates of intercompany loans utilized are in the range of 10.20%-14.53%.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

4. RELATED PARTY TRANSACTIONS (cont'd)

			31 December 2015	
Loans provided by related parties	Original currency	Maturity	Current liabilities	Non-current liabilities
Akbank T.A.Ş.	TL	4 January 2016	1,831	-
Akbank T.A.Ş.	TL	4 January 2016	875	-
Akbank T.A.Ş.	TL	4 January 2016	12,850	-
Akbank T.A.Ş.	TL	4 January 2016	85,360	-
Enerjisa Enerji A.Ş.	TL	25 January 2016	71,000	-
Akbank T.A.Ş.	TL	2 June 2017	-	403,946
Akbank T.A.Ş.	TL	20 June 2016	100,000	-
Akbank T.A.Ş.	TL	30 September 2016	150,000	-
Enerjisa Enerji A.Ş.	TL	12 December 2016	28,000	-
Akbank T.A.Ş.	TL	30 December 2016	50,000	-
Akbank T.A.Ş.	TL	29 September 2017	-	493,754
Akbank T.A.Ş.	TL	1 December 2017	-	161,769
Akbank T.A.Ş.	TL	2 December 2017	-	150,000
Enerjisa Enerji A.Ş.	TL	23 January 2017	-	20,000
			499,916	1,229,469

As of 31 December 2015, the interest rates of intercompany loans utilized are in the range of 10.50%-14.53%.

			31 December 2014	
Loans provided by related parties	Original currency	Maturity	Current liabilities	Non-current liabilities
Akbank T.A.Ş.	TL	30 January 2015	200,000	-
Akbank T.A.Ş.	TL	2 January 2015	2,711	-
Akbank T.A.Ş.	TL	19 June 2016	-	100,000
Akbank T.A.Ş.	TL	31 December 2016	-	100,000
Akbank T.A.Ş.	TL	30 October 2016	-	150,000
Akbank T.A.Ş.	TL	1 January 2015	20,900	-
Akbank T.A.Ş.	TL	29 September 2017	-	480,000
			223,611	830,000

As of 31 December 2014, the interest rates of intercompany loans utilized are in the range of 9.45%-11.00%.

As of 31 December 2016, 31 December 2015 and 31 December 2014, the Group has not given any collateral for above loans.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

4. RELATED PARTY TRANSACTIONS (cont'd)

	31 December 2016		
	Receivables		Payables
	Current		Current
Balances with Related Parties	Trade	Non-trading	Trade
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş.	-	-	7,164
Çimsa Çimento Sanayi A.Ş.	13,518	-	-
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. (*)	2,242	-	111,738
Aksigorta A.Ş.	-	-	2,304
Enerjisa Enerji A.Ş.	41	-	2,575
Other	-	2	2,280
	15,801	2	126,061

	31 December 2015		
	Receivables		Payables
	Current		Current
Balances with Related Parties	Trade	Non-trading	Trade
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş.	-	-	13,440
Çimsa Çimento Sanayi A.Ş.	300	-	-
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. (*)	3,906	28	114,098
Enerjisa Enerji Üretim A.Ş.	1,309	-	20
AvivaSA Emeklilik ve Hayat A.Ş.	-	-	32
Temsa Global San. ve Tic. A.Ş.	191	-	-
Aksigorta A.Ş.	22	39	1,294
Enerjisa Enerji A.Ş.	52	-	749
Hacı Ömer Sabancı Holding A.Ş.	1	-	15
Other	343	-	351
	6,124	67	129,999

	31 December 2014		
	Receivables		Payables
	Current		Current
Balances with Related Parties	Trade	Non-trading	Trade
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. (*)	17,099	-	58,233
Enerjisa Üretim A.Ş. (*)	86	-	6
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş.	-	-	79
AvivaSA Emeklilik ve Hayat A.Ş.	-	-	3
Temsa Global San. ve Tic. A.Ş.	-	-	91
Aksigorta A.Ş.	-	-	1,640
Enerjisa Enerji A.Ş.	-	-	3,109
Hacı Ömer Sabancı Holding A.Ş.	-	-	48
Other	-	-	43
	17,185	-	63,252

(*) Due to the electricity purchased and sold.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

4. RELATED PARTY TRANSACTIONS (cont'd)

Key management compensation

Key management personnel comprises, members of board of directors and members of execution committee. Compensation of key management personnel comprises professional fees and other benefits such as; salaries, premium, healthcare insurance and transportation. The remuneration of directors and other members of key management during the year were as follows:

	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
Short-term employee benefits	9,985	8,134	7,769
Long-term employee benefits	55	46	53
Termination benefits	741	48	514
	10,781	8,228	8,336

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

4. RELATED PARTY TRANSACTIONS (cont'd)

	1 January - 31 December 2016					
Transactions with Related Parties	Electricity sales	Electricity purchases	Interest received	Interests paid	Other income	Other expenses
Akbank T.A.Ş.	825	-	14,884	257,432	-	-
Hacı Ömer Sabancı Holding	-	-	-	-	-	7
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş.	-	-	-	-	-	6,131
Çimsa Çimento Sanayi A.Ş.	20,988	-	-	-	-	-
Enerjisa Enerji Üretim A.Ş.	-	-	-	-	1,000	-
Enerjisa Enerji A.Ş.	-	-	-	11,884	-	13,098
Temsa Global San. ve Tic. A.Ş.	3,711	-	-	-	-	-
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş.	40,747	646,862	-	-	-	7,974
Aksigorta A.Ş.	7	-	-	-	-	453
Avivasa Emeklilik ve Hayat A.Ş.	-	-	-	-	-	315
Exsa Export San. Mamülleri Satış ve Araştırma A.Ş.	8	-	-	-	-	-
Teknosa İç ve Dış Ticaret A.Ş.	118	-	-	-	-	-
	66,404	646,862	14,884	269,316	1,000	27,978

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

4. RELATED PARTY TRANSACTIONS (cont'd)

	1 January - 31 December 2015					
Transactions with Related Parties	Electricity sales	Electricity purchases	Interest received	Interests paid	Other income	Other expenses
Akbank T.A.Ş.	489	-	12,347	152,029	-	-
Hacı Ömer Sabancı Holding	-	-	-	-	-	1,728
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş.	-	-	-	-	-	3,161
Çimsa Çimento Sanayi A.Ş.	27,233	-	-	-	-	-
Enerjisa Enerji Üretim A.Ş.	-	-	-	-	1,409	-
Enerjisa Enerji A.Ş.	-	-	-	2,452	469	11,351
Temsa Global San. ve Tic. A.Ş.	191	-	-	-	-	-
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş.	74,068	915,016	-	-	469	6,371
Aksigorta A.Ş.	-	-	-	-	-	679
Avivasa Emeklilik ve Hayat A.Ş.	-	-	-	-	-	230
Exsa Export San. Mamaulleri Satış ve Araştırma A.Ş.	9	-	-	-	-	-
Teknosa İç ve Dış Ticaret A.Ş.	2	-	-	-	-	-
	101,992	915,016	12,347	154,481	2,347	23,520

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

4. RELATED PARTY TRANSACTIONS (cont'd)

	1 January - 31 December 2014					
Transactions with Related Parties	Electricity sales	Electricity purchases	Interest received	Interests paid	Other income	Other expenses
Akbank T.A.Ş.	-	-	34,312	72,377	-	-
Hacı Ömer Sabancı Holding	-	-	-	-	-	803
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş.	-	-	-	-	-	105
Çimsa Çimento Sanayi A.Ş.	2,099	-	-	-	-	-
Enerjisa Enerji Üretim A.Ş.	-	-	-	-	1,009	-
Enerjisa Enerji A.Ş.	-	-	-	-	-	11,654
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş.	100,434	322,358	-	-	263	448
Aksigorta A.Ş.	-	-	-	-	-	848
Avivasa Emeklilik ve Hayat A.Ş.	-	-	-	-	-	258
	102,533	322,358	34,312	72,377	1,272	14,116

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

5. TRADE RECEIVABLES AND PAYABLES

a) Trade Receivables:

Current Trade Receivables	31 December 2016	31 December 2015	31 December 2014
Trade receivables	2,737,656	2,433,869	2,348,528
Due from related parties (Note: 5)	15,801	6,124	17,185
Allowance for doubtful receivables (-)	(1,032,928)	(894,662)	(894,346)
	1,720,529	1,545,331	1,471,367

As of 31 December 2016, trade receivables amounting TL 1,287,924 (31 December 2015: TL 1,118,804, 31 December 2014: TL 1,017,461) were neither past due nor impaired. The average credit period on sale of electricity is 15 days for public institutions and 10 days for the remaining subscribers. Interest is charged at 1.40% (31 December 2015: 1.40%, 31 December 2014: 1.40%) per month on the outstanding receivable balances.

As of 31 December 2016, trade receivables amounting TL 432,605 (31 December 2015: TL 426,527, 31 December 2014: TL 453,906) were past due but not impaired. The balance relates to many independent public and private subscribers. The aging analysis of these trade receivables is as follows:

Aging of Receivables that are Due but not Impaired

	31 December 2016	31 December 2015	31 December 2014
Up to 3 months	333,392	304,567	330,850
3 to 6 months	94,918	117,407	113,499
Over 6 months	4,295	4,553	9,557
	432,605	426,527	453,906

As of 31 December 2016, trade receivables of TL 1,032,928 (31 December 2015: TL 894,662, 31 December 2014: TL 894,346) were considered as impaired and a provision was provided for these trade receivables. The provision for trade receivables is provided based on the aging analysis taken from the aforementioned billing and collection system. Group management considers the receivables overdue by more than 180 days as impaired by taking the past default experience into consideration. In addition, Group management considers irrigation and government receivables overdue by more than 365 days as impaired.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

5. TRADE RECEIVABLES AND PAYABLES (cont'd)

a) Trade Receivables (cont'd):

Movements of the provision for allowance of trade receivables are as follows:

	1 January-31 December 2016	1 January-31 December 2015	1 January-31 December 2014
Balance at beginning of the year	(894,662)	(894,346)	(662,244)
Charge for the period	(264,351)	(179,111)	(149,668)
Amounts collected during the year	126,085	178,795	72,131
Provision charged due to system migration(*)	-	-	(154,565)
Closing balance	(1,032,928)	(894,662)	(894,346)

(*) In 2014, AYEDAŞ, AEPSAŞ, TOROSLAR EDAŞ and TOROSLAR EPSAŞ switched to a new billing, collection and customer relations management system from Abonenet which is integrated with the accounting software and the customer database. With the effect of the system change, these companies were able to reconcile trade receivables, deposits and guarantees received and paid balances periodically to the accounting records following the data cleansing procedures performed. Due to the aforementioned system migration, the Group adjusted its trade receivables, deposits and guarantees paid and received accounts as of 31 December 2014.

The Group received guarantee letters amounting to TL 477,204 (31 December 2015: TL 440,687, 31 December 2014: TL 383,835) and deposits and guarantees amounting to TL 880,004 (31 December 2015: TL 735,201, 31 December 2014: 608,063) as collateral for its electricity receivables.

b) Trade Payables:

Current Trade Payables	31 December 2016	31 December 2015	31 December 2014
Trade payables	991,607	696,991	753,236
Due to related parties (Note: 5)	126,061	129,999	63,252
	1,117,668	826,990	816,488

Trade payables mainly arise from the Group's electricity purchases made from Türkiye Elektrik Ticaret ve Taahhüt A.Ş. (TETAŞ) and Enerji Piyasaları İşletme A.Ş. (EPİAŞ). The average credit period on purchases of electricity is between 18 and 20 days.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

6. OTHER RECEIVABLES AND PAYABLES

a) Other Receivables:

Other Current Receivables	31 December 2016	31 December 2015	31 December 2014
Sundry receivables	95,126	35,983	21,167
Allowance for other doubtful receivables (-)	(3,123)	(3,123)	(3,123)
Receivables from personnel	176	51	97
Due from related parties (Note: 5)	2	67	-
Deposits paid	25,624	24,339	16,798
Income accruals (*)	275,666	214,946	182,768
	393,471	272,263	217,707

Other Non-Current Receivables	31 December 2016	31 December 2015	31 December 2014
Deposits paid (**)	161,011	130,923	101,211
Income accruals (*)	33,879	251,259	201,265
Sundry receivables (***)	35,845	-	-
	230,735	382,182	302,476

(*) According to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations the Group's distribution, transmission and meter reading services have revenue caps which cover operating expenses and investment requirements related to distribution and meter reading. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by TEİAŞ. These regulations guarantee a revenue to the Group regardless of the consumption level of subscribers. The underbillings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years. The effects of the underbillings, which means the actual revenue is below the revenue cap set by EMRA, are accounted as income accruals at the Group's consolidated financial statements.

(**) The balance represents subscription fees refunded to the subscribers, subscribed before 31 March 2006 for EPS and 24 July 2006 for AEPSAŞ and TOROSLAR EPSAŞ (Note: 1) when they leave the system. The balances were paid to the subscribers based on their indexed amounts as required by EMRA periodically. According to the TOR Agreement signed with TEDAŞ, retail companies (EPS, AEPSAŞ and TOROSLAR EPSAŞ) are obliged to keep deposits refunded with their fair values and the net balance of deposits received and paid will be paid back to TEDAŞ at the end of the license periods.

(***) The Company management has assessed that the severance payment provision can be taken with the revenue requirement according to the tariff structure changing with the "Third Tariff Period" and has imposed an allowance for the severance payment provision calculated as of 31 December 2016.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

6. OTHER RECEIVABLES AND PAYABLES (cont'd)

a) Other Receivables (cont'd):

Movement of allowance for other doubtful receivables is as follows:

	1 January-31 December 2016	1 January-31 December 2015	1 January-31 December 2014
Opening balance	(3,123)	(3,123)	(6,192)
Amounts recovered during the year	-	-	3,069
Closing balance	(3,123)	(3,123)	(3,123)

b) Other Payables:

Other Current Payables	31 December 2016	31 December 2015	31 December 2014
Other payable	123,510	105,918	30,707
Lighting payables	28,236	-	-
Deposits received	8,492	11,800	5,810
	160,238	117,718	36,517

Other Non-Current Payables	31 December 2016	31 December 2015	31 December 2014
Deposits received (*)	880,004	735,201	608,063
	880,004	735,201	608,063

(*) The Group receives deposits from the customers subscribed after 31 March 2006 for EPS and 24 July 2006 for AEPSAŞ and TOROSLAR EPSAŞ (Note 1) upon their subscription on behalf of TEDAŞ and these deposits are initially recorded at their fair values as the subscription fee charged to customers represents the fees announced by EMRA. According to the TOR Agreements signed with TEDAŞ, retail companies (EPS, AEPSAŞ and TOROSLAR EPSAŞ) are obliged to carry the deposits received by their fair values and the net balance of deposits received and paid will be paid back to TEDAŞ at the end of the license period.

c) Payables to Privatization Administration:

	31 December 2016	31 December 2015	31 December 2014
Current payables to Privatization Administration (*)	-	1,188,456	1,237,732
Non-current payables to Privatization Administration (*)	-	-	1,176,074
	-	1,188,456	2,413,806

(*) The balance represents the remaining installments of AYEDAŞ, AEPSAŞ, TOROSLAR EDAŞ and TOROSLAR EPSAŞ acquisitions with PPI + 2% interest rate.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

7. INVENTORIES

	31 December 2016	31 December 2015	31 December 2014
Spare parts and equipments	72,531	61,763	53,596
Other inventories	1,928	1,708	1,605
	74,459	63,471	55,201

8. PREPAID EXPENSES AND DEFERRED INCOME

a) Prepaid Expenses:

Short-term Prepaid Expenses	31 December 2016	31 December 2015	31 December 2014
Prepaid expenses	11,317	10,353	8,506
Inventory advances given	2,411	2,667	3,214
Personnel advances	345	385	-
Other advances given	83	7	321
	14,156	13,412	12,041

Long-term Prepaid Expenses	31 December 2016	31 December 2015	31 December 2014
Fixed asset advances given	1,516	1,876	4,140
	1,516	1,876	4,140

b) Deferred Income:

Short Term Deferred Income	31 December 2016	31 December 2015	31 December 2014
Deferred income (*)	165,711	173,216	75,161
Advances received	22	73	-
	165,733	173,289	75,161

Long Term Deferred Income	31 December 2016	31 December 2015	31 December 2014
Deferred income (*)	25,617	101,624	158,385
	25,617	101,624	158,385

(*) According to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations the Group's distribution, transmission and meter reading services have revenue caps which cover operating expenses and investment requirements related to distribution and meter reading. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by TEİAŞ. These regulations guarantee a revenue to the Group regardless of the consumption level of subscribers. The underbillings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years. The effects of the overbillings, which means the actual revenue is above the revenue cap set by EMRA, are accounted as deferred income at the Group's consolidated financial statements.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

9. FINANCIAL ASSETS

As explained in (Note: 2.9), considering the terms in the service concession arrangement, the Group has recognised the discounted estimated future cash receipts through the expected life of the arrangement, as financial asset. The detail of the financial assets recognised under the service concession arrangement is as follows:

	Financial assets			PV of financial assets		
	31 December 2016	31 December 2015	31 December 2014 (*)	31 December 2016	31 December 2015	31 December 2014 (*)
Within one year	1,341,573	964,857	667,324	653,754	455,975	312,870
More than one year	47,610,474	47,464,601	47,232,564	3,639,552	2,565,064	1,469,322
	48,952,047	48,429,458	47,899,888	4,293,306	3,021,039	1,782,192
Future financial income	(44,658,741)	(45,408,419)	(46,117,696)	-	-	-
	4,293,306	3,021,039	1,782,192	4,293,306	3,021,039	1,782,192
Current financial asset				653,754	455,975	312,870
Non - current financial asset				3,639,552	2,565,064	1,469,322
				4,293,306	3,021,039	1,782,192

(*) The Group`s financial asset model, prepared in accordance with the terms of service concession arrangements, comprises certain estimates. The distribution revenue requirement of the Group during the second (2011-2015) and third (2016-2020) tariff periods was determined by EMRA considering the related tariffs which were published in 2010 and 2015. During the second tariff period, revenue requirement for distribution and meter reading services were determined by EMRA for such periods; but, due to uncertainty on the tariff methodology to be implemented during the following tariff periods, financial asset model applied during this period was developed based on the figures until the year 2015 which was the last year of the second tariff period. However; following the announcement of tariff components related to third tariff period by the end of 2015, The Group came to a conclusion that there would not be any significant changes in the method to be implemented for the following periods. Therefore, the Group estimates the financial asset model at the third tariff period and the revenue requirement for the period up to the end of the license based on the tariff components announced in such period.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

10. PROPERTY, PLANT AND EQUIPMENT

	Machinery and equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
Cost					
Opening balance as of 1 January 2016	4,806	36,946	213	-	41,965
Additions	10,255	-	25,457	-	35,712
Closing balance as of 31 December 2016	15,061	36,946	25,670	-	77,677
Accumulated Depreciation					
Opening balance as of 1 January 2016	-	(10,974)	(141)	-	(11,115)
Charge for the period	(1,052)	(4,801)	(2,699)	-	(8,552)
Closing balance as of 31 December 2016	(1,052)	(15,775)	(2,840)	-	(19,667)
Carrying value as of 31 December 2016	14,009	21,171	22,830	-	58,010

	Machinery and equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
Cost					
Opening balance as of 1 January 2015	-	369	213	-	582
Additions	-	36,577	-	4,806	41,383
Transfers from constructions in progress	4,806	-	-	(4,806)	-
Closing balance as of 31 December 2015	4,806	36,946	213	-	41,965
Accumulated Depreciation					
Opening balance as of 1 January 2015	-	(369)	(85)	-	(454)
Charge for the period	-	(10,605)	(56)	-	(10,661)
Closing balance as of 31 December 2015	-	(10,974)	(141)	-	(11,115)
Carrying value as of 31 December 2015	4,806	25,972	72	-	30,850

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

10. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Machinery and equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
Cost					
Opening balance as of 1 January 2014	-	369	922	-	1,291
Disposals	-	-	(709)	-	(709)
Closing balance as of 31 December 2014	-	369	213	-	582
Accumulated Depreciation					
Opening balance as of 1 January 2014	-	(369)	(204)	-	(573)
Disposals	-	-	119	-	119
Closing balance as of 31 December 2014	-	(369)	(85)	-	(454)
Carrying value as of 31 December 2014	-	-	128	-	128

	Useful Life
Plant, machinery and equipment	5 years
Vehicles	3 years
Furniture and fixtures	5 years

Depreciation expense of TL 8,552 (2015: TL 10,661, 2014: None) in 'administrative expenses'.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

11 INTANGIBLE ASSETS

	Customer contracts and related relationships	Transfer of operating rights	Goodwill	Computer software	Other intangible assets	Total
Cost						
Opening balance as of 1 January 2016	4,390,673	1,650,121	2,730,031	1,152	-	8,771,977
Additions	-	-	-	-	28,480	28,480
Closing balance as of 31 December 2016	4,390,673	1,650,121	2,730,031	1,152	28,480	8,800,457
Accumulated Amortization						
Opening balance as of 1 January 2016	(547,263)	(152,031)	-	(427)	-	(699,721)
Charge for the period	(152,108)	(56,555)	-	(723)	-	(209,386)
Closing balance as of 31 December 2016	(699,371)	(208,586)	-	(1,150)	-	(909,107)
Carrying value as of 31 December 2016	3,691,302	1,441,535	2,730,031	2	28,480	7,891,350

	Customer contracts and related relationships	Transfer of operating rights	Goodwill	Computer software	Other intangible assets	Total
Cost						
Opening balance as of 1 January 2015	4,390,673	1,650,121	2,730,031	1,152	-	8,771,977
Closing balance as of 31 December 2015	4,390,673	1,650,121	2,730,031	1,152	-	8,771,977
Accumulated Amortization						
Opening balance as of 1 January 2015	(395,155)	(95,475)	-	(324)	-	(490,954)
Charge for the period	(152,108)	(56,556)	-	(103)	-	(208,767)
Closing balance as of 31 December 2015	(547,263)	(152,031)	-	(427)	-	(699,721)
Carrying value as of 31 December 2015	3,843,410	1,498,090	2,730,031	725	-	8,072,256

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

11. INTANGIBLE ASSETS (cont'd)

	Customer contracts and related relationships	Transfer of operating rights	Goodwill	Computer software	Other intangible assets	Total
Cost						
Opening balance as of 1 January 2014	4,390,673	1,650,121	2,730,031	1,152	-	8,771,977
Closing balance as of 31 December 2014	4,390,673	1,650,121	2,730,031	1,152	-	8,771,977
Accumulated Amortization						
Opening balance as of 1 January 2014	(243,047)	(38,920)	-	(324)	-	(282,291)
Charge for the period	(152,108)	(56,555)	-	-	-	(208,663)
Closing balance as of 31 December 2014	(395,155)	(95,475)	-	(324)	-	(490,954)
Carrying value as of 31 December 2014	3,995,518	1,554,646	2,730,031	828	-	8,281,023

Customer contracts and related relationships and transfer of operating rights are separately recognised during the business combination according to IFRS 3.

On 31 March 2006 BEDAŞ and on 24 July 2006, AYEDAŞ and TOROSLAR EDAŞ signed TOR Agreements with TEDAŞ. In accordance with the TOR agreement, TEDAŞ transferred the operating rights of the distribution system, the distribution facilities, the other movables and immovables which are crucial for the operation of the distribution facilities to BEDAŞ until the end of 2036 and to AYEDAŞ and TOROSLAR EDAŞ until the end of 2042. Based on the future cash flows fair value of the TOR agreements are determined. The residual value of TOR after the portion recognized as financial asset which calculated based on TFRIC 12 (see Note: 9) is recognized as intangible asset based on IFRS 3.

In recognition of customer contracts and related relationships; relationships with the different customer groups are identified and a fair value for retail customers is estimated by Group management.

Customer contracts and related relationships and TOR amortization is calculated on a straight line basis in a range between 25-30 years and charged to operating expenses.

Amortization expense of TL 209,386 (2015: TL 208,767, 2014: TL 208,663) in 'administrative expenses'.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

12. PROVISIONS

Current Provisions	31 December 2016	31 December 2015	31 December 2014
Legal claims (*)	138,417	145,220	144,547
	138,417	145,220	144,547

(*) Legal claims are set for the probable cash outflows related to the legal disputes. As of 31 December 2016, actual provision amount for the legal claims are determined according to the assessment made by the Group management in which there is high probability that the legal cases will be finalized against the Group.

The Group is charging the theft and loss costs to the subscribers in accordance with the tariff determined by Energy Market Regulatory Authority ("EMRA"). There are legal cases filed by the subscribers to claim back the theft and loss amounts from the Group claiming that they are unfair. Some cases are finalized against the Group while some others in favour of the Group at local courts and consumer arbitrage committees. In June of 2016, statement of "In applications filed in respect of the amounts determined by EMRA within the scope of income and tariff regulations, the authority of the consumer arbitration committees and the courts is limited to the control of compliance with the regulatory procedures of EMRA." has been added to article 17 of Law No. 6446. By this article, it has been determined that in the cases for the theft and loss amounts, the courts can only examine if the theft and loss amounts incurred in accordance with the regulations of the EMRA and it has been ruled that no judgement can be made whether the theft and loss amounts will be collected or not. As of reporting date, the total amount of ongoing cases against the Group is TL 176,134 (31 December 2015: TL 89,826; 31 December 2014: None).

Movements of provisions are as follows:

	Legal claims	Total
Balance at 1 January 2016	145,220	145,220
Additional provisions recognized	31,726	31,726
Reversal of provisions	(38,529)	(38,529)
Balance at 31 December 2016	138,417	138,417

	Legal claims	Total
Balance at 1 January 2015	144,547	144,547
Additional provisions recognized	16,270	16,270
Reversal of provisions	(15,597)	(15,597)
Balance at 31 December 2015	145,220	145,220

	Legal claims	Total
Balance at 1 January 2014	154,662	154,662
Additional provisions recognized	38,110	38,110
Reversal of provisions	(48,225)	(48,225)
Balance at 31 December 2014	144,547	144,547

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

13. COMMITMENT AND CONTINGENCIES

31 December 2016	TL Amount	TL	USD
A. Total amount of Collateral Pledge Mortgage given on behalf of the legal entity	25,395	25,395	-
-Collateral	*25,395*	*25,395*	-
B. Total amount of CPM given against the subsidiaries included in full consolidation	1,598,516	1,598,516	-
-Collateral	*1,598,516*	*1,598,516*	-
Total	1,623,911	1,623,911	-
31 December 2015	TL Amount	TL	USD
A. Total amount of Collateral Pledge Mortgage given on behalf of the legal entity	1,144,138	1,144,138	-
-Collateral (*)	*1,144,138*	*1,144,138*	
B. Total amount of CPM given against the subsidiaries included in full consolidation	1,833,566	1,833,566	-
-Collateral	*1,833,566*	*1,833,566*	-
Total	2,977,704	2,977,704	-
31 December 2014	TL Amount	TL	USD
A. Total amount of Collateral Pledge Mortgage given on behalf of the legal entity	2,356,925	2,352,148	2,060
-Collateral (*)	*2,356,925*	*2,352,148*	*2,060*
B. Total amount of CPM given against the subsidiaries included in full consolidation	1,203,157	1,203,157	-
-Collateral	*1,203,157*	*1,203,157*	-
Total	3,560,082	3,555,305	2,060

(*) The amount represents the collaterals given regarding the acquisitions of new regions.

13. COMMITMENT AND CONTINGENCIES (cont'd)

Investment obligations

Annual expansion, replacement, and improvement investments that are stated in TOR and required to be completed by the Group have been determined during the preparation of the tariffs. These investments have been included in the first implementation period tariffs approved by EMRA and as a result the Group is obliged to make these determined investments. Implementation of these investments is monitored by EMRA by the reports received from the Group at the end of each year. Some of these investments are subject to unit prices per announced by EMRA. According to the regulations, the Group is allowed to make transfers between the years after taking approval of EMRA.

Energy Sales Agreements

Distribution and retail companies signed Energy Sales Agreements (ESA) with TETAŞ in order to obtain their energy needs during the year. These Energy Sales Agreements have been established based on regulated prices. During the year, the Group is obliged to purchase the energy quantity stated in these agreements. At the current operating conditions and market structure, the Group's energy needs are higher than the contracted quantities and the Group makes purchases regularly from EPİAŞ. As a result, the Group management does not expect any liability related to the Energy Sales Agreements arising from not fulfilling the requirements of ESAs.

Competition Board Investigation

Further to a preliminary inquiry in November 2016, The Competition Board resolved to commence an investigation in December 2016 to check if the Company's subsidiaries are in compliance with the Competition Law (Law no: 4054). Investigation process is expected to be finalized by the end of August 2018.

The Competition Board's Investigation Notification contains very limited information concerning the allegation. The Investigation Notification to the Company's subsidiaries and the announcement to the Public cannot be interpreted as the undertakings of the related subsidiaries have violated the Competition Law or the subsidiaries will be punished. The Company and its subsidiaries execute its transactions within the Competition Law and other regulations.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

14. EMPLOYMENT BENEFITS

	31 December 2016	31 December 2015	31 December 2014
Payable to personnel	16,079	3,648	11,714
Social security premiums payable	23,151	11,891	9,652
	39,230	15,539	21,366

Short-term Provisions Related to Employee Benefits:

	31 December 2016	31 December 2015	31 December 2014
Bonus provisions	12,398	7,794	7,814
Provisions for unused vacation	17,064	14,320	11,328
	29,462	22,114	19,142

The movement for bonus and unused vacation provisions are as follows:

	Bonus provisions	Unused vacation provision	Total
Balance at 1 January 2016	7,794	14,320	22,114
Additional provisions recognized	13,736	3,179	16,915
Reversal of provisions	(9,132)	(435)	(9,567)
Balance at 31 December 2016	12,398	17,064	29,462

	Bonus provisions	Unused vacation provision	Total
Balance at 1 January 2015	7,814	11,328	19,142
Additional provisions recognized	7,010	2,888	9,898
Reversal of provisions	(7,030)	104	(6,926)
Balance at 31 December 2015	7,794	14,320	22,114

	Bonus provisions	Unused vacation provision	Total
Balance at 1 January 2014	3,550	9,783	13,333
Additional provisions recognized	7,814	2,108	9,922
Reversal of provisions	(3,550)	(563)	(4,113)
Balance at 31 December 2014	7,814	11,328	19,142

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

14. EMPLOYMENT BENEFITS (cont'd)

Long-term Provisions Related to Employee Benefits:

	31 December 2016	31 December 2015	31 December 2014
Provision for employment termination benefits	56,442	58,825	38,555
	56,442	58,825	38,555

Under Turkish Labor Law, the Group is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated without due cause, who is called up for military service, dies or 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 TL 4,297.21 (full digit) (2015: TL 3,828.37 (full digit), 2014 TL 3,438.22 (full digit)) for each period of service at 31 December 2016.

The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. IAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability.

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2016, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 7.00% and a discount rate of 11.30%, resulting in a real discount rate of approximately 4.02% (31 December 2015: inflation rate of 7.50% and discount rate of 11.00%, resulting in a real discount rate of approximately 3.26%, 31 December 2014: inflation rate of 6.00% and discount rate of 9.00%, resulting in a real discount rate of approximately 2.83%) Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration as 3.28 % for employees with 0-15 years of service, and 0% for those with 16 or more years of service. Ceiling amount of TL 4,426.16 which is in effect since 1 January 2016 is used in the calculation of Groups' provision for retirement pay liability (1 January 2016: TL 4,092.53 (full digit), 1 January 2015: 3,541.37 (full digit)).

The movement for retirement pay provisions is as follows:

	1 January-31 December 2016	1 January-31 December 2015	1 January-31 December 2014
Provision at 1 January	58,825	38,555	52,704
Service cost	18,897	13,208	23,018
Interest cost	1,557	1,442	1,969
Actuarial gain / loss	(4,505)	13,516	-
Retirement pay paid	(18,332)	(7,896)	(39,136)
Provision at 31 December	56,442	58,825	38,555

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

15. OTHER ASSETS AND LIABILITIES

a) Other Current Assets:

	31 December 2016	31 December 2015	31 December 2014
Deferred VAT	3,587	20,578	39,792
Prepaid taxes and funds	181	3,167	-
Other	719	182	-
	4,487	23,927	39,792

b) Other Non-current Assets:

	31 December 2016	31 December 2015	31 December 2014
Deferred VAT	123,032	157,439	116,332
	123,032	157,439	116,332

c) Other Current Liabilities:

	31 December 2016	31 December 2015	31 December 2014
Taxes and funds payable	166,702	141,563	116,733
Other	4,112	4,332	3,913
	170,814	145,895	120,646

16. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

a) Share Capital:

Shareholders	%	31 December 2016	%	31 December 2015	%	31 December 2014
Enerjisa Enerji A.Ş.	100	3,964,528	100	4,389,585	100	4,389,585
Nominal Capital	100	3,964,528	100	4,389,585	100	4,389,585

At 31 December 2016, the capital of the Company comprising 396,452,800,000 (2015: 438,958,520,000, 2014: 438,958,520,000) registered ordinary shares of TL 0,01 each (full digit) (2015: TL 0,01 each (full digit), 2014: TL 0,01 each (full digit)).

It has been decided by the Board of Directors of the Company to make a capital reduction pursuant to Article 474 of the Turkish Commercial Code in order to close the deficit in the carry forward-losses in the balance sheet with the 14-point decision taken on November 30, 2016. As a result of this transaction, decreased capital amount has been deducted from previous years losses and no change has occurred in total equity.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

16. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (cont'd)

b) Restricted Profit Reserves:

	31 December 2016	31 December 2015	31 December 2014
Restricted Profit Reserves	139,190	53,303	53,303
	139,190	53,303	53,303

The Company, reserves 5% of the historical statutory profit as first legal reserve, until the total reserve reaches 20% of the historical paid in share capital. The other legal reserve is appropriated at the rate of 10% per annum of all cash dividend distributions after the payment of dividends to the shareholders at a rate of 5%. According to Turkish Commercial Law, general legal reserves can only be used if it does not exceed the capital or issued capital for close the losses, continue the business when business is not going well or end the unemployment and to take suitable precautions to reduce the results of unemployment.

17. REVENUE

	1 January-31 December 2016	1 January-31 December 2015	1 January-31 December 2014
Revenue from electricity sales and services provided	8,491,243	8,771,706	7,797,085
Retail sales revenue	5,543,040	6,534,463	5,943,531
Retail sales service revenue	243,962	204,659	157,378
Distribution revenue	2,704,241	2,032,584	1,696,176
Finance income from service concession arrangements	609,628	310,955	208,758
Other sales	2,509	70,953	58,578
	9,103,380	9,153,614	8,064,421

18. COST OF SALES

	1 January-31 December 2016	1 January-31 December 2015	1 January-31 December 2014
Energy purchases	(5,953,189)	(6,782,254)	(6,463,201)
System usage costs	(547,314)	(325,289)	(284,950)
Other	(453)	(577)	(5,360)
	(6,500,956)	(7,108,120)	(6,753,511)

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

19. GENERAL ADMINISTRATIVE EXPENSES

	1 January-31 December 2016	1 January-31 December 2015	1 January-31 December 2014
General Administrative Expenses (-)	(1,227,836)	(1,079,790)	(967,303)
	(1,227,836)	(1,079,790)	(967,303)

Details of general administrative expenses are as follows:

	1 January-31 December 2016	1 January-31 December 2015	1 January-31 December 2014
Payroll and employee benefit expenses	(539,642)	(454,467)	(381,034)
Depreciation and amortization expenses	(217,938)	(219,428)	(208,663)
Material expenses	(125,768)	(99,683)	(91,043)
Consulting expenses	(43,432)	(40,645)	(33,738)
Rent expenses	(39,535)	(40,299)	(13,155)
Outsourcing expenses	(35,443)	(43,371)	(98,893)
Attorney expenses	(35,152)	(20,823)	(42,162)
Maintenance expenses	(32,511)	(26,228)	(7,825)
Communication and IT expenses	(23,435)	(19,171)	(19,242)
Tax and duties	(23,282)	(22,804)	(20,319)
Security expenses	(22,357)	(20,587)	(17,469)
Travel expenses	(10,793)	(9,305)	(7,004)
Insurance expenses	(9,931)	(13,683)	(12,598)
Other expenses	(68,617)	(49,297)	(14,158)
	(1,227,836)	(1,079,790)	(967,303)

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

20. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

a) Other Income From Operating Activities:

	1 January-31 December 2016	1 January-31 December 2015	1 January-31 December 2014
Late payment interest from electricity receivables	77,949	91,763	83,089
Interest income/(expense) related to revenue cap regulation - net	19,370	2,496	5,313
Power theft penalties	15,398	17,560	7,736
Lawsuit income	14,174	-	-
Rent income	6,303	1,717	-
Income from derivative financial instruments	3,886	-	-
Reversal of provision for doubtful and other receivables	-	-	3,069
Other income	7,571	9,797	4,997
	144,651	123,333	104,204

b) Other Expenses From Operating Activities:

	1 January-31 December 2016	1 January-31 December 2015	1 January-31 December 2014
Provision for doubtful and other receivables	(138,266)	(316)	(74,468)
Fair value differences arising from deposits and guarantees	(40,287)	(36,118)	(42,627)
Penalty expenses	(38,393)	(5,474)	(3,713)
Expense due to system migration (*)	-	-	(10,131)
Other expenses	(29,983)	(8,852)	(9,235)
	(246,929)	(50,760)	(140,174)

(*) In 2014, AYEDAŞ, AEPSAŞ, TOROSLAR EDAŞ and TOROSLAR EPSAŞ switched to a new billing, collection and customer relations management system from Abonenet which is integrated with the accounting software and the customer database. With the effect of the system change, these companies were able to reconcile trade receivables, deposits and guarantees received and paid balances periodically to the accounting records following the data cleansing procedures performed. Due to the aforementioned system migration, the Group adjusted its trade receivables, deposits and guarantees paid and received accounts as of 31 December 2014 and as a result, recognized TL 10,131 of other expense in the statement of profit or loss.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

21. FINANCE INCOME AND EXPENSES

a) Finance Income:

	1 January-31 December 2016	1 January-31 December 2015	1 January-31 December 2014
Interest revenue from repurchase agreements	39,729	31,484	58,692
Foreign exchange gains/(losses) - net	-	-	9,955
	39,729	31,484	68,647

b) Finance Expenses:

	1 January-31 December 2016	1 January-31 December 2015	1 January-31 December 2014
Bank commission expenses	(8,549)	(11,681)	(14,882)
Interest expense of borrowings (*)	(735,174)	(575,336)	(625,109)
Foreign exchange gains/(losses) - net	(54,114)	(19,837)	-
	(797,837)	(606,854)	(639,991)

(*) Total interest expense related to payables of Privatization Administration is TL 41,780 (31 December 2015: TL 129,099, 31 December 2014: TL 375,639).

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

22. TAXATION ON INCOME (INCLUDES DEFERRED TAX ASSET AND LIABILITIES)

Assets Related with Current Taxes	31 December 2016	31 December 2015	31 December 2014
Prepaid taxes and funds	238	5,980	20,322
	238	5,980	20,322

	31 December 2016	31 December 2015	31 December 2014
Current Tax Liability			
Current corporate tax provision	148,215	96,524	51,485
Less: prepaid taxes and funds	(141,899)	(87,649)	(51,485)
	6,316	8,875	-

Income Tax Recognized in Profit or Loss	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
Current tax expense	148,215	96,524	51,485
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	(11,406)	30,081	(38,478)
Total tax expense	136,809	126,605	13,007

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 period.

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 the tax-exempt earnings, other exempt income and other deductions (losses of previous periods, investment incentives utilized).

Valid rate of corporate tax in 2016 is 20% (2015: 20%, 2014: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was applied as 20% in 2016 (2015: 20%, 2014: 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.

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied is 15%. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

22. TAXATION ON INCOME (INCLUDES DEFERRED TAX ASSET AND LIABILITIES) (cont'd)

Deferred tax

The Company recognizes deferred tax assets and liabilities on the temporary timing differences between the legal books and the financial statements prepared in accordance with IFRS. Such differences generally arise from timing differences of some revenue and expense balances in legal books and financial statements prepared in accordance with IFRS and are explained below.

For calculation of deferred tax assets and liabilities, the rate of 20% (2015: 20%, 2014: 20%) is used.

a) Deferred tax assets - net:

Deferred Tax (Assets) / Liabilities	31 December 2016	31 December 2015	31 December 2014
Carrying amount differences of property,plant and equipment and intangible assets	(948,556)	(692,630)	(547,928)
Provision for employment termination benefits	(1,737)	(8,500)	(7,711)
Provision for doubtful receivables	(4,693)	(5,723)	(19,586)
Provision for lawsuits	(24,088)	(24,498)	(26,676)
Provision for unused vacation	(2,366)	(2,483)	(1,639)
Effect of revenue cap adjustments	21,879	22,110	19,503
Late penalty payments	(13,576)	(9,769)	(2,519)
Effect of concession arrangement differences	822,224	565,035	324,311
Adjustments due to system migration	20,976	20,976	(33,640)
Carry forward tax loss	(112,936)	(117,615)	(124,889)
Other	(4,830)	(25,833)	72,705
	(247,703)	(278,930)	(348,069)

b) Deferred tax liabilities - net:

Deferred Tax (Assets) / Liabilities	31 December 2016	31 December 2015	31 December 2014
Differences arising from customer contracts and transfer of operational rights	1,026,568	1,068,300	1,110,033
Other	96	96	124
	1,026,664	1,068,396	1,110,157

Movement of deferred tax (assets)/liabilities is as follows:

	1 January-31 December 2016	1 January-31 December 2015	1 January-31 December 2014
Opening balance	789,466	762,088	800,566
Charged to income	(11,406)	30,081	(38,478)
Charged to equity	901	(2,703)	-
Closing balance	778,961	789,466	762,088

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

22. TAXATION ON INCOME (INCLUDES DEFERRED TAX ASSET AND LIABILITIES) (cont'd)

Tax Reconciliation:	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
Profit / loss from operations before tax	514,202	462,907	(263,707)
	%20	%20	%20
Tax at the domestic income tax rate of 20% (2015: 20%)	102,840	92,581	(52,741)
Tax effects of:			
- expenses that are not deductible in determining taxable profit	10,765	3,337	1,451
- unused tax losses	23,204	31,222	74,249
- other	-	(535)	(9,952)
Income tax expense recognised in profit or loss	136,809	126,605	13,007

The expiration dates of previous years' losses on which deferred tax asset was recognized are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
Expiring in 2018	90,338	193,020	300,608
Expiring in 2019	323,717	324,025	323,836
Expiring in 2020	71,963	71,030	-
Expiring in 2021	78,663	-	-
	564,681	588,075	624,444

The expiration dates of previous years' losses on which deferred tax asset was unrecognized are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015	1 January- 31 December 2014
Expiring in 2015	-		30,230
Expiring in 2016	-	219,726	219,726
Expiring in 2017	44,911	44,911	44,911
Expiring in 2018	145,352	145,352	145,352
Expiring in 2019	371,246	371,246	371,246
Expiring in 2020	139,393	139,393	-
Expiring in 2021	113,443	-	-
	814,344	920,627	811,464

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

23. FINANCIAL INSTRUMENTS

a) Financial Liabilities:

	31 December 2016	31 December 2015	31 December 2014
Short-term liabilities	1,556,770	915,335	762,210
Bonds issued	14,382	359,677	9,152
Short-term portion of long-term liabilities less bonds issued	1,526,642	641,052	34,009
Total short term financial liabilities	3,097,794	1,916,064	805,371
Bonds issued	350,000	-	350,000
Long-term liabilities	2,850,000	2,878,000	1,748,000
Total long term financial liabilities	3,200,000	2,878,000	2,098,000
Total financial liabilities	6,297,794	4,794,064	2,903,371

The financial liabilities are repayable as follows:

	31 December 2016	31 December 2015	31 December 2014
To be paid within 1 year	3,097,794	1,916,064	805,371
To be paid between 1-2 years	2,850,000	2,878,000	1,318,000
To be paid between 2-3 years	350,000	-	480,000
To be paid between 3-4 years	-	-	300,000
	6,297,794	4,794,064	2,903,371

As of 31 December 2016, 31 December 2015 and 31 December 2014, details of short and long term financial liabilities in terms of currencies are as follows:

Currency Type	Weighted average effective interest rate	31 December 2016 Current	31 December 2016 Non-current
TL	12.37%	3,083,412	2,850,000
		3,083,412	2,850,000

Currency Type	Weighted average effective interest rate	31 December 2015 Current	31 December 2015 Non-current
TL	11.76%	1,556,387	2,878,000
		1,556,387	2,878,000

Currency Type	Weighted average effective interest rate	31 December 2014 Current	31 December 2014 Non-current
TL	10.74%	796,219	1,748,000
		796,219	1,748,000

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

23. FINANCIAL INSTRUMENTS (cont'd)

a) Financial Liabilities (cont'd):

As of 31 December 2016, 31 December 2015 and 31 December 2014, details of bond are as follows:

Currency Type	Weighted average effective interest rate (*)	31 December 2016 Current	31 December 2016 Non-current
TL	CPI + 4%	14,382	350,000
		14,382	350,000

Currency Type	Weighted average effective interest rate	31 December 2015 Current	31 December 2015 Non-current
TL	12.46%	359,677	-
		359,677	-

Currency Type	Weighted average effective interest rate	31 December 2014 Current	31 December 2014 Non-current
TL	11.96%	9,152	350,000
		9,152	350,000

As of 31 December 2016, 31 December 2015 and 31 December 2014, the Group has not given any collateral for above financial liabilities.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

23. FINANCIAL INSTRUMENTS (cont'd)

b) Other Financial Liabilities:

	31 December 2016	31 December 2015	31 December 2014
Other current financial liabilities	25,087	20,630	17,185
Other non-current financial liabilities	245,134	232,392	239,728
	270,221	253,022	256,913

The other financial liabilities are repayable as follows:

	31 December 2016	31 December 2015	31 December 2014
To be paid within 1 year	25,087	20,630	17,185
To be paid between 1-2 years	25,568	21,488	19,204
To be paid between 2-3 years	26,071	21,899	19,981
To be paid between 3-4 years	26,597	22,330	20,346
To be paid between 4-5 years	34,491	22,780	20,407
To be paid between 5+ years	132,407	143,895	159,790
	270,221	253,022	256,913

As of 31 December 2016, 31 December 2015 and 31 December 2014, details of short and long term other financial liabilities in terms of currencies are as follows:

	Weighted average	31 December 2016	
Currency Type	effective interest rate	Current	Non-current
EURO	4.70%	25,087	245,134
		25,087	245,134

	Weighted average	31 December 2015	
Currency Type	effective interest rate	Current	Non-current
EURO	4.70%	20,630	232,392
		20,630	232,392

	Weighted average	31 December 2014	
Currency Type	effective interest rate	Current	Non-current
EURO	4.70%	17,185	239,728
		17,185	239,728

Other financial liabilities represent the payables to TEDAŞ for the capital expenditures denominated in EURO.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

a) Capital risk management:

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

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital and reserves.

The Group management considers the cost of capital and the risks associated with each class of capital. The management of the Group aims to balance its overall capital structure through new share issues, and by issue of new debt or the redemption of existing debt.

	2016 TL	2015 TL	2014 TL
Total borrowings (Note: 23)	6.568.015	6.235.542	5.574.090
Less: cash and cash equivalents (Note: 25)	(74.570)	(152.103)	(112.669)
Net debt	6.493.445	6.083.439	5.461.421
Total equity	4.746.828	4.365.831	4.040.342
Total capital	11.240.273	10.449.270	9.501.763
Net debt / Total capital ratio	58%	58%	57%

b) Financial risk factors:

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by finance department. Finance department identifies and evaluates financial risks in close co-operation with the Group's operating units.

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's credit risks mainly arise from trade receivables. The Group manages this risk by the guarantees received from customers. Trade receivables, are evaluated based on the Group's policies and procedures and as a result presented net of doubtful provision in the consolidated financial statements. Group management evaluates the adequacy of the provision set for the impaired trade receivable balances based on the aging analysis and considers the receivables overdue by more than 180 days as impaired. In addition, Group management considers irrigation and government receivables overdue by more than 365 days as impaired.

Trade receivables consist of a large number of customers, spread across diverse industries within several different provinces. Credit risk of the financial instruments is as the follows:

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial risk factors (cont'd):

b.1) Credit risk management (cont'd)

Credit risk exposure based on financial instrument categories

	Receivables							
	Trade receivables		Other receivables					
			Current		Non-current			
31 December 2016	Related party	Third party	Related party	Third party	Related party	Third party	Bank deposits&repos	Financial assets
Maximum net credit risk as of the balance sheet date (*)	15,801	1,704,728	2	393,469	-	230,735	74,570	4,293,306
The part of maximum risk under guarantee	-	1,357,208	-	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	15,801	1,272,123	2	393,469	-	230,735	74,570	4,293,306
B. Net book value of financial assets that are due but not impaired	-	432,605	-	-	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-	-	-
-Past due	-	1,032,928	-	3,123	-	-	-	-
-Impairment	-	(1,032,928)	-	(3,123)	-	-	-	-

(*) The factors such as collaterals received, that increase the credit reliability have not been taken into consideration in determination of the amount.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial risk factors (cont'd):

b.1) Credit risk management (cont'd)

Credit risk exposure based on financial instrument categories

	Receivables							
	Trade receivables		Other receivables					
			Current		Non-current			
31 December 2015	Related party	Third party	Related party	Third party	Related party	Third party	Bank deposits&repos	Financial assets
Maximum net credit risk as of the balance sheet date (*)	6,124	1,539,207	67	272,196	-	382,182	152,103	3,021,039
The part of maximum risk under guarantee	-	1,175,888	-	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	6,124	1,112,680	67	272,196	-	382,182	152,103	3,021,039
B. Net book value of financial assets that are due but not impaired	-	426,527	-	-	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-	-	-
-Past due	-	894,662	-	3,123	-	-	-	-
-Impairment	-	(894,662)	-	(3,123)	-	-	-	-

(*) The factors such as collaterals received, that increase the credit reliability have not been taken into consideration in determination of the amount.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial risk factors (cont'd):

b.1) Credit risk management (cont'd)

Credit risk exposure based on financial instrument categories

	Receivables							
	Trade receivables		Other receivables					
			Current		Non-current			
31 December 2014	Related party	Third party	Related party	Third party	Related party	Third party	Bank deposits&repos	Financial assets
Maximum net credit risk as of the balance sheet date (*)	17,185	1,454,182	-	217,707	-	302,476	112,555	1,782,192
The part of maximum risk under guarantee	-	991,898	-	-	-	-	-	-
A. Net book value of financial assets that	17,185	1,000,276	-	217,707	-	302,476	112,555	1,782,192
B. Net book value of financial assets that are due but not impaired	-	453,906	-	-	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-	-	-
-Past due	-	894,346	-	3,123	-	-	-	-
-Impairment	-	(894,346)	-	(3,123)	-	-	-	-

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial risk factors (cont'd):

b.2) Liquidity risk management

The Group aims to maintain an appropriate liquidity risk management framework for the Group's short, medium and long-term funding and liquidity management requirements.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

The maturities of the financial liabilities determined with respect to the contracts including the expected interest payments as of 31 December 2016, 2015 and 2014 are as follows:

31 December 2016

Maturity analysis of non-derivative financial liabilities	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	Unallocated (IV)
Non-derivative financial liabilities						
Borrowings	6,297,794	7,867,019	677,672	2,686,931	4,502,416	-
Trade payables	1,117,668	1,117,668	1,117,668	-	-	-
Deferred income	191,350	195,293	-	165,733	29,560	-
Other payables	1,040,242	1,094,754	132,518	82,232	-	880,004
Other financial liabilities	270,221	285,751	8,912	17,480	118,288	141,071
Total liabilities	8,917,275	10,560,485	1,936,770	2,952,376	4,650,264	1,021,075

31 December 2015

Maturity analysis of non-derivative financial liabilities	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	Unallocated (IV)
Non-derivative financial liabilities						
Borrowings	4,794,064	5,852,486	988,125	851,839	4,012,522	-
Trade payables	826,990	826,990	826,990	-	-	-
Deferred income	274,913	281,625	-	173,216	108,409	-
Other payables	2,041,375	2,156,944	55,772	735,284	630,687	735,201
Other financial liabilities	253,022	266,807	3,776	18,490	94,058	150,483
Total liabilities	8,190,364	9,384,852	1,874,663	1,778,829	4,845,676	885,684

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial risk factors (cont'd):

b.2) Liquidity risk management

31 December 2014

Maturity analysis of non-derivative financial liabilities	Carrying value	Total cash outflow according to contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	Unallocated (IV)
Non-derivative financial liabilities						
Borrowings	2,903,371	3,477,837	692,056	315,395	2,470,386	-
Trade payables	816,488	816,488	816,488	-	-	-
Deferred income	233,546	248,224	-	75,161	173,063	-
Other payables	3,058,386	3,412,506	125,300	1,404,749	1,274,394	608,063
Other financial liabilities	256,913	323,059	5,302	18,618	104,086	195,053
Total liabilities	7,268,704	8,278,114	1,639,146	1,813,923	4,021,929	803,116

b.3) Market risk management

b.3.1) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed by adjusting the unit price / tariff of the energy sold semi-annually.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is disclosed below.

	31 December 2016		
	USD	EUR	TL Equivalent
Derivative financial instruments	1,104	-	3,886
Other financial liabilities	-	(72,838)	(270,221)
Trade payables	(6,216)	(6,655)	(46,565)
Other payables	-	(24,138)	(89,550)
Net foreign currency position	(5,112)	(103,631)	(402,450)

	31 December 2015		
	USD	EUR	TL Equivalent
Other financial liabilities	-	(79,627)	(253,022)
Trade payables	(3,103)	(5,344)	(26,003)
Net foreign currency position	(3,103)	(84,971)	(279,025)

	31 December 2014		
	USD	EUR	TL Equivalent
Cash and cash equivalents	1,396	-	3,237
Other financial liabilities	-	(91,081)	(256,913)
Trade payables	(7,104)	(2,418)	(23,293)
Net foreign currency position	(5,708)	(93,499)	(276,969)

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial risk factors (cont'd):

b.3) Market risk management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and EUR.

The following table details the Group's sensitivity to a 10% increase and decrease in the TL against the relevant foreign currencies. 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 currency rates. The sensitivity analysis includes only 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 or loss before taxation on income where the TL strengthens against the relevant currency.

	TL effect of USD balances			TL effect of EUR Balances		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Profit and loss	(1,799)	(902)	(1,324)	(38,446)	(29,685)	(26,373)

b.3.2) Interest rate risk management

As of 31 December 2015 and 31 December 2014, the Group has no floating rate interest rate risk.

As of 31 December 2016, although the Group has CPI-indexed bonds issued and exposed to approximately TL 568 interest rate risk, Group management assumes that there is no floating rate interest rate risk since the revenues under the concession agreement are also indexed to CPI.

Fair value of financial instruments

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and the tariff structure imposed by EMRA.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial risk factors (cont'd):

Categories of financial instruments and fair values

31 December 2016	Loans and receivables	Fair value through profit or loss (FVTPL)	Financial liabilities at amortized cost	Carrying value	Note
Financial assets					
Cash and cash equivalents	74,570	-	-	74,570	25
Trade receivables (including related parties)	1,720,529	-	-	1,720,529	5
Derivatives	-	3,886	-	3,886	
Financial assets	4,293,306	-	-	4,293,306	9
Prepaid expenses	15,672	-	-	15,672	8
Other assets	127,519	-	-	127,519	15
Other receivables	624,206	-	-	624,206	6
Financial liabilities					
Borrowings	-	-	6,297,794	6,297,794	23
Trade payables (including related parties)	-	-	1,117,668	1,117,668	5
Deferred income	-	-	191,350	191,350	8
Other payables	-	-	1,040,242	1,040,242	6
Other financial liabilities	-	-	270,221	270,221	23

31 December 2015	Loans and receivables	Fair value through profit or loss (FVTPL)	Financial liabilities at amortized cost	Carrying value	Note
Financial assets					
Cash and cash equivalents	152,103	-	-	152,103	25
Trade receivables (including related parties)	1,545,331	-	-	1,545,331	5
Financial assets	3,021,039	-	-	3,021,039	9
Prepaid expenses	15,288	-	-	15,288	8
Other assets	181,366	-	-	181,366	15
Other receivables	654,445	-	-	654,445	6
Financial liabilities					
Borrowings	-	-	4,794,064	4,794,064	23
Trade payables (including related parties)	-	-	826,990	826,990	5
Deferred income	-	-	274,913	274,913	8
Other payables	-	-	2,041,375	2,041,375	6
Other financial liabilities	-	-	253,022	253,022	23

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Financial risk factors (cont'd):

Categories of financial instruments and fair values (cont'd)

31 December 2014	Loans and receivables	Fair value through profit or loss (FVTPL)	Financial liabilities at amortized cost	Carrying value	Note
Financial assets					
Cash and cash equivalents	112,669	-	-	112,669	25
Trade receivables (including related parties)	1,471,367	-	-	1,471,367	5
Financial assets	1,782,192	-	-	1,782,192	9
Prepaid expenses	16,181	-	-	16,181	8
Other assets	156,124	-	-	156,124	15
Other receivables	520,183	-	-	520,183	6
Financial liabilities					
Borrowings	-	-	2,903,371	2,903,371	23
Trade payables (including related parties)	-	-	816,488	816,488	5
Deferred income	-	-	233,546	233,546	8
Other payables	-	-	3,058,386	3,058,386	6
Other financial liabilities	-	-	256,913	256,913	23

(*) The Group management considers the carrying amount of financial assets approximate their fair values.

Assets and liabilities subject to valuation and fair value of financial instruments

The fair values of financial assets and financial liabilities are determined and grouped as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The Company has also deposits and guarantees received and financial assets that are subject to inflation.

The following table gives information about how the fair values of these financial assets, liabilities and assets subject to valuation are determined.

Financial assets/financial liabilities	**Fair value / revalued as at**			**Fair value hierarchy**	**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**	**Relationship of unobservable inputs to fair value**
	31 December 2016	**31 December 2015**	**31 December 2014**				
Derivatives	3,886	-	-	Level 2	Market Value	-	-
Deposits paid	161,011	130,923	101,211	-	CPI	-	-
Deposits and gurantees received (Note :7)	880,004	735,201	608,063	-	CPI	-	-
Financial assets	4,293,306	3,021,039	1,782,192	-	CPI	-	-

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

25. EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

	31 December 2016	31 December 2015	31 December 2014
Cash on hand	-	-	114
Cash at banks	55,956	72,748	43,154
Demand deposits	*55,956*	*72,748*	*43,154*
Repurchase agreements	18,614	79,355	69,401
	74,570	152,103	112,669

As at 31 December 2016, TL 28,961 of the Group's demand deposits are blocked at different banks (31 December 2015: TL 24,459, 31 December 2014: TL 22,029). These blocked deposits are related to the collections made through bank branches which are made available for use by banks 1 or 2 days after the collection depending on the agreements with related banks.

Repurchase agreements consist of short term TL balances with original maturities between 1-3 days (31 December 2015: 1-3 days, 31 December 2014: 1-3 days). The weighted average effective interest rate of TL repurchase agreements is 11.80% as at 31 December 2016 (31 December 2015: 11.10%, 31 December 2014: 10.07%).

Details of "Other adjustments to reconcile profit / (loss)" that presented on cash flow statement as follows:

	1 January 31 December 2016	1 January 31 December 2015	1 January 31 December 2014
Adjustments related to finance (income) / cost based on revenue cap regulation	(19,370)	(2,496)	(5,313)
Adjustments related to investment revenue recognised relate to service concession arrangements	(609,628)	(310,955)	(208,758)
Adjustments related to fair value differences arising from deposits	40,287	36,118	42,627
	(588,711)	(277,333)	(171,444)

Details of "Other cash in-flows generated from operating activities" that presented on cash flow statement as follows:

	1 January 31 December 2016	1 January 31 December 2015	1 January 31 December 2014
Net collections from financial assets related to service concession arrangements	851,546	399,063	349,994
	851,546	399,063	349,994

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

25. EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS (cont'd)

Details of "Other cash-out flows from investing activities" that presented on cash flow statement as follows:

	1 January 31 December 2016	1 January 31 December 2015	1 January 31 December 2014
Capital expenditures related to service concession arrangements	(1,496,213)	(1,051,224)	(525,427)
Payment to Privatization Administration	(1,188,456)	(1,225,350)	(1,176,074)
	(2,684,669)	(2,276,574)	(1,701,501)

26. EVENTS AFTER THE REPORTING DATE

Following the approval of Capital Markets Board with decision numbered 27/1319 on 29 December 2016; bonds with the nominal amount of TL 405,000 are issued by the Group on 2 March 2017 with 1,454 days maturity, CPI based variable interests and capital payment at the end of the maturity.

Further to Board of Directors resolution dated 20 April 2017, the Company has merged with its shareholding company, Enerjisa Enerji A.Ş. also being the surviving entity. The merger has been registered as of 28 April 2017. As of 25 August 2017, downstream and upstream business was splitted. In this respect; Enerjisa Enerji Üretim A.Ş,, Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. and Enerjisa Doğal Gaz Toptan Satış A.Ş., which are also the subsidiaries of the Enerjisa Enerji A.Ş., were transferred to a newly established company called Enerjisa Üretim Santralleri A.Ş..

27. EARNINGS PER SHARE

Earnings per share for each class of share disclosed in the consolidated statements of profit or loss and other comprehensive income is determined by dividing the net income attributable to ordinary equity holders of the parent entity by the weighted average number of shares of that class that have been outstanding during the year.

	1 January 31 December 2016	**1 January 31 December 2015**	**1 January 31 December 2014**
Profit / (loss) for the period	377,393	336,302	(276,714)
Weighted average shares (*)	396,452,800,000	396,452,800,000	396,452,800,000
Basic earnings per share (kr)	0.10	0.08	(0.07)

(*)Since the reduced capital in 2016 did not change the shareholdings, earning per share for the years ended 31 December 2015 and 31 December 2014, are calculated based on the current number of shares to be comparable.

28. SEGMENT REPORTING

The business activities of the Group are managed and organized according to the services provided in the electricity market. The Group has two main operating segments; electricity distribution and retail. The principal activity of distribution segment is the transmission of electricity over lines to the end users through distribution networks, by also providing infrastructure investments due to the regulated tariffs announced by EMRA; whereas the retail segment conduct retail sales of electricity to the customers. The Group management follows the performance of the business segments with financial and non-financial indicators as well as operating profit and net profit for the period.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

28. SEGMENT REPORTING (cont'd)

The following table contains information on the Group's sales and profit from its operations for the period ended 31 December 2016, 31 December 2015 and 31 December 2014.

1 January - 31 December 2016	**Distribution**	**Retail**	**Unallocated**	**Elimination**	**Total**
Net sales	3,477,328	8,494,889	1,867	(2,870,704)	9,103,380
-Internal	*2,870,704*	-	-	*(2,870,704)*	-
-External	*606,624*	*8,494,889*	*1,867*	-	*9,103,380*
Cost of sales (-)	(1,336,748)	(8,029,900)	(1,012)	2,866,704	(6,500,956)
Gross profit / (loss)	**2,140,580**	**464,989**	**855**	**(4,000)**	**2,602,424**
Operating expenses (-) (*)	(837,095)	(222,787)	(211,333)	43,379	(1,227,836)
Other income / (expense) from operating activities - net	(86,792)	23,706	187	(39,379)	(102,278)
Operating profit / (loss)	**1,216,693**	**265,908**	**(210,291)**	**-**	**1,272,310**
Financial income	17,692	119,281	45	(97,289)	39,729
Financial expenses (-)	(460,802)	(5,255)	(429,069)	97,289	(797,837)
Profit /(loss) before taxation on income	**773,583**	**379,934**	**(639,315)**	**-**	**514,202**
Current tax expense (-)	(65,025)	(83,190)	-	-	(148,215)
Deferred tax income / (expense)	(33,378)	3,051	41,733	-	11,406
Net profit / (loss) for the period	**675,180**	**299,795**	**(597,582)**	**-**	**377,393**

(*) Out of TL 217,938 depreciation and amortization expenses in operating expenses, TL 4,325, TL 703 and TL 212,910 represents depreciation and amortization expenses of distribution, retail and unallocated segments, respectively (Note 10-11). Financial expenses under unallocated part mainly represent costs of loans utilized for the acquisitions of distribution and retail business.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

28. SEGMENT REPORTING (cont'd)

1 January - 31 December 2015	**Distribution**	**Retail**	**Unallocated**	**Elimination**	**Total**
Net sales	2,777,834	8,920,828	382	(2,545,430)	9,153,614
-Internal	*2,545,430*	-	-	*(2,545,430)*	-
-External	*232,404*	*8,920,828*	*382*	-	*9,153,614*
Cost of sales (-)	(1,172,488)	(8,480,729)	(196)	2,545,293	(7,108,120)
Gross profit / (loss)	**1,605,346**	**440,099**	**186**	**(137)**	**2,045,494**
Operating expenses (-) (*)	(677,585)	(233,317)	(209,550)	40,662	(1,079,790)
Other income / (expense) from operating activities - net	2,300	96,489	16	(26,232)	72,573
Operating profit / (loss)	**930,061**	**303,271**	**(209,348)**	**14,293**	**1,038,277**
Financial income	4,381	92,969	15,405	(81,271)	31,484
Financial expenses (-)	(306,977)	(4,978)	(361,877)	66,978	(606,854)
Profit /(loss) before taxation on income	**627,465**	**391,262**	**(555,820)**	**-**	**462,907**
Current tax expense (-)	(32,532)	(63,992)	-	-	(96,524)
Deferred tax income / (expense)	(57,391)	(14,423)	41,733	-	(30,081)
Net profit / (loss) for the period	**537,542**	**312,847**	**(514,087)**	**-**	**336,302**

(*) Out of TL 219,428 depreciation and amortization expenses in operating expenses, TL 7,189 and TL 212,239 represents depreciation and amortization expenses of distribution and unallocated segments, respectively (Note 10-11). Financial expenses under unallocated part mainly represent costs of loans utilized for the acquisitions of distribution and retail business.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

28. SEGMENT REPORTING (cont'd)

1 January - 31 December 2014	**Distribution**	**Retail**	**Unallocated**	**Elimination**	**Total**
Net sales	2,144,481	7,780,428	-	(1,860,488)	8,064,421
-Internal	*1,860,488*	-	-	*(1,860,488)*	-
-External	*283,993*	*7,780,428*	-	-	*8,064,421*
Cost of sales (-)	(1,138,045)	(7,475,954)	-	1,860,488	(6,753,511)
Gross profit / (loss)	**1,006,436**	**304,474**	**-**	**-**	**1,310,910**
Operating expenses (-) (*)	(638,585)	(166,747)	(209,204)	47,233	(967,303)
Other income / (expense) from operating activities - net	62,579	(50,768)	(548)	(47,233)	(35,970)
Operating profit / (loss)	**430,430**	**86,959**	**(209,752)**	**-**	**307,637**
Financial income	10,321	44,180	19,699	(5,553)	68,647
Financial expenses (-)	(179,438)	(3,417)	(462,689)	5,553	(639,991)
Profit /(loss) before taxation on income	**261,313**	**127,722**	**(652,742)**	**-**	**(263,707)**
Current tax expense (-)	(50,534)	(951)	-	-	(51,485)
Deferred tax income / (expense)	12,341	(15,596)	41,733	-	38,478
Net profit / (loss) for the period	**223,120**	**111,175**	**(611,009)**	**-**	**(276,714)**

(*) Out of TL 208,663 depreciation and amortization expenses in operating expenses, TL 208,663 represents amortization expenses of unallocated segments (Note 11). Financial expenses under unallocated part mainly represent costs of loans utilized for the acquisitions of distribution and retail business.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

28. SEGMENT REPORTING (cont'd)

Reportable segments' assets and liabilities are reconciled to total assets and liabilities as follows for the period ended 31 December 2016, 31 December 2015 and 31 December 2014.

As of 31 December 2016	Distribution	Retail	Unallocated (*)	Elimination	Total
Segment assets					
Cash and cash equivalents	22,351	52,219	-	-	74,570
Trade receivables	1,030,167	1,005,813	236	(315,687)	1,720,529
Inventories	74,059	-	400	-	74,459
Derivative financial instruments	-	3,886	-	-	3,886
Due from service concession arrangements	4,293,306	-	-	-	4,293,306
Property, plant and equipment	53,655	-	4,355	-	58,010
Intangible assets	3,106	25,376	7,862,868	-	7,891,350
Other receivables and assets	1,406,108	1,233,365	1,802	(1,625,937)	1,015,338
Total assets	**6,882,752**	**2,320,659**	**7,869,661**	**(1,941,624)**	**15,131,448**
Segment liabilities					
Bank borrowings	3,371,943	-	2,925,851	-	6,297,794
Other financial liabilities	270,221	-	-	-	270,221
Trade payables	774,461	657,193	1,701	(315,687)	1,117,668
Other payables and liabilities	590,057	1,085,460	2,649,357	(1,625,937)	2,698,937
Total liabilities	**5,006,682**	**1,742,653**	**5,576,909**	**(1,941,624)**	**10,384,620**

(*) Please note that intangible assets under unallocated part mainly represent customer contracts, transfer of operating rights and goodwill (Note 11). Bank borrowings under unallocated part mainly represent loans utilized for the acquisitions of distribution and retail business. The related amounts were not distributed to the segments since the Group management follows the performances of the operating segments excluding this related assets and liabilities.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

28. SEGMENT REPORTING (cont'd)

As of 31 December 2015	Distribution	Retail	Unallocated (*)	Elimination	Total
Segment assets					
Cash and cash equivalents	852	151,251	-	-	152,103
Trade receivables	1,010,271	825,023	184	(290,147)	1,545,331
Inventories	63,471	-	-	-	63,471
Due from service concession arrangements	2,946,425	74,614	-	-	3,021,039
Property, plant and equipment	25,990	-	4,860	-	30,850
Intangible assets	43	682	8,071,531	-	8,072,256
Other receivables and assets	1,297,473	931,944	569	(1,093,977)	1,136,009
Total assets	**5,344,524**	**1,983,514**	**8,077,144**	**(1,384,124)**	**14,021,059**
Segment liabilities					
Bank borrowings	2,746,844	572	2,046,648	-	4,794,064
Other financial liabilities	253,022	-	-	-	253,022
Payables to Privatization Administration	-	-	1,188,456	-	1,188,456
Trade payables	510,649	605,653	835	(290,147)	826,990
Other payables and liabilities	625,073	906,594	2,155,006	(1,093,977)	2,592,696
Total liabilities	**4,135,588**	**1,512,819**	**5,390,945**	**(1,384,124)**	**9,655,228**

(*) Please note that intangible assets under unallocated part mainly represent customer contracts, transfer of operating rights and goodwill (Note 11). Bank borrowings under unallocated part mainly represent loans utilized for the acquisitions of distribution and retail business. The related amounts were not distributed to the segments since the Group management follows the performances of the operating segments excluding this related assets and liabilities.

(Amounts are expressed as thousands of Turkish Lira (TL) unless otherwise stated.)

28. SEGMENT REPORTING (cont'd)

As of 31 December 2014	Distribution	Retail	Unallocated (*)	Elimination	Total
Segment assets					
Cash and cash equivalents	6,419	105,170	1,080	-	112,669
Trade receivables	973,658	813,877	-	(316,168)	1,471,367
Inventories	55,201	-	-	-	55,201
Due from service concession arrangements	1,741,658	40,534	-	-	1,782,192
Property, plant and equipment	128	-	-	-	128
Intangible assets	9	819	8,280,195	-	8,281,023
Other receivables and assets	843,232	527,351	4,035	(313,739)	1,060,879
Total assets	**3,620,305**	**1,487,751**	**8,285,310**	**(629,907)**	**12,763,459**
Segment liabilities					
Bank borrowings	1,812,212	779	1,090,380	-	2,903,371
Other financial liabilities	256,913	-	-	-	256,913
Payables to Privatization Administration	-	-	2,413,806	-	2,413,806
Trade payables	517,630	613,850	1,176	(316,168)	816,488
Other payables and liabilities	513,108	718,128	1,415,042	(313,739)	2,332,539
Total liabilities	**3,099,863**	**1,332,757**	**4,920,404**	**(629,907)**	**8,723,117**

(*) Please note that intangible assets under unallocated part mainly represent customer contracts, transfer of operating rights and goodwill (Note 11). Bank borrowings under unallocated part mainly represent loans utilized for the acquisitions of distribution and retail business. The related amounts were not distributed to the segments since the Group management follows the performances of the operating segments excluding this related assets and liabilities.

ENERJİSA ENERJİ A.Ş. AND
ITS SUBSIDIARIES

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2016
AND INDEPENDENT
AUDITOR'S REPORT

(CONVENIENCE TRANSLATION
OF INDEPENDENT AUDITOR'S
REPORT ORIGINALLY ISSUED
IN TURKISH)

(CONVENIENCE TRANSLATION OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Enerjisa Enerji A.Ş.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Enerjisa Enerji A.Ş. ("the Company") and its subsidiaries (together will be referred as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, 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 a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Turkish Accounting Standards ("TAS"), which are a direct translation of International Financial Reporting Standards issued by International Accounting Standards Board into Turkish), 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Independent Auditing Standards which is a part of Turkish Auditing Standards published by Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards, that are a direct translation into Turkish from International Standards on Auditing published by International Federation of Accountants, require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Enerjisa Enerji A.Ş. and its subsidiaries as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Turkish Accounting Standards.

Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 402 of the Turkish Commercial Code No. 6102 ("TCC"), nothing has come to our attention that may cause us to believe that the Group's set of accounts and financial statements prepared for the period 1 January - 31 December 2016 does not comply with TCC and the provisions of the Group's articles of association in relation to financial reporting.

In accordance with paragraph four of Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Hakan Erten
Partner

İstanbul, 23 February 2017

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

(Amounts expressed in millions of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

ASSETS	Notes	31 December 2016	31 December 2015
Current assets			
Cash and cash equivalents	7	110	258
Trade receivables		2,020	1,926
Trade receivables from related parties	*8*	*77*	*82*
Trade receivables from third parties	*9*	*1,943*	*1,844*
Other receivables		431	348
Other receivables from third parties	*10*	*431*	*348*
Derivative financial instruments		184	131
Held for trading	*17*	*184*	*131*
Inventories	11	182	134
Prepaid expenses		22	21
Prepaid expenses from third parties	*12*	*22*	*21*
Assets related to current tax	21	7	9
Due from service concession arrangements	13	654	456
Other current assets		4	25
Other current assets from third parties	*14*	*4*	*25*
		3,614	**3,308**
Assets held for sale	31	409	368
Total current assets		**4,023**	**3,676**
Non-current assets			
Other receivables		313	472
Other receivables from third parties	*10*	*313*	*472*
Derivative financial instruments		396	15
Held for trading	*17*	*393*	*15*
Held for hedging	*17*	*3*	-
Available-for-sale financial assets		1	1
Property, plant and equipment	15	10,247	9,778
Intangible assets, net	16	8,654	8,845
Goodwill		*2,730*	*2,730*
Other intangible assets		*5,924*	*6,115*
Prepaid expenses		167	249
Prepaid expenses from third parties	*12*	*167*	*249*
Due from service concession arrangements	13	3,640	2,565
Deferred tax assets	21	444	516
Other non-current assets		488	547
Other current assets from third parties	*14*	*488*	*547*
Total non-current assets		**24,350**	**22,988**
TOTAL ASSETS		**28,373**	**26,664**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
(Amounts expressed in millions of Turkish Lira (TL), unless otherwise indicated.
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LIABILITIES	Notes	31 December 2016	31 December 2015
Current liabilities			
Short-term bank borowings	18	1,875	903
Short-term portion of long-term bank borrowings	18	2,813	1,900
Other financial liabilities	18	25	21
Trade payables		1,407	1,407
Trade payables to related parties	*8*	*8*	*14*
Trade payables to third parties	*9*	*1,399*	*1,393*
Obligations related to employee benefits	20	44	19
Other payables		206	170
Other payables to third parties	*10*	*206*	*170*
Derivative financial instruments		-	3
Held for trading	*17*	*-*	*3*
Deferred revenue	12	166	173
Corporate tax payable	21	6	9
Payable to Privatization Administration		-	1,188
Short-term provisions		315	265
Provisions for employee benefits	*20*	*41*	*35*
Other short-term provisions	*19*	*274*	*230*
Other current liabilities		171	146
Other current liabilities to third parties	*14*	*171*	*146*
		7,028	**6,204**
Liabilities directly associated with assets classified as held for sale	31	4	2
Total current liabilities		**7,032**	**6,206**
Non-current liabilities			
Long-term bank borrowings	18	8,985	8,611
Other financial liabilities	18	245	232
Other payables		881	737
Other payables to third parties	*10*	*881*	*737*
Derivative financial instruments		628	206
Held for trading	*17*	*108*	*-*
Held for hedging	*17*	*520*	*206*
Deferred revenue	12	26	102
Long-term provisions		60	63
Provisions for employee benefits	*20*	*60*	*63*
Deferred tax liabilities	21	1,027	1,068
Total non-current liabilities		**11,852**	**11,019**
TOTAL LIABILITIES		**18,884**	**17,225**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

(Amounts expressed in millions of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

EQUITY	**Notes**	**31 December 2016**	**31 December 2015**
Share capital	22	9,590	9,590
Adjustment to share capital	22	(33)	(33)
Total paid-in capital		**9,557**	**9,557**
Share premium		282	282
Other comprehensive loss that will not be reclassified to profit or loss		(7)	(11)
Other comprehensive loss to be reclassified to profit or loss		(395)	(147)
Other funds		4	4
Restricted profit reserves		144	58
Accumulated deficit		(390)	(588)
Net profit		294	284
TOTAL EQUITY		**9,489**	**9,439**
TOTAL LIABILITIES AND EQUITY		**28,373**	**26,664**

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

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

(Amounts expressed in millions of Turkish Lira (TL), unless otherwise indicated.
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	Notes	1 January- 31 December 2016	1 January- 31 December 2015
Net sales	25	12,565	11,865
Cost of sales (-)	26	(9,332)	(9,265)
Gross profit		**3,233**	**2,600**
Operating expenses (-)	27	(1,294)	(1,132)
Other income from operating activities	28	475	182
Other expense from operating activities (-)	28	(426)	(119)
Operating profit		**1,988**	**1,531**
Income from investing activities	29	-	134
Expense from investing activities (-)	29	-	(191)
Operating profit before financial income		**1,988**	**1,474**
Financial income	30	58	59
Financial expense (-)	30	(1,512)	(1,101)
Profit before taxation on income		**534**	**432**
Current tax expense (-)	21	(148)	(98)
Deferred tax expense (-)	21	(92)	(50)
Tax expense		**(240)**	**(148)**
Net profit for the year		**294**	**284**
Other comprehensive income / (expense)			
Items that will not be reclassified subsequently to profit or loss		**4**	**(11)**
Actuarial loss	20, 24	5	(14)
Taxes related to items that will not be classified to profit or loss	24	(1)	3
Items that may be reclassified subsequently to profit or loss		**(248)**	**39**
Fair value gain on	17, 24	(310)	48
Taxes related to items to be classified to profit or loss	24	62	(9)
Other comprehensive (expense) / income after tax		**(244)**	**28**
Total comprehensive income		**50**	**312**

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

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

(Amounts expressed in millions of Turkish Lira (TL), unless otherwise indicated.
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	Share capital	Adjustment to share capital	Share premium	Restricted profit reserves	Other funds	Items that may be reclassified subsequently to profit or loss (Hedge reserves)	Items that will not be reclassified subsequently to profit or loss (Actuarial loss)	(Accumulated deficit) / Retained earnings	Net profit for the year	Total equity
Balances at 1 January 2015	**8,890**	**(33)**	**282**	**58**	**4**	**(186)**	**-**	**(421)**	**(167)**	**8,427**
Capital increase	700	-	-	-	-	-	-	-	-	700
Transfer	-	-	-	-	-	-	-	(167)	167	-
Total comprehensive income / (expense)	-	-	-	-	-	39	(11)	-	284	312
Balances at 31 December 2015	**9,590**	**(33)**	**282**	**58**	**4**	**(147)**	**(11)**	**(588)**	**284**	**9,439**
Balances at 1 January 2016	9,590	(33)	282	58	4	(147)	(11)	(588)	284	9,439
Transfer	-	-	-	86	-	-	-	198	(284)	-
Total comprehensive (expense) / income	-	-	-	-	-	-248	4	-	294	50
Balances at 31 December 2016	**9,590**	**(33)**	**282**	**144**	**4**	**(395)**	**(7)**	**(390)**	**294**	**9,489**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in millions of Turkish Lira (TL), unless otherwise indicated.
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	Notes	1 January- 31 December 2016	1 January- 31 December 2015
Cash flows from operating activities:		**3,094**	**2,391**
Profit / (loss) for the period		**294**	**284**
Profit / (loss) for the period from continiued operations		294	284
Adjustments to reconcile profit / (loss) for the period		**2,135**	**1,272**
Adjustments related to the depreciation and amortization		526	451
Adjustments related to the depreciation of property, plant and equipment	15	298	226
Adjustments related to the amortization of intangible assets	16	228	225
Adjustments related to impairment loss		142	199
Adjustments related to impairment loss recognised on receivables, net	9	142	4
Adjustments related to impairment on inventories	11	-	4
Adjustments related to impairment on available-for-sale assets	29	-	191
Adjustments related to provisions		165	52
Adjustments related to provisions for employee benefits		47	23
Adjustments related to provisions for legal cases		37	7
Adjustments related to provisions for other provisions		81	22
Adjustments related to interest (income) and expenses		951	792
Adjustments related to interest income	30	(58)	(59)
Adjustments related to interest expense		1,009	851
Adjustments related to change in fair value (gain) / loss		(325)	(190)
Adjustments related to change in fair value gain of derivative instruments	17	(325)	(190)
Adjustments related to tax (income) and expenses		240	148
Adjustments related to corporate tax expense	21	148	98
Adjustments related to deferred tax expense	21	92	50
Unrealized foreign exchange loss		945	210
Unrealized foreign exchange losses on borrowings		920	228
Unrealized foreign exchange losses / (gains) from other than borrowings		25	(18)
Adjustments related to (gain) / loss of sale of fixed assets		-	(3)
Adjustments related to gain of sale of tangible assets	29	-	(3)
Adjustments related to (gain) / loss of sale of asset held-for sale or assets to be distributed to shareholders		-	(131)
Adjustments related to gain of sales of asset held-for sale	29	-	(131)
Adjustments related to change in other items from investing or financing activities	30	30	21
Other adjustments to reconcile profit/loss		(539)	(277)
Changes in operating assets and liabilities:		**34**	**611**
Adjustments related to decrease / (increase) in trade receivables		120	45
Adjustments related to decrease / (increase) in trade receivables from related parties		89	(59)
Adjustments related to increase in trade receivables from third parties		31	104
Adjustments related to increase in inventories		(48)	(8)
Adjustments related to decrease in other receivables and current assets		277	176
Adjustments related to decrease in other receivables from third parties		277	176
Adjustments related to increase derivative instruments assets		(4)	(145)
Adjustments related to decrease prepaid expenses		83	417
Adjustments related to decrease in trade payables		(380)	(148)
Adjustments related to (decrease) / increase in trade payables to related parties		(89)	8
Adjustments related to decrease in trade payables to third parties		(291)	(156)
Adjustments related to increase / (decrease) in obligations related to employee benefits		1	(5)
Adjustments related to (decrease) / increase in other payables and expense accruals		(17)	370
Adjustments related to (decrease) / increase in other payables to third parties		(17)	370
Adjustments related to increase / (decrease) derivative instruments liabilities		2	(91)
Net cash generated from operating activities		**2,463**	**2,167**
Employee benefits paid		(39)	(13)
Provisions paid		(74)	(63)
Taxes paid	21	(108)	(99)
Other cash in flows		852	399

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in millions of Turkish Lira (TL), unless otherwise indicated.
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	Notes	1 January-31 December 2016	1 January-31 December 2015
Cash flows from investing activities:		**(3,426)**	**(3,491)**
Purchases of tangible and intangible assets		(761)	(1,605)
Purchases of tangible assets		(724)	(1,587)
Purchases of intangible assets	16	(37)	(18)
Proceeds from sales on tangible and intangible assets		-	176
Proceeds from sales of tangible assets		-	176
Proceeds from sale of asset-held for sale		-	182
Purchases of asset-held for sale	31	(39)	-
Interest received		58	32
Other cash in out flows		(2,684)	(2,276)
Cash flows from financing activities:		**184**	**1,149**
Proceeds from issuance of share capital		-	700
Proceeds from borrowing		22,521	16,811
Proceed from bank borrowing:		22,521	16,811
Repayments of borrowing		(21,484)	(15,360)
Repayment of bank borrowing		(21,454)	(15,339)
Commissions and fees paid		(30)	(21)
Interest received		22	27
Interest paid		(875)	(1,029)
Net change in cash and cash equivalents		(148)	49
Cash and cash equivalents at the beginning of the period	7	258	209
Cash and cash equivalents at the end of the period	**7**	**110**	**258**

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Enerjisa Enerji A.Ş. ("the Company") has been established on 26 December 2011 as a joint venture between Hacı Ömer Sabancı Holding A.Ş. ("Sabancı") and Verbund International GmbH ("Verbund International"). Verbund sold all its shares to E.ON SE ("E.ON") on 24 April 2013.

The Company is registered in Turkey and the address of the headquarters is as follows:

Sabancı Center Kule 2 Kat 5. 4. Levent 34330 Istanbul.

The Company, together with its subsidiaries (together the "Group"), is primarily engaged in electricity generation, trading, sale, and distribution and retail service of electricity, and trade of natural gas, via its consolidated entities listed below:

Enerjisa Enerji Üretim A.Ş. ("GenCo")	Generation of electricity and steam
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. ("TradeCo")	Trading of electricity
Enerjisa Doğal Gaz Toptan Satış A.Ş. ("GasCo")	Trading of natural gas
Enerjisa Elektrik Dağıtım A.Ş. ("EEDAŞ")	Distribution and retail service of electricity
Enerjist Solar Enerji Üretim A.Ş. ("Enerjist")	Generation of electricity

Group's operations are carried out in one geographical segment (Turkey).

The consolidated financial statements were authorized for issue by the Board of Directors of the Company on 23 February 2017. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issuance. The owners of the Group have the power to amend the consolidated financial statements after the issue.

GenCo:

GenCo was established in 1996 as a Turkish company by, among others, Sabancı. As of 31 May 2007, Österreichische Elektrizitatswirtschafts-Aktiengesellschaft ("Verbund") acquired the 49.99% shares of GenCo and GenCo became a joint venture between Sabancı and Verbund. According to the Board of Directors resolution dated 15 October 2008 and numbered 245, Verbund, one of the main shareholders of GenCo, Tursa Sabancı Turizm ve Yatırım İşletmeleri A.Ş., Exsa Export Sanayi Mamulleri Satış ve Araştırma A.Ş., Teknosa İç ve Dış Ticaret A.Ş., minority shareholders of GenCo, sold their shares to Verbund International. In December 2011; Sabancı and Verbund International transferred their shares to the Company.

GenCo was established for the primary purpose of engaging in the generation and selling of electricity and steam.

GenCo's power plants and their specifications are as follows:

1. **Bandırma Combined Cycle Power Plant ("Bandırma CCPP"):** Bandırma CCPP is located in Balıkesir, Bandırma town. Electricity Generation License was obtained on 7 February 2008 and the construction of the plant was started on 1 June 2008. Its installed capacity is 936.2 MW.
2. **Kentsa Natural Gas Power Plant ("Kentsa NGPP"):** The plant has been operating in Kocaeli, İzmit since 10 October 1997. The co-generation power plant has electricity capacity of 120 MW and steam production capacity of 275 tonnes /hour.
3. **Adana Natural Gas Power Plant ("Adana NGPP"):** The co-generation power plant located in Adana, started to provide electricity since 28 September 2002 with electricity capacity of 131 MW. Considering its economic benefit, the Company has decided to stop the operations of the plant as of end of 2014.

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

GenCo (Continued):

4. **Çanakkale Natural Gas Power Plant ("Çanakkale NGPP"):** The co-generation power plant is located in Çanakkale and has been in operation since 3 August 2002. The plant has one gas turbine (GTG) with 43.5 MW capacity, one heat recovery steam generator (HRSG) with 75-tonnes/hour steam capacities and a steam turbine with 22.5 MW capacity. Considering its economic benefit, the Company has decided to stop the operations of the plant as of end of 2014.

5. **Mersin Natural Gas Power Plant ("Mersin NGPP"):** The co-generation power plant is located in Mersin and has been in operation since 5 October 2003. The plant has one gas turbine (GTG) with 43.5 MW capacity, one heat recovery steam generator (HRSG) with 75-tonnes/hour steam capacities and a steam turbine with 22.5 MW capacity. Considering its economic benefit, the Company has decided to stop the operations of the plant as of end of 2014.

6. **Hacınınoğlu Hydroelectric Power Plant ("Hacınınoğlu HPP"):** Hacınınoğlu Power Plant, which is located in Kahramanmaraş and in operation since 3 February 2011, has an installed capacity of 142.2 MW. The generation licence was obtained on 9 March 2006 for 49 years. Annual electricity generation capacity is 382.6 GWh.

7. **Suçatı Hydroelectric Power Plant ("Suçatı HPP"):** Suçatı HPP is located, in Kahramanmaraş.. The power plant was constructed with a Built-Operate-Transfer model; so the ownership of the dam and the power plant was transferred to the public sector in 2015. The installed capacity of the power plant is 7 MW and produces 28 GWh of electricity annually.

8. **Çanakkale Wind Power Plant ("Çanakkale WPP"):** Çanakkale Wind Power Plant, which is located in Çanakkale, Mahmudiye town, has an installed capacity of 29.9 MW with 13 turbines. The generation licence was obtained on 21 February 2008 for 49 years. Annual electricity generation capacity is 91.6 GWh.

9. **Menge Hydroelectric Power Plant ("Menge HPP")**: Menge Power Plant, which is located in Adana Province, has an installed capacity of 89.4 MW. The production License was obtained on 6 July 2006 for 49 years. Annual electricity generation capacity is 204 GWh.

10. **Dağpazarı Wind Power Plant ("Dağpazarı WPP"):** Dağpazarı Wind Power Plant, which is located in Mersin, Mut town, has an installed capacity of 39 MW with 13 turbines and is connected to Birkapılı HEPP. The generation licence was obtained on 24 July 2008 for 49 years. Annual electricity generation capacity is 129 GWh.

11. **Bares Wind Power Plant ("Bares WPP")**: Bares Wind Power Plant, which is located in Balıkesir Province, Center and Kepsut Sub-Province, has an installed capacity of 142.5 MW with 52 turbines. The generation licence was obtained on 18 April 2007 for 49 years. Annual electricity generation capacity is 524 GWh.

12. **Köprü Hydroelectric Power Plant ("Köprü HPP"):** Köprü Power Plant, which is located in Adana Province, has an installed capacity of 156 MW. The generation license was obtained on 6 July 2006 for 49 years. Annual electricity generation capacity is 384 GWh.

13. **Dağdelen Hydroelectric Power Plant ("Dağdelen HPP"):** Dağdelen Power Plant, which is located in Kahramanmaraş Province, has an installed capacity of 8 MW. The generation license was obtained on 9 March 2006 for 49 years. Annual electricity generation capacity is 28 GWh.

14. **Kandil Hydroelectric Power Plant ("Kandil HPP"):** Kandil Power Plant, which is located in Kahramanmaraş has an installed capacity of 208 MW. The project, which is concrete-face rock fill dam structure, has totally 207 MW installed capacity. Kandil Dam and HEPP project which has 539 GWh annual production capacities with 14.5 km2 reservoir was commissioned in the third quarter of 2013.

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

GenCo (Continued):

15. **Sarıgüzel Hydroelectric Power Plant ("Sarıgüzel HPP"):** Sarıgüzel Power Plant, which is located in within the boundaries of Kahramanmaraş province, Sarıgüzel Dam and Hydroelectric Power Plant is a sand gravel concrete faced rock fill dam structured project. The construction of the project had been started in 2009 and was commisioned in the third quarter of 2013. With the total 103 MW installed capacity of the project, the annual production capacity is 312 GWh.

16. **Kuşaklı Hydroelectric Power Plant ("Kuşaklı HPP"):** Kuşaklı Power Plant which is located on Seyhan River, in the boundaries of Adana Province, was started in 2011. The project has been completed in the third quarter of 2013 within two pieces 10 MW tiger tribunes and total 20MW installed capacity.

17. **Çambaşı Hydroelectric Power Plant ("Çambaşı HPP"):** Çambaşı Regulator and Hydroelectric Power Plant is located in Trabzon. The construction of the project has been started in 2010 and completed in the December 2013. Çambaşı Regulator and HEPP has 45MW installed capacity.

18. **Arkun Dam and Hydroelectric Power Plant ("Arkun HPP"):** Arkun Dam, on the border with the province of Erzurum-Artvin Coruh River project located on the front face of the concrete is covered with sand, gravel fill dam. Construction of the plant started in 2010, has been commissioned in the second quarter of 2014. Arkun HPP has 245 MW installed capacity.

19. **Kavşakbendi Dam and Hydroelectric Power Plant ("Kavşakbendi HPP"):** With concrete face rock fill dam structure, Kavşakbendi project has 191 MW installed capacity. The construction of the project, located on Seyhan River, Adana, had been started in 2008. 186 MW installed capacity Kavşakbendi HEPP, has been put into operation in the first quarter of 2014 after the Ministry acceptance of the third unit of the project.

20. **Yamanlı II Dam and Hydroelectric Power Plant ("Yamanlı II HPP"):** Two-stage construction activities of Yamanlı project, located on Göksu arm of the Seyhan River in the boundary of Adana, started in May 2011. The plant is one of the two projects of Enerjisa in which TBM tunnel method used. The first stage of the project has 60 MW and the other has 22 MW installed capacity. Stage-2 has been put into operation in early 2015 and Stage-1 has been put into operation in first quarter of 2016.

21. **Bandırma II Combined Cycle Power Plant ("Bandırma II CCPP"):** Bandırma II Natural Gas Combined Cycled Power Plant's construction started in 2014 put into the operation in June 2016. It is located in province of Balıkesir, Bandırma district, Şirinçavuş village, Hacialibey site and its installed capacity is 607 MW.

22. **Tufanbeyli Lignite Power Plant ("Tufanbeyli"):** Tufanbeyli Lignite Power Plant, which is the largest domestic lignite power plant of Turkey commissioned by the private sector, works on the lignite resources and is located in between Yamanlı-Kayarcık-Taşpınar villages, in Tufanbeyli, Adana. The plant is comprised of 3 units. Tufanbeyli Power Plant generates approximately 2.5 billion kWh electricity annually by using 826.5 tons per hour of coal from the open quarries which are close to the plant and is expected to meet 2% of Turkey's electricity demand. Based on the coal reserves, Tufanbeyli LPP is planned to be operated for 30-35 years. The construction activities of the power plant have been kicked off in 2011 and as of September 15, 2016 three units (450 MW) were all put into the operation.

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

The details and the status of the projects under GenCo as of 31 December 2016 are as follows:

Projects	Plant Type	Installed Capacity (MW)	Status
Doğançay	Hydroelectric Power Plant	62	Construction in Progress
İBA	Hydroelectric Power Plant	168	Licensed
Pervari	Hydroelectric Power Plant	400	Licensed
Murat Nehri (*)	Hydroelectric Power Plant	280	Licensed

(*) As part of Enerjisa Enerji Üretim A.Ş. spin-off plan, Murat Nehri (formerly known as ''Alpaslan II'') demerged from Enerjisa Enerji Üretim A.Ş. as of 31 December 2015 and presented in financial statements as assets held for sale (Note 31).

TradeCo:

TradeCo was established in 2004 by GenCo as a Turkish company. As of 14 December 2007, Verbund and Sabancı acquired the 99.99% shares of TradeCo and consequently TradeCo became a joint venture between Sabancı and Verbund. According to the Board of Directors resolution dated 16 October 2008 and numbered 29, Verbund, sold its shares to Verbund International. In December 2011; Sabancı and Verbund International transferred their shares to the Company. TradeCo assumes the role of the Group optimizer. It engages in wholesale activities in order to protect the value of Groups's generation output. It decides on make-or-buy strategies in the over-the-counter (OTC), spot and balancing markets. TradeCo optimizes the use of different market segments for Groups's portfolio and also engages in wholesale electricity trading activities in order to pursue commercial opportunities. In addition, TradeCo actively engages in electricity import/export transactions and produces value from carbon certificates. Also TradeCo engages in direct selling of electricity to customers including Enerjisa Companies. TradeCo also provides risk management solutions to external customers and counterparties.

GasCo:

GasCo was established in 2004 by GenCo as a Turkish company. In 2007, Verbund and Sabancı acquired the 99% shares of GasCo and consequently GasCo became a joint venture between Sabancı and Verbund. In 2008, Verbund, sold its shares to Verbund International. In December 2011; Sabancı and Verbund International transferred their shares to the Company. GasCo is engaged in optimizing the natural gas consumption of the Enerjisa Group and assessing the new business opportunities in the gas market. GasCo is acting as a hub for collecting gas and selling to end-users via distribution companies. GasCo has obtained Spot LNG License on 6 September 2010 which is effective for 10 years and effectively started its operations in 2011.

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

EEDAŞ:

EEDAŞ is incorporated in İstanbul Turkey on 24 October 2008. Headquarter was moved to Ankara in 2014. EEDAŞ, which was a joint venture of Sabancı Holding and Verbund has officially acquired 100% of the shares of Başkent Elektrik Dağıtım A.Ş. ("BEDAŞ") as of 28 January 2009 by successful finalization of privatization bid for the consideration of USD 1,225. BEDAŞ currently operates in Ankara, Kırıkkale, Kastamonu, Zonguldak, Bartın, Çankırı and Karabük provinces and holds the licence that gives the right for distribution of electricity in these provinces for 30 years starting from the date of "Transfer of Operational Rights" ("TOR") agreement signed with TEDAŞ on 31 March 2006.

Following the privatization bid, shares of Verbund was transferred to Verbund International. In December 2011, Sabancı Holding and Verbund International transferred their shares to the Company. On 4 December 2012, Verbund International and E.ON SE ("E.ON") entered into a Share Purchase Agreement for the sale and transfer of all Verbund shares in the Company to E.ON and the transfer is finalized on 24 April 2013.

EEDAŞ, has officially acquired 100% of the shares of the İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş. ("AYEDAŞ") and İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş. ("AEPSAŞ") as of 31 July 2013, and acquired 100% of the shares of the Toroslar Elektrik Dağıtım A.Ş. ("TOROSLAR EDAŞ") and Toroslar Elektrik Perakende Satış A.Ş. ("TOROSLAR EPSAŞ") as of 30 September 2013 by successful finalization of privatization bids for the consideration of USD 1,227 million and USD 1,725, respectively.

As of 31 December 2016, all of Privatization Administration payables related to AYEDAŞ and AEPSAŞ's acquisitions and TOROSLAR EDAŞ and TOROSLAR EPSAŞ's acquisitions were paid.

AYEDAŞ and AEPSAŞ currently operate in Anatolian Side of İstanbul and AYEDAŞ holds the licence that gives the right for distribution of electricity in this province until 31 December 2042 starting from the date of TOR agreement signed with TEDAŞ on 24 July 2006.

TOROSLAR EDAŞ and TOROSLAR EPSAŞ currently operate in Adana, Gaziantep, Hatay, Kilis, Mersin and Osmaniye and TOROSLAR EDAŞ holds the licence that gives the right for distribution of electricity in these provinces until 31 December 2042 starting from the date of TOR agreement signed with TEDAŞ on 24 July 2006.

In 2006, EMRA has set a unique pricing mechanism for all of the electricity distribution companies in Turkey which will be effective for the period between 1 January 2006 and 31 December 2012 which is called the "transition period". In accordance with this pricing mechanism, distribution companies in Turkey have already determined their regional tariffs for the period between 1 January 2006 and 31 December 2010 and by using these regional tariffs, EMRA has already determined the national tariffs for the same period. In December 2010, EMRA has announced new tariff for the period between 1 January 2011 and 31 December 2015. In December 2015, EMRA has announced new tariff for the period between 1 January 2016 and 31 December 2020.

As of 1 January 2013, distribution companies (BEDAŞ, AYEDAŞ and TOROSLAR EDAŞ) are obliged to carry out the distribution and the retail sales activities under separate legal entities in accordance with Electricity Market Law. After the establishment of retail companies (Enerjisa Elektrik Perakende Satış A.Ş. ("EPS"), AEPSAŞ and TOROSLAR EPSAŞ) with the same shareholder structure and the distribution companies have transferred some of their assets and liabilities to retail companies due to the legal unbundling, registration of which have been completed as of 31 December 2012.

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

Enerjist:

Enerjist was established in 2015 by the Company as a Turkish company to develop and construct unlicensed solar energy projects.

NOTE 2 - APPLICATION OF NEW AND REVISED TURKISH ACCOUNTING STANDARDS (TASs)

2.1 Amendments to TASs affecting amounts reported and/or disclosures in the financial statements

None.

2.2 New and Revised TASs applied with no material effect on the consolidated financial statements

Amendments to TAS 16 and TAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation* [1]
Amendments to TAS 16 and TAS 41 and amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40	*Agriculture: Bearer Plants* [1]
Amendments to TFRS 11 and TFRS 1	*Accounting for Acquisition of Interests in Joint operations* [1]
Annual Improvements to 2011-2013 Cycle	*TFRS 1* [2]
Amendments to TAS 1	*Disclosure Initiative* [2]
Annual Improvements to 2012-2014 Cycle	*TFRS 5, TFRS 7, TAS 34, TAS 19* [2]
Amendments to TAS 27	*Equity Method in Separate Financial Statements* [2]
Amendments to TFRS 10 and TAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [2]
Amendments to TFRS 10, TFRS 12 and TAS 28	*Investment Entities: Applying the Consolidation Exception* [2]
TFRS 14	*Regulatory Deferral Accounts* [2]

[1] Effective for annual periods beginning on or after 31 December 2015.
[2] Effective for annual periods beginning on or after 1 January 2016.

2.3 New and Revised TASs in issue but not yet effective

Group has not applied the following new and revised TASs that have been issued but are not yet effective:

TFRS 9	*Financial Instruments* [1]
TFRS 15	*Revenue from Contracts with Customers* [1]

[1] Effective for annual periods beginning on or after 1 January 2018.

The Group evaluates the effects of these standards on the consolidated financial statements.

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NOTE 3 - GROUP ACCOUNTING

3.1 Basis of consolidation

The details of the Company's subsidiaries at 31 December 2016 and 31 December 2015 are as follows:

	Direct and indirect ownership interest by the Group (%)		Proportion of effective interest (%)	
Subsidiaries	**31 December 2015**	**31 December 2015**	**31 December 2015**	**31 December 2015**
Genco	99.99	99.99	99.99	99.99
Tradeco	100.00	100.00	100.00	100.00
Gasco	100.00	100.00	100.00	100.00
EEDAŞ	100.00	100.00	100.00	100.00
BEDAŞ	100.00	100.00	100.00	100.00
AYEDAŞ	100.00	100.00	100.00	100.00
TOROSLAR EDAŞ	100.00	100.00	100.00	100.00
EPS	100.00	100.00	100.00	100.00
AEPSAŞ	100.00	100.00	100.00	100.00
TOROSLAR EPSAŞ	100.00	100.00	100.00	100.00
Enerjisa Suçatı Elektrik Üretim A.Ş.	99.99	99.99	99.99	99.99
İBA Elektrik Üretim Madencilik Sanayi ve Ticaret A.Ş.	99.99	99.99	99.99	99.99
Pervari Elektrik Üretim Madencilik Sanayi ve Ticaret A.Ş.	99.99	99.99	99.99	99.99
Murat Nehri Enerji Üretim A.Ş. ("Murat Nehri") (*)	99.99	99.99	99.99	99.99
Enerjist	100.00	100.00	100.00	100.00

(*) As a part of Genco spin-off plan, Murat Nehri demerged from Genco as of 31 December 2015 and presented in the consolidated financial statements as assets held for sale.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including.

NOTE 3 - GROUP ACCOUNTING (Continued)

3.1 Basis of consolidation (Continued)

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

- potential voting rights held by the Company, other vote holders or other parties;

- rights arising from other contractual arrangements; and

- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3.2 Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable TASs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under TAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies other than Group accounting which is described in Note 3, followed in the preparation of the consolidated financial statements are summarised below. These policies have been consistently applied to all years presented, unless otherwise stated.

4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with Turkish Accounting Standards ("TAS") and interpretations related with these standards which are published by Public Oversight Accounting and Auditing Authority of Turkey ("POA").

Consolidated financial statements have been prepared in accordance with the format of the financial statements and disclosures announced by POA on 20 May 2013.

Turkish Accounting Standards ("TAS") published by POA are direct translation of International Financial Reporting Standards issued by International Accounting Standards Board into Turkish.

4.2 Basis of preparation

Consolidated financial statements have been prepared on the historical cost basis except for the valuation of certain assets and liabilities. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

4.3 Changes in accounting policies

Significant changes in the accounting policies are applied retrospectively and prior period consolidated financial statements are restated. There has not been any change in accounting policies of the Group in 2016.

4.4 Changes in accounting estimates and errors

Changes in accounting estimates should be applied prospectively, if only for a period in which the change in the current period. If it relates to future periods they are recognized prospectively both in the current period and in the future period. There has not been any change in accounting estimates of the Group in 2016.

4.5 Comparative information

Consolidated financial statements of the Group have been prepared comparatively with prior period in order to give information about financial position and performance trends. If the presentation or classification of the financial statements is changed, in order to maintain consistency, financial statements of the prior periods are also reclassified in line with the related changes.

The nature, amount and reasons for each of the reclassifications are described below:

- In 2015, the Group presented 'allowance for doubtful receivables' amounting to TL 3 under 'General administrative expenses'' in the consolidated comprehensive profit and loss statement. In the current year, the Group management reclassified these amounts to ''Other expense from operating activities''.
- In 2015, the Group presented 'grants and donations' amounting to TL 15 under 'General administrative expenses'' in the consolidated comprehensive profit and loss statement. In the current year, the Group management reclassified these amounts to ''Other expense from operating activities''.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.6 Revenue recognition

Distribution part of the revenue is composed of distribution, meter reading services, transmission and theft and loss components. Distribution and meter reading service components are considered within the content of service concession arrangements due to the regulations of Energy Market Regulatory Authority ("EMRA"). Additionally, according to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations, the Company's distribution, transmission and meter reading services are subject to revenue caps which cover operating expenses and investment requirements related to distribution and meter reading services. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by TEİAŞ. These regulations guarantee revenue to the Group during the transition period regardless of the consumption level. The underbillings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years.

Revenue recognition principles other than the assets classified as due from service concession arrangements under TFRS Interpretation 12 are as follows:

Revenue, excluding the distribution part, is recognized upon delivery of electricity to customers or upon fulfilment of services. Delivery is deemed complete when the risk and rewards associated with ownership have been transferred to the buyer as contractually agreed, compensation has been contractually established and collection of the resulting receivable is probable.

Revenue is recognised on an accrual basis at the time the electricity is distributed, at the invoiced values. Net sales represent the invoiced value of electricity distributed less TRT energy contribution share, sales commission and excluding sales taxes (Note 25).

System usage fees

Accounting policy regarding the accounting of system usage fees which are paid to the electricity distributor companies and collected from the customers is through adding system usage fee amounts on sales and cost of sales, respectively, without having any effect on gross and net profit. The amount of system usage fee included both in sales and cost of sales is TL 798 for the year ended 31 December 2016 (2015: TL 569).

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.

Interest income related to service concession arrangements is recognized in accordance with Service Concession Arrangements ("TFRS Interpretation 12"). Interest income on receivable from concession arrangement is recognised on a time-proportion basis using the effective interest method.

4.7 Application of TFRS Interpretation 12 - Service concession arrangements

TFRS 12 interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements. Certain hydroelectric power plants under GenCo which are subject to Build-Operate-Transfer model and the electricity distribution business under EEDAŞ qualify for the application of TFRS Interpretation 12.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Application of TFRS Interpretation 12 - Service concession arrangements (cont'd)

GenCo:

Under the terms of contractual arrangements within the scope of TFRS Interpretation 12, the Group acts as a service provider. The operator constructs or upgrades infrastructure used to provide a public service and operates and maintains that infrastructure for a specified period of time.

GenCo recognises a financial asset to the extent that it has an unconditional contractual right to receive cash from or at the direction of the grantor for the construction services related to hydroelectric power plants in the context of Build-Operate-Transfer ("BOT") model (Note 13). The amount due from or at the direction of the grantor is accounted for as a receivable in accordance with TAS 39 "Financial Instruments: Recognition and Measurement". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income and the interest calculated using the effective interest method is recognised in the statement of profit or loss.

The receivables that are due but not collected as of the balance sheet date are classified as due receivables from the grantor and carried at their net realisable value.

EEDAŞ:

Service concession arrangements are defined within scope of TFRS Interpretation 12 as those whereby a government or other body grants contracts for the supply of public services – operations such as roads, energy distribution, prisons or hospitals – to private operators. Group's electricity distribution business is in the scope of a service concession agreement (Note 13).

Considering EEDAŞ's terms in the service concession arrangement with the government, a financial asset model where EEDAŞ recognises a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor has been applied, since the right to receive cash for the distribution and retail sales services (starting from 1 January 2011) are constituted through actual billing to subscribers where the distribution and retail sales services (starting from 1 January 2011) components of the billing are already specified or determinable through the distribution tariffs regulated by the Energy Market Regulatory Authority ("EMRA").

EEDAŞ has measured the financial asset at fair value, with the effective interest method which is calculated by discounting estimated future cash receipts with regards to the compensation of TOR and the initial and annual capital expenditures made by EEDAŞ, through the expected life of the arrangement and set "Financial Asset" on the consolidated financial position and recognizes the revenue on an effective interest method as "Finance Income from Service Concession Arrangements".

4.8 Inventories

The Group's inventories mainly consist of raw materials and consumables, which are charged to statement of profit or loss as consumed. Inventories are valued at the lower of cost or net realizable value (Note 11). Net realizable value is the estimated selling price in ordinary course of business, less selling expenses. Cost elements included in inventories comprise all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is determined on weighted average basis.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.9 Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements.

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

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

b) An entity is related to a reporting entity if any of the following conditions applies:

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

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.10 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment, if any (Note 15). Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets. 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. The depreciation periods for property, plant and equipment, which approximate the economic useful lives of such assets, are as follows:

	Years
Buildings	10-50
Land improvements	5-50
Machinery and equipment	6-20
Motor vehicles	3-5
Furniture and fixtures	5-10
Leasehold improvements	4

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized. Sales proceeds obtained during testing the equipment while bringing the asset to the desired location and condition are deducted from the cost of property, plant and equipment. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Liquidated damages represent contractual payments to a buyer of property, plant and equipment for the non-delivery or non-completion of a construction of property, plant and equipment by a stated completion date. Liquidated damages relating to amounts receivable from contractors in respect of the late commissioning of new power plants are recorded as income when they represent compensation for lost earnings to the extent that the basis of the calculation is clearly related to the earnings lost, otherwise they are recorded as a reduction in the cost of the asset.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.11 Intangible assets

Intangible assets include rights, licences for electricity production, software and other identifiable rights. Intangible assets are carried at cost less accumulated amortisation (Note 16). Amortisation is calculated using the straight-line method based on the estimated useful lives of the assets. The amortisation periods for intangible assets, which approximate the economic useful lives of such assets, are as follows:

	Years
Licences (*)	20-49
Rights	5-15
Other intangibles	3-8

(*) Useful lives of licences are between commercial acceptance and end of licence period.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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.

Customer contracts and relations and TOR

Customer contracts and relations 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 useful lives of customer contracts and relations range between 25-30 years.

Computer software

Acquired computer software licenses 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.

4.12 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.12 Impairment of tangible and intangible assets other than goodwill (Continued)

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4.13 Financial leasing transactions

Leasing - the Group as Lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4.14 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the 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, "CGU"). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

4.15 Available-for-sale financial assets

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All investment securities are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associates with the investment. After initial recognition, investment securities that are classified as available-for-sale are measured at fair value unless fair value cannot be reliably measured.

Other financial assets in which the Group has interest below 20%, that do not have a quoted market price in active markets and whose fair value cannot be measured reliably are carried at cost, if applicable, less any provision for diminution in value. Available-for-sale investments that have a quoted market price in active markets and whose fair values can be measured reliably are carried at fair value.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.15 Available-for-sale financial assets (Continued)

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are deferred in the equity until the financial asset is sold, collected or otherwise disposed of. When available-for-sale securities are sold, collected or otherwise disposed of, related deferred gains and losses in equity are released to the statement of profit or loss. For the period presented in these consolidated financial statements there is no fair value reserve.

4.16 Financial assets

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity investments', 'available-for-sale' ("AFS") financial assets and 'loans and receivables'.

Effective interest method

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

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Loans and receivables

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

Impairment of financial assets

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180-365 days based on different customer segments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.16 Financial assets (Continued)

Impairment of financial assets (Continued)

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

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits 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 subject to an insignificant risk of changes in value.

4.17 Financial liabilities and equity

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

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in 'other gains/losses' line in the consolidated statement of profit or loss.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.17 Financial liabilities and equity (Continued)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

4.18 Foreign currency transactions

Transactions in foreign currencies during the period have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated at the exchange rates prevailing at period-end. Exchange gains or losses arising on the settlement and translation of foreign currency items has either been included in the consolidated statement of profit or loss or been capitalized where appropriate.

4.19 Provisions, contingent assets and liabilities

Provisions are recognised in the consolidated financial statements, when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate, used to calculate the present value of the provision should be pre-tax rate reflecting the current market assessments of the time value of money and the risks specific to the liability. The discount rate shall not reflect risks for which future cash flow estimates have been adjusted.

A possible obligation or asset that arises 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 have not been recognised in these consolidated financial statements and treated as contingent liabilities and contingent assets.

4.20 Provisions for employee benefits

Provision for employment termination benefits represents the present value of the estimated total provision of the future probable obligation of the Group arising from the retirement of the employees calculated in accordance with the Turkish Labour Law. In accordance with existing social legislation and Turkish Labour Law in Turkey, the Group is required to make lump-sum termination indemnities to each employee whose employment is terminated due to retirement or for reasons other than resignation or misconduct and who has completed at least one year of service. Provision is made for the present value of the defined benefit obligation calculated using the projected unit credit method.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.20 Provisions for employee benefits (Continued)

Provision for unused vacation and provision for personnel premium have been reclassified to provision for employee benefits and have been applied consistently with previous years (Note 20).

4.21 Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise cash and amounts due from banks with maturity periods of less than three months.

4.22 Trade receivables

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

A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to operating expenses.

4.23 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.

When the Group borrows funds specifically for the purpose of the qualifying assets, the amount of borrowing costs eligible for capitalization is the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.24 Taxation

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 tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and it excludes items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 end of the reporting period.

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.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.24 Taxation (Continued)

Current and deferred tax for the period

Current and deferred tax are recognized as in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

4.25 Share capital, share premium and dividends

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared. Share premium represents the difference between the nominal value of Group shares and the net proceeds from the capital contributions of the shareholders of the Group.

4.26 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.27 Business combinations and legal mergers

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with TAS 12 *Income Taxes* and TAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with TFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with TFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.27 Business combinations and legal mergers (Continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with TAS 39, or TAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Legal mergers arising between companies controlled by the Group are not within the scope of business combinations. Consequently, no goodwill is recognised in such transactions. Similarly the effects of all transactions between the legally merged enterprises, whether occurring before or after the legal merger, are eliminated in the preparation of consolidated financial statements.

4.28 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value. Short duration payables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant.

4.29 Derivative financial instruments, cash flow hedges and hedge accounting

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Company designs certain derivatives as hedges of the fair value of the recognized assets or liabilities or firm commitments (fair value hedges). Fair value is generally determined by using the quoted prices in an active market. A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized and settled within 12 months. Other derivatives are presented as current assets or current liabilities.

The changes in the fair value of derivatives that do not meet the criteria for hedge accounting are recognized in the statement of profit or loss.

When the derivative is designated as a hedge instrument and qualifies for cash flow hedge, the effective portion of changes in the fair value of derivatives is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.29 Derivative financial instruments, cash flow hedges and hedge accounting (Continued)

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedge instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss.

The derivative financial instruments of the Group consist of interest rate swap transactions, cross currency swaps and foreign exchange forwards. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate Until 30 June 2009, the difference between the fair value and the initial cost of the interest rate swap transactions is recognised as fair value gain/loss on interest rate swap transaction contracts in the consolidated statement of profit or loss. After 1 July 2009, the Group has designated the interest rate swap transactions as a hedge instrument and applied hedge accounting.

4.30 Statement of cash flows

Cash flows during the year are classified and reported by operating, investing and financing activities in the cash flow statements.

Cash flows from operating activities represent the cash flows of the Company generated from the ordinary course of business.

Cash flows related to investing activities represent the cash flows that are used in or provided by investing activities of the Company.

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

Cash and cash equivalents comprise cash on hand, due from banks and highly liquid investments with original maturity periods of less than three months.

4.31 Earnings per share

Earnings per share are determined by dividing net profit by the weighted average number of shares that have been outstanding during the periods concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings and revaluation surplus. For the purpose of earnings per share computations, such Bonus Share issuances are regarded as issued shares. Accordingly the weighted average number of shares used in earnings per share computations is derived by giving retroactive effect to the issuances of the shares without consideration.

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shared in issue.

There was no difference between basic and diluted earnings per share for any class of shares for any of the periods.

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.31 Earnings per share (continued)

	1 January 31 December 2016	1 January 31 December 2015
Net income for the year	294	284
Weighted average number of ordinary shares in issue	959,068,542,000	959,068,542,000
Basic earnings per share (Kr)	0.03	0.03

4.32 Offsetting

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

4.33 Events after the reporting period

In the case of the occurrence of subsequent events after the date of the statement of financial position which require the statement of financial position to be adjusted, the Group corrects its consolidated financial statements in consideration of the new events. Events which do not require adjustments are explained in the notes to the consolidated financial statements if they are material as they could affect investors' decisions.

NOTE 5 - FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Group's risk management systems are in accordance with the accepted risk management best practices (COSO framework and ISO 31000:2009). The Board (via the Board Risk Committee) is responsible for the evaluation of the different types of risks including financial, strategic and operational risks to which Group is exposed to. Furthermore the Board assesses Group's organization, guidelines, policies and processes for monitoring, managing and mitigating such risks.

Market Risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk through the impact of rate changes in the translation of foreign currency denominated assets and liabilities to local currency. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. These risks are monitored and limited by the analysis of the foreign currency position.

	31 December 2016	31 December 2015
Assets	5,431	2,779
Liabilities	(10,467)	(7,202)
Net foreign currency position	**(5,036)**	**(4,423)**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Market Risk (Continued)

(i) Foreign exchange risk (Continued)

Turkish Lira equivalent of assets and liabilities denominated in foreign currency held by the Group at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016				31 December 2015			
	USD	**Euro**	**Other (*)**	**Total**	**USD**	**Euro**	**Other**	**Total**
Assets:								
Cash and cash equivalents	3	1	-	4	-	2	-	2
Trade receivables	-	11	-	11	-	-	-	-
Other receivables from third parties	1	101	-	102	1	6	-	7
Total assets	**4**	**113**	**-**	**117**	**1**	**8**	**-**	**9**
Liabilities:								
Bank borrowings	-	(6,861)	-	(6,861)	-	(6,403)	-	(6,403)
Other financial liabilities	-	(270)	-	(270)	-	(253)	-	(253)
Trade payables	(25)	(127)	(1)	(153)	(10)	(318)	(1)	(329)
Other payables to third parties	-	(95)	-	(95)	-	(9)	-	(9)
Total liabilities	**(25)**	**(7,353)**	**(1)**	**(7,379)**	**(10)**	**(6,983)**	**(1)**	**(6,994)**
Net foreign currency position	**(21)**	**(7,240)**	**(1)**	**(7,262)**	**(9)**	**(6,975)**	**(1)**	**(6,985)**
Off-balance sheet derivative assets denominated in foreign currencies	2,820	2,484	10	5,314	-	2,770	-	2,770
Off-balance sheet derivative liabilities denominated in foreign currencies	(2,816)	(164)	(108)	(3,088)	(2)	(206)	-	(208)
Net foreign currency position off balance-sheet items	**4**	**2,320**	**(98)**	**2,226**	**(2)**	**2,564**	**-**	**2,562**
Net foreign currency asset/liability position	**(17)**	**(4,920)**	**(99)**	**(5,036)**	**(11)**	**(4,411)**	**(1)**	**(4,423)**

(*) The off-balance-sheet items includes EUR/USD derivative instruments.

The Group is mainly exposed to foreign exchange risk through the impact of rate changes in the translation of USD and Euro denominated assets and liabilities to local currency except Euro denominated derivative financial instruments. Since the effective portion of changes in the fair value of Euro denominated derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income, foreign exchange gains or losses arising from the valuation of these instruments are also recognised in other comprehensive income.

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Market Risk (Continued)

(i) Foreign exchange risk (Continued)

At 31 December 2016, if the USD had strengthened / weakened by 10% against the TL with all other variables held constant, profit before taxation on income would have been TL 2 lower / higher (31 December 2015: TL 1 lower / higher).

At 31 December 2016, if the Euro had strengthened / weakened by 10% against the TL with all other variables held constant, profit before taxation on income would have been TL 197 lower / higher (31 December 2015: TL 66 lower and TL 71 higher).

At 31 December 2016, if the USD had strengthened / weakened by 10% against the TL with all other variables held constant, hedge reserves before taxation would have been TL 282 lower / higher (31 December 2015: - lower / higher).

At 31 December 2016, if the Euro had strengthened / weakened by 10% against the TL with all other variables held constant, hedge reserves before taxation would have been TL 12 lower / higher (31 December 2015: 19 lower / higher).

(ii) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. As the Group has significant interest-bearing assets, the Group's income and operating cash flows are substantially dependent to changes in market interest rates. The Group has interest rate risk arising from long-term borrowings. Borrowings and derivative instruments at variable rates expose the Group to interest rate risk.

Interest rate positions of the Group at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Euro denominated financial liabilities / (assets)		
Financial liabilities with floating interest rates	4,193	3,633
Fair value of interest rate swap agreement (Note 17)	164	206
Fair value of foreign exchange forwards	(72)	(131)
Fair value of cross currency swap agreement (Note 17)	(40)	(15)

The effect of a hypothetical 100 basis point (1%) increase / decrease in interest rates of Euro denominated financial liabilities without interest rate swap agreement with floating interest rates would increase / decrease the interest expense by TL 43 (2015: TL 35).

The effect of a hypothetical 100 basis point (1%) increase / decrease in interest rates of Euro denominated financial liabilities with interest rate swap agreement would decrease / increase the fair value of interest rate swap agreement by TL 22 (2015: TL 22).

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Liquidity Risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

Liquidity risk of the Group arising from financial liabilities at 31 December 2016 and 2015 are as follows:

31 December 2016	**Carrying value**	**Total cash outflows**	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Bank borrowings	13,673	15,933	678	4,261	9,564	1,430
Other financial liabilities	270	285	9	17	118	141
Trade payables	1,407	1,407	1,407	-	-	-
	15,350	**17,625**	**2,094**	**4,278**	**9,682**	**1,571**

31 December 2015	**Carrying value**	**Total cash outflows**	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Bank borrowings	11,414	13,707	988	2,052	8,885	1,782
Other financial liabilities	253	267	4	19	94	150
Trade payables	1,407	1,407	1,407	-	-	-
Payable to Privatization Administration	1,188	1,304	-	1,304	-	-
	14,262	**16,685**	**2,399**	**3,375**	**8,979**	**1,932**

(Amounts expressed in millions of Turkish Lira (“TL”), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures to customers, including outstanding receivables. If counterparties fail on the fulfilment of the agreement, the Group is exposed to the risk upon holding the financial instruments. Management covers the risk by limiting the average risk of counterparties (except for related parties) on agreements and by obtaining guarantees if necessary. Trade receivables, are evaluated based on the Group’s policies and procedures and as a result presented net of doubtful provision in the consolidated financial statements. Group management evaluates the adequacy of the provision set for the impaired trade receivable balances based on the aging analysis and considers the receivables overdue by more than 180 days as impaired. In addition, Group management considers irrigation and government receivables overdue by more than 365 days as impaired.

Capital Risk Management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

The gearing ratios at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	**31 December 2015**
Total borrowings	13,943	12,855
Cash and cash equivalents	(110)	(258)
Net debt	13,833	12,597
Total equity	9,489	9,439
Total capital	23,322	22,036
Gearing ratio	59%	57%

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Categories of financial instruments

31 December 2016	Loans and receivables (Cash and cash equivalents included) (*)	Derivative instruments accounted through profit and loss	Derivative instruments accounted for hedging purposes	Available for sale investments	Financial liabilities at amortized cost	Carrying value	Fair value	Note
Financial assets								
Cash and cash equivalents (*)	110	-	-	-	-	110	110	7
Trade receivables	2,020	-	-	-	-	2,020	2,020	8, 9
Other receivables	431	-	-	-	-	431	431	10
Available-for-sale financial assets	-	-	-	1	-	1	1	
Derivative financial instruments	-	184	396	-	-	580	580	17
Due from service concession arrangements	4,294	-	-	-	-	4,294	4,294	13
Financial liabilities								
Borrowings	-	-	-	-	13,673	13,673	13,673	18
Other financial liabilities	-				270	270	270	18
Trade payables	-	-	-	-	1,407	1,407	1,407	8, 9
Other payables	-				1,073	1,073	1,073	10
Derivative financial instruments	-	-	628	-	-	628	628	17

(*) Cash and cash equivalents are classified as loans and receivables.

The Group believes that the carrying values of its financial instruments reflect their fair values.

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Categories of financial instruments (Continued)

31 December 2015	Loans and receivables (Cash and cash equivalents included) (*)	Derivative instruments accounted through profit and loss	Derivative instruments accounted for hedging purposes	Available for sale investments	Financial liabilities at amortized cost	Carrying value	Fair value	Note
Financial assets								
Cash and cash equivalents (*)	258	-	-	-	-	258	258	7
Trade receivables	1,926	-	-	-	-	1,926	1,926	8, 9
Other receivables	348	-	-	-	-	348	348	10
Available-for-sale financial assets	-	-	-	1	-	1	1	
Derivative financial instruments	-	131	15	-	-	146	146	17
Due from service concession arrangements	3,021	-	-	-	-	3,021	3,021	13
Financial liabilities								
Borrowings	-	-	-	-	11,414	11,414	11,414	18
Other financial liabilities	-	-	-	-	253	253	253	18
Trade payables	-	-	-	-	1,407	1,407	1,407	8, 9
Other payables	-	-	-	-	889	889	889	10
Derivative financial instruments	-	3	206	-	-	209	209	17
Payable to Privatization Administration	-	-	-	-	1,188	1,188	1,188	10

(*) Cash and cash equivalents are classified as loans and receivables.

The Group believes that the carrying values of its financial instruments reflect their fair values.

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Fair value estimation

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 classification of the Group's financial assets and liabilities at fair value is as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

In the consolidated balance sheet, derivative financial instrument is recognised at fair value. The fair value of derivative financial instrument is determined by using valuation technique, which can be regarded as level 2. Apart from that, for disclosure purposes, the borrowings carried at the amortised cost at the balance sheet are presented with their values in Note 18. The fair value of borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments that can be classified as level 2. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables and payables.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and liabilities are determined.

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Fair value estimation (Continued)

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 December 2016	31 December 2015				
Foreign currency forward contracts	432	130	Level 2	Discounted cash flow model: Forward exchange rates (observable forward exchange rates at the end of the reporting period) and the estimated future cash flows determined by using the contract rates are discounted by using a rate that reflects the credit risk of the various parties.	-	-
FX forward transactions for USD indexed sales	356	-	Level 2	Discounted cash flow model: Forward exchange rates (observable forward exchange rates at the end of the reporting period) and the estimated future cash flows determined by using the contract rates are discounted by using the market interest rate.	-	-
Interest rate swaps	(164)	(206)	Level 2	Discounted cash flow model: Forward interest rate (the interest rate that is derived from the observable yield curve at the end of the reporting period) and the estimated future cash flows determined by using the contract interest rates and forward exchange rates are discounted by using a rate that reflects the credit risk of the various parties.	-	-
Cross currency swaps	40	15	Level 2	Discounted cash flow model: Forward interest rate (the interest rate that is derived from the observable yield curve at the end of the reporting period) and the estimated future cash flows determined by using the contract interest rates and forward exchange rates are discounted by using a rate that reflects the credit risk of the various parties.	-	-
Commodity swap	-	(3)	Level 2	Discounted cash flow model: Forward commodity prices (observable forward commodity prices at the end of the reporting period) and the estimated future cash flows determined by using the contract commodity prices are discounted by using the market interest rate.	-	-
Deposits given	163	133	Level 2	Consumer Price Index ("CPI")	-	-
Deposits and guarantees received	(881)	(736)	Level 2	CPI	-	-
Due from service concession arrangements	4,294	3,021	Level 2	CPI	-	-

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 6 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

6.1 Impairment of property and equipment and intangible assets

The carrying amounts of the Group's property and equipment and intangible assets are reviewed at each balance sheet date to determine whether there are any indicators of impairment as described in Note 4.12. In connection with the audit of the consolidated financial statements of the Group as of 31 December 2016, the Group have performed certain procedures regarding the annual assessment of enterprise values with respect to impairment of assets under the context of Turkish Accounting Standard No. 36 Impairment of Assets ("TAS 36"). The Group recognised an impairment of TL 191 in 2015, for Murat Nehri power plant in accordance with Turkish Financial Reporting Standards No. 5 Current Asset Held For Sale and Discontinued Operations ("TFRS 5") (Note 32). The basis for the impairment loss is mainly driven by Group management's estimate of the range of economic conditions that will exist over the remaining useful life of the asset. The carrying value of these assets is written down to the total of the estimated value of the "land" and "scrap" value.

6.2 Impairment test of goodwill for EEDAŞ

Pursuant to TAS 36, Impairment of Assets, the Group tested goodwill as of 31 December 2016 in accordance with the accounting policy stated at (Note: 4.14). The goodwill impairment test is carried out for Retail and Distribution Cash Generating Units ("CGUs").

The following assumptions were used to determine the recoverable amount of Retail CGU:

CGU:	**Retail**
Base used for the recoverable amount:	Value in use
Source:	Forecasted cash flows
WACC (TL):	Between 14.5%

The net present value of Retail CGU was calculated by discounting the TL post-tax free cash flows, which is the functional currency of the Group. The Group compared the recoverable amount calculated based on the aforementioned assumptions to the total value of Retail CGU and no impairment was identified.

The following assumptions were used to determine the recoverable amount of Distribution CGU:

CGU:	**Distribution**
Base used for the recoverable amount:	Value in use
Source:	Forecasted cash flows for the licence period
WACC (TL):	Between 13.0%

The net present value of Distribution CGU was calculated by discounting the post-tax free cash flows for the discrete period from 2015 to 2036 for BEDAŞ and from 2015 to 2042 for AYEDAŞ and TOROSLAR EDAŞ. This calculation includes the discounted values of the TL cash flows of Distribution CGU which is the functional currency of the Group. The Group compared the recoverable amount calculated based on the aforementioned assumptions to the total value of Distribution CGU and no impairment was identified.

NOTE 6 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

6.3 Provisions

As described in the accounting policies above, the Group measures provisions at the Group management's best estimate of the expenditure required to settle the obligations at the balance sheet date. These estimates are made, taking into account information available and different possible outcomes.

The Group is subject to various legal proceedings, claims and regulatory discussions, the outcomes of which are subject to uncertainty. The Group evaluates, among other factors, the degree of probability of an unfavourable outcome and the ability to make a reasonable estimate of the amount of loss. Unforeseeable events or changes in these factors may require an increase or a decrease of the amount that the Group has accounted for any matter or provision for a matter that has not been previously provided for as it was either not considered probable or a reasonable estimate could not be made.

6.4 Deferred income tax assets for the carry forward unused tax losses and investment incentives

Deferred tax assets may only be recognised to the extent it is probable that sufficient taxable profit will be available in the future. In case of a probable tax advantage, deferred income tax asset is calculated for unused carry forward tax losses and investment incentives.

6.5 Service concession arrangements in EEDAŞ

The Group determines the financial asset and financial income balances recognized under service concession arrangements based on the cash flows derived from the tariffs announced by EMRA. The distribution revenue requirement of the Group during the second (2011 - 2015) and third tariff periods (2016 - 2020) was determined by EMRA considering the projected expenses and related tariffs which were published in 2010 and 2015. Moreover, distribution revenue requirements from the end of third tariff period to the end of license (2036 for BEDAŞ and 2042 for AYEDAŞ and TOROSLAR EDAŞ) are expected by the Group management based on the tariff components announced for the third tariff period. These tariffs are revised yearly due to inflation, based on the changes in the Electricity Market Index ("EMI" is defined as change in won the communique of Distribution System). In determination of the aforementioned projected cash inflows in the upcoming periods the Group management made expectations related to the CPI and WACC rates.

6.6 Revenue recognition in EEDAŞ

Invoices of the subscribers other than residential and commercial groups are issued monthly at the end of each month by the Group whereas the invoices of the residential subscribers are issued continuously during each month due to the high number of subscribers in this group. Commercial group subscribers are also issued continuously during the month due to the high number of customers in this group although the subscribers with high consumption level are billed at the end of the month. As a result, the total electricity supplied to the residential and commercial subscribers during each month cannot be invoiced and income accruals are recognized as revenue at period-ends for these customer groups based on the actual billing performance.

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 6 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

6.7 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. For each of the financial instrument, valuation techniques and assumptions are used.

Fair value of non-derivative financial instruments, which is determined for disclosure purposes, is determined based on the present value of future principal and interest cash flows. These cash flows are calculated based on discount rate prevailing at the reporting date.

NOTE 7 - CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash at banks		
- time deposits	21	80
- demand deposits	70	99
- repurchase agreements	19	79
	110	**258**

According to the Security and Accounts Agreement that was signed between the Group and the Creditors (Note 18), the Group is obliged to maintain the deposits in restricted accounts and permitted non-restricted accounts. Establishment, maintenance and transfer into and out of these accounts are defined in the Security and Accounts Agreement. Restricted accounts are mainly for equity disbursement, loan disbursement, revenue payments, insurance and compensations, sponsor support disbursement and additional expenditures. Permitted non-restricted accounts are for dividend distribution ("Distribution Account"), payment of operating and maintenance costs (including payment of personnel costs, social security premium, utilities, taxes, royalty fees and general management expenditures), payments related to trade instruments provided by any bank ("Trade Instrument Accounts") and general corporate purposes within the ordinary course of its business. The Group at no time shall maintain any accounts other than restricted accounts and permitted nonrestricted accounts, and shall grant first ranking perfected security over each account other than the Distribution Account and the Trade Instrument Accounts.

At 31 December 2016, time deposits are all short term with periods of less than three months, where the average interest rates for TL 21 time deposits were 11.1% p.a. (2015: TL 80 time deposits was 12.3% p.a.).

As at 31 December 2016, TL 26 of the Group's demand deposits is blocked at different banks (31 December 2015: TL 24). These blocked deposits are related to the collections made through bank branches which are made available for use by banks 1 or 2 days after the collection depending on the agreements with related banks.

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 7 - CASH AND CASH EQUIVALENTS (Continued)

As of 31 December 2016 repurchase agreements consist of short term TL balances with original maturities between 1-3 days (31 December 2015: 1-3 days). The weighted average effective interest rate of TL repurchase agreements is 11.80% as at 31 December 2016 (31 December 2015: 11.10%).

NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Amounts due from and due to related parties at 31 December 2016 and 31 December 2015 and a summary of major transactions with related parties during the period are as follows:

8.1 Deposits and repurchase agreements at banks

	31 December 2016	31 December 2015
Akbank T.A.Ş.	25	185

8.2 Loans from related party banks

	31 December 2016	31 December 2015
Akbank T.A.Ş.	3,537	2,682

8.3 Derivative financial instruments

Akbank T.A.Ş.

	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
FX forward transactions for USD indexed sales	144	(182)	-	-
Foreign exchange forwards	13	-	33	-
Interest rate swap	-	(74)	-	(93)
Commodity swap	-	-	-	(3)
	157	**(256)**	**33**	**(96)**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

8.4 Due from related parties

Trade receivables:

	31 December 2016	31 December 2015
Çimsa Çimento Sanayi ve Ticaret A.Ş. ("Çimsa")	29	30
Akçansa Çimento Sanayi ve Ticaret A.Ş. ("Akçansa")	27	32
Kordsa Global End. İplik ve Kord Bezi San. ve Tic. A.Ş. ("Kordsa Global")	6	4
Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş. ("Brisa")	6	6
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş. ("Carrefoursa")	5	4
Akbank T.A.Ş.	2	2
Other	2	4
	77	**82**

As of 31 December 2016 and 31 December 2015, due from related parties have maturities of less than one month.

8.5 Due to related parties

	31 December 2016	31 December 2015
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş. ("Bimsa")	7	13
Other	1	1
	8	**14**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

8.6 Sales

	1 January-31 December 2016	1 January-31 December 2015
Çimsa	117	56
Akçansa	101	56
Carrefoursa	57	43
Kordsa Global	53	38
Brisa	47	47
Akbank T.A.Ş.	31	25
Philsa Philip Morris Sabancı Sigara ve Tütüncülük A.Ş.	16	15
Teknosa İç ve Dış Tic. A.Ş.	4	5
Temsa Global Sanayi ve Ticaret A.Ş.	4	3
Hacı Ömer Sabancı Holding A.Ş.	3	1
Other	-	1
	433	**290**

8.7 Purchases and services received

	1 January-31 December 2016	1 January-31 December 2015
Hacı Ömer Sabancı Holding A.Ş.	3	2
Aksigorta A.Ş.	-	1
	3	**3**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

8.8 Financial income/(expense)

	1 January- 31 December 2016	1 January- 31 December 2015
Interest income		
Akbank T.A.Ş.	28	30
Interest expense		
Akbank T.A.Ş.	(318)	(212)
	(290)	**(182)**
Foreign currency loss		
Akbank T.A.Ş.	(146)	(72)
	(436)	**(254)**

8.9 Other income

	1 January- 31 December 2016	1 January- 31 December 2015
Kordsa Global	3	-
Brisa	3	-
	6	**-**

8.10 Other expense

	1 January- 31 December 2016	1 January- 31 December 2015
Bimsa	23	4
	23	**4**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

8.11 Key management compensation

Key management includes Chief Executive Officer, Chief Financial Officer, Directors and above. The compensation paid or payable to key management for employee services is shown below:

	1 January- 31 December 2016	1 January- 31 December 2015
Short-term benefits	17	13
Other long-term benefits	9	7
	26	**20**

NOTE 9 – TRADE RECEIVABLES AND PAYABLES

Trade receivables

	31 December 2016	31 December 2015
Customer current accounts	2,983	2,742
Due from related parties (Note 8)	77	82
Allowance for doubtful receivables (-)	(1,040)	(898)
	2,020	**1,926**

As of 31 December 2016, trade receivables amounting to TL 1,498 (31 December 2015: TL 1,481) were neither past due nor impaired. The average credit period on sale of electricity is less than one month.

As of 31 December 2016, trade receivables amounting to TL 522 (31 December 2015: TL 445) were past due but not impaired. The balance mainly relates to many independent public and private subscribers of EEDAŞ. The aging analysis of these trade receivables is as follows as of 31 December 2016 and 31 December 2015:

	31 December 2016	31 December 2015
Up to 3 months	416	321
3 to 6 months	95	120
More than 6 months	11	4
	522	**445**

As of 31 December 2016, trade receivables of TL 1,040 (31 December 2015: TL 898) were considered as impaired and a provision was provided for these trade receivables. The provision for trade receivables is provided based on the aging analysis. Group management considers the receivables overdue by more than 180 days as impaired by taking the past default experience into consideration. In addition, Group management considers irrigation and government receivables overdue by more than 365 days as impaired.

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NOTE 9 – TRADE RECEIVABLES AND PAYABLES (Continued)

Trade receivables (Cont'd)

Movements on the provision for allowance of trade receivables are as follows:

Movement of allowance for doubtful receivables:	1 January - 31 December 2016	1 January - 31 December 2015
Balance at the beginning of the year	(898)	(894)
Additions	(271)	(182)
Amounts recovered during the year	126	178
Write-off amount	3	-
Closing balance	**(1,040)**	**(898)**

The Group received guarantee letters amounting to TL 861 (31 December 2015: TL 745) and deposits and guarantees amounting to TL 881 (31 December 2015: TL 737) as collateral for its electricity receivables.

Trade payables

	31 December 2016	31 December 2015
Payables to suppliers (*)	1,345	1,311
Due to related parties (Note 8)	8	14
Boru Hatları ile Petrol Taşıma A.Ş. ("BOTAŞ")	54	82
	1,407	**1,407**

(*) Trade payables mainly arise from the Group's electricity purchases made from Türkiye Elektrik Ticaret ve Taahhüt A.Ş. (TETAŞ) and Enerji Piyasaları İşletme A.Ş. (EPİAŞ), natural gas purchases from Botaş and payables to suppliers related to construction of power plants. At 31 December 2016 and 31 December 2015, trade payables have maturities less than one month.

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 10 – OTHER RECEIVABLES AND PAYABLES

Other current receivables

	31 December 2016	31 December 2015
Income accruals (*)	275	215
Deposits and guarantees given	26	24
Receivables subject to arbitration	15	15
Transmission line receivables (**)	13	19
Receivables due from late payment	5	-
Receivables from liquidated damages	-	35
Other	100	43
	434	351
Less: Provision for impairment of other receivables	(3)	(3)
	431	**348**

Other non-current receivables

	31 December 2016	31 December 2015
Deposits and guarantees given (***)	163	133
Transmission line receivables (**)	80	88
Income accruals (*)	34	251
Other	36	-
	313	**472**

(*) According to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations the Group's distribution, transmission and meter reading services have revenue caps which cover operating expenses and investment requirements related to distribution and meter reading. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by TEİAŞ. These regulations guarantee a revenue to the Group regardless of the consumption level of subscribers. The underbillings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years. The effects of the underbillings, which means the actual revenue is below the revenue cap set by EMRA, are accounted as income accruals at the Group's consolidated financial statements.

(**) The Group constructs energy transmission lines on behalf of TEİAŞ and reflects the cost to TEİAŞ. As of 31 December 2016, receivables from TEİAŞ regarding the construction of transmission lines are mainly related with the Tufanbeyli, Hacınınoğlu, Menge, Arkun, Yamanlı, Kavşakbendi, Çambaşı and Kandil projects. The Group will collect the related amount in equal monthly instalments in maximum of ten years.

(***) The balance represents subscription fees refunded to the subscribers, subscribed before 31 March 2006 for EPS and 24 July 2006 for AEPSAŞ and TOROSLAR EPSAŞ when they leave the system. The balances were paid to the subscribers based on their adjusted amounts by inflation rate as required by EMRA periodically. According to the TOR Agreement signed with TEDAŞ, retail companies (EPS, AEPSAŞ and TOROSLAR EPSAŞ) are obliged to keep deposits refunded with their fair values and the net balance of deposits received and paid will be paid back to TEDAŞ at the end of the license periods.

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NOTE 10 – OTHER RECEIVABLES AND PAYABLES (Continued)

Other current payables

	31 December 2016	31 December 2015
Deposits and guarantees received	39	47
Taxes and dues payable	14	17
Other	153	106
	206	**170**

Other non-current payables

	31 December 2016	31 December 2015
Deposits and guarantees received (*)	881	737
	881	**737**

(*) The Group received deposits from the customers subscribed after 31 March 2006 for EPS and 24 July 2006 for AEPSAŞ and TOROSLAR EPSAŞ upon their subscription on behalf of TEDAŞ and these deposits are initially recorded at their fair values as the subscription fee charged to customers represents the fees announced by EMRA. According to the TOR Agreements signed with TEDAŞ, retail companies (EPS, AEPSAŞ and TOROSLAR EPSAŞ) are obliged to carry the deposits received by their fair values and the net balance of deposits received and paid will be paid back to TEDAŞ at the end of the license period.

NOTE 11 – INVENTORIES

	31 December 2016	31 December 2015
Consumables	173	131
Materials	12	5
Other inventory	1	2
	186	138
Less: Provision for impairment of inventories	(4)	(4)
	182	**134**

	1 January- 31 December 2016	1 January- 31 December 2015
1 January	**(4)**	**-**
Charged to statement of profit or loss	-	(4)
31 December	**(4)**	**(4)**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 12 – PREPAID EXPENSES AND DEFERRED REVENUE

Short - term prepaid expenses

	31 December 2016	31 December 2015
Prepaid expenses	13	13
Business advances given	5	2
Inventory advances given	4	6
	22	**21**

Long - term prepaid expenses

	31 December 2016	31 December 2015
Advances given for property, plant and equipment	167	248
Other	-	1
	167	**249**

Short - term deferred revenue

	31 December 2016	31 December 2015
Deferred income (*)	166	173
	166	**173**

Long - term deferred revenue

	31 December 2016	31 December 2015
Deferred income (*)	26	102
	26	**102**

(*) According to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations the Group's distribution, transmission and meter reading services have revenue caps which cover operating expenses and investment requirements related to distribution and meter reading. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by TEİAŞ. These regulations guarantee a revenue to the Group regardless of the consumption level of subscribers. The underbillings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years. The effects of the overbillings, which means the actual revenue is above the revenue cap set by EMRA, are accounted as deferred income at the Group's consolidated financial statements.

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NOTE 13 – DUE FROM SERVICE CONCESSION ARRANGEMENTS

Considering the terms in the service concession arrangement, the Group has recognized the discounted estimated future cash receipts through the expected life of the arrangement, as financial asset. The details of the financial assets recognized under the service concession arrangement are as follows:

	31 December 2016	31 December 2015
Short-term due from service concession arrangements	654	456
	654	**456**

	31 December 2016	31 December 2015
Long term due from service concession arrangements	3,640	2,565
	3,640	**2,565**

	31 December 2016	31 December 2015
Gross due from service concession arrangements	48,953	5,290
Unearned financial income	(44,659)	(2,269)
Due from service concession arrangements, net	**4,294**	**3,021**

NOTE 14 - OTHER ASSETS

Other current assets

	31 December 2016	31 December 2015
VAT receivables	3	22
Other	1	3
	4	**25**

Other non - current assets

	31 December 2016	31 December 2015
VAT receivables (*)	488	547
	488	**547**

(*) VAT receivables are mainly related to generation investments. These VAT receivables will be offset against VAT payables arising from revenues generated in the future.

NOTE 14 - OTHER ASSETS (Continued)

Other current liabilities

	31 December 2016	31 December 2015
Taxes and funds payable	166	142
Other	5	4
	171	**146**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 15 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2016	Additions	Disposals	Transfers	Impairment	Reclassified as assets held for sale	Reclassification	31 December 2016
Cost:								
Land	88	-	-	-	-	-	-	88
Land improvements	3,235	2	-	454	-	-	-	3,691
Buildings	428	-	-	550	-	-	-	978
Machinery and equipment	2,939	19	-	3,446	-	-	-	6,404
Spare parts	20	14	-	-	-	-	-	34
Motor vehicles	41	1	-	-	-	-	-	42
Furniture and fixtures	25	28	-	-	-	-	-	53
Leasehold improvements	2	-	-	-	-	-	-	2
Construction in progress	4,222	703	-	(4,450)	-	-	-	475
	11,000	**767**	**-**	**-**	**-**	**-**	**-**	**11,767**
Accumulated depreciation:								
Land improvements	177	87	-	-	-	-	-	264
Buildings	47	14	-	-	-	-	-	61
Machinery and equipment	967	186	-	-	-	-	-	1,153
Motor vehicles	14	6	-	-	-	-	-	20
Furniture and fixtures	16	5	-	-	-	-	-	21
Leasehold improvements	1	-	-	-	-	-	-	1
	1,222	**298**	**-**	**-**	**-**	**-**	**-**	**1,520**
Net book value:								
Land	88							88
Land improvements	3,058							3,427
Buildings	381							917
Machinery and equipment	1,972							5,251
Spare Parts	20							34
Motor vehicles	27							22
Furniture and fixtures	9							32
Leasehold improvements	1							1
Construction in progress	4,222							475
	9,778							**10,247**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 15 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2015	Additions	Disposals	Transfers	Impairment (*)	Reclassified as assets held for sale	Reclassification (**)	31 December 2015
Cost:								
Land	112	-	-	-	-	(23)	(1)	88
Land improvements	3,117	1	(6)	137	-	-	(14)	3,235
Buildings	437	10	(28)	9	-	-	-	428
Machinery and equipment	3,076	11	(18)	42	-	-	(172)	2,939
Spare parts	26	-	(6)	-	-	-	-	20
Motor vehicles	4	37	-	-	-	-	-	41
Furniture and fixtures	22	3	-	-	-	-	-	25
Leasehold improvements	2	-	-	-	-	-	-	2
Construction in progress	3,048	1,976	(145)	(199)	(140)	(293)	(25)	4,222
	9,844	**2,038**	**(203)**	**(11)**	**(140)**	**(316)**	**(212)**	**11,000**
Accumulated depreciation:								
Land improvements	129	76	(5)	-	-	-	(23)	177
Buildings	44	11	(10)	-	-	-	2	47
Machinery and equipment	1,048	125	(15)	-	-	-	(191)	967
Motor vehicles	3	11	-	-	-	-		14
Furniture and fixtures	13	3	-	-	-	-		16
Leasehold improvements	1	-	-	-	-	-		1
	1,238	**226**	**(30)**	**-**	**-**	**-**	**(212)**	**1,222**
Net book value:								
Land	112							88
Land improvements	2,988							3,058
Buildings	393							381
Machinery and equipment	2,028							1,972
Spare Parts	26							20
Motor vehicles	1							27
Furniture and fixtures	9							9
Leasehold improvements	1							1
Construction in progress	3,048							4,222
	8,606							**9,778**

NOTE 15 - PROPERTY, PLANT AND EQUIPMENT (Continued)

(*) Under the context of Turkish Accounting Standard Impairment of Assets ("TAS 36"), the Group has identified an impairment loss of TL 191 in 2015 for Murat Nehri power plant which is classified as asset held for sale. TL 51 of the amount has been recorded under intangible assets (Note 16)

(**) During the transfer of all adjustments and reclassifications in accordance with TFRS to SAP software system, the transitions between cost and accumulated depreciation amounts are corrected without affecting net book values.

TL 285 of current year depreciation expenses is included in cost of sales and TL 13 of it is included in operating expenses (2015: TL 211 and TL 16 respectively).

Based on the provisions of the finance package signed at 13 June 2008, the property, plant and equipment are secured by the lenders.

Total borrowing costs capitalised in 2016 and 2015 are TL (218) (interest expense: TL (55), foreign exchange loss: TL (163)) and TL (451) (interest expense: TL (90), foreign exchange loss: TL (361)), respectively (Note 30).

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 16- INTANGIBLE ASSETS

	1 January 2016	Additions	Disposals	Transfers	Impairment	Reclassification	31 December 2016
Cost:							
Licences	800	1	-	-	-	-	801
Rights	1,656	1	-	-	-	-	1,657
Customer contracts	4,391	-	-	-	-	-	4,391
Goodwill	2,730	-	-	-	-	-	2,730
Other intangibles	25	35	-	-	-	-	60
	9,602	**37**	**-**	**-**	**-**	**-**	**9,639**
Accumulated amortisation:							
Licences	34	15	-	-	-	-	49
Rights	168	57	-	-	-	-	225
Customer contracts	547	152	-	-	-	-	699
Other intangibles	8	4	-	-	-	-	12
	757	**228**	**-**	**-**	**-**	**-**	**985**
Net book value:							
Licences	766						752
Rights	1,488						1,432
and related relationships	3,844						3,692
Goodwill	2,730						2,730
Other intangibles	17						48
	8,845						**8,654**

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

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 16 - INTANGIBLE ASSETS (Continued)

	1 January 2015	Additions	Disposals	Transfers	Impairment (*)	Reclassification (**)	31 December 2015
Cost:							
Licences	817	12	(2)	-	(51)	24	800
Rights	1,681	1	(15)	-	-	(11)	1,656
and related relationships	4,391	-	-	-	-	-	4,391
Goodwill	2,730	-	-	-	-	-	2,730
Other intangibles	8	5	-	11	-	1	25
	9,627	**18**	**(17)**	**11**	**(51)**	**14**	**9,602**
Accumulated amortisation:							
Licences	16	14	(2)	-	-	6	34
Rights	118	57	(14)	-	-	7	168
and related relationships	395	152	-	-	-	-	547
Other intangibles	5	2	-	-	-	1	8
	534	**225**	**(16)**	**-**	**-**	**14**	**757**
Net book value:							
Licences	801						766
Rights	1,563						1,488
and related relationships	3,996						3,844
Goodwill	2,730						2,730
Other intangibles	3						17
	9,093						**8,845**

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NOTE 16 - INTANGIBLE ASSETS (Continued)

(*) Under the context of Turkish Accounting Standard Impairment of Assets ("TAS 36"), the Group has identified an impairment loss of TL 191 in 2015 for Murat Nehri power plant which is classified as asset held for sale. TL 140 of the amount has been recorded under property, plant and equipment (Note 15).

(**) During the transfer of all adjustments and reclassifications in accordance with TFRS to SAP software system, the transitions between cost and accumulated depreciation amounts are corrected without affecting net book values.

TL 15 of current year amortisation expenses is included in cost of sales and TL 213 of it is included in operating expenses (2015: TL 14 and TL 210 respectively).

Customer contracts and related relationships and transfer of operating rights are separately recognised during the business combination according to TFRS 3.

On 31 March 2006 BEDAŞ and on 24 July 2006, AYEDAŞ and TOROSLAR EDAŞ signed TOR Agreements with TEDAŞ. In accordance with the TOR agreement, TEDAŞ transferred the operating rights of the distribution system, the distribution facilities, the other movables and immovables which are crucial for the operation of the distribution facilities to BEDAŞ until the end of 2036 and to AYEDAŞ and TOROSLAR EDAŞ until the end of 2042. Based on the future cash flows fair value of the TOR agreements are determined. The residual value of TOR after the portion recognized as financial asset which calculated based on TFRS Interpretation 12 (Note 17) is recognized as intangible asset based on TFRS 3.

In recognition of customer contracts and related relationships; relationships with the different customer groups are identified and a fair value for retail customers is estimated by Group management.

Customer contracts and related relationships and TOR amortization is calculated on a straight line basis in a range between 25-30 years and charged to operating expenses.

Goodwill is allocated to the Group's cash-generating units (CGUs) through distribution region privatizations. A region level summary of the goodwill allocation is presented below:

	31 December 2016	**31 December 2015**
Toroslar Region	1,104	1,104
Ayedaş Region	893	893
Başkent Region	733	733
	2,730	**2,730**

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NOTE 17 - DERIVATIVE FINANCIAL INSTRUMENTS

The Group entered into the following forward conracts with banks in order to hedge its interest rate risk and to reduce its exchange rate risk associated with the bank borrowings, highly probable USD indexed sales and raw material purchases. Their fair values at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**
FX forward transactions for USD indexed sales	356	(464)	-	-
Foreign exchange forwards	184	-	131	-
Cross currency swap	40	-	15	-
Interest rate swap	-	(164)	-	(206)
Commodity swap	-	-	-	(3)
	580	**(628)**	**146**	**(209)**
Short-term	184	-	131	(3)
Long-term	396	(628)	15	(206)
	580	**(628)**	**146**	**(209)**

According to the contract, 45% portion of the swap transaction is made with the related party bank of the Group, Akbank T.A.Ş..

Movements in fair value of derivative financial instruments can be analysed as follows:

	1 January- 31 December 2016	**1 January- 31 December 2015**
1 January	(63)	(301)
Recognized in / (charged to) statement of profit or loss	325	190
(Charged to) / recognized in other comprehensive income	(310)	48
31 December	**(48)**	**(63)**

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NOTE 18 - BANK BORROWINGS

	Weighted average effective interest rate p.a.		Original currency		TL	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Short-term bank borrowings:						
- TRY borrowings	12.03%	11.76%	1,875	903	1,875	903
					1,875	**903**
Short-term portion of long-term bank borrowings:						
- Euro borrowings	4.35%	4.64%	336	275	1,247	874
- TRY borrowings	12.40%	11.84%	1,566	1,026	1,566	1,026
					2,813	**1,900**
Long-term bank borrowings:						
- Euro borrowings	3.83%	4.03%	1,513	1,740	5,614	5,529
- TRY borrowings	12.47%	11.96%	3,371	3,082	3,371	3,082
					8,985	**8,611**

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NOTE 18 - BANK BORROWINGS (Continued)

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

	31 December 2016	31 December 2015
To be paid between 1-2 years	4,054	3,969
To be paid between 2-3 years	1,607	1,035
To be paid between 3-4 years	1,029	1,080
To be paid between 4-5 years	933	886
To be paid between +5 years	1,362	1,641
	8,985	**8,611**

The management believes that the carrying value approximates its fair value.

Other financial liabilities:

	31 December 2016	31 December 2015
Other current financial liabilities	25	21
Other non-current financial liabilities	245	232
	270	**253**

The other financial liabilities are repayable as follows:

	31 December 2016	31 December 2015
To be paid within 1 year	25	21
To be paid between 1-2 years	26	21
To be paid between 2-3 years	26	22
To be paid between 3-4 years	27	22
To be paid between 4-5 years	33	23
To be paid more than 5 years	133	144
	270	**253**

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NOTE 18 - BANK BORROWINGS (Continued)

As of 31 December 2016 and 31 December 2015, details of short and long term other financial liabilities in terms of currencies are as follows:

Currency Type	Weighted average effective interest rate	31 December 2016 Current	31 December 2016 Non-current
EUR	4.70%	25	245
		25	**245**

Currency Type	Weighted average effective interest rate	31 December 2015 Current	31 December 2015 Non-current
EUR	4.70%	21	232
		21	**232**

Other financial liabilities represent the payables to TEDAŞ for the capital expenditures denominated in EUR.

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NOTE 19 – PROVISIONS

	31 December 2016	**31 December 2015**
Provision for legal cases [1]	189	152
Provision for water usage right	78	72
Provision for performance fee [2]	6	4
Other provisions	1	2
	274	**230**

[1] Legal claims are set for the probable cash outflows related to the legal disputes. As of 31 December 2016, actual provision amount for the legal claims are determined according to the assesment made by the Group management in which the probability, that the legal cases will be finalized against the Group, is more than 50%.

[2] Consists of the performance fee to be paid in the context of the loan agreement signed on 13 June 2008.

The Group is charging the theft and loss costs to the subscribers in accordance with Tariff determined by Energy Market Regulatory Authority ("EMRA"). There are legal cases filed by the subscribers to claim back the theft and loss amounts from the Group claiming that they are unfair. Some cases are finalized against the Group while some others in favor of the Group. Cancellation of the decisions taken by EMRA within the empowerment law and the applications for the stay of execution of these decisions have been dismissed by the 13th Chamber of Council of State. During this period, EMRA has communicated the current legislations and its instructions regarding the theft and loss applications with the distribution companies. Distribution companies hold the application right to the Constitutional Court for the lost cases.

The law proposed by the Ministry of Energy and Natural Resources, which is draft as of the reporting date, defines EMRA as the ultimate authority for the regulation of electricity tariffs. Therefore, "dismissal of action" is expected for the ongoing theft and loss cases upon the enactment of the aforementioned law as it is proposed. As of reporting date, the total amount of ongoing cases against the Group is TL 176. Moreover, there are ongoing cases against wholesale companies within the distribution regions of the Group which can be revoked to the related distribution companies in case of adverse ruling. Although there is an uncertainty on the judicial process on aforementioned issue, it is expected that possible losses for such cases will be compensated through the tariff mechanism. Therefore, the Group has not provided a provision regarding this issue on the accompanying consolidated financial statements.

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NOTE 19 – PROVISIONS (Continued)

Movements in the provisions can be analysed as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
1 January	**230**	**201**
Provision paid in the current year	(74)	(63)
Charged to statement of profit or loss	118	92
31 December	**274**	**230**

NOTE 20 - PROVISIONS FOR EMPLOYEE BENEFITS AND OBLIGATIONS RELATED TO EMPLOYEE BENEFITS

Short term provisions for employee benefits	31 December 2016	31 December 2015
Provision for personnel premium	21	17
Provision for unused vacation	19	17
Provision for expat employee expenses	1	1
	41	**35**

Long term provisions for employee benefits

	31 December 2016	31 December 2015
Provisions for employee termination benefit	60	63
	60	**63**

Under Turkish Labour Law, the Group 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 (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002 there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TL 4,297.21 (full TL) for each year of service as of 31 December 2016 (2015: TL 3,828.37 (full TL)).

The liability is not funded, as there is no funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees.

TAS 19 "Employee Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly the following actuarial assumptions were used in the calculation of the total liability:

	2016	2015
Discount rate (%)	4.02	3.26
Turnover rate to estimate the probability of retirement (%)	94.56	92.53

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NOTE 20 - PROVISIONS FOR EMPLOYEE BENEFITS AND OBLIGATIONS RELATED TO EMPLOYEE BENEFITS (Continued)

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. On-demand dropout rates were also taken into account as 5,44 % for employees who work between 0-15 years and 0% for employees who work over 16 years. As the maximum liability is revised annually, the maximum amount of TL 4,426.16 (full TL) which is effective from 1 January 2017 (1 January 2016: TL 4,092.53 (full TL)) has been taken into consideration in calculating the reserve for employee termination benefit of the Group.

Movements in the provision for employee termination benefits during the year are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
At the beginning of the year	**63**	**42**
Service cost	20	15
Interest cost	2	2
Actuarial (gain) / loss	(5)	14
Paid during the year	(20)	(10)
At the end of the year	**60**	**63**

Movements in the provision for personnel bonus, unused vacation and expat employee expenses during the year are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
1 January	**35**	**30**
Provision paid in the current year	(19)	(3)
Capitalised over property, plant and equipment	-	2
Charged to statement of profit or loss	25	6
31 December	**41**	**35**

Obligations related to employee benefits:

	31 December 2016	31 December 2015
Social security premiums payable	28	14
Payable to personnel	16	5
	44	**19**

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NOTE 21 – TAXATION

Assets related to current tax	**31 December 2016**	**31 December 2015**
Prepaid taxes and funds	7	9
	7	**9**

Current tax liability

	31 December 2016	**31 December 2015**
Current corporate tax provision	107	99
Less: Prepaid taxes	(101)	(90)
	6	**9**

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. 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.

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.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2016 is 20% (2015: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, 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.

Statutory corporate income tax rate in Turkey is 20 %. However, Turkish Corporate Income Tax Law, provides reduced corporate income tax rate for the investments made within the scope of the Investment Incentive Certificate (IIC).

According to Turkish Corporate Tax Law and the Decree, there are two things that are important to calculate reduced corporate income tax rate. One of them is the rate of contribution to investment and second is the rate of tax reduction. All rates of contribution to investment and all rates of reduced corporate income tax are determined by the Decree according to incentive schemes and regions.

NOTE 21 – TAXATION (Continued)

Corporate Tax (cont'd)

The rate of reduced corporate income tax is %80 and the rate of contribution to investment of Tufanbeyli Thermal Power Plant is 50%, which means the reduced tax rate is calculated as 4% [0,20-(0,20*0,80)] and this will be applied until the contribution to investment amount (50% of the total investment) is reached.

This application allows the profit generated from Tufanbeyli Thermal Power Plant to be taxed from 4%. However, the condition to benefit from this incentive is to gain profit from the investment. In the case of making loss from the investment, the application will not be able to be used.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding is 15% as of 31 December 2016 (31 December 2015: 15%). Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Investment Allowance Exemption

The exemption for investment incentive, which was completely abolished in 2006, continues for companies with rights carried forward from previous years.

Within this scope, there are two different investment incentive applications that are regulated in the income tax law.

a) Companies that qualify for investment incentive within the scope of Article 19 of the Income Tax Law are exempt from 20% the corporate income tax but withholding tax at a rate of 19.8% over the amount of the investment discount (covering the investments under incentive until April 2003).

b) Companies that are entitled to investment incentive within the temporary Article 69 of the Income Tax Law are exempt from 20% corporate tax and at the same time no withholding tax liability arises (covering the investments under incentive between May 2003 – March 2006).

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NOTE 21 – TAXATION (Continued)

Investment Allowance for Tufanbeyli Power Plant

The Group received investment incentive certificate dated 24 February 2012 and finally revised in 25 February 2015 due to additional incentives provided by the Government.

According to the regulation, there are various benefits provided due to use of mines as an input in the electricity generation. Such benefits can be summarised as follows:

1-50% of allowed investment amount are paid back through applying reduced tax rate to Tufanbeyli plant's annual profit (4%)
2- Employer's national insurance contribution support
3- Interest support
4- VAT exemption
5- Customs Duty exemption

Total tax benefit mentioned in the item 1 above is TL 900 as of 31 December 2016. However, during 2017, the Group is planning to apply to the related Government Authority to extend the total benefit to approximately TL 1.300 by adding financial expenditures to its total spending. Total benefit is expected to be recovered within 25 - 30 years and any outstanding amount is subject to indexation at year end by applying annual inflation rate. As of 31 December 2016, the Group recognized TL 96,6 (31 December 2015: TL 124) as deferred tax asset corresponding to amount which can be recovered in the foreseeable future.

The taxation on income for the Group is as follows:

	1 January - 31 December 2016	**1 January - 31 December 2015**
- Corporate tax	(148)	(98)
- Deferred tax	(92)	(50)
	(240)	**(148)**

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NOTE 21 – TAXATION (Continued)

The reconciliation of taxation on income is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Income before income taxes on income (20%)	845	432
Loss before income taxes on income (4%)	(311)	-
Income before income taxes on income total	**534**	**432**
Tax calculated at enacted income tax rate (20%)	(169)	(86)
Tax calculated at enacted income tax rate (4%)	12	-
Adjustment for prior year subject to 4% rate	(13)	-
Non-deductible expenses (20%)	(15)	(4)
Tax losses not recognized as deferred tax asset	(23)	(33)
Investment incentive	(28)	(15)
Tax incentive on capital injection	4	-
Other	(8)	(10)
Taxation on income	**(240)**	**(148)**

Deferred taxes

The Group recognises deferred tax assets and liabilities based upon temporary differences arising between their financial statements as reported for TAS purposes and their statutory tax financial statements.

Deferred taxes will be calculated on temporary differences that are expected to be realised or settled based on the taxable income in coming years under the liability method using enacted tax rate of 20% at 31 December 2016, excluding temporary differences related to Tufanbeyli power plant, which is enacted tax rate of 4% (2015: 20%).

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NOTE 21 – TAXATION (Continued)

Deferred taxes (cont'd)

The breakdown of cumulative temporary differences and the resulting deferred tax assets/(liabilities) provided, at 31 December 2016 and 31 December 2015 using the enacted tax rates, are as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
subject to 20% deferred tax rate				
Property, plant and equipment and intangible assets	4,698	3,493	940	699
Differences arising from customer contracts and transfer of operational rights	(5,135)	(5,342)	(1,027)	(1,068)
Due from service concession arrangements	(4,103)	(2,825)	(821)	(565)
Unused carry forward tax losses	566	778	113	156
Derivative financial instruments	48	63	10	13
Provision for employee termination benefits	60	63	12	13
Provision for doubtful receivables	32	32	6	6
Impairment loss on inventories	4	4	1	1
Impairment of power plants	195	195	39	39
Investment incentive	577	707	115	141
Provisions for legal cases	190	153	38	31
Other differences	(123)	(92)	(24)	(18)
Deferred income tax liabilities-net	**(2,991)**	**(2,771)**	**(598)**	**(552)**
subject to 4% deferred tax rate				
Property, plant and equipment and intangible assets	386	-	15	-
termination benefits	2	-	-	-
Deferred tax liabilities-net	**(2,603)**	**(2,771)**	**(583)**	**(552)**
Deferred tax asset			444	516
Deferred tax liability			(1,027)	(1,068)
Deferred tax liabilities-net			**(583)**	**(552)**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 21 – TAXATION (Continued)

Deferred taxes (Continued)

Deferred tax assets may only be recognised to the extent it is probable that sufficient taxable profit will be available in the future. In case of a probable tax advantage, deferred income tax asset is calculated for unused carry forward tax losses and unused investment incentive.

At 31 December 2016, the Group recognized deferred tax assets amounting to TL 113 for unused carry forward tax losses amounting to TL 566 since it was considered as probable that there would be sufficient taxable income in the subsequent periods to utilise such assets based on the forecasts made (2015: TL 156). The Group also recognized deferred tax assets amounting to TL 115 for investment incentive amounting to TL 577 (2015: 141) and recognized no deferred tax assets for reclassifying of assets as AHFS. (2015: TL 32 for reclassifying of assets as Murat Nehri amounting to TL 162).

The expiration dates of previous years' losses on which deferred tax asset was recognized are as follows:

	31 December 2016	31 December 2015
Expiring in 2 years	90	178
Expiring in 3 years	324	368
Expiring in 4 years	72	160
Expiring in 5 years	80	72
	566	**778**

Movements in deferred income taxes can be analysed as follows:

Deferred income tax liabilities, net	31 December 2016	31 December 2015
1 January	**(552)**	**(496)**
Recognized in statement of profit or loss	(92)	(50)
Charged to other comprehensive income	61	(6)
31 December	**(583)**	**(552)**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 22 - SHARE CAPITAL

Total authorised number of ordinary shares of par value Kr 1 each at 31 December 2016 is 959,068,542,000 (31 December 2015 : 959,068,542,000).

The shareholders of the Enerjisa and their historical shareholdings at 31 December 2016 and 31 December 2015 are stated below:

	31 December 2016		**31 December 2015**	
Shareholders	**Share (%)**	**TL**	**Share (%)**	**TL**
Hacı Ömer Sabancı Holding A.Ş.	50.00	4,795	50.00	4,795
DD Turkey Holdings S.A.R.L. (E.ON)	50.00	4,795	50.00	4,795
		9,590		**9,590**
Adjustment to share capital		(33)		(33)
Total paid-in capital		**9,557**		**9,557**

Share premium

Share premium presented in the consolidated financial statements represents the proceeds obtained by issuing shares above the nominal values during the capital increases following the establishment of the Group.

NOTE 23 - RETAINED EARNINGS AND LEGAL RESERVES

Retained earnings as per the statutory financial statements, other than legal reserve requirements, are available for distribution subject to the legal reserve requirement referred to below.

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

Special reserves and accumulated losses as per the statutory financial statements of the Company are such as below:

	31 December 2016	**31 December 2015**
Special reserves	94	94
Accumulated losses	(52)	(49)

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 24 - TAX EFFECTS OF COMPONENTS OF COMPREHENSIVE INCOME

	31 December 2016			31 December 2015		
	Before tax amount	Tax credit	Net of tax amount	Before tax amount	Tax credit	Net of tax amount
Derivative financial instruments	(310)	62	(248)	48	(9)	39
Actuarial gain / (loss)	5	(1)	4	(14)	3	(11)
			(244)			**28**

NOTE 25 - NET SALES

	1 January - 31 December 2016	1 January - 31 December 2015
Revenue from electricity sales and services provided	9,276	10,481
Distribution revenue	2,704	938
Finance income from service concession arrangements	610	311
Gas sales	30	-
Steam sales	23	25
Other sales	3	110
	12,646	**11,865**
Electricity sales during trial period deducted from the cost of property, plant and equipment	(81)	-
	12,565	**11,865**

NOTE 26 - COST OF SALES

	1 January - 31 December 2016	1 January - 31 December 2015
Cost of trade goods sold	(7,184)	(7,649)
Raw materials usage	(807)	(607)
System usage fees	(798)	(569)
Depreciation and amortisation (Note 15-16)	(300)	(225)
Other	(243)	(215)
	(9,332)	**(9,265)**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 27 – OPERATING EXPENSES

	1 January- 31 December 2016	1 January- 31 December 2015
Personnel expenses	(411)	(351)
Consultancy	(318)	(253)
Depreciation and amortisation (Note 15-16)	(226)	(226)
Material expenses	(94)	(76)
Rent expenses	(31)	(22)
Duties and taxes	(28)	(27)
Communication expenses	(23)	(19)
Security expenses	(22)	(21)
Insurance expenses	(15)	(20)
Maintenance expenses	(14)	(20)
Transportation and travel expenses	(12)	(10)
Other	(100)	(87)
	(1,294)	**(1,132)**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 28 - OTHER (EXPENSE) / INCOME FROM OPERATING ACTIVITIES

	1 January- 31 December 2016	1 January- 31 December 2015
Other income:		
Income from compensation and penalty	361	-
Late payment interest from electricity receivables	78	92
for legal cases	39	-
Foreign exchange gain from other than borrowings	32	46
regulation - net	19	2
Power theft penalties	15	18
Income from derivative transactions (*)	3	3
Income from released provision	3	5
Income from insurance reimbursements	2	1
Other	17	15
	569	**182**
LD Income deducted from the cost of property, plant and equipment	(94)	-
	475	**182**
Other expenses:		
Provision for doubtful and other receivables	(145)	(4)
Litigation expenses	(76)	(7)
Foreign exchange loss from other than borrowings	(57)	(28)
Compensation and penalty	(44)	(6)
Fair value differences	(40)	(36)
Reversal of receivables due from liquidated damages	(35)	-
Loss from derivative transactions (*)	(17)	(6)
Grants and donations	(12)	(15)
Change in fair value of commodity swap	-	(3)
Other	-	(14)
	(426)	**(119)**

(*) Income / (expense) from derivative transactions consist of the income/expense received from or paid to electricity trading deals executed on VIOB and over-the-counter market on the behalf of GenCo and itself.

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 29 – INCOME / (EXPENSE) FROM INVESTING ACTIVITIES

	1 January- 31 December 2016	1 January- 31 December 2015
Income from investing activities:		
Gain on sale of subsidiaries (Note 32)	-	131
Gain on sale of fixed assets	-	3
	-	**134**
Expense from investing activities:		
Impairment on asset-held-for-sale (Note 31)	-	(191)
	-	**(191)**

NOTE 30 - FINANCIAL INCOME / (EXPENSE), NET

	1 January- 31 December 2016	1 January- 31 December 2015
Financial income:		
Interest income	58	59
	58	**59**
Financial expenses:		
Interest expense	(1,064)	(941)
Foreign exchange loss	(636)	(590)
Bank commission expenses	(30)	(21)
	(1,730)	**(1,552)**
Less: Capitalized over property, plant and equipment	218	451
	(1,512)	**(1,101)**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 31 – ASSETS CLASSIFIED AS HELD FOR SALE

On 31 December 2015, the directors resolved to dispose the subsidiary (Murat Nehri). Negotiations with several interested parties have subsequently taken place. The assets and liabilities, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position.

The proceeds of disposal are expected to be below the net carrying amount of the relevant assets and liabilities and, accordingly, an impairment loss of TL 191 has been recognized in 2015 on the classification of these operations as held for sale.

The major classes of assets and liabilities comprising the disposal group classified as held for sale are as follows:

	31 December 2016	**31 December 2015**
Property, plant, equipment and intangible assets	347	316
Other assets	1	1
Other non-current assets	61	51
Total assets classified as held for sale	409	368
Trade payables	4	2
Total liabilities associated with assets classified as held for sale	4	2
Net assets of disposal group	**405**	**366**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 32 - DISPOSAL OF SUBSIDIARY

As a part of the Group's spin off plan, 2 subsidiaries (Birkapılı and Gazipaşa) demerged from the Group as of 10 December 2014 and had presented in previous year's financial statements as assets held for sale. The above mentioned subsidiaries have been sold on 13 February 2015.

The major classes of assets and liabilities and gain on disposals of these subsidiaries have been presented as follows:

a) Birkapılı

Book value of net assets sold :	**13 February 2015**
Current assets	1
Trade receivables	1
Non-current assets	13
Property, plant and equipment	13
Net assets disposed of	**14**
Consideration:	
Consideration paid in cash and cash equivalents	95
Total amount of cash acquired	**95**
Gain on disposal of subsidiary	**81**

b) Gazipaşa

Book value of net assets sold :	**13 February 2015**
Current assets	2
Trade receivables	1
Inventories	1
Non-current assets	37
Property, plant and equipment	35
Intangible assets	1
Other non-current assets	1
Non-current liabilities	2
Deferred tax liabilities	2
Net assets disposed of	**37**
Consideration:	
Consideration paid in cash and cash equivalents	87
Total amount of cash acquired	**87**
Gain on disposal of subsidiary	**50**

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 33 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

	31 December 2016		
	Currency	**Foreign currency amount**	**Amount TL**
Letter of guarantees received	EUR	89	330
	TL	572	572
	USD	3	11
	SEK	2	1
			914
Letter of guarantees given	TL	2,245	2,245
	USD	123	433
	EUR	1	4
			2,682

	31 December 2015		
	Currency	**Foreign currency amount**	**Amount TL**
Letter of guarantees received	EUR	224	712
	TL	567	567
	USD	4	11
			1,290
Letter of guarantees given	TL	3,668	3,668
	USD	120	348
			4,016

NOTE 33 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (Continued)

GenCo:

The Group entered several loan agreements for bank borrowings (Note 18) and those financial packages require compliance with the following financial covenants:

- Total Debt to Equity ratio should not be more than 60:40 at all times
- The Net Debt to EBITDA ratio should not be more than 4.0:1 following the Sponsor Support release date (*)
- The Historic Total Debt Service Cover ratio to be not less than 1.1:1 following the Sponsor Support release date on any two consecutive interest payment dates (*)

(*) Sponsor Support release date refers to at earliest 3 years after the completion of all of the projects financed, on each Financial Statement delivery date.

At 31 December 2016 the abovementioned ratios are as follows:

Total Debt to Equity ratio: 60:40
Net Debt to EBITDA ratio: 6.89:1 (not yet effective as of 31 December 2016)
Historic Total Debt Service Cover ratio: 1.17:1 (not yet effective as of 31 December 2016)

Moreover, following the execution of the Common Terms Agreement ("CTA") and security agreements regarding on the finance package, Group's following assets are subject to the security regime set forth in the CTA in favour of the Lenders;

- Immoveable Property; all the real property, land sites and buildings and fixtures (excluding furniture) to the land,
- Moveable Property with book value of more than TL 0.1; Commercial Enterprise Pledge is perfected in favour of the Lenders,
- Receivables under the licences and authorizations,
- Contractual Rights, Claims and interests are assigned to the Lenders (any rights claims and interests under Project Documents, Insurances, electricity sale agreements, Reinsurance, Sponsor Support and Share Retention Agreement, letters of credit provided by the construction contractor in favour of the Group.
- Pledge is perfected over the bank accounts of the Group.

The Group further entered in security arrangements in favour of the Lenders with respect to the inter-company loans and hedging documents. Any asset included to the Group's portfolio ("New Asset") will also be subject to the aforementioned security regime. The relevant security over the New Assets will be created periodically.

The Group as lessee

Leasing arrangements

Operating leases relate to forest land, road and mining rights with lease terms of between 3 to 49 years, without an extension option. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

(Amounts expressed in millions of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in millions unless otherwise indicated.)

NOTE 33 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (Continued)

GenCo (Continued):

The Group as lessee (Continued)

Leasing arrangements (Continued)

The nominal amount of the commitments is as follows:

Non-cancellable operating lease commitments	31 December 2016	31 December 2015
No longer than 1 year	2	2
Longer than 1 year and no longer than 5 years	33	8
Longer than 5 years	466	64
	501	**74**

EEDAŞ:

Investment obligations

Annual expansion, replacement, and improvement investments that are stated in TOR and required to be completed by the Group have been determined during the preparation of the tariffs. These investments have been included in the first implementation period tariffs approved by EMRA and as a result the Group is obliged to make these determined investments. Implementation of these investments is monitored by EMRA by the reports received from the Group at the end of each year. Some of these investments are subject to unit prices per announced by EMRA. According to the regulations, the Group is allowed to make transfers between the years after taking approval of EMRA.

Energy Sales Agreements

Distribution and retail companies signed Energy Sales Agreements (ESA) with TETAŞ in order to obtain their energy needs during the year. These Energy Sales Agreements have been established based on regulated prices. During the year, the Group is obliged to purchase the energy quantity stated in these agreements. At the current operating conditions and market structure, the Group's energy needs are higher than the contracted quantities and the Group makes purchases regularly from EPİAŞ. As a result, the Group management does not expect any liability related to the Energy Sales Agreements arising from not fulfilling the requirements of ESA's.

NOTE 33 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (Continued)

EEDAŞ (cont'd):

Competition Board Investigation

Further to a preliminiary inquiry in November 2016, The Competition Board resolved to commence an investigation in December 2016 to check if the Company and certain companies of the Group titled Toroslar EDAŞ, Toroslar EPSAŞ, BEDAŞ, EPS, AYEDAŞ and AEPSAŞ ("related Group Companies"). are in compliance with the Competition Law (Law no: 4054). Investigation process is expected to be finalized by the end of August 2018.

The Competition Board's Investigation Notification contains very limited information concerning the allegation. The Investigation Notification to the Company and the related Group Companies and the announcement to the Public cannot be interpreted as the undertakings of the Company and the related Group Companies have violated the Competion Law or the Company and the related Group Companies will be punished. The Group execute its transactions within the Competition Law and other regulations.

NOTE 34 - EVENTS AFTER THE REPORTING PERIOD

Debt to Equity (D:E) Ratio Covenant (GenCo)

Starting from November 2016, due to certain political and economic developments both locally and globally, Turkish Lira continued to devalue against US Dollar and Euro. Devaluation of the Turkish Lira against Euro reached to 20.5 % for the three month period starting November 2016 till the end of January 2017 (10.5 % during January 2017). Despite such strong devaluation, GenCo was still below D:E ratio threshold as of 31 December 2016 (please see Note 33). However, subsequent to year end, such developments negatively affected GenCo to comply with the D:E ratio covenant.

In order to reassure compliance with the D:E ratio, GenCo initiated a waiver process and received positive feedback from its lenders on 10 February 2017. Accordingly, the Company is compliant again with this requirement at the time of signing the accounts.

ENERJİSA ENERJİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2015
AND INDEPENDENT
AUDITOR'S REPORT

(CONVENIENCE TRANSLATION
OF INDEPENDENT AUDITOR'S
REPORT ORIGINALLY ISSUED
IN TURKISH)

(CONVENIENCE TRANSLATION OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Enerjisa Enerji A.Ş.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Enerjisa Enerji A.Ş. ("the Company") and its subsidiaries (together will be referred as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, 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 a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Turkish Accounting Standards ("TAS"), which are a direct translation of International Financial Reporting Standards issued by International Accounting Standards Board into Turkish), 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Independent Auditing Standards which is a part of Turkish Auditing Standards published by Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards, that are a direct translation into Turkish from International Standards on Auditing published by International Federation of Accountants, require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Enerjisa Enerji A.Ş. and its subsidiaries as at 31 December 2015, and of their financial performance and their cash flows for the year then ended in accordance with Turkish Accounting Standards.

Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 402 of the Turkish Commercial Code No. 6102 ("TCC"), nothing has come to our attention that may cause us to believe that the Group's set of accounts and financial statements prepared for the period 1 January - 31 December 2015 does not comply with TCC and the provisions of the Group's articles of association in relation to financial reporting.

In accordance with paragraph four of Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Ömer Tanrıöver
Partner

İstanbul, 27 February 2016

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

ASSETS	Notes	31 December 2015	31 December 2014
Current assets			
Cash and cash equivalents	7	258,035	208,505
Trade receivables		1,925,791	1,721,930
Trade receivables from related parties	*8*	*81,776*	*22,957*
Trade receivables from third parties	*9*	*1,844,015*	*1,698,973*
Other receivables		347,563	284,600
Other receivables from third parties	*10*	*347,563*	*284,600*
Derivative financial instruments	18	130,879	-
Inventories	11	134,374	102,941
Prepaid expenses	12	21,412	28,746
Assets related to current tax	22	8,917	22,430
Due from service concession arrangements	13	455,975	152,413
Other current assets	14	25,887	40,770
		3,308,833	**2,562,335**
Assets classified as held for sale	32	367,743	53,617
Total current assets		**3,676,576**	**2,615,952**
Non-current assets			
Other receivables		471,728	440,276
Other receivables from third parties	10	*471,728*	*440,276*
Derivative financial instruments	18	15,347	-
Available-for-sale financial assets	15	836	836
Property, plant and equipment, net	16	9,777,772	8,605,337
Intangible assets, net	17	8,845,464	9,092,359
Goodwill		*2,730,031*	*2,730,031*
Other intangible assets		*6,115,433*	*6,362,328*
Prepaid expenses	12	249,461	658,450
Due from service concession arrangements	13	2,565,064	1,630,559
Deferred tax assets	22	515,549	614,526
Other non-current assets	14	547,679	544,449
Total non-current assets		**22,988,900**	**21,586,792**
TOTAL ASSETS		**26,665,476**	**24,202,744**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated. Currencies other than TL are expressed in thousands unless otherwise indicated.)

LIABILITIES	Notes	31 December 2015	31 December 2014
Current liabilities			
Short-term bank borrowings	19	903,351	985,786
Short-term portion of long-term bank borrowings	19	1,899,711	608,883
Other financial liabilities	19	20,630	17,185
Trade payables		1,406,981	1,287,236
Trade payables to related parties	*8*	*14,369*	*5,770*
Trade payables to third parties	*9*	*1,392,612*	*1,281,466*
Obligations related to employee benefits	21	19,101	24,269
Other payables		169,473	107,890
Other payables to third parties	*10*	*169,473*	*107,890*
Derivative financial instruments	18	3,472	43,332
Deferred revenue	12	173,321	86,210
Income tax payable	22	8,875	145
Payable to Privatization Administration	10	1,188,456	1,237,732
Short-term provisions		264,920	231,531
Provisions for employee benefits	*21*	*35,027*	*30,294*
Other short-term provisions	*20*	*229,893*	*201,237*
Other current liabilities	14	145,868	120,646
		6,204,159	**4,750,845**
Liabilities classified as held for sale	32	2,173	2,942
Total current liabilities		**6,206,332**	**4,753,787**
Non-current liabilities			
Long-term bank borrowings	19	8,611,041	7,429,161
Other financial liabilities	19	232,392	239,728
Other payables		736,177	608,064
Other payables to third parties	*10*	*736,177*	*608,064*
Derivative financial instruments	18	206,261	257,317
Deferred revenue	12	101,624	158,385
Payable to Privatization Administration	10	-	1,176,074
Long-term provisions		63,199	41,815
Provisions for employee benefits	*21*	*63,199*	*41,815*
Deferred tax liabilities	22	1,068,423	1,110,157
Total non-current liabilities		**11,019,117**	**11,020,701**
TOTAL LIABILITIES		**17,225,449**	**15,774,488**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015
(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

EQUITY	Notes	31 December 2015	31 December 2014
Share capital	23	9,590,685	8,890,685
Adjustment to share capital	23	(33,312)	(33,312)
Total paid-in capital		**9,557,373**	**8,857,373**
Share premium		281,951	281,951
Other comprehensive loss that will not be reclassified to profit or loss	25	(10,962)	(208)
Other comprehensive loss to be reclassified to profit or loss	25	(146,959)	(185,662)
Other funds		4,340	4,340
Restricted profit reserves		58,043	57,937
Accumulated deficit		(587,581)	(420,780)
Net profit / (loss)		283,822	(166,695)
TOTAL EQUITY		**9,440,027**	**8,428,256**
TOTAL LIABILITIES AND EQUITY		**26,665,476**	**24,202,744**

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

	Notes	1 January-31 December 2015	1 January-31 December 2014
Net sales	26	11,864,830	10,956,369
Cost of sales (-)	27	(9,264,547)	(9,427,558)
Gross profit		**2,600,283**	**1,528,811**
Operating expenses (-)	28	(1,149,723)	(1,116,184)
Other income from operating activities	29	181,746	178,679
Other expense from operating activities (-)	29	(101,307)	(146,820)
Operating profit		**1,530,999**	**444,486**
Income from investing activities	30	134,137	108
Expense from investing activities (-)	30	(191,000)	-
Operating profit before financial income / (expense)		**1,474,136**	**444,594**
Financial income	31	58,895	134,358
Financial expense (-)	31	(1,100,639)	(880,605)
Profit / (loss) before taxation on income		**432,392**	**(301,653)**
Current tax expense (-)	22	(98,314)	(52,015)
Deferred tax (expense) / income	22	(50,256)	186,973
Tax (expense) / income		**(148,570)**	**134,958**
Net profit / (loss) for the year		**283,822**	**(166,695)**
Other comprehensive income / (loss)			
Items that will not be reclassified subsequently to profit or loss		**(10,754)**	**(67)**
Actuarial loss	21, 25	(13,443)	(67)
Taxes related to items that will not be classified to profit or loss	25	2,689	-
Items that may be reclassified subsequently to profit or loss		**38,703**	**9,644**
Fair value gain on derivative financial instruments	18, 25	48,379	12,055
Taxes related to items to be classified to profit or loss	25	(9,676)	(2,411)
Other comprehensive income after tax		**27,949**	**9,577**
Total comprehensive income / (loss)		**311,771**	**(157,118)**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

	Share capital	Adjustment to share capital	Share premium	Restricted profit reserves	Other funds (*)	Items that may be reclassified subsequently to profit or loss (Hedge reserves)	Items that will not be reclassified subsequently to profit or loss (Actuarial loss)	(Accumulated deficit) / Retained earnings	Net profit / (loss) for the year	Total equity
Balances at 1 January 2014	**7,990,685**	**(33,312)**	**281,951**	**58,364**	**-**	**(195,306)**	**(141)**	**46,333**	**(467,540)**	**7,681,034**
Capital increase	900,000	-	-	-	-	-	-	-	-	900,000
Additions	-	-	-	-	4,340	-	-	-	-	4,340
Transfer	-	-	-	(427)	-	-	-	(467,113)	467,540	-
Total comprehensive loss	-	-	-	-	-	9,644	(67)	-	(166,695)	(157,118)
Balances at 31 December 2014	**8,890,685**	**(33,312)**	**281,951**	**57,937**	**4,340**	**(185,662)**	**(208)**	**(420,780)**	**(166,695)**	**8,428,256**
Balances at 1 January 2015	8,890,685	(33,312)	281,951	57,937	4,340	(185,662)	(208)	(420,780)	(166,695)	8,428,256
Capital increase	700,000	-	-	-	-	-	-	-	-	700,000
Transfer	-	-	-	106	-	-	-	(166,801)	166,695	-
Total comprehensive income	-	-	-	-	-	38,703	(10,754)	-	283,822	311,771
Balances at 31 December 2015	**9,590,685**	**(33,312)**	**281,951**	**58,043**	**4,340**	**(146,959)**	**(10,962)**	**(587,581)**	**283,822**	**9,440,027**

(*) The aforementioned amounts have been transferred to equity due to the finalization of the reconciliation with regards to the unbundling of Başkent Elektrik Dağıtım A.Ş. from TEDAŞ in 2006.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

	Notes	1 January- 31 December 2015	1 January- 31 December 2014
Cash flows from operating activities:			
Net income / (loss) for the year		283,822	(166,695)
Adjustments to reconcile net income / (loss) to net cash generated from operating activities:			
Depreciation	16	225,666	205,870
Amortisation	17	224,547	220,968
Impairment of receivables and other current assets		182,244	146,599
Employee benefits	21	23,050	42,392
Corporate tax provision	22	98,314	52,015
Deferred taxation	22	50,256	(186,973)
Interest income	31	(58,789)	(73,581)
Interest expense		851,779	852,803
Finance (income)/expense recognized based on revenue cap regulation	30	(2,496)	(5,313)
Investment revenue recognized related to service concession arrangements	26	(310,955)	(208,758)
Fair value differences on deposits and guarantees received	29	36,118	42,627
Gain on sale of property, plant and equipments	30	(3,508)	(108)
Gain on sale of subsidiaries	30	(130,629)	-
Impairment of inventories	11	4,000	-
Impairment of assets held for sale	30	191,000	-
Provisions	21	28,565	36,464
Change in fair value of derivative instruments	18	(188,763)	49,122
Expense from system migration	29	-	10,131
Unrealized foreign exchange (gains) / losses on borrowings		228,286	(59,395)
Unrealized foreign exchange losses / (gains) from other than borrowings	29	(18,145)	3,191
Commissions and fee expenses	31	20,574	27,802
Cash flows from operating activities before changes in operating assets and liabilities		**1,734,936**	**989,161**
Changes in operating assets and liabilities:			
Change in trade receivables		(132,954)	(396,252)
Change in inventories		(8,270)	(6,289)
Change in other current assets		(405,278)	(216,571)
Change in other non-current assets		853,418	(176,666)
Change in trade payables		(146,880)	50,547
Change in other payables and deferred revenue		204,848	59,580
Change in other non-current liabilities		4,024	-
Net collections from financial asset related to service concession arrangements		399,063	349,994
Taxes paid	22	(99,222)	(47,048)
Employee benefits paid	21	(12,178)	(53,342)
Net cash generated from operating activities		**2,391,507**	**553,114**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

	Notes	1 January- 31 December 2015	1 January- 31 December 2014
Cash flows from investing activities:			
Purchase of property plant and equipment		(1,586,514)	(1,056,425)
Purchase of intangible assets	17	(18,116)	(2,376)
Payments for financial investment		-	(412)
Proceeds from sale of property, plant and equipment and intangible assets		176,408	4,492
Proceeds from sale of subsidiaries	33	181,585	-
Interest received		32,112	64,406
Investments related to service concession arrangements		(1,051,224)	(525,427)
Payment to privatization administration		(1,225,350)	(1,176,074)
Net cash used in investing activities		**(3,491,099)**	**(2,691,816)**
Cash flows from financing activities:			
Proceeds from bank borrowings		16,811,156	9,645,315
Payments of bank borrowings		(15,339,511)	(8,071,986)
Proceeds from issuance of share capital	23	700,000	900,000
Derivative instruments income realized		-	963
Interest received		26,677	-
Interest paid		(1,028,626)	(964,395)
Commissions and fees paid		(20,574)	(27,802)
Net cash generated from financing activities		**1,149,122**	**1,482,095**
Net increase/(decrease) in cash and cash equivalents		49,530	(656,607)
Cash and cash equivalents at the beginning of the year	7	208,505	865,112
Cash and cash equivalents at the end of the year	**7**	**258,035**	**208,505**

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

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Enerjisa Enerji A.Ş. ("the Company") has been established on 26 December 2011 as a joint venture between Hacı Ömer Sabancı Holding A.Ş. ("Sabancı") and Verbund International GmbH ("Verbund International"). Verbund sold all its shares to E.ON SE ("E.ON") on 24 April 2013.

The Company is registered in Turkey and the address of the headquarters is as follows:

Sabancı Center Kule 2 Kat 11 4. Levent 34330 Istanbul

The Company, together with its subsidiaries (together the "Group"), is primarily engaged in electricity generation, trading, sale, and distribution and retail service of electricity, and trade of natural gas, via its consolidated entities listed below:

Enerjisa Enerji Üretim A.Ş. ("GenCo")	Generation of electricity and steam
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. ("TradeCo")	Trading of electricity
Enerjisa Doğal Gaz Toptan Satış A.Ş. ("GasCo")	Trading of natural gas
Enerjisa Elektrik Dağıtım A.Ş. ("EEDAŞ")	Distribution and retail service of electricity
Qwert Solar Enerji Üretim A.Ş. ("Qwert")	Generation of electricity

Group's operations are carried out in one geographical segment (Turkey).

These consolidated financial statements have been approved for issue by Sascha Bibert Chief Financial Officer of the Group on 27 February 2016. The owners of the Group have the power to amend the consolidated financial statements after the issue.

GenCo:

GenCo was established in 1996 as a Turkish company by, among others, Sabancı. As of 31 May 2007, Österreichische Elektrizitatswirtschafts-Aktiengesellschaft ("Verbund") acquired the 49.99% shares of GenCo and GenCo became a joint venture between Sabancı and Verbund. According to the Board of Directors resolution dated 15 October 2008 and numbered 245, Verbund, one of the main shareholders of GenCo, Tursa Sabancı Turizm ve Yatırım İşletmeleri A.Ş., Exsa Export Sanayi Mamulleri Satış ve Araştırma A.Ş., Teknosa İç ve Dış Ticaret A.Ş., minority shareholders of GenCo, sold their shares to Verbund International. In December 2011; Sabancı and Verbund International transferred their shares to the Company.

GenCo was established for the primary purpose of engaging in the generation and selling of electricity and steam.

GenCo's power plants and their specifications are as follows:

1. **Bandırma Combined Cycle Power Plant ("Bandırma CCPP"):** Bandırma CCPP is located in Balıkesir, Bandırma town. Electricity Generation License was obtained on 7 February 2008 and the construction of the plant was started on 1 June 2008. Its installed capacity is 936.2 MW.
2. **Kentsa Natural Gas Power Plant ("Kentsa NGPP"):** The plant has been operating in Kocaeli, İzmit since 10 October 1997. The co-generation power plant has electricity capacity of 120 MW and steam production capacity of 275 tonnes /hour.
3. **Adana Natural Gas Power Plant ("Adana NGPP"):** The co-generation power plant located in Adana, started to provide electricity since 28 September 2002 with electricity capacity of 131 MW. Considering its economic benefit, the Company has decided to stop the operations of the plant as of end of 2014.

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

GenCo (Continued):

4. **Çanakkale Natural Gas Power Plant ("Çanakkale NGPP"):** The co-generation power plant is located in Çanakkale and has been in operation since 3 August 2002. The plant has one gas turbine (GTG) with 43.5 MW capacity, one heat recovery steam generator (HRSG) with 75-tonnes/hour steam capacities and a steam turbine with 22.5 MW capacity. Considering its economic benefit, the Company has decided to stop the operations of the plant as of end of 2014.
5. **Mersin Natural Gas Power Plant ("Mersin NGPP"):** The co-generation power plant is located in Mersin and has been in operation since 5 October 2003. The plant has one gas turbine (GTG) with 43.5 MW capacity, one heat recovery steam generator (HRSG) with 75-tonnes/hour steam capacities and a steam turbine with 22.5 MW capacity. Considering its economic benefit, the Company has decided to stop the operations of the plant as of end of 2014.
6. **Hacınınoğlu Hydroelectric Power Plant ("Hacınınoğlu HPP"):** Hacınınoğlu Power Plant, which is located in Kahramanmaraş and in operation since 3 February 2011, has an installed capacity of 142.2 MW. The generation licence was obtained on 9 March 2006 for 49 years. Annual electricity generation capacity is 382.6 GWh.
7. **Suçatı Hydroelectric Power Plant ("Suçatı HPP"):** Suçatı HPP is located, in Kahramanmaraş.. The power plant was constructed with a Built-Operate-Transfer model; so the ownership of the dam and the power plant was transferred to the public sector in 2015. The installed capacity of the power plant is 7 MW and produces 28 GWh of electricity annually.
8. **Çanakkale Wind Power Plant ("Çanakkale WPP"):** Çanakkale Wind Power Plant, which is located in Çanakkale, Mahmudiye town, has an installed capacity of 29.9 MW with 13 turbines. The generation licence was obtained on 21 February 2008 for 49 years. Annual electricity generation capacity is 91.6 GWh.
9. **Menge Hydroelectric Power Plant ("Menge HPP")**: Menge Power Plant, which is located in Adana Province, has an installed capacity of 89.4 MW. The production License was obtained on 6 July 2006 for 49 years. Annual electricity generation capacity is 204 GWh.
10. **Dağpazarı Wind Power Plant ("Dağpazarı WPP"):** Dağpazarı Wind Power Plant, which is located in Mersin, Mut town, has an installed capacity of 39 MW with 13 turbines and is connected to Birkapılı HEPP. The generation licence was obtained on 24 July 2008 for 49 years. Annual electricity generation capacity is 129 GWh.
11. **Bares Wind Power Plant ("Bares WPP")**: Bares Wind Power Plant, which is located in Balıkesir Province, Center and Kepsut Sub-Province, has an installed capacity of 142.5 MW with 52 turbines. The generation licence was obtained on 18 April 2007 for 49 years. Annual electricity generation capacity is 524 GWh.
12. **Köprü Hydroelectric Power Plant ("Köprü HPP"):** Köprü Power Plant, which is located in Adana Province, has an installed capacity of 156 MW. The generation license was obtained on 6 July 2006 for 49 years. Annual electricity generation capacity is 384 GWh.
13. **Dağdelen Hydroelectric Power Plant ("Dağdelen HPP"):** Dağdelen Power Plant, which is located in Kahramanmaraş Province, has an installed capacity of 8 MW. The generation license was obtained on 9 March 2006 for 49 years. Annual electricity generation capacity is 28 GWh.
14. **Kandil Hydroelectric Power Plant ("Kandil HPP"):** Kandil Power Plant, which is located in Kahramanmaraş has an installed capacity of 208 MW. The project, which is concrete-face rock fill dam structure, has totally 207 MW installed capacity. Kandil Dam and HEPP project which has 539 GWh annual production capacities with 14.5 km2 reservoir was commissioned in the third quarter of 2013

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NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

GenCo (Continued):

15. **Sarıgüzel Hydroelectric Power Plant ("Sarıgüzel HPP"):** Sarıgüzel Power Plant, which is located in within the boundaries of Kahramanmaraş province, Sarıgüzel Dam and Hydroelectric Power Plant is a sand gravel concrete faced rock fill dam structured project. The construction of the project had been started in 2009 and was commisioned in the third quarter of 2013. With the total 103 MW installed capacity of the project, the annual production capacity is 312 GWh.

16. **Kuşaklı Hydroelectric Power Plant ("Kuşaklı HPP"):** Kuşaklı Power Plant which is located on Seyhan River, in the boundaries of Adana Province, was started in 2011. The project has been completed in the third quarter of 2013 within two pieces 10 MW tiger tribunes and total 20MW installed capacity.

17. **Çambaşı Hydroelectric Power Plant ("Çambaşı HPP"):** Çambaşı Regulator and Hydroelectric Power Plant is located in Trabzon. The construction of the project has been started in 2010 and completed in the December 2013. Çambaşı Regulator and HEPP has 45MW installed capacity.

18. **Arkun Dam and Hydroelectric Power Plant ("Arkun HPP"):** Arkun Dam, on the border with the province of Erzurum-Artvin Coruh River project located on the front face of the concrete is covered with sand, gravel fill dam. Construction of the plant started in 2010, has been commissioned in the second quarter of 2014. Arkun HPP has 245 MW installed capacity.

21. **Kavşakbendi Dam and Hydroelectric Power Plant ("Kavşakbendi HPP"):** With concrete face rock fill dam structure, Kavşakbendi project has 191 MW installed capacity. The construction of the project, located on Seyhan River, Adana, had been started in 2008. 186 MW installed capacity Kavşakbendi HEPP, has been put into operation in the first quarter of 2014 after the Ministry acceptance of the third unit of the project.

The details and the status of the projects under GenCo as of 31 December 2015 are as follows:

Projects	Installed Type	Capacity (MW)	Status
Doğançay	Hydroelectric Power Plant	62	Construction in Progress
Yamanlı II (*)	Hydroelectric Power Plant	82	Construction in Progress
Bandırma II	Hydroelectric Power Plant	280	Construction in Progress
Tufanbeyli	Natural Gas Power Plant	596	Construction in Progress
IBA	Thermal Power Plant	450	Construction in Progress
Pervari	Hydroelectric Power Plant	168	Licensed
Murat Nehri (**)	Hydroelectric Power Plant	400	Licensed

(*) Yamanlı II, located in Adana, is constructed as stages and put into the operation as the stages are completed.

	Capacity (MWH)
Operating as of 31 December 2015	22
Started operations at 19 February 2016	48
Construction in progress as of 19 February 2016	12

(**) As part of Enerjisa Enerji Üretim A.Ş. spin-off plan, Murat Nehri (formerly known as ''Alpaslan II'') demerged from Enerjisa Enerji Üretim A.Ş. as of 31 December 2015 and presented in financial statements as assets held for sale (Note 32).

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

TradeCo:

TradeCo was established in 2004 by GenCo as a Turkish company. As of 14 December 2007, Verbund and Sabancı acquired the 99.99% shares of TradeCo and consequently TradeCo became a joint venture between Sabancı and Verbund. According to the Board of Directors resolution dated 16 October 2008 and numbered 29, Verbund, sold its shares to Verbund International. In December 2011; Sabancı and Verbund International transferred their shares to the Company. TradeCo assumes the role of the Group optimizer. It engages in wholesale activities in order to protect the value of Groups's generation output. It decides on make-or-buy strategies in the over-the-counter (OTC), spot and balancing markets. TradeCo optimizes the use of different market segments for Groups's portfolio and also engages in wholesale electricity trading activities in order to pursue commercial opportunities. In addition, TradeCo actively engages in electricity import/export transactions and produces value from carbon certificates. Also TradeCo engages in direct selling of electricity to customers including Enerjisa Companies. TradeCo also provides risk management solutions to external customers and counterparties.

GasCo:

GasCo was established in 2004 by GenCo as a Turkish company. In 2007, Verbund and Sabancı acquired the 99% shares of GasCo and consequently GasCo became a joint venture between Sabancı and Verbund. In 2008, Verbund, sold its shares to Verbund International. In December 2011; Sabancı and Verbund International transferred their shares to the Company. GasCo is engaged in optimizing the natural gas consumption of the Enerjisa Group and assessing the new business opportunities in the gas market. GasCo is acting as a hub for collecting gas and selling to end-users via distribution companies. GasCo has obtained Spot LNG License on 6 September 2010 which is effective for 10 years and effectively started its operations in 2011.

EEDAŞ:

EEDAŞ is incorporated in İstanbul Turkey on 24 October 2008. Headquarter was moved to Ankara in 2014. EEDAŞ, which was a joint venture of Sabancı Holding and Verbund has officially acquired 100% of the shares of Başkent Elektrik Dağıtım A.Ş. ("BEDAŞ") as of 28 January 2009 by successful finalization of privatization bid for the consideration of USD 1,225 million. BEDAŞ currently operates in Ankara, Kırıkkale, Kastamonu, Zonguldak, Bartın, Çankırı and Karabük provinces and holds the licence that gives the right for distribution of electricity in these provinces for 30 years starting from the date of TOR agreement signed with TEDAŞ on 31 March 2006.

Following the privatization bid, shares of Verbund was transferred to Verbund International. In December 2011, Sabancı Holding and Verbund International transferred their shares to the Company. On 4 December 2012, Verbund International and E.ON SE ("E.ON") entered into a Share Purchase Agreement for the sale and transfer of all Verbund shares in the Company to E.ON and the transfer is finalized on 24 April 2013.

EEDAŞ, has officially acquired 100% of the shares of the İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş. ("AYEDAŞ") and İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş. ("AEPSAŞ") as of 31 July 2013, and acquired 100% of the shares of the Toroslar Elektrik Dağıtım A.Ş. ("TOROSLAR EDAŞ") and Toroslar Elektrik Perakende Satış A.Ş. ("TOROSLAR EPSAŞ") as of 30 September 2013 by successful finalization of privatization bids for the consideration of USD 1,227 million and USD 1,725 million, respectively.

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

EEDAŞ (Continued):

First installments of Privatization Administration payables related to AYEDAŞ and AEPSAŞ's acquisitions and TOROSLAR EDAŞ and TOROSLAR EPSAŞ's acquisitions amounting to, respectively TL 473,033 and TL 703,041 were paid with its interests on 31 July 2014 and on 30 September 2014, respectively. The remaining payables, TL 2,352 million principal will be paid in two equal portions with its interests in 2015 and 2016.

AYEDAŞ and AEPSAŞ currently operate in Anatolian Side of İstanbul and AYEDAŞ holds the licence that gives the right for distribution of electricity in this province until 31 December 2042 starting from the date of TOR agreement signed with TEDAŞ on 24 July 2006.

TOROSLAR EDAŞ and TOROSLAR EPSAŞ currently operate in Adana, Gaziantep, Hatay, Kilis, Mersin and Osmaniye and TOROSLAR EDAŞ holds the licence that gives the right for distribution of electricity in these provinces until 31 December 2042 starting from the date of TOR agreement signed with TEDAŞ on 24 July 2006.

In 2006, EMRA has set a unique pricing mechanism for all of the electricity distribution companies in Turkey which will be effective for the period between 1 January 2006 and 31 December 2012 which is called the "transition period". In accordance with this pricing mechanism, distribution companies in Turkey have already determined their regional tariffs for the period between 1 January 2006 and 31 December 2010 and by using these regional tariffs, EMRA has already determined the national tariffs for the same period. In December 2010, EMRA has announced new tariff for the period between 1 January 2011 and 31 December 2015. In December 2015, EMRA has announced new tariff for the period between 1 January 2016 and 31 December 2020.

As of 1 January 2013, distribution companies (BEDAŞ, AYEDAŞ and TOROSLAR EDAŞ) are obliged to carry out the distribution and the retail sales activities under separate legal entities in accordance with Electricity Market Law. After the establishment of retail companies (Enerjisa Elektrik Perakende Satış A.Ş. ("EPS"), AEPSAŞ and TOROSLAR EPSAŞ) with the same shareholder structure, as of 31 December 2012 the distribution companies have transferred some of their assets and liabilities to retail companies due to the legal unbundling and the unbundling transactions have been registered as of 31 December 2012.

Qwert:

Qwert was established in 2015 by the Company as a Turkish company to develop and construct unlicensed solar energy projects.

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NOTE 2 - APPLICATION OF NEW AND REVISED TURKISH ACCOUNTING STANDARDS (TASs)

2.1 Amendments to TASs affecting amounts reported and/or disclosures in the financial statements

None.

2.2 New and Revised TASs applied with no material effect on the consolidated financial statements

Amendments to TAS 19	*Defined Benefit Plans: Employee Contributions* [1]
Annual Improvements to 2010-2012 Cycle	*TFRS 2, TFRS 3, TFRS 8, TFRS 13, TAS 16 and TAS 38, TAS 24, TFRS 9, TAS 37, TAS 39* [1]
Annual Improvements to 2011-2013 Cycle	*TFRS 3, TFRS 13, TAS 40* [1]

[1] Effective for annual periods beginning on or after 30 June 2014.

2.3 New and Revised TASs in issue but not yet effective

Group has not applied the following new and revised TASs that have been issued but are not yet effective:

TFRS 9	*Financial Instruments*
Amendments to TFRS 9 and TFRS 7	*Mandatory Effective Date of TFRS 9 and Transition Disclosures*
Amendments to TAS 16 and TAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation* [1]
Amendments to TAS 16 and TAS 41 and amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40	*Agriculture: Bearer Plants* [1]
Amendments to TFRS 11 and TFRS 1	*Accounting for Acquisition of Interests in Joint operations* [1]
Annual Improvements to 2011-2013 Cycle	*TFRS 1* [2]
Amendments to TAS 1	*Disclosure Initiative* [2]
Annual Improvements to 2012-2014 Cycle	*TFRS 5, TFRS 7, TAS 34, TAS 19* [2]
Amendments to TAS 27	*Equity Method in Separate Financial Statements* [2]
Amendments to TFRS 10 and TAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [2]
Amendments to TFRS 10, TFRS 12 and TAS 28	*Investment Entities: Applying the Consolidation Exception* [2]
TFRS 14	*Regulatory Deferral Accounts* [2]

[1] Effective for annual periods beginning on or after 31 December 2015.
[2] Effective for annual periods beginning on or after 1 January 2016.

The Group evaluates the effects of these standards on the consolidated financial statements.

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NOTE 3 - GROUP ACCOUNTING

3.1 Basis of consolidation

The details of the Company's subsidiaries at 31 December 2015 and 31 December 2014 are as follows:

	Direct and indirect ownership interest by the Group (%)		Proportion of effective interest (%)	
Subsidiaries	**31 December 2015**	**31 December 2014**	**31 December 2015**	**31 December 2014**
Genco	99.99	99.99	99.99	99.99
Tradeco	100.00	100.00	100.00	100.00
Gasco	100.00	100.00	100.00	100.00
EEDAŞ	100.00	100.00	100.00	100.00
BEDAŞ	100.00	100.00	100.00	100.00
AYEDAŞ	100.00	100.00	100.00	100.00
TOROSLAR EDAŞ	100.00	100.00	100.00	100.00
EPS	100.00	100.00	100.00	100.00
AEPSAŞ	100.00	100.00	100.00	100.00
TOROSLAR EPSAŞ	100.00	100.00	100.00	100.00
Enerjisa Suçatı Elektrik Üretim A.Ş.	99.99	99.99	99.99	99.99
İBA Elektrik Üretim Madencilik Sanayi ve Ticaret A.Ş.	99.99	99.99	99.99	99.99
Pervari Elektrik Üretim Madencilik Sanayi ve Ticaret A.Ş.	99.99	99.99	99.99	99.99
Murat Nehri Enerji Üretim A.Ş. ("Murat Nehri") (*)	99.99	-	99.99	-
Qwert	100.00	-	100.00	-

(*) As a part of Genco spin-off plan, Murat Nehri demerged from Genco as of 31 December 2015 and presented in the consolidated financial statements as assets held for sale.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

NOTE 3 - GROUP ACCOUNTING (Continued)

3.1 Basis of consolidation (Continued)

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

- potential voting rights held by the Company, other vote holders or other parties;

- rights arising from other contractual arrangements; and

- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3.2 Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable TASs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under TAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies other than Group accounting which is described in Note 3, followed in the preparation of the consolidated financial statements are summarised below. These policies have been consistently applied to all years presented, unless otherwise stated.

4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with Turkish Accounting Standards ("TAS") and interpretations related with these standards which are published by Public Oversight Accounting and Auditing Authority of Turkey ("POA").

Consolidated financial statements have been prepared in accordance with the format of the financial statements and disclosures announced by POA on 20 May 2013.

Turkish Accounting Standards ("TAS") published by POA are direct translation of International Financial Reporting Standards issued by International Accounting Standards Board into Turkish.

4.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for the valuation of certain assets and liabilities. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

4.3 Changes in accounting policies

Significant changes in the accounting policies are applied retrospectively and prior period financial statements are restated. There has not been any change in accounting policies of the Group in 2015.

4.4 Changes in accounting estimates and errors

Changes in accounting estimates should be applied prospectively, if only for a period in which the change in the current period. If it relates to future periods they are recognized prospectively both in the current period and in the future period. There has not been any change in accounting estimates of the Group in 2015.

4.5 Comparative information

Consolidated financial statements of the Group have been prepared comparatively with prior period in order to give information about financial position and performance trends. If the presentation or classification of the financial statements is changed, in order to maintain consistency, financial statements of the prior periods are also reclassified in line with the related changes.

The nature, amount and reasons for each of the reclassifications are described below:

- In 2014, the Group presented 'Capital expenditures regarding distributions requirements' in the "Other Receivables" amounting to TL 160,637 in the consolidated balance sheet. In the current year, this amount has been reclassified to ''Non-current due from service concession arrangements'.

- In 2014, the Group presented 'VAT Receivables' in the "Other Current Assets" amounting to TL 116,332 in the consolidated balance sheet. In the current year, this amount has been reclassified to 'Other Non-current Assets'.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5 Comparative information (Continued)

- In 2014, the Group presented, 'Other short-term provisions' amounting to TL 168 within the 'Other Payables' the consolidated balance sheet. In the current year, this amount has been reclassified to 'Other short-term provisions'.

- In 2014, the Group presented, 'Taxes and funds payable' amounting to TL 120,646 within the 'Other Payables'in the consolidated balance sheet. In the current year, this amount has been reclassified to 'Other current liabilities'.

- In 2014, the Group presented 'Deposits and guarentees received' amounting to TL 55,359 within the 'Trade Payables' in the consolidated balance sheet. In the current year, this amount has been reclassified to 'Other Payables'.

- In 2014, the Group presented 'Restricted profit reserves' amounting to TL 2,654 within the '(Accumulated losses) / Retained earnings' in the consolidated balance sheet. In the current year, this amount has been reclassified to 'Restricted profit reserves'.

- In 2014, the Group presented gain on sale of fixed assets amounting to TL 108 under 'Other income from operating activities'' in the comprehensive profit and loss statement. In the current year, the Group management reclassified these amounts to 'Income from investing activities'.

4.6 Revenue recognition

Distribution part of the revenue is composed of distribution, meter reading services, transmission and theft and loss components. Distribution and meter reading service components are considered within the content of service concession arrangements due to the regulations of Energy Market Regulatory Authority ("EMRA"). Additionally, according to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations, the Company's distribution, transmission and meter reading services are subject to revenue caps which cover operating expenses and investment requirements related to distribution and meter reading services. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by TEİAŞ. These regulations guarantee revenue to the Group during the transition period regardless of the consumption level. The underbillings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years.

Revenue recognition principles other than the assets classified as due from service concession arrangements under TFRS Interpretation 12 are as follows:

Revenue, excluding the distribution part, is recognized upon delivery of electricity to customers or upon fulfilment of services. Delivery is deemed complete when the risk and rewards associated with ownership have been transferred to the buyer as contractually agreed, compensation has been contractually established and collection of the resulting receivable is probable.

Revenue is recognised on an accrual basis at the time the electricity is distributed, at the invoiced values. Net sales represent the invoiced value of electricity distributed less TRT energy contribution share, sales commission and excluding sales taxes (Note 27).

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.6 Revenue recognition (Continued)

System usage fees

Accounting policy regarding the accounting of system usage fees which are paid to the electricity distributor companies and collected from the customers is through adding system usage fee amounts on sales and cost of sales, respectively, without having any effect on gross and net profit. The amount of system usage fee included both in sales and cost of sales is TL 362,767 for the year ended 31 December 2015 (2014: TL 315,912).

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.

Interest income related to service concession arrangements is recognized in accordance with Service Concession Arrangements ("TFRS Interpretation 12"). Interest income on receivable from concession arrangement is recognised on a time-proportion basis using the effective interest method.

4.7 Application of TFRS Interpretation 12 - Service concession arrangements

TFRS 12 interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements. Certain hydroelectric power plants under GenCo which are subject to Build-Operate-Transfer model and the electricity distribution business under EEDAŞ qualify for the application of TFRS Interpretation 12.

GenCo:

Under the terms of contractual arrangements within the scope of TFRS Interpretation 12, the Group acts as a service provider. The operator constructs or upgrades infrastructure used to provide a public service and operates and maintains that infrastructure for a specified period of time.

GenCo recognises a financial asset to the extent that it has an unconditional contractual right to receive cash from or at the direction of the grantor for the construction services related to hydroelectric power plants in the context of Build-Operate-Transfer model (Note 13). The amount due from or at the direction of the grantor is accounted for as a receivable in accordance with TAS 39 "Financial Instruments: Recognition and Measurement". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income and the interest calculated using the effective interest method is recognised in the statement of profit or loss.

The receivables that are due but not collected as of the balance sheet date are classified as due receivables from the grantor and carried at their net realisable value.

EEDAŞ:

Service concession arrangements are defined within scope of TFRS Interpretation 12 as those whereby a government or other body grants contracts for the supply of public services – operations such as roads, energy distribution, prisons or hospitals – to private operators. Group's electricity distribution business is in the scope of a service concession agreement (Note 13).

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Application of TFRS Interpretation 12 - Service concession arrangements (Continued)

Considering EEDAŞ's terms in the service concession arrangement with the government, a financial asset model where EEDAŞ recognises a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor has been applied, since the right to receive cash for the distribution and retail sales services (starting from 1 January 2011) are constituted through actual billing to subscribers where the distribution and retail sales services (starting from 1 January 2011) components of the billing are already specified or determinable through the distribution tariffs regulated by the Energy Market Regulatory Authority ("EMRA").

EEDAŞ has measured the financial asset at fair value, with the effective interest method which is calculated by discounting estimated future cash receipts with regards to the compensation of TOR and the initial and annual capital expenditures made by EEDAŞ, through the expected life of the arrangement and set "Financial Asset" on the consolidated balance sheet and recognizes the revenue on an effective interest method as "Finance Income from Service Concession Arrangements".

4.8 Inventories

The Group's inventories mainly consist of raw materials and consumables, which are charged to statement of profit or loss as consumed. Inventories are valued at the lower of cost or net realizable value (Note 12). Net realizable value is the estimated selling price in ordinary course of business, less selling expenses. Cost elements included in inventories comprise all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is determined on weighted average basis.

4.9 Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements.

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

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

(b) An entity is related to a reporting entity if any of the following conditions applies:

i. 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).
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).

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.9 Related parties (Continued)

vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

4.10 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment, if any (Note 16). Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets. 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. The depreciation periods for property, plant and equipment, which approximate the economic useful lives of such assets, are as follows:

	Years
Buildings	10-50
Land improvements	5-50
Machinery and equipment	6-20
Motor vehicles	3-5
Furniture and fixtures	5-10
Leasehold improvements	4

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.11 Intangible assets

Intangible assets include rights, licences for electricity production, software and other identifiable rights. Intangible assets are carried at cost less accumulated amortisation (Note 17). Amortisation is calculated using the straight-line method based on the estimated useful lives of the assets. The amortisation periods for intangible assets, which approximate the economic useful lives of such assets, are as follows:

	Years
Licences (*)	20-49
Rights	5-15
Other intangibles	3-8

(*) Useful lives of licences are between commercial acceptance and end of licence period.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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.

Customer contracts and relations and transfer of operational rights ("TOR")

Customer contracts and relations 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 useful lives of customer contracts and relations range between 25-30 years.

Computer software

Acquired computer software licenses 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.

4.12 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.12 Impairment of tangible and intangible assets other than goodwill (Continued)

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4.13 Financial leasing transactions

Leasing - the Group as Lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4.14 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the 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, "CGU"). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

4.15 Available-for-sale financial assets

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All investment securities are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associates with the investment. After initial recognition, investment securities that are classified as available-for-sale are measured at fair value unless fair value cannot be reliably measured.

Other financial assets in which the Group has interest below 20%, that do not have a quoted market price in active markets and whose fair value cannot be measured reliably are carried at cost, if applicable, less any provision for diminution in value. Available-for-sale investments that have a quoted market price in active markets and whose fair values can be measured reliably are carried at fair value.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.15 Available-for-sale financial assets (Continued)

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are deferred in the equity until the financial asset is sold, collected or otherwise disposed of. When available-for-sale securities are sold, collected or otherwise disposed of, related deferred gains and losses in equity are released to the statement of profit or loss. For the period presented in these consolidated financial statements there is no fair value reserve.

4.16 Financial assets

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity investments', 'available-for-sale' ("AFS") financial assets and 'loans and receivables'.

Effective interest method

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

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Loans and receivables

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

Impairment of financial assets

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.16 Financial assets (Continued)

Impairment of financial assets (Continued)

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

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits 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 subject to an insignificant risk of changes in value.

4.17 Financial liabilities and equity

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

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in 'other gains/losses' line in the consolidated statement of profit or loss.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.17 Financial liabilities and equity (Continued)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

4.18 Foreign currency transactions

Transactions in foreign currencies during the period have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated at the exchange rates prevailing at period-end. Exchange gains or losses arising on the settlement and translation of foreign currency items has either been included in the consolidated statement of profit or loss or been capitalized (Note 16-30) where appropriate.

4.19 Provisions, contingent assets and liabilities

Provisions are recognised in the consolidated financial statements, when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate, used to calculate the present value of the provision should be pre-tax rate reflecting the current market assessments of the time value of money and the risks specific to the liability. The discount rate shall not reflect risks for which future cash flow estimates have been adjusted.

A possible obligation or asset that arises 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 have not been recognised in these consolidated financial statements and treated as contingent liabilities and contingent assets.

4.20 Provisions for employee benefits

Provision for employment termination benefits represents the present value of the estimated total provision of the future probable obligation of the Group arising from the retirement of the employees calculated in accordance with the Turkish Labour Law. In accordance with existing social legislation and Turkish Labour Law in Turkey, the Group is required to make lump-sum termination indemnities to each employee whose employment is terminated due to retirement or for reasons other than resignation or misconduct and who has completed at least one year of service. Provision is made for the present value of the defined benefit obligation calculated using the projected unit credit method.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.20 Provisions for employee benefits (Continued)

Provision for unused vacation and provision for personnel premium have been reclassified to provision for employee benefits and have been applied consistently with previous years (Note 21).

4.21 Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise cash and amounts due from banks with maturity periods of less than three months (Note 7).

4.22 Trade receivables

Trade receivables that are created by the Group by way of providing goods or services directly to a debtor are carried at amortised cost. Short duration receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant (Note 9).

A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to operating expenses.

4.23 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.

When the Group borrows funds specifically for the purpose of the qualifying assets, the amount of borrowing costs eligible for capitalization is the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.24 Taxation

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 tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and it excludes items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 end of the reporting period.

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.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.24 Taxation (Continued)

Current and deferred tax for the period

Current and deferred tax are recognized as in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

4.25 Share capital, share premium and dividends

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared. Share premium represents the difference between the nominal value of Group shares and the net proceeds from the capital contributions of the shareholders of the Group.

4.26 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually (Note 6), or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.27 Business combinations and legal mergers

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with TAS 12 *Income Taxes* and TAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with TFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with TFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.27 Business combinations and legal mergers (Continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with TAS 39, or TAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Legal mergers arising between companies controlled by the Group are not within the scope of business combinations. Consequently, no goodwill is recognised in such transactions. Similarly the effects of all transactions between the legally merged enterprises, whether occurring before or after the legal merger, are eliminated in the preparation of consolidated financial statements.

4.28 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value. Short duration payables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant.

4.29 Derivative financial instruments, cash flow hedges and hedge accounting

GenCo:

Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value.

GenCo has designated the derivative as a hedge instrument to hedge the interest rate risk associated with its bank borrowings. The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss under financial income and expense.

When the hedge instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss.

The derivative financial instruments of the GenCo consist of interest rate swap transactions, cross currency swaps and foreign exchange forwards (Note 18). Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Until 30 June 2009, the difference between the fair value and the initial cost of the interest rate swap transactions is recognised as fair value gain/loss on interest rate swap transaction contracts in the consolidated statement of profit or loss. After 1 July 2009, GenCo has designated the interest rate swap transactions as a hedge instrument and applied hedge accounting.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.29 Derivative financial instruments, cash flow hedges and hedge accounting (Continued)

GenCo (Continued):

In addition, the Group has entered into the cross currency swap transaction in December 2013 as a hedge instrument and applied hedge accounting. Therefore, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income (Note 25).

TradeCo:

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designs certain derivatives as hedges of the fair value of the recognized assets or liabilities or firm commitments (fair value hedges).

Fair value is generally determined by using the quoted prices in over-the-counter market. A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized and settled within 12 months. Other derivatives are presented as current assets or current liabilities.

The changes in the fair value of derivatives that do not meet the criteria for hedge accounting are recognized in the statement of profit or loss.

GasCo:

The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

If the cash flow hedge of a firm commitment or an expected forward transaction result in the recognition of an asset or liability, at the initial recognition of this asset or liability the gain or loss previously recognized under equity related to derivatives are included in the measurement of the initial amount of the asset or liability. In a hedge accounting that does not result in the recognition of an asset or liability, the amounts previously recognized under equity are transferred to statement of profit or loss in the period in which the hedged item has an effect on profit or loss. The changes in the fair value of derivatives that do not meet the criteria for hedge accounting are recognized in the statement of profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Fair value is generally determined by using the quoted prices in an active market, otherwise it is determined by using either discounted cash flow model or option pricing model. If fair value is positive, the derivative is recognized as an asset and if fair value is negative, it is recognized as a liability in the balance sheet.

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.
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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.30 Statement of cash flows

Cash flows during the year are classified and reported by operating, investing and financing activities in the cash flow statements.

Cash flows from operating activities represent the cash flows of the Company generated from the ordinary course of business.

Cash flows related to investing activities represent the cash flows that are used in or provided by investing activities of the Company.

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

Cash and cash equivalents comprise cash on hand, due from banks and highly liquid investments with original maturity periods of less than three months.

4.31 Earnings per share

Earnings per share are determined by dividing net profit by the weighted average number of shares that have been outstanding during the periods concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders from retained earnings and revaluation surplus. For the purpose of earnings per share computations, such Bonus Share issuances are regarded as issued shares. Accordingly the weighted average number of shares used in earnings per share computations is derived by giving retroactive effect to the issuances of the shares without consideration.

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shared in issue.

There was no difference between basic and diluted earnings per share for any class of shares for any of the periods.

	1 January 31 December 2015	**1 January 31 December 2014**
Net income / (loss) for the year	283,822	(166,695)
Weighted average number of ordinary shares in issue	919,262,191,086	851,344,382,867
Basic earnings / (loss) per share (Kr)	0.03	(0.02)

4.32 Offsetting

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

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.33 Events after the reporting period

In the case of the occurrence of subsequent events after the date of the statement of financial position which require the statement of financial position to be adjusted, the Group corrects its consolidated financial statements in consideration of the new events. Events which do not require adjustments are explained in the notes to the consolidated financial statements if they are material as they could affect investors' decisions (Note 35).

NOTE 5 - FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Group's risk management systems are in accordance with the accepted risk management best practices (COSO framework and ISO 31000:2009). The Board (via the Board Risk Committee) is responsible for the evaluation of the different types of risks including financial, strategic and operational risks to which Group is exposed to. Furthermore the Board assesses Group's organization, guidelines, policies and processes for monitoring, managing and mitigating such risks.

Market Risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk through the impact of rate changes in the translation of foreign currency denominated assets and liabilities to local currency. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. These risks are monitored and limited by the analysis of the foreign currency position.

	31 December 2015	**31 December 2014**
Assets	154,998	35,925
Liabilities	(7,200,644)	(6,423,180)
Net foreign currency position	**(7,045,646)**	**(6,387,255)**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Market Risk (Continued)

(i) Foreign exchange risk (Continued)

Turkish Lira equivalent of assets and liabilities denominated in foreign currency held by the Group at 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015				31 December 2014			
	USD	**Euro**	**Other**	**Total**	**USD**	**Euro**	**Other**	**Total**
Assets:								
Cash and cash equivalents	194	2,283	4	2,481	3,255	25,109	1	28,365
Trade receivables	-	30	26	56	-	154	-	154
Other receivables from third parties	496	6,124	-	6,620	824	5,802	-	6,626
Due from service concession arrengements	-	-	-	-	780	-	-	780
Derivative financial assets (*)	-	145,841	-	145,841	-	-	-	-
Total assets	**690**	**154,278**	**30**	**154,998**	**4,859**	**31,065**	**1**	**35,925**
Liabilities:								
Bank borrowings	-	(6,402,387)	-	(6,402,387)	-	(5,618,572)	-	(5,618,572)
Other financial liabilities	-	(253,022)	-	(253,022)	-	(256,913)	-	(256,913)
Trade payables	(10,074)	(317,972)	(995)	(329,041)	(21,306)	(221,354)	(4,386)	(247,046)
Other payables to third parties	-	(8,058)	-	(8,058)	-	-	-	-
Derivative financial liabilities (*)	-	(208,136)	-	(208,136)	-	(300,649)	-	(300,649)
Total liabilities	**(10,074)**	**(7,189,575)**	**(995)**	**(7,200,644)**	**(21,306)**	**(6,397,488)**	**(4,386)**	**(6,423,180)**
Net foreign currency position	**(9,384)**	**(7,035,297)**	**(965)**	**(7,045,646)**	**(16,447)**	**(6,366,423)**	**(4,385)**	**(6,387,255)**

(*) The Group is mainly exposed to foreign exchange risk through the impact of rate changes in the translation of USD and Euro denominated assets and liabilities to local currency except Euro denominated derivative financial instruments. Since the effective portion of changes in the fair value of Euro denominated derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income, foreign exchange gains or losses arising from the valuation of these instruments are also recognised in other comprehensive income.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Market Risk (Continued)

(i) Foreign exchange risk (Continued)

At 31 December 2015, if the USD had strengthened / weakened by 10% against the TL with all other variables held constant, profit before taxation on income would have been TL 938 lower / higher (31 December 2014: TL 1,645 lower / higher).

At 31 December 2015, if the Euro had strengthened / weakened by 10% against the TL with all other variables held constant, profit before taxation on income would have been TL 66,099 lower and TL 70,974 higher (31 December 2014: TL 351,747 lower and TL 356,655 higher).

At 31 December 2015, if the Euro had strengthened / weakened by 10% against the TL with all other variables held constant, hedge reserves before taxation would have been TL 19,091 lower / higher (31 December 2014: 25,732 lower / higher).

(ii) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. As the Group has significant interest-bearing assets, the Group's income and operating cash flows are substantially dependent to changes in market interest rates. The Group has interest rate risk arising from long-term borrowings. Borrowings and derivative instruments at variable rates expose the Group to interest rate risk.

Interest rate positions of the Group at 31 December 2015 and 2014 are as follows:

	31 December 2015	31 December 2014
Euro denominated financial liabilities / (assets)		
Financial liabilities with floating interest rates	3,632,502	3,304,509
Fair value of interest rate swap agreement (Note 18)	206,261	248,591
Fair value of foreign exchange forwards (Note 18)	(130,494)	43,332
Fair value of cross currency swap agreement (Note 18)	(15,347)	8,726

The effect of a hypothetical 100 basis point (1%) increase / decrease in interest rates of Euro denominated financial liabilities without interest rate swap agreement with floating interest rates would increase / decrease the interest expense by TL 35,217 (2014: TL 1,362).

The effect of a hypothetical 100 basis point (1%) increase / decrease in interest rates of Euro denominated financial liabilities with interest rate swap agreement would decrease / increase the fair value of interest rate swap agreement by TL 21,915 (2014: TL 20,207).

Liquidity Risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.
The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

Liquidity risk of the Group arising from financial liabilities at 31 December 2015 and 2014 are as follows:

31 December 2015	Carrying value	Total cash outflows	Less than 3 months	3-12 months	1-5 years	More than 5 years
Bank borrowings	11,414,103	13,707,290	988,125	2,051,666	8,885,112	1,782,387
Other financial liabilities	253,022	266,807	3,776	18,490	94,058	150,483
Trade payables	1,406,981	1,406,981	1,406,981	-	-	-
Payable to Privatization Administration	1,188,456	1,304,025	-	1,304,025	-	-
	14,262,562	**16,685,103**	**2,398,882**	**3,374,181**	**8,979,170**	**1,932,870**

31 December 2014	Carrying value	Total cash outflows	Less than 3 months	3-12 months	1-5 years	More than 5 years
Bank borrowings	9,023,830	11,527,321	692,056	1,485,201	7,050,847	2,299,217
Other financial liabilities	256,913	323,059	5,302	18,618	104,086	195,053
Trade payables	1,287,236	1,287,236	1,287,236	-	-	-
Payable to Privatization Administration	2,413,806	2,647,107	-	1,372,713	1,274,394	-
	12,981,785	**15,784,723**	**1,984,594**	**2,876,532**	**8,429,327**	**2,494,270**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures to customers, including outstanding receivables. If counterparties fail on the fulfilment of the agreement, the Group is exposed to the risk upon holding the financial instruments. Management covers the risk by limiting the average risk of counterparties (except for related parties) on agreements and by obtaining guarantees if necessary. Trade receivables, are evaluated based on the Group's policies and procedures and as a result presented net of doubtful provision in the consolidated financial statements. Group management evaluates the adequacy of the provision set for the impaired trade receivable balances based on the aging analysis and considers the receivables overdue by more than 180 days as impaired. In addition, Group management considers irrigation and government receivables overdue by more than 365 days as impaired.

Capital Risk Management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

The gearing ratios at 31 December 2015 and 31 December 2014 were as follows:

	31 December 2015	31 December 2014
Total borrowings	12,855,581	11,694,549
Cash and cash equivalents	(258,035)	(208,505)
Net debt	12,597,546	11,486,044
Total equity	9,440,027	8,428,256
Total capital	22,037,573	19,914,300
Gearing ratio	57%	58%

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NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Categories of financial instruments

31 December 2015	Loans and receivables (Cash and cash equivalents included) (*)	Derivative instruments accounted through profit and loss	Derivative instruments accounted for hedging purposes	Available for sale investments	Financial liabilities at amortized cost	Carrying value	Fair value	Note
Financial assets								
Cash and cash equivalents (*)	258,035	-	-	-	-	258,035	258,035	7
Trade receivables	1,925,791	-	-	-	-	1,925,791	1,925,791	8, 9
Other receivables	347,563	-	-	-	-	347,563	347,563	10
Available-for-sale financial assets	-	-	-	836	-	836	836	15
Derivative financial instruments	-	130,879	15,347	-	-	146,226	146,226	18
Due from service concession arrangements	3,021,039	-	-	-	-	3,021,039	3,021,039	13
Financial liabilities								
Borrowings	-	-	-	-	11,414,103	11,414,103	11,414,103	19
Other financial liabilities	-				253,022	253,022	253,022	19
Trade payables	-	-	-	-	1,406,981	1,406,981	1,406,981	8, 9
Other payables	-				888,821	888,821	888,821	10
Derivative financial instruments	-	3,472	206,261	-	-	209,733	209,733	18
Payable to Privatization Administration	-	-	-	-	1,188,456	1,188,456	1,188,456	10

(*) Cash and cash equivalents are classified as loans and receivables.

The Group believes that the carrying values of its financial instruments reflect their fair values.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Categories of financial instruments (Continued)

31 December 2014	Loans and receivables (Cash and cash equivalents included) (*)	Derivative instruments accounted through profit and loss	Derivative instruments accounted for hedging purposes	Available for sale investments	Financial liabilities at amortized cost	Carrying value	Fair value	Note
Financial assets								
Cash and cash equivalents (*)	208,505	-	-	-	-	208,505	208,505	7
Trade receivables	1,721,930	-	-	-	-	1,721,930	1,721,930	8, 9
Other receivables	284,600	-	-	-	-	284,600	284,600	10
Available-for-sale financial assets	-	-	-	836	-	836	836	15
Due from service concession arrangements	1,622,335	-	-	-	-	1,622,335	1,622,335	13
Financial liabilities								
Borrowings	-	-	-	-	9,023,830	9,023,830	9,023,830	19
Other financial liabilities	-	-	-	-	256,913	256,913	256,913	19
Trade payables	-	-	-	-	1,342,595	1,342,595	1,342,595	8, 9
Other payables	-	-	-	-	725,780	203,871	203,871	10
Derivative financial instruments	-	43,332	257,317	-	-	300,649	300,649	18
Payable to Privatization Administration	-	-	-	-	2,413,806	2,413,806	2,413,806	10

(*) Cash and cash equivalents are classified as loans and receivables.

The Group believes that the carrying values of its financial instruments reflect their fair values.

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Fair value estimation

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 classification of the Group's financial assets and liabilities at fair value is as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

In the consolidated balance sheet, derivative financial instrument is recognised at fair value. The fair value of derivative financial instrument is determined by using valuation technique, which can be regarded as level 2. Apart from that, for disclosure purposes, the borrowings carried at the amortised cost at the balance sheet are presented with their values in Note 18. The fair value of borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate (Euribor) that is available to the Group for similar financial instruments that can be classified as level 2. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables and payables.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and liabilities are determined.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Fair value estimation (Continued)

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 December 2015	31 December 2014				
Foreign currency forward contracts	130,494	(43,322)	Level 2	Discounted cash flow model: Forward exchange rates (observable forward exchange rates at the end of the reporting period) and the estimated future cash flows determined by using the contract rates are discounted by using a rate that reflects the credit risk of the various parties.	-	-
Interest rate swaps	(206,261)	(248,591)	Level 2	Discounted cash flow model: Forward interest rate (the interest rate that is derived from the observable yield curve at the end of the reporting period) and the estimated future cash flows determined by using the contract interest rates and forward exchange rates are discounted by using a rate that reflects the credit risk of the various parties.	-	-
Cross currency swaps	15,347	(8,726)	Level 2	Discounted cash flow model: Forward interest rate (the interest rate that is derived from the observable yield curve at the end of the reporting period) and the estimated future cash flows determined by using the contract interest rates and forward exchange rates are discounted by using a rate that reflects the credit risk of the various parties.	-	-
Commodity swap	(3,473)	-	Level 2	Discounted cash flow model: Forward commodity prices (observable forward commodity prices at the end of the reporting period) and the estimated future cash flows determined by using the contract commodity prices are discounted by using the market interest rate.	-	-
Financial deal contracts	385	-	Level 2	Discounted cash flow model: Forward commodity prices (observable forward commodity prices at the end of the reporting period) and the estimated future cash flows determined by using the contract commodity prices are discounted by using the market interest rate.	-	-
Deposits given	133,153	101,211	Level 2	Consumer Price Index ("CPI")	-	-
Deposits and guarantees received	(736,177)	(608,064)	Level 2	CPI	-	-
Due from service concession arrangements	3,021,039	1,622,335	Level 2	CPI	-	-

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NOTE 6 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

6.1 Impairment of property and equipment and intangible assets

The carrying amounts of the Group's property and equipment and intangible assets are reviewed at each balance sheet date to determine whether there are any indicators of impairment as described in Note 4.12. In connection with the audit of the consolidated financial statements of the Group as of 31 December 2015, the Group have performed certain procedures regarding the annual assessment of enterprise values with respect to impairment of assets under the context of Turkish Accounting Standard No. 36 Impairment of Assets ("TAS 36"). The Group recognised an impairment of TL 191 million in 2015, for Murat Nehri power plant in accordance with Turkish Financial Reporting Standards No. 5 Current Asset Held For Sale and Discontinued Operations ("TFRS 5") (Note 32). The basis for the impairment loss is mainly driven by Group management's estimate of the range of economic conditions that will exist over the remaining useful life of the asset. The carrying value of these assets is written down to the total of the estimated value of the "land" and "scrap" value.

6.2 Impairment test of goodwill for EEDAŞ

Pursuant to TAS 36, Impairment of Assets, the Group tested goodwill as of 31 December 2015 in accordance with the accounting policy stated at (Note: 4.14). The goodwill impairment test is carried out for Retail and Distribution Cash Generating Units ("CGUs").

The following assumptions were used to determine the recoverable amount of Retail CGU:

CGU:	**Retail**
Base used for the recoverable amount:	Value in use
Source:	Forecasted cash flows
WACC (TL):	Between 13.7% and 13.8%

The net present value of Retail CGU was calculated by discounting the TL post-tax free cash flows, which is the functional currency of the Group. The Group compared the recoverable amount calculated based on the aforementioned assumptions to the total value of Retail CGU and no impairment was identified.

The following assumptions were used to determine the recoverable amount of Distribution CGU:

CGU:	**Distribution**
Base used for the recoverable amount:	Value in use
Source:	Forecasted cash flows for the licence period
WACC (TL):	Between 12.7% and 12.8%

The net present value of Distribution CGU was calculated by discounting the post-tax free cash flows for the discrete period from 2015 to 2036 for BEDAŞ and from 2015 to 2042 for AYEDAŞ and TOROSLAR EDAŞ. This calculation includes the discounted values of the TL cash flows of Distribution CGU which is the functional currency of the Group. The Group compared the recoverable amount calculated based on the aforementioned assumptions to the total value of Distribution CGU and no impairment was identified.

NOTE 6 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

6.3 Provisions

As described in the accounting policies above, the Group measures provisions at the Group management's best estimate of the expenditure required to settle the obligations at the balance sheet date. These estimates are made, taking into account information available and different possible outcomes.

The Group is subject to various legal proceedings, claims and regulatory discussions, the outcomes of which are subject to uncertainty. The Group evaluates, among other factors, the degree of probability of an unfavourable outcome and the ability to make a reasonable estimate of the amount of loss. Unforeseeable events or changes in these factors may require an increase or a decrease of the amount that the Group has accounted for any matter or provision for a matter that has not been previously provided for as it was either not considered probable or a reasonable estimate could not be made.

6.4 Deferred income tax assets for the carry forward unused tax losses and investment incentives

Deferred tax assets may only be recognised to the extent it is probable that sufficient taxable profit will be available in the future. In case of a probable tax advantage, deferred income tax asset is calculated for unused carry forward tax losses and investment incentives.

6.5 Service concession arrangements in EEDAŞ

The Group determines the financial asset and financial income balances recognized under service concession arrangements based on the cash flows derived from the tariffs announced by EMRA. The distribution revenue requirement of the Group during the second (2011 - 2015) and third tariff periods (2016 - 2020) was determined by EMRA considering the projected expenses and related tariffs which were published in 2010 and 2015. Moreover, distribution revenue requirements from the end of third tariff period to the end of license (2036 for BEDAŞ and 2042 for AYEDAŞ and TOROSLAR EDAŞ) are expected by the Group management based on the tariff components announced for the third tariff period. These tariffs are revised yearly due to inflation, based on the changes in the Electricity Market Index ("EMI" is defined as change in won the communique of Distribution System). In determination of the aforementioned projected cash inflows in the upcoming periods the Group management made expectations related to the CPI and WACC rates.

6.6 Revenue recognition in EEDAŞ

Invoices of the subscribers other than residential and commercial groups are issued monthly at the end of each month by the Group whereas the invoices of the residential subscribers are issued continuously during each month due to the high number of subscribers in this group. Commercial group subscribers are also issued continuously during the month due to the high number of customers in this group although the subscribers with high consumption level are billed at the end of the month. As a result, the total electricity supplied to the residential and commercial subscribers during each month cannot be invoiced and income accruals are recognized as revenue at period-ends for these customer groups based on the actual billing performance.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

NOTE 6 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

6.7 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. For each of the financial instrument, valuation techniques and assumptions are used.

Fair value of non-derivative financial instruments, which is determined for disclosure purposes, is determined based on the present value of future principal and interest cash flows. These cash flows are calculated based on discount rate prevailing at the reporting date.

NOTE 7 - CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Cash on hand	-	114
Cash at banks		
- time deposits	79,291	77,289
- demand deposits	99,389	61,701
- repurchase agreements	79,355	69,401
	258,035	**208,505**

According to the Security and Accounts Agreement that was signed between the Group and the Creditors (Note 19), the Group is obliged to maintain the deposits in restricted accounts and permitted non-restricted accounts. Establishment, maintenance and transfer into and out of these accounts are defined in the Security and Accounts Agreement. Restricted accounts are mainly for equity disbursement, loan disbursement, revenue payments, insurance and compensations, sponsor support disbursement and additional expenditures. Permitted non-restricted accounts are for dividend distribution ("Distribution Account"), payment of operating and maintenance costs (including payment of personnel costs, social security premium, utilities, taxes, royalty fees and general management expenditures), payments related to trade instruments provided by any bank ("Trade Instrument Accounts") and general corporate purposes within the ordinary course of its business. The Group at no time shall maintain any accounts other than restricted accounts and permitted nonrestricted accounts, and shall grant first ranking perfected security over each account other than the Distribution Account and the Trade Instrument Accounts.

At 31 December 2015, time deposits are all short term with periods of less than three months, where the average interest rates for TL 78,922 and EUR 199 time deposits were 12.3% and 0.2% p.a., respectively (2014: TL 63,908 and EUR 4,744 time deposits were 9.5% and 0.6% p.a., respectively).

As at 31 December 2015, TL 24,459 thousand of the Group's demand deposits is blocked at different banks (31 December 2014: TL 22,029 thousand). These blocked deposits are related to the collections made through bank branches which are made available for use by banks 1 or 2 days after the collection depending on the agreements with related banks.

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NOTE 7 - CASH AND CASH EQUIVALENTS (Continued)

Repurchase agreements consist of short term TL balances with original maturities between 1-3 days (31 December 2014: 1-3 days). The weighted average effective interest rate of TL repurchase agreements is 11.10% as at 31 December 2015 (31 December 2014: 10.07%).

NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Amounts due from and due to related parties at 31 December 2015 and 31 December 2014 and a summary of major transactions with related parties during the period are as follows:

8.1 Deposits and repurchase agreements at banks

	31 December 2015	31 December 2014
Akbank T.A.Ş.	185,555	128,950

8.2 Loans from related party banks

	31 December 2014	31 December 2014
Akbank T.A.Ş.	2,681,740	1,993,162

8.3 Derivative financial instruments

Akbank T.A.Ş.

	31 December 2015		31 December 2014	
	Assets	Liabilities	Assets	Liabilities
Interest rate swap	-	(92,817)	-	(111,866)
Commodity swap	-	(3,473)	-	-
Foreign exchange forwards	33,036	-	-	(1,867)
Financial deal contracts	385	-	-	-
	33,421	(96,290)	-	(113,733)

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

8.4 Due from related parties

Trade receivables:

	31 December 2015	31 December 2014
Çimsa Çimento Sanayi ve Ticaret A.Ş. ("Çimsa")	29,697	7,565
Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş. ("Brisa")	5,695	5,094
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş. ("Carrefoursa")	3,885	4,050
Kordsa Global End. İplik ve Kord Bezi San. ve Tic. A.Ş. ("Kordsa Global")	3,730	2,824
Akbank T.A.Ş.	2,167	2,235
Akçansa Çimento Sanayi ve Ticaret A.Ş. ("Akçansa")	32,348	351
Other	4,254	838
	81,776	**22,957**

As of 31 December 2015 and 31 December 2014, due from related parties have maturities of less than one month. There are no overdue and no doubtful due from related parties as of 31 December 2015 and 31 December 2014.

8.5 Due to related parties

	31 December 2015	31 December 2013
Aksigorta A.Ş.	44	5,417
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş. ("Bimsa")	13,490	79
Other	835	274
	14,369	**5,770**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

8.6 Sales

	1 January- 31 December 2015	1 January- 31 December 2014
Çimsa	56,170	91,532
Akçansa	55,809	22,569
Brisa	47,273	41,838
Carrefoursa	42,872	37,707
Kordsa Global	38,427	34,148
Akbank T.A.Ş.	25,064	24,191
Philsa	14,468	742
Teknosa İç ve Dış Tic. A.Ş.	5,320	5,930
Temsa Global Sanayi ve Ticaret A.Ş.	2,895	2,379
Sabancı	1,135	1,695
Other	607	374
	290,040	**263,105**

8.7 Purchases and services received

	31 December 2015	31 December 2014
Aksigorta A.Ş.	679	21,804
Vista	23	2,379
Sabancı	1,728	1,692
Other	210	1,151
	2,640	**27,026**

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NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

8.8 Financial income/(expense)

	1 January- 31 December 2015	1 January- 31 December 2014
Interest income		
Akbank T.A.Ş.	30,308	44,051
Interest expense		
Akbank T.A.Ş.	(212,204)	(112,674)
	(181,896)	**(68,623)**
Foreign currency (loss) / gain		
Akbank T.A.Ş.	(72,189)	23,638
	(254,085)	**(44,985)**

8.9 Other income

	1 January- 31 December 2015	1 January- 31 December 2014
Kordsa Global	161	142
Brisa	161	142
Aksigorta	-	659
Other	26	59
	348	**1,002**

8.10 Other expense

	1 January- 31 December 2015	1 January- 31 December 2014
Bimsa	3,632	105
Çimsa	339	-
Avivasa	230	-
Aksigorta A.Ş.	-	1,601
Other	5	-
	4,206	**1,706**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 8 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

8.11 Key management compensation

Key management includes Chief Executive Officer, Chief Financial Officer, Directors and above. The compensation paid or payable to key management for employee services is shown below:

	1 January- 31 December 2015	1 January- 31 December 2014
Short-term benefits	5,926	5,372
Other long-term benefits	3,041	3,189
	8,967	**8,561**

NOTE 9 – TRADE RECEIVABLES AND PAYABLES

Trade receivables

	31 December 2015	31 December 2014
Customer current accounts	2,741,810	2,593,319
Allowance for doubtful receivables (-)	(897,795)	(894,346)
	1,844,015	**1,698,973**

As of 31 December 2015, trade receivables amounting to TL 1,399,101 (31 December 2014: TL 1,238,479) were neither past due nor impaired. The average credit period on sale of electricity is less than one month.

As of 31 December 2015, trade receivables amounting to TL 444,914 (31 December 2014: TL 460,494) were past due but not impaired. The balance mainly relates to many independent public and private subscribers of EEDAŞ. The aging analysis of these trade receivables is as follows as of 31 December 2015 and 31 December 2014:

	31 December 2015	31 December 2014
Up to 3 months	320,546	337,438
3 to 6 months	119,815	113,499
More than 6 months	4,553	9,557
	444,914	**460,494**

As of 31 December 2015, trade receivables of TL 897,795 (31 December 2014: TL 894,346) were considered as impaired and a provision was provided for these trade receivables. The provision for trade receivables is provided based on the aging analysis. Group management considers the receivables overdue by more than 180 days as impaired by taking the past default experience into consideration. In addition, Group management considers irrigation and government receivables overdue by more than 365 days as impaired.

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NOTE 9 – TRADE RECEIVABLES AND PAYABLES (Continued)

Movements on the provision for allowance of trade receivables are as follows:

Movement of allowance for doubtful receivables:	**1 January - 31 December 2015**	**1 January - 31 December 2014**
Balance at the beginning of the year	(894,346)	(662,244)
Additions	(182,244)	(149,668)
Amounts recovered during the year	178,795	72,131
Provision charged due to system migration	-	(154,565)
Closing balance	**(897,795)**	**(894,346)**

The Group received guarantee letters amounting to TL 745,319 (31 December 2014: TL 626,923) and deposits and guarantees amounting to TL 736,846 (31 December 2014: TL 609,059) as collateral for its electricity receivables.

Trade payables

	31 December 2015	**31 December 2014**
Payables to suppliers	1,310,523	1,165,514
Boru Hatları ile Petrol Taşıma A.Ş. ("BOTAŞ")	82,089	115,952
	1,392,612	**1,281,466**

Trade payables mainly arise from the Group's electricity purchases made from Türkiye Elektrik Ticaret ve Taahhüt A.Ş. (TETAŞ) and Piyasa Mali Uzlaştırma Merkezi (PMUM), natural gas purchases from Botaş and payables to suppliers related to construction of power plants. At 31 December 2015 and 31 December 2014, trade payables have maturities less than one month.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 10 – OTHER RECEIVABLES AND PAYABLES

Other current receivables

	31 December 2015	31 December 2014
Income accruals (*)	214,946	182,768
Receivables from liquidated damages	35,000	35,000
Receivables subject to arbitration	14,952	18,558
Deposits and guarantees given	24,412	16,833
Receivables from personnel	51	97
Transmission line receivables (**)	18,872	3,820
Other	42,453	30,647
	350,686	287,723
Less: Provision for impairment of other receivables	(3,123)	(3,123)
	347,563	**284,600**

Other non-current receivables

	31 December 2015	31 December 2014
Income accruals (*)	251,259	201,265
Transmission line receivables (**)	87,316	135,676
Deposits and guarantees given (***)	133,153	103,335
	471,728	**440,276**

(*) According to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations the Group's distribution, transmission and meter reading services have revenue caps which cover operating expenses and investment requirements related to distribution and meter reading. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by TEİAŞ. These regulations guarantee a revenue to the Group regardless of the consumption level of subscribers. The underbillings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years. The effects of the underbillings, which means the actual revenue is below the revenue cap set by EMRA, are accounted as income accruals at the Group's consolidated financial statements.

(**) The Group constructs energy transmission lines on behalf of TEİAŞ and reflects the cost to TEİAŞ. As of 31 December 2015, receivables from TEİAŞ regarding the construction of transmission lines are mainly related with the Tufanbeyli, Hacınınoğlu, Menge, Arkun, Yamanlı, Kavşakbendi, Çambaşı and Kandil projects. The Group will collect the related amount in equal monthly instalments in maximum of ten years.

(***) The balance represents subscription fees refunded to the subscribers, subscribed before 31 March 2006 for EPS and 24 July 2006 for AEPSAŞ and TOROSLAR EPSAŞ when they leave the system. The balances were paid to the subscribers based on their adjusted amounts by inflation rate as required by EMRA periodically. According to the TOR Agreement signed with TEDAŞ, retail companies (EPS, AEPSAŞ and TOROSLAR EPSAŞ) are obliged to keep deposits refunded with their fair values and the net balance of deposits received and paid will be paid back to TEDAŞ at the end of the license periods.

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NOTE 10 – OTHER RECEIVABLES AND PAYABLES (Continued)

Other current payables

	31 December 2015	31 December 2014
Payables to Privatization Administration (*)	1,188,456	1,237,732
Taxes and dues payable	16,829	86,155
Deposits and guarantees received	46,622	62,164
Other payable	106,022	55,552
	1,357,929	**1,441,603**

Other non-current payables

	31 December 2015	31 December 2014
Payables to Privatization Administration (*)	-	1,176,074
Deposits and guarantees received (**)	736,177	608,064
	736,177	**1,784,138**

(*) The balance represents the remaining installments of AYEDAŞ, AEPSAŞ, TOROSLAR EDAŞ and TOROSLAR EPSAŞ acquisitions with PPI + 2% interest rate.

(**) The Group received deposits from the customers subscribed after 31 March 2006 for EPS and 24 July 2006 for AEPSAŞ and TOROSLAR EPSAŞ upon their subscription on behalf of TEDAŞ and these deposits are initially recorded at their fair values as the subscription fee charged to customers represents the fees announced by EMRA. According to the TOR Agreements signed with TEDAŞ, retail companies (EPS, AEPSAŞ and TOROSLAR EPSAŞ) are obliged to carry the deposits received by their fair values and the net balance of deposits received and paid will be paid back to TEDAŞ at the end of the license period.

NOTE 11 – INVENTORIES

	31 December 2015	31 December 2014
Consumables	131,330	94,859
Materials	5,336	6,477
Other inventory	1,708	1,605
	138,374	102,941
Less: Provision for impairment of inventories	(4,000)	-
	134,374	**102,941**

	1 January-31 December 2015	1 January-31 December 2014
1 January	-	-
Charged to statement of profit or loss	(4,000)	-
31 December	**(4,000)**	**-**

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NOTE 12 – PREPAID EXPENSES AND DEFERRED REVENUE

Short - term prepaid expenses

	31 December 2015	31 December 2014
Prepaid expenses	12,715	15,014
Inventory advances given	6,360	7,745
Business advances given	2,329	5,673
Other advances given	8	314
	21,412	**28,746**

Long - term prepaid expenses

	31 December 2015	31 December 2014
Fixed asset advances given	248,647	656,799
Other	814	1,651
	249,461	**658,450**

Short - term deferred revenue

	31 December 2015	31 December 2014
Deferred income (*)	173,248	86,210
Advances received	73	-
	173,321	**86,210**

Long - term deferred revenue

	31 December 2015	31 December 2014
Deferred income (*)	101,624	158,385
	101,624	**158,385**

(*) According to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations the Group's distribution, transmission and meter reading services have revenue caps which cover operating expenses and investment requirements related to distribution and meter reading. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by TEİAŞ. These regulations guarantee a revenue to the Group regardless of the consumption level of subscribers. The underbillings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years. The effects of the overbillings, which means the actual revenue is above the revenue cap set by EMRA, are accounted as deferred income at the Group's consolidated financial statements.

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NOTE 13 – DUE FROM SERVICE CONCESSION ARRANGEMENTS

Considering the terms in the service concession arrangement, the Group has recognized the discounted estimated future cash receipts through the expected life of the arrangement, as financial asset. The details of the financial assets recognized under the service concession arrangement are as follows:

	31 December 2015	31 December 2014
Short-term due from service concession arrangements	455,975	152,413

	31 December 2015	31 December 2014
Long term due from service concession arrangements	2,565,064	1,630,559

	31 December 2015	31 December 2014
Gross due from service concession arrangements	5,289,794	3,670,119
Unearned financial income	(2,268,755)	(1,887,147)
Due from service concession arrangements, net	**3,021,039**	**1,782,972**

NOTE 14 - OTHER ASSETS

Other current assets

	31 December 2015	31 December 2014
VAT receivables	22,320	40,738
Other	3,567	32
	25,887	**40,770**

Other non - current assets

	31 December 2015	31 December 2014
VAT receivables (*)	547,679	544,449
	547,679	**544,449**

(*) VAT receivables are mainly related to the projects under construction. These VAT receivables will be offset against VAT payables arising from revenues generated in the future.

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NOTE 14 - OTHER ASSETS (Continued)

Other current liabilities

	31 December 2015	31 December 2014
Taxes and funds payable	141,563	116,733
Other	4,305	3,913
	145,868	120,646

NOTE 15 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2015		31 December 2014	
	(%)	TL	(%)	TL
KOSBAŞ Kocaeli Serbest Bölgesi Kurucu ve İşleticisi A.Ş.	4.00	424	4.00	424
Enerji Piyasaları İşletme A.Ş. (*)	0.67	412	0.67	412
		836		836

(*)TradeCo became a Group C shareholder of EPİAŞ with 412,408 shares on 10 December 2014.

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NOTE 16 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2015	Additions	Disposals	Transfers	Impairment (*)	Reclassified as assets held for sale	Reclassification (**)	31 December 2015
Cost:								
Land	111,709	-	-	-	-	(23,411)	(1)	88,297
Land improvements	3,116,945	1,108	(5,602)	136,858	-	-	(13,809)	3,235,500
Buildings	437,457	9,538	(28,396)	9,382	-	-	(242)	427,739
Machinery and equipment	3,076,454	11,431	(17,520)	41,595	-	(77)	(172,135)	2,939,748
Spare parts	25,580	-	(5,859)	-	-	-	-	19,721
Motor vehicles	4,154	36,717	-	-	-	-	(270)	40,601
Furniture and fixtures	21,687	3,010	(440)	-	-	(104)	(264)	23,889
Leasehold improvements	1,567	-	-	-	-	-	-	1,567
Construction in progress	3,048,162	1,975,833	(144,938)	(198,718)	(140,298)	(292,598)	(25,527)	4,221,916
	9,843,715	**2,037,637**	**(202,755)**	**(10,883)**	**(140,298)**	**(316,190)**	**(212,248)**	**10,998,978**
Accumulated depreciation:								
Land improvements	129,259	75,778	(5,271)	-	-	-	(22,646)	177,120
Buildings	43,509	10,638	(9,689)	-	-	-	1,561	46,019
Machinery and equipment	1,048,544	124,955	(15,091)	-	-	(57)	(191,110)	967,241
Motor vehicles	2,995	11,231	-	-	-	-	(88)	14,138
Furniture and fixtures	13,126	3,064	(414)	-	-	(68)	35	15,743
Leasehold improvements	945	-	-	-	-	-	-	945
	1,238,378	**225,666**	**(30,465)**	**-**	**-**	**(125)**	**(212,248)**	**1,221,206**
Net book value:								
Land	111,709							88,297
Land improvements	2,987,686							3,058,380
Buildings	393,948							381,720
Machinery and equipment	2,027,910							1,972,507
Spare Parts	25,580							19,721
Motor vehicles	1,159							26,463
Furniture and fixtures	8,561							8,146
Leasehold improvements	622							622
Construction in progress	3,048,162							4,221,916
	8,605,337							**9,777,772**

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NOTE 16 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2014	Additions	Disposals	Transfers	Impairment (*)	Reclassified as assets held for sale	Reclassification (**)	31 December 2014
Cost:								
Land	111,109	644	-	-	-	(44)	-	111,709
Land improvements	2,206,042	7,092	-	938,474	-	(34,663)	-	3,116,945
Buildings	355,473	-	(1,893)	86,114	-	(2,237)	-	437,457
Machinery and equipment	2,934,863	13,967	-	161,916	-	(34,292)	-	3,076,454
Spare parts	15,914	9,666	-	-	-	-	-	25,580
Motor vehicles	3,802	481	(129)	-	-	-	-	4,154
Furniture and fixtures	17,748	4,415	(15)	61	-	(522)	-	21,687
Leasehold improvements	1,597	6	(36)	-	-	-	-	1,567
Construction in progress	3,444,059	799,243	-	(1,186,565)	-	(8,575)	-	3,048,162
	9,090,607	**835,514**	**(2,073)**	**-**	**-**	**(80,333)**	**-**	**9,843,715**
Accumulated depreciation:								
Land improvements	64,903	64,356	-	-	-	-		129,259
Buildings	33,914	10,384	(656)	-	-	(133)		43,509
Machinery and equipment	953,909	127,181	-	-	-	(32,546)		1,048,544
Motor vehicles	2,321	886	(117)	-	-	(95)		2,995
Furniture and fixtures	10,792	2,876	(3)	-	-	(539)		13,126
Leasehold improvements	758	187	-	-	-	-		945
	1,066,597	**205,870**	**(776)**	**-**	**-**	**(33,313)**	**-**	**1,238,378**
Net book value:								
Land	111,109							111,709
Land improvements	2,141,139							2,987,686
Buildings	321,559							393,948
Machinery and equipment	1,980,954							2,027,910
Spare Parts	15,914							25,580
Motor vehicles	1,481							1,159
Furniture and fixtures	6,956							8,561
Leasehold improvements	839							622
Construction in progress	3,444,059							3,048,162
	8,024,010							**8,605,337**

NOTE 16 - PROPERTY, PLANT AND EQUIPMENT (Continued)

(*) Under the context of Turkish Accounting Standard Impairment of Assets ("TAS 36"), the Group has identified an impairment loss of TL 191 million in 2015 for Murat Nehri power plant which is classified as asset held for sale. TL 51 million of the amount has been recorded under intangible assets (Note 17)

(**) During the transfer of all adjustments and reclassifications in accordance with TFRS to SAP software system, the transitions between cost and accumulated depreciation amounts are corrected without affecting net book values.

TL 209,855 of current year depreciation expenses is included in cost of sales and TL 15,811 of it is included in operating expenses (2014: TL 200,213 and TL 5,657 respectively).

Based on the provisions of the finance package signed at 13 June 2008, the property, plant and equipment are secured by the lenders.

Total borrowing costs capitalised in 2015 and 2014 are TL (451,123) (interest expense: TL (89,515), foreign exchange loss: TL (361,608)) and TL (23,498) (interest expense: TL 88,171, foreign exchange gain: TL (111,669)), respectively (Note 30).

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated. Currencies other than TL are expressed in thousands unless otherwise indicated.)

NOTE 17 - INTANGIBLE ASSETS

	1 January 2015	Additions	Disposals	Transfers	Impairment (*)	Reclassified as assets held for sale	Reclassification (**)	31 December 2015
Cost:								
Licences	816,645	12,142	(2,146)	-	(50,702)	(35)	23,972	799,876
Rights	1,680,647	1,195	(14,694)	-	-	-	(10,932)	1,656,216
Customer contracts and related relationships	4,390,673	-	-	-	-	-	-	4,390,673
Goodwill	2,730,031	-	-	-	-	-	-	2,730,031
Other intangibles	7,989	4,779	-	10,883	-	-	502	24,153
	9,625,985	**18,116**	**(16,840)**	**10,883**	**(50,702)**	**(35)**	**13,542**	**9,600,949**
Accumulated amortisation:								
Licences	15,820	13,704	(2,146)	-	-	(1)	5,892	33,269
Rights	118,296	56,721	(14,084)	-	-	-	7,162	168,095
Customer contracts and related relationships	395,155	152,108	-	-	-	-	-	547,263
Other intangibles	4,355	2,014	-	-	-	-	489	6,858
	533,626	**224,547**	**(16,230)**	**-**	**-**	**(1)**	**-**	**755,485**
Net book value:								
Licences	800,825							766,607
Rights	1,562,351							1,488,121
Customer contracts and related relationships	3,995,518							3,843,410
Goodwill	2,730,031							2,730,031
Other intangibles	3,634							17,295
	9,092,359							**8,845,464**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 17 - INTANGIBLE ASSETS (Continued)

	1 January 2014	Additions	Disposals	Transfers	Impairment (*)	Reclassified as assets held for sale	Reclassification (**)	31 December 2014
Cost:								
Licences	819,372	360	(3,087)	-	-	-	-	816,645
Rights	1,681,554	42	-	-	-	(949)	-	1,680,647
Customer contracts and related relationships	4,390,673	-	-	-	-	-	-	4,390,673
Goodwill	2,730,031	-	-	-	-	-	-	2,730,031
Other intangibles	6,015	1,974	-	-	-	-	-	7,989
	9,627,645	**2,376**	**(3,087)**	**-**	**-**	**(949)**	**-**	**9,625,985**
Accumulated amortisation:								
Licences	15,390	430	-	-	-	-	-	15,820
Rights	50,200	68,248	-	-	-	(152)	-	118,296
Customer contracts and related relationships	243,047	152,108	-	-	-	-	-	395,155
Other intangibles	4,173	182	-	-	-	-	-	4,355
	312,810	**220,968**	**-**	**-**	**-**	**(152)**	**-**	**533,626**
Net book value:								
Licences	803,982							800,825
Rights	1,631,354							1,562,351
Customer contracts and related relationships	4,147,626							3,995,518
Goodwill	2,730,031							2,730,031
Other intangibles	1,842							3,634
	9,314,835							**9,092,359**

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NOTE 17 - INTANGIBLE ASSETS (Continued)

(*) Under the context of Turkish Accounting Standard Impairment of Assets ("TAS 36"), the Group has identified an impairment loss of TL 191 million in 2015 for Murat Nehri power plant which is classified as asset held for sale. TL 140 million of the amount has been recorded under property, plant and equipment (Note 16).

(**) During the transfer of all adjustments and reclassifications in accordance with TFRS to SAP software system, the transitions between cost and accumulated depreciation amounts are corrected without affecting net book values.

TL 14,112 of current year amortisation expenses is included in cost of sales and TL 210,435 of it is included in operating expenses (2014: TL 11,540 and TL 209,428 respectively).

Customer contracts and related relationships and transfer of operating rights are separately recognised during the business combination according to TFRS 3.

On 31 March 2006 BEDAŞ and on 24 July 2006, AYEDAŞ and TOROSLAR EDAŞ signed TOR Agreements with TEDAŞ. In accordance with the TOR agreement, TEDAŞ transferred the operating rights of the distribution system, the distribution facilities, the other movables and immovables which are crucial for the operation of the distribution facilities to BEDAŞ until the end of 2036 and to AYEDAŞ and TOROSLAR EDAŞ until the end of 2042. Based on the future cash flows fair value of the TOR agreements are determined. The residual value of TOR after the portion recognized as financial asset which calculated based on TFRS Interpretation 12 (Note 17) is recognized as intangible asset based on TFRS 3.

In recognition of customer contracts and related relationships; relationships with the different customer groups are identified and a fair value for retail customers is estimated by Group management.

Customer contracts and related relationships and TOR amortization is calculated on a straight line basis in a range between 25-30 years and charged to operating expenses.

Goodwill is allocated to the Group's cash-generating units (CGUs) through distribution region privatizations. A region level summary of the goodwill allocation is presented below:

	31 December 2015	31 December 2014
Toroslar Region	1,104,163	1,104,163
Ayedaş Region	893,061	893,061
Başkent Region	732,807	732,807
	2,730,031	**2,730,031**

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NOTE 18 - DERIVATIVE FINANCIAL INSTRUMENTS

The Group entered into the following interest rate swap transaction contracts and foreign exchange forward contracts with banks in order to hedge its interest rate risk and to reduce its exchange rate risk associated with the raw material purchases. Their fair values at 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015		31 December 2014	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Foreign exchange forwards	130,494	-	-	(43,332)
Cross currency swap	15,347	-	-	(8,726)
Interest rate swap	-	(206,261)	-	(248,591)
Commodity swap	-	(3,473)	-	-
Commodity forward	385	-	-	-
	146,226	**(209,734)**	**-**	**(300,649)**
Short-term	130,879	(3,472)	-	(43,332)
Long-term	15,347	(206,261)	-	(257,317)
	146,226	**(209,733)**	**-**	**(300,649)**

According to the contract, 45% portion of the swap transaction is made with the related party bank of the Group, Akbank T.A.Ş..

Movements in fair value of derivative financial instruments can be analysed as follows:

	1 January- 31 December 2015	1 January- 31 December 2014
1 January	(300,649)	(262,619)
Recognized in / (charged to) statement of profit or loss	188,763	(50,085)
(Charged to) / recognized in other comprehensive income	48,379	12,055
31 December	**(63,507)**	**(300,649)**

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NOTE 19 - BANK BORROWINGS

	Weighted average effective interest rate p.a.		Original currency		TL	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Short-term bank borrowings:						
- TRY borrowings	11.76%	10.85%	903,351	985,786	903,351	985,786
					903,351	**985,786**
Short-term portion of long-term bank borrowings:						
- Euro borrowings	4.64%	5.23%	274,958	196,659	873,707	554,716
- TRY borrowings	11.84%	11.23%	1,026,004	54,167	1,026,004	54,167
					1,899,711	**608,883**
Long-term bank borrowings:						
- Euro borrowings	4.03%	4.36%	1,739,892	1,795,248	5,528,681	5,063,856
- TRY borrowings	11.96%	11.05%	3,082,360	2,365,305	3,082,360	2,365,305
					8,611,041	**7,429,161**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 19 - BANK BORROWINGS (Continued)

Redemption schedules of long-term bank borrowings at 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015	31 December 2014
To be paid between 1-2 years	3,969,070	2,091,976
To be paid between 2-3 years	1,035,168	1,371,440
To be paid between 3-4 years	1,080,298	1,167,606
To be paid between 4-5 years	885,509	907,841
To be paid between +5 years	1,640,996	1,890,298
	8,611,041	**7,429,161**

The management believes that the carrying value approximates its fair value.

Other financial liabilities:

	31 December 2015	31 December 2014
Other current financial liabilities	20,630	17,185
Other non-current financial liabilities	232,392	239,728
	253,022	**256,913**

The other financial liabilities are repayable as follows:

	31 December 2015	31 December 2014
To be paid within 1 year	20,630	17,185
To be paid between 1-2 years	21,488	19,204
To be paid between 2-3 years	21,899	19,981
To be paid between 3-4 years	22,330	20,346
To be paid between 4-5 years	22,780	20,407
To be paid more than 5 years	143,895	159,790
	253,022	**256,913**

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NOTE 19 - BANK BORROWINGS (Continued)

As of 31 December 2015 and 31 December 2014, details of short and long term other financial liabilities in terms of currencies are as follows:

Currency Type	Weighted average effective interest rate	31 December 2015 Current	31 December 2015 Non-current
EUR	4.70%	20,630	232,392
		20,630	**232,392**

Currency Type	Weighted average effective interest rate	31 December 2014 Current	31 December 2014 Non-current
EUR	4.70%	17,185	239,728
		17,185	**239,728**

Other financial liabilities represent the payables to TEDAŞ for the capital expenditures denominated in EUR.

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NOTE 20 – PROVISIONS

	31 December 2015	31 December 2014
Provision for legal cases [(1)]	152,320	149,478
Provision for water usage right	71,519	46,255
Provision for performance fee [(2)]	3,615	1,777
Provision for termination fee	-	1,623
Provision for TRT energy contribution [(3)]	1,000	1,000
Provision for commitment fee	91	302
Other provisions	1,348	802
	229,893	**201,237**

(1) Legal claims are set for the probable cash outflows related to the legal disputes. As of 31 December 2015, actual provision amount for the legal claims are determined according to the assesment made by the Group management in which the probability, that the legal cases will be finalized against the Group, is more than 50%.

(2) Consists of the performance fee to be paid in the context of the loan agreement signed on 13 June 2008.

(3) There is a lawsuit filed by TRT against Enerjisa Enerji Üretim A.Ş. before Kocaeli 2nd Commercial Court (2011/530 E.) with the claim of payment TRT fee to be calculated over the system usage fee for the years of 2003-2006. TRT principally claims that Enerjisa pays TRT fee (in amount of TL 2,841 including principal and interest) over the system usage fee for the years of 2003-2006. TRT alleges that the system usage fee was included in the basis for TRT fee and that there was a mistake arisen from its fault in the calculation of TRT fee by not taking into consideration the system usage fee. Genco has booked a provision of TL 1,000 for the principal regarding the lawsuit in its consolidated financial statements.

The Group is charging the theft and loss costs to the subscribers in accordance with Tariff determined by Energy Market Regulatory Authority ("EMRA"). There are legal cases filed by the subscribers to claim back the theft and loss amounts from the Group claiming that they are unfair. Some cases are finalized against the Group while some others in favor of the Group. Cancellation of the decisions taken by EMRA within the empowerment law and the applications for the stay of execution of these decisions have been dismissed by the 13th Chamber of Council of State. During this period, EMRA has communicated the current legislations and its instructions regarding the theft and loss applications with the distribution companies. Distribution companies hold the application right to the Constitutional Court for the lost cases.

The law proposed by the Ministry of Energy and Natural Resources, which is draft as of the reporting date, defines EMRA as the ultimate authority for the regulation of electricity tariffs. Therefore, "dismissal of action" is expected for the ongoing theft and loss cases upon the enactment of the aforementioned law as it is proposed. As of reporting date, the total amount of ongoing cases against the Group is TL 89,826. Moreover, there are ongoing cases against wholesale companies within the distribution regions of the Group which can be revoked to the related distribution companies in case of adverse ruling. Although there is an uncertainty on the judicial process on aforementioned issue, it is expected that possible losses for such cases will be compensated through the tariff mechanism. Therefore, the Group has not provided a provision regarding this issue on the accompanying consolidated financial statements.

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NOTE 20 – PROVISIONS (Continued)

Movements in the provisions can be analysed as follows:

	1 January- 31 December 2015	1 January- 31 December 2014
1 January	201,237	164,470
Provision reversed in the current year	(63,316)	(49,440)
Capitalised over property, plant and equipment	91	303
Charged to statement of profit or loss	91,881	85,904
31 December	**229,893**	**201,237**

NOTE 21 - PROVISIONS FOR EMPLOYEE BENEFITS AND OBLIGATIONS RELATED TO EMPLOYEE BENEFITS

	31 December 2015	31 December 2014
Provision for personnel premium	16,937	15,528
Provision for unused vacation	17,167	13,919
Provision for expat employee expenses	923	847
Provisions for employee termination benefit	63,199	41,815
	98,226	**72,109**

Under Turkish Labour Law, the Group 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 (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002 there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TL 3,828.37 (full TL) for each year of service as of 31 December 2014 (2013: TL 3,438.22 (full TL)).

The liability is not funded, as there is no funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees.

TAS 19 "Employee Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly the following actuarial assumptions were used in the calculation of the total liability:

	2015	2014
Discount rate (%)	3.26	2.83
Turnover rate to estimate the probability of retirement (%)	92.53	93.98

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. As the maximum liability is revised annually, the maximum amount of TL 4,092.53 (full TL) which is effective from 1 January 2016 (1 January 2015: TL 3,541.37 (full TL)) has been taken into consideration in calculating the reserve for employee termination benefit of the Group.

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NOTE 21 - PROVISIONS FOR EMPLOYEE BENEFITS AND OBLIGATIONS RELATED TO EMPLOYEE BENEFITS (Continued)

Movements in the provision for employee termination benefits during the year are as follows:

	1 January - 31 December 2015	1 January - 31 December 2014
At the beginning of the year	41,815	54,994
Service cost	15,473	24,715
Interest cost	1,531	2,062
Actuarial loss	13,443	67
Paid during the year	(9,063)	(40,023)
At the end of the year	**63,199**	**41,815**

Movements in the provision for personnel bonus, unused vacation and expat employee expenses during the year are as follows:

	1 January - 31 December 2015	1 January - 31 December 2014
1 January	30,294	26,114
Provision paid in the current year	(3,115)	(13,319)
Capitalised over property, plant and equipment	1,802	1,884
Charged to statement of profit or loss	6,046	15,615
31 December	**35,027**	**30,294**

Obligations related to employee benefits:

	31 December 2015	31 December 2014
Social security premiums payable	13,863	11,586
Payable to personnel	5,238	12,683
	19,101	**24,269**

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NOTE 22 – TAXATION

Assets related to current tax	**31 December 2015**	**31 December 2014**
Prepaid taxes and funds	8,917	22,430
	8,917	**22,430**

Current tax liability	**31 December 2015**	**31 December 2014**
Current corporate tax provision	99,035	52,015
Less: Prepaid taxes	(90,160)	(51,870)
	8,875	**145**

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. 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.

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 tax rate in 2015 is 20% (2014: 20%) for the Group.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2015 is 20%. (2014: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, 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.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding is 15% as of 31 December 2015 (31 December 2014: 15%). Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Withholding tax at the rate of 19.8% is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Subsequent to this date, the investments without investment incentive certificates do not qualify for tax allowance.

NOTE 22 – TAXATION (Continued)

Investment Allowance Exemption

The investment allowance application which had been in force for a significant period of time was abolished by Law No.5479 dated 30 March 2006. However, in accordance with the temporary article 69 of the Income Tax Law, income and corporate taxpayers can deduct the following amounts from their income related to the years 2007, 2008 and 2009 as well as the investment allowance amounts they could not offset against 2006 gains which were present as of 31 December 2010, in accordance with the legislation (including the provisions related to tax rates) in force as of 31 December 2010.

a) In the scope of the investment incentive certificates prepared related to the applications before 24 April 2003, investments to be made after 1 January 2006 in the scope of the certificate for the investments started in accordance with the additional 1st, 2nd, 3rd, 4th, 5th and 6th articles prior to the abrogation of Income Tax Law No.193, with Law No.4842.

b) In the scope of the abolished 19th article of Income Tax Law No.193, the investment allowance amounts to be calculated in accordance with the legislation in force at 31 December 2006 for investments which were started before 1 January 2006 and which display an economical and technical integrity.

Tax payers, who had chosen to benefit from their investment allowance rights in the years 2006, 2007 and 2008, had been obliged to apply 30% as corporate tax rate over the tax base if any left after the investment allowance as the corporate tax rate has been decreased from 30% to 20% to be effective from 1 January 2006. 30% corporate tax rate was applicable if an entity had profit more than the investment allowance that can be benefited from, on the other side, tax payers, who had chosen not to use the investment allowance, had been obliged to pay 20% corporate tax according to the new corporate tax law. Utilisation of investment allowance was subject to withholding tax at the rate of 19.8%.

The removal of investment allowance application from the legislation has been taken to court by companies that had carried-forward investment allowance amounts. The Constitutional Court, in the session held on 15 October 2009, repealed the relevant legislation that removed the vested interest of taxpayers on the grounds that it was in contravention of the Constitution. The decision of the Constitutional Court was published in the Official Gazette on 8 January 2010 and has come into effect from that date.

The revoked phrase "only attributable to 2006, 2007 and 2008" stated in Provisional Article 69 of Income Tax Law No: 193 with the effect of Article 5 of Law No: 6009 after having published in the Official Gazette No: 27659 1 August 2010 and the Constitutional Court's issued resolution no: 2009/144 published in the Official Gazette on 8 January 2010 has been revised. The revised regulation allows companies to continue to benefit from the exception of undeductible and carryforward investment incentive due to insufficient earnings irrespective of having any time constraints. For companies making use of investment incentives, income tax rate will be applied as 20% instead of 30% under the related revised regulation.

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NOTE 22 – TAXATION (Continued)

Investment Allowance Exemption (Continued)

Investment Allowance for Tufanbeyli Power Plant

Genco received investment incentive certificate dated 24 February 2012 and finally revised in 25 February 2015 due to additional incentives provided by the Government.

According to the regulation, there are various benefits provided due to use of mines as an input in the electricity generation. Such benefits can be summarised as follows:

1-50% of allowed investment amount are paid back through applying reduced tax rate to Tufanbeyli plant's annual profit
2- Employer's national insurance contribution support
3- Interest support
4- VAT exemption
5- Customs Duty exemption

Total tax benefit mentioned in the item 1 above is expected to reach approximately to TL 1,000 million until the completion of investment. This amount is expected to be recovered within 15 – 20 years. As of 31 December 2015, Genco recognized TL 124 million (31 December 2014: TL 141 million) as deferred tax asset corresponding to amount which can be recovered in the foreseeable future.

The taxation on income for the Group is as follows:

	1 January - 31 December 2015	1 January - 31 December 2014
- Corporate tax	(98,314)	(52,015)
- Deferred tax	(50,256)	186,973
	(148,570)	**134,958**

The reconciliation of taxation on income is as follows:

	1 January - 31 December 2015	1 January - 31 December 2014
Income / (loss) before income taxes on income	432,392	(301,653)
Tax calculated at enacted income tax rate	(86,478)	60,331
Non-deductible expenses	(4,205)	(2,848)
Non-taxable income	21	83
Tax losses not recognized as deferred tax asset	(32,835)	(74,249)
Investment incentive	(14,561)	140,840
Other	(10,512)	10,801
Taxation on income	**(148,570)**	**134,958**

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NOTE 22 – TAXATION (Continued)

Deferred taxes

The Group recognises deferred tax assets and liabilities based upon temporary differences arising between their financial statements as reported for TAS purposes and their statutory tax financial statements.

Deferred taxes will be calculated on temporary differences that are expected to be realised or settled based on the taxable income in coming years under the liability method using enacted tax rate of 20% at 31 December 2015 (2014: 20%).

The breakdown of cumulative temporary differences and the resulting deferred tax assets/(liabilities) provided, at 31 December 2015 and 31 December 2014 using the enacted tax rates, are as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Property, plant and equipment and intangible assets	3,492,620	2,572,435	698,525	514,487
Differences arising from customer contracts and transfer of operational rights	(5,341,500)	(5,550,165)	(1,068,300)	(1,110,033)
Due from service concession arrangements	(1,621,555)	(1,622,335)	(324,311)	(324,467)
Unused carry forward tax losses	188,057	250,797	37,611	50,159
Derivative financial instruments	63,507	300,649	12,459	60,130
Provision for employee termination benefits	46,425	41,730	9,285	8,346
Provision for doubtful receivables	31,748	-	6,350	-
Impairment loss on inventories	4,000	-	800	-
Impairment of power plants	195,000	195,000	39,000	39,000
Investment incentive	707,237	780,042	141,447	156,008
Other differences	(528,697)	542,513	(105,740)	108,503
	(2,763,158)	**(2,489,334)**	**(552,874)**	**(497,867)**
Transfer to assets classified as held for sale	-	11,181	-	2,236
Deferred tax liabilities-net	**(2,763,158)**	**(2,478,153)**	**(552,874)**	**(495,631)**

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NOTE 22 – TAXATION (Continued)

Deferred taxes (Continued)

Deferred tax assets may only be recognised to the extent it is probable that sufficient taxable profit will be available in the future. In case of a probable tax advantage, deferred income tax asset is calculated for unused carry forward tax losses and unused investment incentive.

At 31 December 2015, the Group recognized deferred tax assets amounting to TL 37,611 for unused carry forward tax losses amounting to TL 188,057 since it was considered as probable that there would be sufficient taxable income in the subsequent periods to utilise such assets based on the forecasts made (2014: TL 50,159). The Group also recognized deferred tax assets amounting to TL 141,447 for investment incentive amounting to TL 707,237 (2014: 156,008) and recognized deferred tax assets amounting to TL 32,471 for reclassifying of assets as AHFS (Murat Nehri) amounting to TL 162,353. (2014: TL 2,236 for reclassifying of assets as Birkapılı and Gazipaşa amounting to TL 11,181).

The expiration dates of previous years' losses on which deferred tax asset was recognized are as follows:

	31 December 2015	31 December 2014
Expiring in 2 years	4,218	90,696
Expiring in 3 years	152,190	5,449
Expiring in 4 years	31,649	154,652
	188,057	**250,797**

Movements in deferred income taxes can be analysed as follows:

Deferred income tax liabilities, net	31 December 2015	31 December 2014
1 January	(495,631)	(682,429)
Recognized in statement of profit or loss	(50,256)	186,973
Charged to other comprehensive income	(6,987)	(2,411)
Deferred tax asset of assets held for sale	-	2,236
31 December	**(552,874)**	**(495,631)**

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NOTE 23 - SHARE CAPITAL

Total authorised number of ordinary shares of par value Kr 1 each at 31 December 2015 is 959,068,542,000 (31 December 2014 : 889,068,542,000).

The shareholders of the Enerjisa and their historical shareholdings at 31 December 2015 and 31 December 2014 are stated below:

	31 December 2015		31 December 2014	
Shareholders			**Share (%)**	**TL**
Hacı Ömer Sabancı Holding A.Ş.	50.00	4,795,342.5	50.00	4,445,342.5
DD Turkey Holdings S.A.R.L. (E.ON)	50.00	4,795,342.5	50.00	4,445,342.5
		9,590,685.0		**8,890,685.0**
Adjustment to share capital		(33,312.0)		(33,312.0)
Total paid-in capital		**9,557,373.0**		**8,857,373.0**

During 2015, the Group increased its capital with the amount of TL 700,000.

Share premium

Share premium presented in the consolidated financial statements represents the proceeds obtained by issuing shares above the nominal values during the capital increases following the establishment of the Group.

NOTE 24 - RETAINED EARNINGS AND LEGAL RESERVES

Retained earnings as per the statutory financial statements, other than legal reserve requirements, are available for distribution subject to the legal reserve requirement referred to below.

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

Special reserves and accumulated losses as per the statutory financial statements of the Company are such as below:

	31 December 2015	31 December 2014
Special reserves	93,611	93,611
Accumulated losses	(48,912)	(13,817)

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

NOTE 25 - TAX EFFECTS OF COMPONENTS OF COMPREHENSIVE INCOME

	31 December 2015			31 December 2014		
	Before tax amount	Tax credit	Net of tax amount	Before tax amount	Tax credit	Net of tax amount
Derivative financial instruments	48,379	(9,676)	38,703	12,055	(2,411)	9,644
Actuarial loss	(13,443)	2,689	(10,754)	(67)	-	(67)
			27,949			**9,577**

NOTE 26 - NET SALES

	1 January - 31 December 2015	1 January - 31 December 2014
Revenue from electricity sales and services provided	10,481,026	9,870,718
Distribution revenue	937,754	755,583
Finance income from service concession arrangements	310,955	208,758
Steam sales	25,188	62,179
Other sales	109,907	59,131
	11,864,830	**10,956,369**

NOTE 27 - COST OF SALES

	1 January - 31 December 2015	1 January - 31 December 2014
Cost of trade goods sold	(6,943,773)	(6,800,727)
Theft and losses expenses	(704,964)	(715,706)
Raw materials usage	(606,482)	(1,056,461)
System usage fees	(568,911)	(481,250)
Depreciation and amortisation (Note 16-17)	(224,168)	(211,753)
Other	(216,249)	(161,661)
	(9,264,547)	**(9,427,558)**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

NOTE 28 – OPERATING EXPENSES

	1 January- 31 December 2015	1 January- 31 December 2014
Personnel expenses	(350,988)	(413,735)
Consultancy expenses	(252,814)	(168,894)
Depreciation and amortisation (Note 16-17)	(226,045)	(215,085)
Material expenses	(76,023)	(91,043)
Duties and taxes	(26,751)	(26,486)
Rent expenses	(21,916)	(16,010)
Security expenses	(20,595)	(17,469)
Insurance expenses	(20,148)	(38,072)
Maintenance expenses	(19,505)	(7,893)
Communication expenses	(19,149)	(19,242)
Grants and donations	(15,450)	-
Transportation and travel expenses	(10,296)	(9,223)
Provision for doubtful and other receivables	(3,449)	(74,468)
Other	(86,594)	(18,564)
	(1,149,723)	**(1,116,184)**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

NOTE 29 - OTHER INCOME / (EXPENSE) FROM OPERATING ACTIVITIES

	1 January- 31 December 2015	1 January- 31 December 2014
Other income:		
Late payment interest from electricity receivables	91,763	83,089
Foreign exchange gain from other than borrowings	45,732	63,191
Power theft penalties	17,560	7,736
Collection of receivables previously written off	5,086	4,271
Income from derivative transactions (*)	2,780	738
Interest income related to revenue cap regulation - net	2,496	5,313
Income from insurance reimbursements	745	1,568
Forward contract valuation profit (Note 18)	385	-
Insurance income from Köprü accident claim	-	2,488
Other	15,199	10,285
	181,746	**178,679**
Other expenses:		
Fair value differences arising from deposits and guarantees	(36,118)	(42,627)
Foreign exchange loss from other than borrowings	(27,587)	(66,382)
Compensation and penalty	(5,730)	(8,527)
Loss from derivative transactions (*)	(5,662)	(90)
Change in fair value of commodity swap	(3,473)	-
Expenses due to system migration (**)	-	(10,131)
Other	(22,737)	(19,063)
	(101,307)	**(146,820)**

(*) Income / expense from derivative transactions consist of the income/expense received from or paid to electricity trading deals executed on VIOB and over-the-counter market on the behalf of GenCo and itself.

(**) In 2014, AYEDAŞ, AEPSAŞ, TOROSLAR EDAŞ and TOROSLAR EPSAŞ switched to a new billing, collection and customer relations management system from Abonenet which is integrated with the accounting software and the customer database. With the effect of the system change, these companies were able to reconcile trade receivables, deposits and guarantees received and paid balances periodically to the accounting records following the data cleansing procedures performed. Due to the aforementioned system migration, EEDAS adjusted its trade receivables, deposits and guarantees paid and received accounts as of 31 December 2014 and as a result, charged TL 10,131 of other expense in the statement of profit or loss.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

NOTE 30 – INCOME / (EXPENSE) FROM INVESTING ACTIVITIES

	1 January- 31 December 2015	1 January- 31 December 2014
Income from investing activities:		
Gain on sale of subsidiaries (Note 33)	130,629	-
Gain on sale of fixed assets	3,508	108
	134,137	**108**
Expense from investing activities:		
Impairment on asset-held-for-sale	(191,000)	-
	(191,000)	**-**

NOTE 31 - FINANCIAL INCOME / (EXPENSE), NET

	1 January- 31 December 2015	1 January- 31 December 2014
Financial income:		
Foreign exchange gain	-	171,064
Interest income	58,789	73,581
Other	106	1,382
	58,895	**246,027**
Less: Capitalized over property, plant and equipment	-	(111,669)
	58,895	**134,358**
Financial expenses:		
Interest expense	(941,294)	(940,974)
Foreign exchange loss	(589,894)	-
Other	(20,574)	(27,802)
	(1,551,762)	**(968,776)**
Less: Capitalized over property, plant and equipment	451,123	88,171
	(1,100,639)	**(880,605)**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

NOTE 32 – ASSETS CLASSIFIED AS HELD FOR SALE

On 31 December 2015, the directors resolved to dispose the subsidiary (Murat Nehri). Negotiations with several interested parties have subsequently taken place. The assets and liabilities, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position.

The proceeds of disposal are expected to be below the net carrying amount of the relevant assets and liabilities and, accordingly, an impairment loss of TL 191 million has been recognized on the classification of these operations as held for sale.

The major classes of assets and liabilities comprising the disposal group classified as held for sale are as follows:

	31 December 2015
Property, plant, equipment and intangible assets	316,099
Other assets	898
Other non-current assets	50,746
Total assets classified as held for sale	367,743
Trade payables	1,670
Other liabilities	503
Total liabilities associated with assets classified as held for sale	2,173
Net assets of disposal group	**365,570**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 32 – ASSETS CLASSIFIED AS HELD FOR SALE (Continued)

On 10 December 2014, the directors resolved to dispose two of the subsidiaries (Birkapılı and Gazipaşa). Negotiations with several interested parties have subsequently taken place. The assets and liabilities, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position.

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognized on the classification of these operations as held for sale.

The major classes of assets and liabilities comprising the disposal group classified as held for sale are as follows:

a) Birkapılı

	31 December 2014
Property, plant, equipment and intangible assets	12,489
Other assets	2,460
Total assets classified as held for sale	14,949
Trade payables	43
Other liabilities	630
Total liabilities associated with assets classified as held for sale	673
Net assets of disposal group	**14,276**

b) Gazipaşa

	31 December 2014
Property, plant, equipment and intangible assets	35,328
Other assets	3,340
Total assets classified as held for sale	38,668
Trade payables	64
Other liabilities	2,205
Total liabilities associated with assets classified as held for sale	2,269
Net assets of disposal group	**36,399**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 33 - DISPOSAL OF SUBSIDIARY

As a part of the Group's spin off plan, 2 subsidiaries (Birkapılı and Gazipaşa) demerged from the Group as of 10 December 2014 and had presented in previous year's financial statements as assets held for sale. The above mentioned subsidiaries have been sold on 13 February 2015.

The major classes of assets and liabilities and gain on disposals of these subsidiaries have been presented as follows:

a) Birkapılı

Book value of net assets sold :	**13 February 2015**
Current assets	1,411
Trade receivables	672
Inventories	460
Other current assets	279
Non-current assets	13,396
Property, plant and equipment	13,143
Intangible assets	39
Other non-current assets	214
Current liabilities	69
Trade payables	15
Other current liabilities	54
Non-current liabilities	321
Deferred tax liabilities	321
Net assets disposed of	**14,417**
Consideration:	
Consideration paid in cash and cash equivalents	94,611
Total amount of cash acquired	**94,611**
Gain on disposal of subsidiary	**80,194**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated. Currencies other than TL are expressed in thousands unless otherwise indicated.)

NOTE 33 - DISPOSAL OF SUBSIDIARY (Continued)

Book value of net assets sold :	**13 February 2015**
Current assets	1,442
Trade receivables	798
Inventories	529
Other curent assets	115
Non-current assets	37,117
Property, plant and equipment	35,534
Intangible assets	760
Other non-current assets	823
Current liabilities	103
Trade payables	25
Other current liabilities	78
Non-current liabilities	1,917
Deferred tax liabilities	1,917
Net assets disposed of	**36,539**
Consideration:	
Consideration paid in cash and cash equivalents	86,974
Total amount of cash acquired	**86,974**
Gain on disposal of subsidiary	**50,435**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 34 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

	31 December 2015		
	Currency	**Foreign currency amount**	**Amount TL**
Letter of guarantees received	EUR	224,074	712,018
	TL	566,824	566,824
	USD	3,678	10,694
			1,289,536
Letter of guarantees given	TL	3,668,368	3,668,368
	USD	119,535	347,560
	EUR	100	318
			4,016,246

	31 December 2014		
	Currency	**Foreign currency amount**	**Amount TL**
Letter of guarantees received	EUR	317,071	894,362
	TL	448,932	448,932
	USD	5,245	12,163
			1,355,457
Letter of guarantees given	TL	3,958,750	3,958,750
	USD	121,710	282,233
			4,240,983

NOTE 34 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (Continued)

GenCo:

The Group entered several loan agreements for bank borrowings (Note 19) and those financial packages require compliance with the following financial covenants:

- Total Debt to Equity ratio should not be more than 60:40 at all times
- The Net Debt to EBITDA ratio should not be more than 4.0:1 following the Sponsor Support release date (*)
- The Historic Total Debt Service Cover ratio to be not less than 1.1:1 following the Sponsor Support release date on any two consecutive interest payment dates (*)

(*) Sponsor Support release date refers to at earliest 3 years after the completion of all of the projects financed, on each Financial Statement delivery date.

At 31 December 2015 the abovementioned ratios are as follows:

Total Debt to Equity ratio: 57:43
Net Debt to EBITDA ratio: 8.93:1 (not yet effective as of 31 December 2015)
Historic Total Debt Service Cover ratio: 0.94:1 (not yet effective as of 31 December 2015)

Moreover, following the execution of the Common Terms Agreement ("CTA") and security agreements regarding on the finance package, Group's following assets are subject to the security regime set forth in the CTA in favour of the Lenders;

- Immoveable Property; all the real property, land sites and buildings and fixtures (excluding furniture) to the land,
- Moveable Property with book value of more than TL 100,000; Commercial Enterprise Pledge is perfected in favour of the Lenders,
- Receivables under the licences and authorizations,
- Contractual Rights, Claims and interests are assigned to the Lenders (any rights claims and interests under Project Documents, Insurances, electricity sale agreements, Reinsurance, Sponsor Support and Share Retention Agreement, letters of credit provided by the construction contractor in favour of the Group.
- Pledge is perfected over the bank accounts of the Group.

The Group further entered in security arrangements in favour of the Lenders with respect to the inter-company loans and hedging documents. Any asset included to the Group's portfolio ("New Asset") will also be subject to the aforementioned security regime. The relevant security over the New Assets will be created periodically.

The Group as lessee

Leasing arrangements

Operating leases relate to forest land, road and mining rights with lease terms of between 3 to 49 years, without an extension option. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 34 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (Continued)

GenCo (Continued):

The Group as lessee (Continued)

Leasing arrangements (Continued)

The nominal amount of the commitments is as follows:

Non-cancellable operating lease commitments	**31 December 2015**	**31 December 2014**
No longer than 1 year	1,921	2,129
Longer than 1 year and no longer than 5 years	7,561	7,598
Longer than 5 years	64,158	66,021
	73,640	**75,748**

EEDAŞ:

Investment obligations

Annual expansion, replacement, and improvement investments that are stated in TOR and required to be completed by the Group have been determined during the preparation of the tariffs. These investments have been included in the first implementation period tariffs approved by EMRA and as a result the Group is obliged to make these determined investments. Implementation of these investments is monitored by EMRA by the reports received from the Group at the end of each year. Some of these investments are subject to unit prices per announced by EMRA. According to the regulations, the Group is allowed to make transfers between the years after taking approval of EMRA.

Energy Sales Agreements

Distribution and retail companies signed Energy Sales Agreements (ESA) with TETAŞ in order to obtain their energy needs during the year. These Energy Sales Agreements have been established based on regulated prices. During the year, the Group is obliged to purchase the energy quantity stated in these agreements. At the current operating conditions and market structure, the Group's energy needs are higher than the contracted quantities and the Group makes purchases regularly from EPİAŞ. As a result, the Group management does not expect any liability related to the Energy Sales Agreements arising from not fulfilling the requirements of ESAs.

NOTE 35 - EVENTS AFTER THE REPORTING PERIOD

None.

ENERJİSA ENERJİ A.Ş. AND
ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014
TOGETHER WITH THE INDEPENDENT
AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Enerjisa Enerji A.Ş.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Enerjisa Enerji A.Ş. ("the Company") and its subsidiaries (together will be referred as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, 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 a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Turkish Accounting Standards ("TAS"). TAS are a direct translation of International Financial Reporting Standards issued by International Accounting Standards Board into Turkish), 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Independent Auditing Standards which is a part of Turkish Auditing Standards published by Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards, that are a direct translation into Turkish from International Standards on Auditing published by International Federation of Accountants, require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Enerjisa Enerji A.Ş. and its subsidiaries as at 31 December 2014, and of their financial performance and their cash flows for the year then ended in accordance with Turkish Accounting Standards.

Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of Article 402 of the Turkish Commercial Code No. 6102 ("TCC"), nothing has come to our attention that may cause us to believe that the Group's set of accounts and financial statements prepared for the period 1 January-31 December 2014 does not comply with TTC and the provisions of the Company's articles of association in relation to financial reporting.

In accordance with paragraph four of Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Ömer Tanrıöver
Partner

İstanbul, 27 February 2015

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

ASSETS	Notes	31 December 2014	31 December 2013
Current assets			
Cash and cash equivalents	8	208,505	865,112
Trade receivables		1,721,930	1,697,956
Trade receivables from related parties	*9*	*22,957*	*37,903*
Trade receivables from third parties	*10*	*1,698,973*	*1,660,053*
Other receivables		445,237	236,106
Other receivables from third parties	*11*	*445,237*	*236,106*
Derivative financial instruments	19	-	963
Inventories	12	102,941	79,278
Prepaid expenses	13	28,746	35,232
Current income tax assets	23	22,430	37,783
Due from service concession arrangements	14	152,413	142,039
Other current assets	15	157,102	63,217
		2,839,304	**3,157,686**
Assets classified as held for sale	32	53,617	-
Total current assets		**2,892,921**	**3,157,686**
Non-current assets			
Other receivables		440,276	388,433
Other receivables from third parties	*11*	*440,276*	*388,433*
Derivative financial instruments	*19*	-	3,930
Available-for-sale financial assets	16	836	424
Property, plant and equipment	17	8,605,337	8,024,010
Intangible assets	18	9,092,359	9,314,835
Goodwill		*2,730,031*	*2,730,031*
Other intangible assets		*6,362,328*	*6,584,804*
Prepaid expenses	13	658,450	504,958
Due from service concession arrangements	14	1,469,922	1,101,072
Deferred tax assets	23	614,526	471,136
Other non-current assets	15	428,117	411,977
Total non-current assets		**21,309,823**	**20,220,775**
TOTAL ASSETS		**24,202,744**	**23,378,461**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

LIABILITIES	**Notes**	**31 December 2014**	**31 December 2013**
Current liabilities			
Short-term bank borrowings	20	985,786	1,397,487
Short-term portion of long-term bank borrowings	20	608,883	467,563
Other financial liabilities	20	17,185	24,872
Trade payables		1,342,595	1,310,272
Trade payables to related parties	*9*	*5,770*	*6,470*
Trade payables to third parties	*10*	*1,336,825*	*1,303,802*
Obligations related to employee benefits	22	24,269	36,735
Other payables		173,346	237,632
Other payables to third parties	*11*	*173,346*	*237,632*
Derivative financial instruments	19	43,332	-
Deferred revenue	13	86,210	240,327
Corporate tax payable	23	145	10,531
Payable to Privatization Administration	11	1,237,732	1,279,401
Short-term provisions		231,363	199,446
Provisions for employee benefits	*22*	*30,294*	*34,976*
Other short-term provisions	*21*	*201,069*	*164,470*
		4,750,846	**5,204,266**
Liabilities directly associated with assets classified as held for sale	32	2,942	-
Total current liabilities		**4,753,788**	**5,204,266**
Non-current liabilities			
Long-term bank borrowings	20	7,429,161	5,718,717
Other financial liabilities	20	239,728	255,878
Other payables		608,064	630,435
Other payables to third parties	*11*	*608,064*	*630,435*
Derivative financial instruments	19	257,317	267,512
Deferred revenue	13	158,385	68,775
Payable to Privatization Administration	11	1,176,074	2,352,148
Long-term provisions		41,815	46,132
Provisions for employee benefits	*22*	*41,815*	*46,132*
Deferred tax liabilities	23	1,110,157	1,153,565
Total non-current liabilities		**11,020,701**	**10,493,162**
TOTAL LIABILITIES		**15,774,489**	**15,697,428**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.
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EQUITY	Notes	31 December 2014	31 December 2013
Share capital	24	8,890,684	7,990,684
Adjustment to share capital	24	(33,312)	(33,312)
Total paid-in capital		**8,857,372**	**7,957,372**
Share premium		281,951	281,951
Other comprehensive loss not to be reclassified to profit or loss		(208)	(141)
Other comprehensive loss to be reclassified to profit or loss		(185,662)	(195,306)
Other funds		4,340	-
Legal reserves		55,283	55,710
(Accumulated losses) / Retained earnings		(418,126)	48,987
Net loss for the year		(166,695)	(467,540)
TOTAL EQUITY		**8,428,255**	**7,681,033**
TOTAL LIABILITIES AND EQUITY		**24,202,744**	**23,378,461**

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

	Notes	1 January- 31 December 2014	1 January- 31 December 2013
Net sales	27	10,956,369	6,693,764
Cost of sales	28	(9,427,558)	(5,754,431)
Gross profit		**1,528,811**	**939,333**
Operating expenses	29	(1,116,184)	(613,163)
Other income from operating activities	30	178,787	182,793
Other expense from operating activities	30	(146,820)	(298,277)
Operating profit before financial income / (expense)		**444,594**	**210,686**
Financial income	31	589,718	99,181
Financial expense	31	(1,335,965)	(860,306)
Loss before taxation on income		**(301,653)**	**(550,439)**
Current tax expense	23	(52,015)	(37,269)
Deferred tax income	23	186,973	120,168
Net loss for the year		**(166,695)**	**(467,540)**
Other comprehensive (loss) / income			
Items that will not be reclassified subsequently to profit or loss		**(67)**	**-**
Actuarial loss	22	(67)	-
Items that may be reclassified subsequently to profit or loss		**9,644**	**28,764**
Fair value gain on derivative financial instruments	19	12,055	35,955
Taxes related to items to be classified to profit or loss	26	(2,411)	(7,191)
Other comprehensive income after tax		**9,577**	**28,764**
Total comprehensive loss		**(157,118)**	**(438,776)**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.
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	Share capital	Adjustment to share capital	Share premium	Legal reserves	Other funds (*)	Items that may be reclassified subsequently to profit or loss (Hedge reserves)	Items that will not be reclassified subsequently to profit or loss (Actuarial loss)	(Accumulated losses) / Retained earnings	Net profit / (loss) for the year	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balances at 1 January 2013	**4,548,772**	**(33,312)**	**281,951**	**39,135**	**-**	**(224,070)**	**(141)**	**(125,754)**	**190,728**	**4,677,309**	**588**	**4,677,897**
Capital increase	3,441,912	-	-	-	-	-	-	-	-	3,441,912	-	3,441,912
Transfer	-	-	-	16,575	-	-	-	174,741	(190,728)	588	(588)	-
Total comprehensive loss for the year	-	-	-	-	-	28,764	-	-	(467,540)	(438,776)	-	(438,776)
Balances at 31 December 2013	**7,990,684**	**(33,312)**	**281,951**	**55,710**	**-**	**(195,306)**	**(141)**	**48,987**	**(467,540)**	**7,681,033**	**-**	**7,681,033**
Balances at 1 January 2014	**7,990,684**	**(33,312)**	**281,951**	**55,710**	**-**	**(195,306)**	**(141)**	**48,987**	**(467,540)**	**7,681,033**	**-**	**7,681,033**
Capital increase	900,000	-	-	-	-	-	-	-	-	900,000	-	900,000
Additions	-	-	-	-	4,340	-	-	-	-	4,340	-	4,340
Transfer	-	-	-	(427)	-	-	-	(467,113)	467,540	-	-	-
Total comprehensive loss for the year	-	-	-	-	-	9,644	(67)	-	(166,695)	(157,118)	-	(157,118)
Balances at 31 December 2014	**8,890,684**	**(33,312)**	**281,951**	**55,283**	**4,340**	**(185,662)**	**(208)**	**(418,126)**	**(166,695)**	**8,428,255**	**-**	**8,428,255**

(*) The aforemention amounts has been transferred to equity in the current period due to the finalization of the reconciliation with regards to the unbundling of Başkent Elektrik Dağıtım A.Ş. from TEDAŞ in 2006.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

	Notes	1 January- 31 December 2014	1 January- 31 December 2013
Cash flows from operating activities:			
Net loss for the year		(166,695)	(467,540)
Adjustments to reconcile net loss to net cash generated from operating activities:			
Depreciation	17	205,870	181,690
Amortisation	18	220,968	107,253
Impairment of receivables and other current assets	10,11	146,599	34,435
Employee benefits	22	42,392	14,615
Corporate tax provision	23	52,015	37,269
Deferred taxation	23	(186,973)	(120,168)
Interest income	31	(73,581)	(36,695)
Interest expense	31	852,803	334,085
Finance (income)/expense recognized based on revenue cap regulation	30	(5,313)	5,439
Investment revenue recognized related to service concession arrangements	27	(208,758)	(119,738)
Fair value differences on deposits and guarantees received	30	42,627	22,444
Liquidated damages	30	-	(33,013)
Impairment of power plants	30	-	195,000
Gain on sale of property, plant and equipments		(108)	(20)
Finance expense of service concession arrangements		(235)	324
Provisions	21	85,736	6,700
Change in fair value of derivative instruments		49,122	(5,860)
Expense from system migration	30	10,131	-
Unrealized foreign exchange (gains) / losses on borrowings		(59,395)	443,867
Unrealized foreign exchange losses / (gains) from other than borrowings		3,191	(27,806)
Other financial loss		10,969	3,285
Cash flows from operating activities before changes in operating assets and liabilities		**1,021,365**	**575,566**
Changes in operating assets and liabilities:			
Change in trade receivables		(396,252)	(300,240)
Change in inventories		(6,289)	(3,261)
Change in other current assets		(404,823)	(211,869)
Change in other non-current assets		11,586	96,680
Change in trade payables		50,547	(119,604)
Change in other payables and deferred revenue		10,308	270,360
Net collections from financial asset related to service concession arrangements		349,994	246,008
Taxes paid	23	(47,048)	(78,741)
Employee benefits paid	22	(53,342)	(67,229)
Net cash generated from operating activities		**536,046**	**407,670**
Cash flows from investing activities:			
Purchase of property plant and equipment		(1,056,425)	(2,237,901)
Purchase of intangible assets	18	(2,376)	(1,738)
Payments for financial investment		(412)	-
Proceeds from sale of property, plant and equipment and intangible assets		4,492	20
Interest received		64,406	44,057
Proceeds from insurance receivables of projects		-	3,989
Investments related to service concession arrangements		(525,427)	(366,296)
Payment to Privatization Administration		(1,176,074)	(2,347,946)
Net cash used in investing activities		**(2,691,816)**	**(4,905,815)**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

(Amounts expressed in thousands of Turkish Lira (TL), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

	Notes	1 January- 31 December 2014	1 January- 31 December 2013
Cash flows from financing activities:			
Proceeds from bank borrowings		9,634,581	6,545,469
Payments of bank borrowings		(8,071,986)	(4,664,235)
Proceeds from issuance of share capital	24	900,000	3,441,912
Derivative instruments income realized		963	-
Interest paid		(964,395)	(308,180)
Net cash generated from financing activities		**1,499,163**	**5,014,966**
Net (decrease)/increase in cash and cash equivalents		(656,607)	516,821
Cash and cash equivalents at the beginning of the year	8	865,112	348,291
Cash and cash equivalents at the end of the year	**8**	**208,505**	**865,112**

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

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Enerjisa Enerji A.Ş. ("the Company") is established on 26 December 2011 as a joint venture between Hacı Ömer Sabancı Holding A.Ş. ("Sabancı") and Verbund International GmbH ("Verbund International").

The Company is registered in Turkey and the address of the headquarters is as follows:

Sabancı Center Kule 2 Kat 11 4. Levent 34330 Istanbul

The Company, together with its subsidiaries (together the "Group"), is primarily engaged in electricity generation, trading, sale, and distribution and retail service of electricity, and trade of natural gas, via its consolidated entities listed below:

Enerjisa Enerji Üretim A.Ş. ("GenCo")	Generation of electricity and steam
Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. ("TradeCo")	Trading of electricity
Enerjisa Doğal Gaz Toptan Satış A.Ş. ("GasCo")	Trading of natural gas
Enerjisa Elektrik Dağıtım A.Ş. ("EEDAŞ")	Distribution and retail service of electricity

Group's operations are carried out in one geographical segment (Turkey).

<u>Change in ownership:</u>

On 4 December 2012, Verbund and E.ON SE ("E.ON") entered into a Share Purchase Agreement for the sale and transfer of all Verbund International shares in Enerjisa Enerji A.Ş and its subsidiaries to E.ON and the transfer is finalized on 24 April 2013.

These consolidated financial statements have been approved for issue by Sascha Bibert Chief Financial Officer of the Group on 27 February 2015. The owners of the Group have the power to amend the consolidated financial statements after the issue.

<u>GenCo:</u>

GenCo was established in 1996 as a Turkish company by, among others, Sabancı. As of 31 May 2007, Österreichische Elektrizitatswirtschafts-Aktiengesellschaft ("Verbund") acquired the 49.99% shares of GenCo and GenCo became a joint venture between Sabancı and Verbund. According to the Board of Directors resolution dated 15 October 2008 and numbered 245, Verbund, one of the main shareholders of GenCo, Tursa Sabancı Turizm ve Yatırım İşletmeleri A.Ş., Exsa Export Sanayi Mamulleri Satış ve Araştırma A.Ş., Teknosa İç ve Dış Ticaret A.Ş., minority shareholders of GenCo, sold their shares to Verbund International. In December 2011; Sabancı and Verbund International transferred their shares to the Company.

GenCo was established for the primary purpose of engaging in the generation and selling of electricity and steam.

GenCo's power plants and their specifications are as follows:

1. **Bandırma Combined Cycle Power Plant ("Bandırma CCPP"):** Bandırma CCPP is located in Balıkesir, Bandırma town. Electricity Generation License was obtained on 7 February 2008 and the construction of the plant was started on 1 June 2008. Its installed capacity is 936.2 MW.

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

GenCo (Continued):

2. **Kentsa Natural Gas Power Plant ("Kentsa NGPP"):** The plant has been operating in Kocaeli, İzmit since 10 October 1997. The co-generation power plant has electricity capacity of 120 MW and steam production capacity of 275 tonnes /hour.

3. **Adana Natural Gas Power Plant ("Adana NGPP"):** The co-generation power plant located in Adana, started to provide electricity since 28 September 2002 with electricity capacity of 131 MW. Considering its economic benefit, the Company has decided to stop the operations of the plant as of end of 2014.

4. **Çanakkale Natural Gas Power Plant ("Çanakkale NGPP"):** The co-generation power plant is located in Çanakkale and has been in operation since 3 August 2002. The plant has one gas turbine (GTG) with 43.5 MW capacity, one heat recovery steam generator (HRSG) with 75-tonnes/hour steam capacities and a steam turbine with 22.5 MW capacity.

5. **Mersin Natural Gas Power Plant ("Mersin NGPP"):** The co-generation power plant is located in Mersin and has been in operation since 5 October 2003. The plant has one gas turbine (GTG) with 43.5 MW capacity, one heat recovery steam generator (HRSG) with 75-tonnes/hour steam capacities and a steam turbine with 22.5 MW capacity. Considering its economic benefit, the Company has decided to stop the operations of the plant as of end of 2014.

6. **Hacınınoğlu Hydroelectric Power Plant ("Hacınınoğlu HPP"):** Hacınınoğlu Power Plant, which is located in Kahramanmaraş and in operation since 3 February 2011, has an installed capacity of 142.2 MW. The generation licence was obtained on 9 March 2006 for 49 years. Annual electricity generation capacity is 382.6 GWh.

7. **Birkapılı Hydroelectric Power Plant ("Birkapılı HPP"):** Birkapılı HPP is located in Mersin, within the boundary of Mut region. Its installed capacity is 48.5 MW and annual average generation is 90 GWh.

8. **Gazipaşa Energy Group ("Gazipaşa HPP"):** The projects Aksu Regulator and Şahmallar Hydroelectric Power Plant ("Şahmallar HPP") and Sugözü Regulator and Kızıldüz Hydroelectric Power Plant ("Kızıldüz HPP") are located in Antalya. The installed capacity of Aksu Regulator and Şahmallar HPP is 14 MW and the annual electricity generation capacity is 32 GWh. The installed capacity of Sugözü Regulator and Kızıldüz HPP is 16 MW and the annual electricity generation capacity is 35 GWh.

9. **Suçatı Hydroelectric Power Plant ("Suçatı HPP"):** Suçatı HPP is located, in Kahramanmaraş.. The power plant was constructed with a Built-Operate-Transfer model; so the ownership of the dam and the power plant will be transferred to the public sector in 2015. The installed capacity of the power plant is 7 MW and produces 28 GWh of electricity annually.

10. **Çanakkale Wind Power Plant ("Çanakkale WPP"):** Çanakkale Wind Power Plant, which is located in Çanakkale, Mahmudiye town, has an installed capacity of 29.9 MW with 13 turbines. The generation licence was obtained on 21 February 2008 for 49 years. Annual electricity generation capacity is 91.6 GWh. Considering its economic benefit, the Company has decided to stop the operations of the plant as of end of 2014.

11. **Menge Hydroelectric Power Plant ("Menge HPP")**: Menge Power Plant, which is located in Adana Province, has an installed capacity of 89.4 MW. The production License was obtained on 6 July 2006 for 49 years. Annual electricity generation capacity is 204 GWh.

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

GenCo (Continued):

12. **Dağpazarı Wind Power Plant ("Dağpazarı WPP"):** Dağpazarı Wind Power Plant, which is located in Mersin, Mut town, has an installed capacity of 39 MW with 13 turbines and is connected to Birkapılı HEPP. The generation licence was obtained on 24 July 2008 for 49 years. Annual electricity generation capacity is 129 GWh

13. **Bares Wind Power Plant ("Bares WPP")**: Bares Wind Power Plant, which is located in Balıkesir Province, Center and Kepsut Sub-Province, has an installed capacity of 142.5 MW with 52 turbines. The generation licence was obtained on 18 April 2007 for 49 years. Annual electricity generation capacity is 524 GWh.

14. **Köprü Hydroelectric Power Plant ("Köprü HPP"):** Köprü Power Plant, which is located in Adana Province, has an installed capacity of 156 MW. The generation license was obtained on 6 July 2006 for 49 years. Annual electricity generation capacity is 384 GWh.

15. **Dağdelen Hydroelectric Power Plant ("Dağdelen HPP"):** Dağdelen Power Plant, which is located in Kahramanmaraş Province, has an installed capacity of 8 MW. The generation license was obtained on 9 March 2006 for 49 years. Annual electricity generation capacity is 28 GWh.

16. **Kandil Hydroelectric Power Plant ("Kandil HPP"):** Kandil Power Plant, which is located in Kahramanmaraş has an installed capacity of 208 MW. The project, which is concrete-face rock fill dam structure, has totally 207 MW installed capacity. Kandil Dam and HEPP project which has 539 GWh annual production capacities with 14.5 km2 reservoir was commissioned in the third quarter of 2013.

17. **Sarıgüzel Hydroelectric Power Plant ("Sarıgüzel HPP"):** Sarıgüzel Power Plant, which is located in within the boundaries of Kahramanmaraş province, Sarıgüzel Dam and Hydroelectric Power Plant is a sand gravel concrete faced rock fill dam structured project. The construction of the project had been started in 2009 and was commisioned in the third quarter of 2013. With the total 103 MW installed capacity of the project, the annual production capacity is 312 GWh.

18. **Kuşaklı Hydroelectric Power Plant ("Kuşaklı HPP"):** Kuşaklı Power Plant which is located on Seyhan River, in the boundaries of Adana Province, was started in 2011. The project has been completed in the third quarter of 2013 within two pieces 10 MW tiger tribunes and total 20MW installed capacity.

19. **Çambaşı Hydroelectric Power Plant ("Çambaşı HPP"):** Çambaşı Regulator and Hydroelectric Power Plant is located in Trabzon. The construction of the project has been started in 2010 and completed in the December 2013. Çambaşı Regulator and HEPP has 45MW installed capacity.

20. **Arkun Dam and Hydroelectric Power Plant ("Arkun HPP"):** Arkun Dam, on the border with the province of Erzurum-Artvin Coruh River project located on the front face of the concrete is covered with sand, gravel fill dam. Construction of the plant started in 2010, has been commissioned in the second quarter of 2014. Arkun HPP has 245 MW installed capacity.

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21. NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

GenCo (Continued):

21. **Kavşakbendi Dam and Hydroelectric Power Plant ("Kavşakbendi HPP"):** With concrete face rock fill dam structure, Kavşakbendi project has 191 MW installed capacity. The construction of the project, located on Seyhan River, Adana, had been started in 2008. 186 MW installed capacity Kavşakbendi HEPP, has been put into operation in the first quarter of 2014 after the Ministry acceptance of the third unit of the project.

The details and the status of the projects under GenCo as of 31 December 2014 are as follows:

Projects	Installed Type	Capacity (MW)	Status
Doğançay	Hydroelectric Power Plant	62	Construction in Progress
Yamanlı II	Hydroelectric Power Plant	82	Construction in Progress
Alpaslan II	Hydroelectric Power Plant	280	Construction in Progress
Bandırma II	Natural Gas Power Plant	596	Construction in Progress
Tufanbeyli	Thermal Power Plant	450	Construction in Progress
IBA	Hydroelectric Power Plant	168	Licensed
Pervari	Hydroelectric Power Plant	400	Licensed

TradeCo:

TradeCo was established in 2004 by GenCo as a Turkish company. As of 14 December 2007, Verbund and Sabancı acquired the 99.99% shares of TradeCo and consequently TradeCo became a joint venture between Sabancı and Verbund. According to the Board of Directors resolution dated 16 October 2008 and numbered 29, Verbund, sold its shares to Verbund International. In December 2011; Sabancı and Verbund International transferred their shares to the Company.

TradeCo assumes the role of the Group optimizer. It engages in wholesale activities in order to protect the value of Groups's generation output. It decides on make-or-buy strategies in the over-the-counter (OTC), spot and balancing markets. TradeCo optimizes the use of different market segments for Groups's portfolio and also engages in wholesale electricity trading activities in order to pursue commercial opportunities. In addition, TradeCo actively engages in electricity import/export transactions and produces value from carbon certificates. Also TradeCo engages in direct selling of electricity to customers including Enerjisa Companies. TradeCo also provides risk management solutions to external customers and counterparties.

GasCo:

GasCo was established in 2004 by GenCo as a Turkish company. In 2007, Verbund and Sabancı acquired the 99% shares of GasCo and consequently GasCo became a joint venture between Sabancı and Verbund. In 2008, Verbund, sold its shares to Verbund International. In December 2011; Sabancı and Verbund International transferred their shares to the Company.

GasCo is engaged in optimizing the natural gas consumption of the Enerjisa Group and assessing the new business opportunities in the gas market. GasCo is acting as a hub for collecting gas and selling to end-users via distribution companies. GasCo has obtained Spot LNG License on 6 September 2010 which is effective for 10 years and effectively started its operations in 2011.

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

EEDAŞ:

EEDAŞ is incorporated in İstanbul Turkey on 24 October 2008. EEDAŞ, which was a joint venture of Sabancı Holding and Verbund has officially acquired 100% of the shares of Başkent Elektrik Dağıtım A.Ş. ("BEDAŞ") as of 28 January 2009 by successful finalization of privatization bid for the consideration of USD 1,225 million. BEDAŞ currently operates in Ankara, Kırıkkale, Kastamonu, Zonguldak, Bartın, Çankırı and Karabük provinces and holds the licence that gives the right for distribution of electricity in these provinces for 30 years starting from the date of TOR agreement signed with TEDAŞ on 31 March 2006. Following the privatization bid, shares of Verbund was transferred to Verbund International. In December 2011, Sabancı Holding and Verbund International transferred their shares to the Company. On 4 December 2012, Verbund International and E.ON SE ("E.ON") entered into a Share Purchase Agreement for the sale and transfer of all Verbund shares in the Company to E.ON and the transfer is finalized on 24 April 2013.

EEDAŞ, has officially acquired 100% of the shares of the İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş. ("AYEDAŞ") and İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş. ("AEPSAŞ") as of 31 July 2013, and acquired 100% of the shares of the Toroslar Elektrik Dağıtım A.Ş. ("TOROSLAR EDAŞ") and Toroslar Elektrik Perakende Satış A.Ş. ("TOROSLAR EPSAŞ") as of 30 September 2013 by successful finalization of privatization bids for the consideration of USD 1,227 million and USD 1,725 million, respectively. First installments of Privatization Administration payables related to AYEDAŞ and AEPSAŞ's acquisitions and TOROSLAR EDAŞ and TOROSLAR EPSAŞ's acquisitions amounting to, respectively TL 473,033 and TL 703,041 were paid with its interests on 31 July 2014 and on 30 September 2014, respectively. The remaining payables, TL 2,352 million principal will be paid in two equal portions with its interests in 2015 and 2016.

AYEDAŞ and AEPSAŞ currently operate in Anatolian Side of İstanbul and AYEDAŞ holds the licence that gives the right for distribution of electricity in this province until 31 December 2042 starting from the date of TOR agreement signed with TEDAŞ on 24 July 2006.

TOROSLAR EDAŞ and TOROSLAR EPSAŞ currently operate in Adana, Gaziantep, Hatay, Kilis, Mersin and Osmaniye and TOROSLAR EDAŞ holds the licence that gives the right for distribution of electricity in these provinces until 31 December 2042 starting from the date of TOR agreement signed with TEDAŞ on 24 July 2006.

In 2006, EMRA has set a unique pricing mechanism for all of the electricity distribution companies in Turkey which will be effective for the period between 1 January 2006 and 31 December 2012 which is called the "transition period". In accordance with this pricing mechanism, distribution companies in Turkey have already determined their regional tariffs for the period between 1 January 2006 and 31 December 2010 and by using these regional tariffs, EMRA has already determined the national tariffs for the same period. In December 2010, EMRA has announced new tariff for the period between 1 January 2011 and 31 December 2015.

As of 1 January 2013, distribution companies (BEDAŞ, AYEDAŞ and TOROSLAR EDAŞ) are obliged to carry out the distribution and the retail sales activities under separate legal entities in accordance with Electricity Market Law. After the establishment of retail companies (Enerjisa Elektrik Perakende Satış A.Ş. ("EPS"), AEPSAŞ and TOROSLAR EPSAŞ) with the same shareholder structure, as of 31 December 2012 the distribution companies have transferred some of their assets and liabilities to retail companies due to the legal unbundling and the unbundling transactions have been registered as of 31 December 2012.

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NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

EEDAŞ (Continued):

Enerjisa Enerji Hizmetleri A.Ş. ("Serco") which is a subsidiary of the Company with a rate of 100.00% ownership was established on 23 February 2011 in Ankara to provide maintenance, meter reading, electricity connection and disconnection services for BEDAŞ which were provided by third party service providers. As of 30 September 2014, Serco has been merged with EEDAŞ.

NOTE 2 - APPLICATION OF NEW AND REVISED TURKISH ACCOUNTING STANDARDS (TASs)

2.1 Amendments to TASs affecting amounts reported and/or disclosures in the financial statements

None.

2.2 New and Revised TASs applied with no material effect on the consolidated financial statements

Amendments to TFRS 10, 11, TAS 27	*Investment Entities*[1]
Amendments to TAS 32	*Offsetting Financial Assets and Financial Liabilities*[1]
Amendments to TAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*[1]
Amendments to TAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*[1]
TFRS Interpretation 21	*Levies*[1]
Amendments to TAS 21	*The Effects of Changes in Foreign Exhange Rates*[2]

[1] Effective for annual periods beginning on or after 1 January 2014.
[2] Effective from 12 November 2014 when the amendment was published.

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NOTE 2 - APPLICATION OF NEW AND REVISED TURKISH ACCOUNTING STANDARDS (TASs) (Continued)

2.3 New and Revised TASs in issue but not yet effective

Group has not applied the following new and revised TASs that have been issued but are not yet effective:

TFRS 9	*Financial Instruments*
Amendments to TFRS 9 and TFRS 7	*Mandatory effective date for TFRS 9 and disclosures*
Amendments to TAS 19	*Defined Benefit Plans: Employee Contributions* [1]
Annual Improvements to	*TFRS 2, TFRS 3, TFRS 8, TFRS 13, TAS 16 and TAS 38, TAS 24,*
2010-2012 Cycle	*TFRS 9, TAS 37, TAS 39* [1]
Annual Improvements to	
2011-2013 Cycle	*TFRS 3, TFRS 13, TAS 40* [1]
Amendments to TAS 16 and TAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation* [2]
Amendments to TAS 16 and TAS 41	*Agriculture: Bearer Plants* [2]
Amendments to TAS 1, TAS 17,	
TAS 23, TAS 36, TAS 40	
Amendments to TFRS 11 and TFRS 1	*Accounting for Acquisition of Interests in Joint operations* [2]

[1] Effective for annual periods beginning on or after 1 July 2014.
[2] Effective for annual periods beginning on or after 1 January 2016.

The Group evaluates the effects of these standards on the financial statements.

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NOTE 3 - GROUP ACCOUNTING

3.1 Basis of consolidation

The details of the Company's subsidiaries at 31 December 2014 and 31 December 2013 are as follows:

	Direct and indirect ownership interest by the Group (%)		Proportion of effective interest (%)	
Subsidiaries	**31 December 2014**	**31 December 2013**	**31 December 2014**	**31 December 2013**
Genco	99.99	99.99	99.99	99.99
Tradeco	100.00	100.00	100.00	100.00
Gasco	100.00	100.00	100.00	100.00
EEDAŞ (*)	100.00	100.00	100.00	100.00
BEDAŞ	100.00	100.00	100.00	100.00
AYEDAŞ	100.00	100.00	100.00	100.00
TOROSLAR EDAŞ	100.00	100.00	100.00	100.00
Serco (*)	-	100.00	-	100.00
EPS	100.00	100.00	100.00	100.00
AEPSAŞ	100.00	100.00	100.00	100.00
TOROSLAR EPSAŞ	100.00	100.00	100.00	100.00
Enerjisa Suçatı Elektrik Üretim A.Ş.	99.99	99.99	99.99	99.99
IBA Elektrik Üretim Madencilik Sanayi ve Ticaret A.Ş.	99.99	99.99	99.99	99.99
Pervari Elektrik Üretim Madencilik Sanayi ve Ticaret A.Ş.	99.99	99.99	99.99	99.99
Birkapılı Enerji Üretim A.Ş. (**)	99.99	-	99.99	-
Gazipaşa Enerji Üretim A.Ş. (**)	99.99	-	99.99	-

(*) As of 30 September 2014, SERCO merged with Enerjisa Elektrik Dağıtım A.Ş..

(**) As a part of Genco planned divestments, Gazipaşa and Birkapılı demerged from Genco as of 10 December 2014 and presented in the financial statements as assets held for sale.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

NOTE 3 - GROUP ACCOUNTING (Continued)

3.1 Basis of consolidation (Continued)

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3.2 Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable TASs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under TAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies other than Group accounting which is described in Note 3, followed in the preparation of the consolidated financial statements are summarised below. These policies have been consistently applied to all years presented, unless otherwise stated.

4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with Turkish Accounting Standards ("TAS") and interpretations related with these standards which are published by Public Oversight Accounting and Auditing Authority of Turkey ("POA").

Consolidated financial statements have been prepared in accordance with the format of the financial statements and disclosures announced by POA on 20 May 2013.

Turkish Accounting Standards ("TAS") published by POA are direct translation of International Financial Reporting Standards issued by International Accounting Standards Board into Turkish.

4.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain assets and liabilities. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

4.3 Changes in accounting policies

Significant changes in the accounting policies are applied retrospectively and prior period financial statements are restated. There has not been any change in accounting policies of the Group in 2014.

4.4 Changes in accounting estimates and errors

Changes in accounting estimates should be applied prospectively, if only for a period in which the change in the current period. If it relates to future periods they are recognized prospectively both in the current period and in the future period. There has not been any change in accounting estimates of the Group in 2014.

4.5 Comparative information

Where necessary, comparative figures of the consolidated financial statements have been reclassified to conform to changes in presentation of the current period consolidated financial statements.

The nature, amount and reasons for each of the reclassifications are described below:

In the current year, the Group has reclassified TL 166,447 of 'VAT Receivables' as long term "Other Receivables" , which had presented as 'VAT Receivables' in short term 'Other Receivables' as of 31 December 2013. There was no income / (loss) effect related to these reclassifications.

In the current year, the Group has reclassified TL 35,000 of 'Receivables due from liquidated damages' as short term "Other Receivables", which had presented in short term 'Trade Receivables' as of 31 December 2013. There was no income / (loss) effect related to these reclassifications.

In the current year, the Group has reclassified TL 30,500 of 'Income Accruals' as long term "Other Receivables" , which had presented as 'Income Accruals' in short term 'Other Receivables' as of 31 December 2013. There was no income / (loss) effect related to these reclassifications.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5 Comparative information (Continued)

In the current year, the Group has reclassified TL 10,616 of 'the payables to TEDAŞ for the capital expenditures' as long term "Other Financial Liabilities", which had presented as 'the payables to TEDAŞ for the capital expenditures' in short term 'Other Payables' as of 31 December 2013. There was no income / (loss) effect related to these reclassifications.

4.6 Revenue recognition

Distribution part of the revenue is composed of distribution, meter reading services, transmission and theft and loss components. Distribution and meter reading service components are considered within the content of service concession arrangements due to the regulations of Energy Market Regulatory Authority ("EMRA"). Additionally, according to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations, the Company's distribution, transmission and meter reading services are subject to revenue caps which cover operating expenses and investment requirements related to distribution and meter reading services. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by TEİAŞ. These regulations guarantee revenue to the Group during the transition period regardless of the consumption level. The underbillings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years.

Revenue recognition principles other than the assets classified as due from service concession arrangements under TFRS Interpretation 12 are as follows:

Revenue, excluding the distribution part, is recognized upon delivery of electricity to customers or upon fulfilment of services. Delivery is deemed complete when the risk and rewards associated with ownership has been transferred to the buyer as contractually agreed, compensation has been contractually established and collection of the resulting receivable is probable.

Revenue is recognised on an accrual basis at the time the electricity is distributed, at the invoiced values. Net sales represent the invoiced value of electricity distributed less TRT energy contribution share, sales commission and excluding sales taxes (Note 27).

System usage fees

Accounting policy regarding the accounting of system usage fees which are paid to the electricity distributor companies and collected from the customers is through adding system usage fee amounts on sales and cost of sales, respectively, without having any effect on gross and net profit. The amount of system usage fee included both in sales and cost of sales is TL 315,912 for the year ended 31 December 2014 (2013: TL 359,537) (Note 28).

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.

Interest income related to service concession arrangements is recognized in accordance with Service Concession Arrangements ("TFRS Interpretation 12"). Interest income on receivable from concession arrangement is recognised on a time-proportion basis using the effective interest method.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Application of TFRS Interpretation 12 - Service concession arrangements

TFRS 12 interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements. Certain hydroelectric power plants under GenCo which are subject to Build-Operate-Transfer model and the electricity distribution business under EEDAŞ qualify for the application of TFRS Interpretation 12.

GenCo:

Under the terms of contractual arrangements within the scope of TFRS Interpretation 12, the Group acts as a service provider. The operator constructs or upgrades infrastructure used to provide a public service and operates and maintains that infrastructure for a specified period of time.

GenCo recognises a financial asset to the extent that it has an unconditional contractual right to receive cash from or at the direction of the grantor for the construction services related to hydroelectric power plants in the context of Build-Operate-Transfer model (Note 14). The amount due from or at the direction of the grantor is accounted for as a receivable in accordance with TAS 39 "Financial Instruments: Recognition and Measurement". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income and the interest calculated using the effective interest method is recognised in the statement of profit or loss.

The receivables that are due but not collected as of the balance sheet date are classified as due receivables from the grantor and carried at their net realisable value.

EEDAŞ:

Service concession arrangements are defined within scope of TFRS Interpretation 12 as those whereby a government or other body grants contracts for the supply of public services – operations such as roads, energy distribution, prisons or hospitals – to private operators. Group's electricity distribution business is in the scope of a service concession agreement (Note 14).

Considering EEDAŞ's terms in the service concession arrangement with the government, a financial asset model where EEDAŞ recognises a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor has been applied, since the right to receive cash for the distribution and retail sales services (starting from 1 January 2011) are constituted through actual billing to subscribers where the distribution and retail sales services (starting from 1 January 2011) components of the billing are already specified or determinable through the distribution tariffs regulated by the Energy Market Regulatory Authority ("EMRA").

EEDAŞ has measured the financial asset at fair value, with the effective interest method which is calculated by discounting estimated future cash receipts with regards to the compensation of TOR and the initial and annual capital expenditures made by EEDAŞ, through the expected life of the arrangement and set "Financial Asset" on the consolidated balance sheet and recognizes the revenue on an effective interest method as "Finance Income from Service Concession Arrangements".

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.8 Inventories

The Group's inventories mainly consist of raw materials and consumables, which are charged to statement of profit or loss as consumed. Inventories are valued at the lower of cost or net realizable value (Note 12). Net realizable value is the estimated selling price in ordinary course of business, less selling expenses. Cost elements included in inventories comprise all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is determined on weighted average basis.

4.9 Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements.

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

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

(b) An entity is related to a reporting entity if any of the following conditions applies:

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

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

4.10 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment, if any (Note 17). Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets. 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. The depreciation periods for property, plant and equipment, which approximate the economic useful lives of such assets, are as follows:

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.10 Property, plant and equipment (Continued)

	Years
Buildings	10-50
Land improvements	5-50
Machinery and equipment	6-20
Motor vehicles	5
Furniture and fixtures	5-10
Leasehold improvements	4

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

4.11 Intangible assets

Intangible assets include rights, licences for electricity production, software and other identifiable rights. Intangible assets are carried at cost less accumulated amortisation (Note 18). Amortisation is calculated using the straight-line method based on the estimated useful lives of the assets. The amortisation periods for intangible assets, which approximate the economic useful lives of such assets, are as follows:

	Years
Licences (*)	20-49
Rights	5-15
Other intangibles	3-8

(*) Useful lives of licences are between commercial acceptance and end of licence period.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.11 Intangible assets (Continued)

Customer contracts and relations and transfer of operational rights ("TOR")

Customer contracts and relations 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 useful lives of customer contracts and relations range between 25-30 years.

Computer software

Acquired computer software licenses 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.

4.12 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4.13 Financial leasing transactions

Leasing - the Group as Lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.14 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the 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, "CGU"). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

4.15 Available-for-sale financial assets

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All investment securities are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associates with the investment. After initial recognition, investment securities that are classified as available-for-sale are measured at fair value unless fair value cannot be reliably measured.

Other financial assets in which the Group has interest below 20%, that do not have a quoted market price in active markets and whose fair value cannot be measured reliably are carried at cost, if applicable, less any provision for diminution in value. Available-for-sale investments that have a quoted market price in active markets and whose fair values can be measured reliably are carried at fair value.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are deferred in the equity until the financial asset is sold, collected or otherwise disposed of. When available-for-sale securities are sold, collected or otherwise disposed of, related deferred gains and losses in equity are released to the statement of profit or loss. For the period presented in these consolidated financial statements there is no fair value reserve.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.16 Financial assets

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity investments', 'available-for-sale' ("AFS") financial assets and 'loans and receivables'.

Effective interest method

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

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Loans and receivables

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

Impairment of financial assets

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.16 Financial assets (Continued)

Impairment of financial assets (Continued)

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits 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 subject to an insignificant risk of changes in value.

4.17 Financial liabilities and equity

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

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in 'other gains/losses' line in the consolidated statement of profit or loss.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.17 Financial liabilities and equity (Continued)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

4.18 Foreign currency transactions

Transactions in foreign currencies during the period have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated at the exchange rates prevailing at period-end. Exchange gains or losses arising on the settlement and translation of foreign currency items has either been included in the consolidated statement of profit or loss or been capitalized (Note 17-30-31) where appropriate.

4.19 Provisions, contingent assets and liabilities

Provisions are recognised in the consolidated financial statements, when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate, used to calculate the present value of the provision should be pre-tax rate reflecting the current market assessments of the time value of money and the risks specific to the liability. The discount rate shall not reflect risks for which future cash flow estimates have been adjusted.

A possible obligation or asset that arises 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 have not been recognised in these consolidated financial statements and treated as contingent liabilities and contingent assets.

4.20 Provisions for employee benefits

Provision for employment termination benefits represents the present value of the estimated total provision of the future probable obligation of the Group arising from the retirement of the employees calculated in accordance with the Turkish Labour Law. In accordance with existing social legislation and Turkish Labour Law in Turkey, the Group is required to make lump-sum termination indemnities to each employee whose employment is terminated due to retirement or for reasons other than resignation or misconduct and who has completed at least one year of service. Provision is made for the present value of the defined benefit obligation calculated using the projected unit credit method.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.20 Provisions for employee benefits (Continued)

Provision for unused vacation and provision for personnel premium have been reclassified to provision for employee benefits and have been applied consistently with previous years (Note 22).

4.21 Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise cash and amounts due from banks with maturity periods of less than three months (Note 8).

4.22 Trade receivables

Trade receivables that are created by the Group by way of providing goods or services directly to a debtor are carried at amortised cost. Short duration receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant (Note 10).

A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to operating expenses.

4.23 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.

When the Group borrows funds specifically for the purpose of the qualifying assets, the amount of borrowing costs eligible for capitalization is the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.24 Taxation

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 tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and it excludes items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 end of the reporting period.

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.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.24 Taxation (Continued)

Current and deferred tax for the period

Current and deferred tax are recognized as in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

4.25 Share capital, share premium and dividends

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared. Share premium represents the difference between the nominal value of Group shares and the net proceeds from the capital contributions of the shareholders of the Group.

4.26 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually (Note 6), or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.27 Business combinations and legal mergers

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with TAS 12 *Income Taxes* and TAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with TFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with TFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.27 Business combinations and legal mergers (Continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with TAS 39, or TAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Legal mergers arising between companies controlled by the Group are not within the scope of business combinations. Consequently, no goodwill is recognised in such transactions. Similarly the effects of all transactions between the legally merged enterprises, whether occurring before or after the legal merger, are eliminated in the preparation of consolidated financial statements.

4.28 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value. Short duration payables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant.

4.29 Derivative financial instruments, cash flow hedges and hedge accounting

GenCo:

Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value.

GenCo has designated the derivative as a hedge instrument to hedge the interest rate risk associated with its bank borrowings. The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss under financial income and expense.

When the hedge instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss.

The derivative financial instruments of the GenCo consist of interest rate swap transactions, cross currency swaps and foreign exchange forwards (Note 19). Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Until 30 June 2009, the difference between the fair value and the initial cost of the interest rate swap transactions is recognised as fair value gain/loss on interest rate swap transaction contracts in the consolidated statement of profit or loss. After 1 July 2009, GenCo has designated the interest rate swap transactions as a hedge instrument and applied hedge accounting.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.29 Derivative financial instruments, cash flow hedges and hedge accounting (Continued)

GenCo (Continued):

In addition, the Group has entered into the cross currency swap transaction in December 2013 as a hedge instrument and applied hedge accounting. Therefore, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income (Note 26).

4.30 Statement of cash flows

Cash flows during the year are classified and reported by operating, investing and financing activities in the cash flow statements.

Cash flows from operating activities represent the cash flows of the Company generated from the ordinary course of business.

Cash flows related to investing activities represent the cash flows that are used in or provided by investing activities of the Company.

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

Cash and cash equivalents comprise cash on hand, due from banks and highly liquid investments with original maturity periods of less than three months.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.31 Earnings per share

Earnings per share are determined by dividing net profit by the weighted average number of shares that have been outstanding during the periods concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings and revaluation surplus. For the purpose of earnings per share computations, such Bonus Share issuances are regarded as issued shares. Accordingly the weighted average number of shares used in earnings per share computations is derived by giving retroactive effect to the issuances of the shares without consideration.

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shared in issue.

There was no difference between basic and diluted earnings per share for any class of shares for any of the periods.

	1 January- 31 December 2014	1 January- 31 December 2013
Net loss for the year	(166,695)	(467,540)
Weighted average number of ordinary shares in issue	851,344,382,867	614,094,585,458
Basic earnings per share (Kr)	(0.02)	(0.08)

4.32 Offsetting

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

4.33 Events after the reporting date

In the case of the occurrence of subsequent events after the date of the statement of financial position which require the statement of financial position to be adjusted, the Group corrects its consolidated financial statements in consideration of the new events. Events which do not require adjustments are explained in the notes to the consolidated financial statements if they are material as they could affect investors' decisions (Note 34).

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 5 - FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Group's risk management systems are in accordance with the accepted risk management best practices (COSO framework and ISO 31000:2009). The Board (via the Board Risk Committee) is responsible for the evaluation of the different types of risks including financial, strategic and operational risks to which Group is exposed to. Furthermore the Board assesses Group's organization, guidelines, policies and processes for monitoring, managing and mitigating such risks.

Market Risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk through the impact of rate changes in the translation of foreign currency denominated assets and liabilities to local currency. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. These risks are monitored and limited by the analysis of the foreign currency position.

	31 December 2014	**31 December 2013**
Assets	35,924	351,748
Liabilities	(6,423,180)	(6,450,551)
Net foreign currency position	**(6,387,256)**	**(6,098,803)**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Market Risk (Continued)

(i) Foreign exchange risk (Continued)

Turkish Lira equivalent of assets and liabilities denominated in foreign currency held by the Group at 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014				31 December 2013			
	USD	**Euro**	**Other**	**Total**	**USD**	**Euro**	**Other**	**Total**
Assets:								
Cash and cash equivalents	3,255	25,109	1	28,365	1,693	336,137	19	337,849
Trade receivables	-	154	-	154	38	8	5	51
Other receivables from third parties	824	5,802	-	6,626	1,356	7,054	-	8,410
Due from service concession arrangements	779	-	-	779	545	-	-	545
Derivative financial assets (*)	-	-	-	-	963	3,930	-	4,893
Total assets	**4,858**	**31,065**	**1**	**35,924**	**4,595**	**347,129**	**24**	**351,748**
Liabilities:								
Bank borrowings	-	(5,618,572)	-	(5,618,572)	-	(5,598,790)	-	(5,598,790)
Other financial liabilities	-	(256,913)	-	(256,913)	-	(280,750)	-	(280,750)
Trade payables	(21,306)	(221,354)	(4,386)	(247,046)	(8,320)	(291,450)	(3,548)	(303,318)
Other payables to third parties	-	-	-	-	(181)	-	-	(181)
Derivative financial liabilities (*)	-	(300,649)	-	(300,649)	-	(267,512)	-	(267,512)
Total liabilities	**(21,306)**	**(6,397,488)**	**(4,386)**	**(6,423,180)**	**(8,501)**	**(6,438,502)**	**(3,548)**	**(6,450,551)**
Net foreign currency position	**(16,448)**	**(6,366,423)**	**(4,385)**	**(6,387,256)**	**(3,906)**	**(6,091,373)**	**(3,524)**	**(6,098,803)**

(*) The Group is mainly exposed to foreign exchange risk through the impact of rate changes in the translation of USD and Euro denominated assets and liabilities to local currency except Euro denominated derivative financial instruments. Since the effective portion of changes in the fair value of Euro denominated derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income, foreign exchange gains or losses arising from the valuation of these instruments are also recognised in other comprehensive income.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Market Risk (Continued)

(i) Foreign exchange risk (Continued)

At 31 December 2014, if the USD had strengthened / weakened by 10% against the TL with all other variables held constant, profit before taxation on income would have been TL 1,645 lower / higher (31 December 2013: TL 391 lower / higher).

At 31 December 2014, if the Euro had strengthened / weakened by 10% against the TL with all other variables held constant, profit before taxation on income would have been TL 351,747 lower and TL 356,655 higher (31 December 2013: TL 248,170 lower and TL 241,219 higher).

At 31 December 2014, if the Euro had strengthened / weakened by 10% against the TL with all other variables held constant, hedge reserves before taxation would have been TL 25,732 lower / higher (31 December 2013: 26,358 lower / higher).

(ii) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. As the Group has significant interest-bearing assets, the Group's income and operating cash flows are substantially dependent to changes in market interest rates. The Group has interest rate risk arising from long-term borrowings. Borrowings and derivative instruments at variable rates expose the Group to interest rate risk.

Interest rate positions of the Group at 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Euro denominated financial liabilities		
Financial liabilities with floating interest rates	3,304,509	2,414,435
Fair value of interest rate swap agreement (Note 19)	248,591	267,512
Fair value of foreign exchange forwards (Note 19)	43,332	(963)
Fair value of cross currency swap agreement (Note 19)	8,726	(3,930)

The effect of a hypothetical 100 basis point (1%) increase / decrease in interest rates of Euro denominated financial liabilities without interest rate swap agreement with floating interest rates would increase / decrease the interest expense by TL 1,362 (2013: TL 986).

The effect of a hypothetical 100 basis point (1%) increase / decrease in interest rates of Euro denominated financial liabilities with interest rate swap agreement would decrease / increase the fair value of interest rate swap agreement by TL 20,207 (2013: TL 19,251).

Liquidity Risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.
The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

Liquidity risk of the Group arising from financial liabilities at 31 December 2014 and 2013 are as follows:

31 December 2014	Carrying value	Total cash outflows	Less than 3 months	3-12 months	1-5 years	More than 5 years
Bank borrowings	9,023,830	11,527,321	692,056	1,485,201	7,050,847	2,299,217
Other financial liabilities	256,913	323,059	5,302	18,618	104,086	195,053
Trade payables	1,342,595	1,342,595	1,342,595	-	-	-
Payable to Privatization Administration	2,413,806	2,647,107	-	1,372,713	1,274,394	-
	13,037,144	**15,840,082**	**2,039,953**	**2,876,532**	**8,429,327**	**2,494,270**

31 December 2013	Carrying value	Total cash outflows	Less than 3 months	3-12 months	1-5 years	More than 5 years
Bank borrowings	7,583,767	9,434,196	666,499	1,498,223	4,253,746	3,015,728
Other financial liabilities	280,750	353,894	7,475	17,397	134,027	194,995
Trade payables	1,310,272	1,310,272	1,310,272	-	-	-
Payable to Privatization Administration	3,631,549	4,197,906	36,720	1,492,556	2,563,136	105,494
	12,806,338	**15,296,268**	**2,020,966**	**3,008,176**	**6,950,909**	**3,316,217**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures to customers, including outstanding receivables. If counterparties fail on the fulfilment of the agreement, the Group is exposed to the risk upon holding the financial instruments. Management covers the risk by limiting the average risk of counterparties (except for related parties) on agreements and by obtaining guarantees if necessary. Trade receivables, are evaluated based on the Group's policies and procedures and as a result presented net of doubtful provision in the consolidated financial statements. Group management evaluates the adequacy of the provision set for the impaired trade receivable balances based on the aging analysis and considers the receivables overdue by more than 180 days as impaired. In addition, Group management considers irrigation and government receivables overdue by more than 365 days as impaired.

Capital Risk Management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

The gearing ratios at 31 December 2014 and 31 December 2013 were as follows:

	31 December 2014	**31 December 2013**
Total borrowings	11,694,549	11,496,066
Cash and cash equivalents	(208,505)	(865,112)
Net debt	11,486,044	10,630,954
Total equity	8,428,255	7,681,033
Total capital	19,914,299	18,311,987
Gearing ratio	58%	58%

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Categories of financial instruments

31 December 2014	Loans and receivables (*)	Derivative instruments accounted through profit and loss	Derivative instruments accounted for hedging purposes	Available for sale investments	Financial liabilities at amortized cost	Carrying value	Fair value	Note
Financial assets								
Cash and cash equivalents	208,505	-	-	-	-	208,505	208,505	8
Trade receivables	1,721,930	-	-	-	-	1,721,930	1,721,930	9,10
Available-for-sale financial assets	-	-	-	836	-	836	836	16
Due from service concession arrangements	1,622,335	-	-	-	-	1,622,335	1,622,335	14
Financial liabilities								
Borrowings	-	-	-	-	9,023,830	9,023,830	9,023,830	20
Other financial liabilities	-				256,913	256,913	256,913	20
Trade payables	-	-	-	-	1,342,595	1,342,595	1,342,595	9,10
Derivative financial instruments	-	43,332	257,317	-	-	300,649	300,649	19
Payable to Privatization Administration	-	-	-	-	2,413,806	2,413,806	2,413,806	11

31 December 2013	Loans and receivables (*)	Derivative instruments accounted through profit and loss	Derivative instruments accounted for hedging purposes	Available for sale investments	Financial liabilities at amortized cost	Carrying value	Fair value	Note
Financial assets								
Cash and cash equivalents	865,112	-	-	-	-	865,112	865,112	8
Trade receivables	1,697,956	-	-	-	-	1,697,956	1,697,956	9,10
Available-for-sale financial assets	-	-	-	424	-	424	424	16
Derivative financial instruments	-	4,893	-	-	-	4,893	4,893	19
Due from service concession arrangements	1,243,111	-	-	-	-	1,243,111	1,243,111	14
Financial liabilities								
Borrowings	-	-	-	-	7,583,767	7,583,767	7,583,767	20
Other financial liabilities	-	-	-	-	280,750	280,750	280,750	20
Trade payables	-	-	-	-	1,310,272	1,310,272	1,310,272	9,10
Derivative financial instruments	-	-	267,512	-	-	267,512	267,512	19
Payable to Privatization Administration	-	-	-	-	3,631,549	3,631,549	3,631,549	11

(*) Cash and cash equivalents is classified as loans and receivables.

The Group believes that the carrying values of its financial instruments reflect their fair values.

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Fair value estimation

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 classification of the Group's financial assets and liabilities at fair value is as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

In the consolidated balance sheet, derivative financial instrument is recognised at fair value. The fair value of derivative financial instrument is determined by using valuation technique, which can be regarded as level 2. Apart from that, for disclosure purposes, the borrowings carried at the amortised cost at the balance sheet are presented with their values in Note 20. The fair value of borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate (Euribor) that is available to the Group for similar financial instruments that can be classified as level 2. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables and payables.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period.The following table gives information about how the fair values of these financial assets and liabilities are determined.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Fair value estimation (Continued)

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 December 2014	31 December 2013				
Foreign currency forward contracts	(43,332)	963	Level 2	Discounted cash flow model: Forward exchange rates (observable forward exchange rates at the end of the reporting period) and the estimated future cash flows determined by using the contract rates are discounted by using a rate that reflects the credit risk of the various parties.	-	-
Interest rate swaps	(248,591)	(267,512)	Level 2	Discounted cash flow model: Forward interest rate (the interest rate that is derived from the observable yield curve at the end of the reporting period) and the estimated future cash flows determined by using the contract interest rates and forward exchange rates are discounted by using a rate that reflects the credit risk of the various parties.	-	-
Cross currency swaps	(8,726)	3,930	Level 2	Discounted cash flow model: Forward interest rate (the interest rate that is derived from the observable yield curve at the end of the reporting period) and the estimated future cash flows determined by using the contract interest rates and forward exchange rates are discounted by using a rate that reflects the credit risk of the various parties.	-	-
Deposits given	101,211	65,999	Level 2	CPI	-	-
Deposits and guarantees received	(608,064)	(630,435)	Level 2	CPI	-	-
Due from service concession arrangements	1,622,335	1,243,111	Level 2	CPI	-	-

NOTE 6 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

6.1 Impairment of property and equipment and intangible assets

The carrying amounts of the Group's property and equipment and intangible assets are reviewed at each balance sheet date to determine whether there are any indicators of impairment as described in Note 4.12. In connection with the audit of the consolidated financial statements of the Group as of 31 December 2013, the Group have performed certain procedures regarding the annual assessment of enterprise values with respect to impairment of assets under the context of Turkish Accounting Standard No. 36 Impairment of Assets ("TAS 36"). The Group recognised an impairment of TL 195 million in 2013, for Adana, Mersin and Çanakkale power plants and TL 3.9 million for Köprü accident. The basis for the impairment loss is mainly driven by Group management's estimate of the range of economic conditions that will exist over the remaining useful life of the asset. The carrying value of these assets is written down to the total of the estimated value of the "land" and "scrap" value. The estimated land values and scrap values used in the impairment calculation are TL 41,301 thousand (Note 17).

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 6 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

6.2 Impairment test of goodwill for EEDAŞ

Pursuant to TAS 36, Impairment of Assets, the Group tested goodwill as of 31 December 2014 in accordance with the accounting policy stated at Note 4.14. The goodwill impairment test is carried out for Retail and Distribution CGUs.

The following assumptions were used to determine the recoverable amount of Retail CGU:

CGU:	**Retail**
Base used for the recoverable amount:	Value in use
Source:	Forecasted cash flows
WACC (TL):	Between 13.7% and 13.8%

The net present value of Retail CGU was calculated by discounting the TL post-tax free cash flows, which is the functional currency of the Group. The Group compared the recoverable amount calculated based on the aforementioned assumptions to the total value of Retail CGU and no impairment was identified.

The following assumptions were used to determine the recoverable amount of Distribution CGU:

CGU:	**Distribution**
Base used for the recoverable amount:	Value in use
Source:	Forecasted cash flows for the licence period
WACC (TL):	Between 12.7% and 12.8%

The net present value of Distribution CGU was calculated by discounting the post-tax free cash flows for the discrete period from 2014 to 2036 for BEDAŞ and from 2014 to 2042 for AYEDAŞ and TOROSLAR EDAŞ. This calculation includes the discounted values of the TL cash flows of Distribution CGU which is the functional currency of the Group. The Group compared the recoverable amount calculated based on the aforementioned assumptions to the total value of Distribution CGU and no impairment was identified.

NOTE 6 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

6.3 Provisions

As described in the accounting policies above, the Group measures provisions at the Group management's best estimate of the expenditure required to settle the obligations at the balance sheet date. These estimates are made, taking into account information available and different possible outcomes.

The Group is subject to various legal proceedings, claims and regulatory discussions, the outcomes of which are subject to uncertainty. The Group evaluates, among other factors, the degree of probability of an unfavourable outcome and the ability to make a reasonable estimate of the amount of loss. Unforeseeable events or changes in these factors may require an increase or a decrease of the amount that the Group has accounted for any matter or provision for a matter that has not been previously provided for as it was either not considered probable or a reasonable estimate could not be made.

6.4 Deferred income tax assets for the carry forward unused tax losses and investment incentives

Deferred tax assets may only be recognised to the extent it is probable that sufficient taxable profit will be available in the future. In case of a probable tax advantage, deferred income tax asset is calculated for unused carry forward tax losses and investment incentives.

6.5 Service concession arrangements in EEDAŞ

The Group determines the financial asset and financial income balances recognized under service concession arrangements based on the cash flows derived from the tariffs announced by EMRA. The distribution revenue requirement of the Group during the transition period (set as five years from 2006 to 2010) was determined by EMRA considering the projected expenses and related tariffs which were published in 2006. In December 2010, EMRA has announced new tariff for the period between 2011 and 2015. Due to the new tariff, distribution and retail sales service revenue requirements are determined by EMRA for the related period. These tariffs are revised yearly due to inflation, based on the changes in the Electricity Market Index ("EMI"-currently based on CPI since EMI is not announced yet). In determination of the projected cash inflows in the upcoming periods Group management made expectations related to the CPI and WACC rates.

6.6 Revenue recognition in EEDAŞ

Invoices of the subscribers other than residential and commercial groups are issued monthly at the end of each month by the Group whereas the invoices of the residential subscribers are issued continuously during each month due to the high number of subscribers in this group. Commercial group subscribers are also issued continuously during the month due to the high number of customers in this group although the subscribers with high consumption level are billed at the end of the month. As a result, the total electricity supplied to the residential and commercial subscribers during each month cannot be invoiced and income accruals are recognized as revenue at period-ends for these customer groups based on the actual billing performance.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
Currencies other than TL are expressed in thousands unless otherwise indicated.)

NOTE 6 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

6.7 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. For each of the financial instrument, valuation techniques and assumptions are used.

Fair value of non-derivative financial instruments, which is determined for disclosure purposes, is determined based on the present value of future principal and interest cash flows. These cash flows are calculated based on discount rate prevailing at the reporting date.

NOTE 7 – BUSINESS COMBINATIONS

Subsidiaries acquired

	Principal activity	Date of acquisition	Proportion of voting equity interests acquired (%)	Purchase price
İstanbul Anadolu Yakası Elektrik Dağıtım A.Ş. ("AYEDAŞ")	Electricity distribution services	31.07.2013	100	296,464
İstanbul Anadolu Yakası Elektrik Perakende Satış A.Ş. ("AEPSAŞ")	Electricity retail	31.07.2013	100	2,066,984
Toroslar Elektrik Dağıtım A.Ş. ("TOROSLAR EDAŞ")	Electricity distribution services	30.09.2013	100	968,310
Toroslar Elektrik Perakende Satış A.Ş. ("TOROSLAR EPSAŞ")	Electricity retail	30.09.2013	100	2,544,411
				5,876,169

AYEDAŞ, AEPSAŞ, TOROSLAR EDAŞ and TOROSLAR EPSAŞ were acquired so as to continue the expansion of the Group's activities on electricity distribution and retail services.

Purchase price

	AYEDAŞ	**AEPSAŞ**	**TOROSLAR EDAŞ**	**TOROSLAR EPSAŞ**
Enterprise value	374,785	2,014,056	1,132,692	2,414,380
Financial debt	(78,810)	-	(168,320)	-
Plus: cash and cash equivalents	489	52,928	3,938	130,031
Total	**296,464**	**2,066,984**	**968,310**	**2,544,411**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 7 – BUSINESS COMBINATIONS (Continued)

Fair value of assets acquired and liabilities recognized at the date of acquisition

	AYEDAŞ	AEPSAŞ	TOROSLAR EDAŞ	TOROSLAR EPSAŞ	TOTAL
Current assets	**157,844**	**346,981**	**285,707**	**710,514**	**1,501,046**
Cash and cash equivalents	489	52,928	3,938	130,031	187,386
Trade and other receivables	93,467	171,122	117,251	472,155	853,995
Due from related parties	6,815	-	36,644	-	43,459
Inventories	12,735	-	18,521	-	31,256
Financial assets	4,453	-	42,376	-	46,829
Other current assets	39,885	122,931	66,977	108,328	338,121
Non-current assets	**680,527**	**1,495,256**	**1,528,920**	**1,824,702**	**5,529,405**
Financial assets	175,452	-	223,265	-	398,717
Intangible assets	435,152	1,451,792	1,083,669	1,776,581	4,747,194
Customer relationship	-	*1,451,792*	-	*1,776,581*	*3,228,373*
TOR agreement	*435,152*	-	*1,083,669*	-	*1,518,821*
Deferred income assets	58,476	18,472	145,753	37,190	259,891
Other non-current assets	11,447	24,992	76,233	10,931	123,603
Current liabilities	**342,459**	**219,636**	**422,105**	**485,955**	**1,470,155**
Borrowings	6,716	-	13,137	-	19,853
Trade payables	59,678	152,852	88,446	358,166	659,142
Due to related parties	8,895	-	-	-	8,895
Provisions	107,774	-	67,287	-	175,061
Other current liabilities	159,396	66,784	253,235	127,789	607,204
Non-current liabilities	**199,448**	**448,678**	**424,212**	**609,013**	**1,681,351**
Borrowings	72,094	-	155,183	-	227,277
Provisions for employee termination benefits	25,923	1,789	8,923	-	36,635
Other non-current liabilities	14,401	156,531	43,372	253,697	468,001
Deferred tax liabilities	87,030	290,358	216,734	355,316	949,438
Fair value of net assets acquired	**296,464**	**1,173,923**	**968,310**	**1,440,248**	**3,878,945**

Goodwill arising on acquisition

	AYEDAŞ	AEPSAŞ	TOROSLAR EDAŞ	TOROSLAR EPSAŞ	TOTAL
Purchase price	296,464	2,066,984	968,310	2,544,411	5,876,169
Less: fair value of net assets acquired	(296,464)	(1,173,923)	(968,310)	(1,440,248)	(3,878,945)
Goodwill arising on acquisition	-	893,061	-	1,104,163	1,997,224

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NOTE 7 – BUSINESS COMBINATIONS (Continued)

Net cash outflow on acquisition of subsidiaries

	2013
Purchase price	5,876,169
Plus: financial debt	247,130
Less: cash and cash equivalent balances acquired	(187,386)
	5,935,913

NOTE 8 - CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
Cash on hand	114	135
Cash at banks		
- time deposits	77,289	487,312
- demand deposits	61,701	95,110
- repurchase agreements	69,401	282,555
	208,505	**865,112**

According to the Security and Accounts Agreement that was signed between the Group and the Creditors (Note 20), the Group is obliged to maintain the deposits in restricted accounts and permitted non-restricted accounts. Establishment, maintenance and transfer into and out of these accounts are defined in the Security and Accounts Agreement. Restricted accounts are mainly for equity disbursement, loan disbursement, revenue payments, insurance and compensations, sponsor support disbursement and additional expenditures. Permitted non-restricted accounts are for dividend distribution ("Distribution Account"), payment of operating and maintenance costs (including payment of personnel costs, social security premium, utilities, taxes, royalty fees and general management expenditures), payments related to trade instruments provided by any bank ("Trade Instrument Accounts") and general corporate purposes within the ordinary course of its business. The Group at no time shall maintain any accounts other than restricted accounts and permitted nonrestricted accounts, and shall grant first ranking perfected security over each account other than the Distribution Account and the Trade Instrument Accounts.

At 31 December 2014, the time deposits were all short term with periods of less than three months, where the average interest rates for TL 63,908 and EUR 4,744 time deposits were 9.5% and 0.6% p.a., respectively (2013: TL 186,929 and EUR 102,293 time deposits were 7.6% and 2.7% p.a., respectively).

As at 31 December 2014, TL 22,029 thousand of the Group's demand deposits is blocked at different banks (31 December 2013: TL 39,421 thousand). These blocked deposits are related to the collections made through bank branches which are made available for use by banks 1 or 2 days after the collection depending on the agreements with related banks.

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NOTE 8 - CASH AND CASH EQUIVALENTS (Continued)

Repurchase agreements consist of short term TL balances with original maturities between 1-3 days (31 December 2013: 1-3 days). The weighted average effective interest rate of TL repurchase agreements is 10.07% as at 31 December 2014 (31 December 2013: 8.10%).

NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Amounts due from and due to related parties at 31 December 2014 and 31 December 2013 and a summary of major transactions with related parties during the period are as follows:

9.1 Deposits and repurchase agreements at banks

	31 December 2014	31 December 2013
Akbank T.A.Ş.	128,950	417,310

9.2 Loans from related party banks

	31 December 2014	31 December 2013
Akbank T.A.Ş.	1,993,162	1,927,638

9.3 Derivative financial instruments

Akbank T.A.Ş.

	31 December 2014		31 December 2013	
	Assets	Liabilities	Assets	Liabilities
Interest rate swap	-	(111,866)	-	(120,380)
Foreign exchange forwards	-	(1,867)	963	-
	-	**(113,733)**	**963**	**(120,380)**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

9.4 Due from related parties

Trade receivables:

	31 December 2014	31 December 2013
Çimsa Çimento Sanayi ve Ticaret A.Ş. ("Çimsa")	7,565	675
Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş. ("Brisa")	5,094	5,613
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş. ("Carrefoursa")	4,050	3,735
Kordsa Global End. İplik ve Kord Bezi San. ve Tic. A.Ş. ("Kordsa Global")	2,824	4,937
Akbank T.A.Ş.	2,235	2,271
Akçansa Çimento Sanayi ve Ticaret A.Ş. ("Akçansa")	351	8,108
Philsa Philip Morris Sabancı Sigara ve Tütüncülük A.Ş. ("Philsa")	-	420
Sasa Polyester Sanayi A.Ş. ("Sasa") (*)	-	11,072
Other	838	1,072
	22,957	**37,903**

(*) Sabancı signed share purchase agreement on 9 April 2014 regarding the sale of all shares in SASA Polyester Sanayi A.Ş..

As of 31 December 2014 and 31 December 2013, due from related parties have maturities of less than one month. There are no overdue and no doubtful due from related parties as of 31 December 2014 and 31 December 2013.

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NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

9.5 Due to related parties

	31 December 2014	31 December 2013
Aksigorta A.Ş.	5,417	4,533
Bimsa Uluslararası İş ve Bilgi Sistemleri A.Ş. ("Bimsa")	79	91
Sabancı	63	-
Avivasa Emeklilik ve Hayat A.Ş. ("Avivasa")	4	-
Vista Turizm ve Seyahat A.Ş. ("Vista")	1	9
Other	206	1,837
	5,770	**6,470**

9.6 Sales

	1 January-31 December 2014	1 January-31 December 2013
Çimsa	91,532	71,344
Brisa	41,838	43,117
Carrefoursa	37,707	36,304
Kordsa Global	34,148	45,609
Akbank T.A.Ş.	24,191	23,904
Akçansa	22,569	45,294
Teknosa İç ve Dış Tic. A.Ş.	5,930	6,067
Temsa Global Sanayi ve Ticaret A.Ş.	2,379	2,486
Sabancı	1,695	1,644
Philsa	742	2,493
Avivasa Emeklilik ve Hayat A.Ş.	374	345
Sasa (*)	-	110,365
Aksigorta A.Ş.	-	583
Sabancı Üniversitesi	-	5,526
	263,105	**395,081**

(*) Sabancı signed share purchase agreement on 9 April 2014 regarding the sale of all shares in SASA Polyester Sanayi A.Ş..

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NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

9.7 Purchases and services received

	1 January- 31 December 2014	1 January- 31 December 2013
Aksigorta A.Ş.	21,804	8,198
Vista	2,379	-
Sabancı	1,692	851
Other	1,151	1,232
	27,026	**10,281**

9.8 Financial income/(expense)

	1 January- 31 December 2014	1 January- 31 December 2013
Interest income		
Akbank T.A.Ş.	44,051	25,667
Interest expense		
Akbank T.A.Ş.	(112,674)	(71,724)
	(68,623)	**(46,057)**
Foreign currency gain / (loss)		
Akbank T.A.Ş.	23,638	(74,588)
	(44,985)	**(120,645)**

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NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

9.9 Other income

	1 January- 31 December 2014	1 January- 31 December 2013
Kordsa Global	142	130
Brisa	142	130
Other	-	7
	284	**267**

9.10 Other expense

	1 January- 31 December 2014	1 January- 31 December 2013
Aksigorta A.Ş.	1,601	70
Bimsa	105	2,512
Çimsa	-	2,468
	1,706	**5,050**

9.11 Key management compensation

Key management includes Chief Executive Officer, Chief Financial Officer, Directors and above. The compensation paid or payable to key management for employee services is shown below:

	1 January- 31 December 2014	1 January- 31 December 2013
Short-term benefits	8,561	6,637
Other long-term benefits	-	97
	8,561	**6,734**

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NOTE 10 – TRADE RECEIVABLES AND PAYABLES

Trade receivables

	31 December 2014	31 December 2013
Customer current accounts	2,593,319	2,322,297
Allowance for doubtful receivables (-)	(894,346)	(662,244)
	1,698,973	**1,660,053**

As of 31 December 2014, trade receivables amounting to TL 1,238,479 (31 December 2013: TL 1,512,621) were neither past due nor impaired. The average credit period on sale of electricity is less than one month.

As of 31 December 2014, trade receivables amounting to TL 460,494 (31 December 2013: TL 147,432) were past due but not impaired. The balance mainly relates to many independent public and private subscribers of EEDAŞ. The aging analysis of these trade receivables is as follows as of 31 December 2014 and 31 December 2013:

	31 December 2014	31 December 2013
Up to 3 months	337,438	122,964
3 to 6 months	113,499	24,468
More than 6 months	9,557	-
	460,494	**147,432**

As of 31 December 2014, trade receivables of TL 894,346 (31 December 2013: TL 662,244) were considered as impaired and a provision was provided for these trade receivables. The provision for trade receivables is provided based on the aging analysis. Group management considers the receivables overdue by more than 180 days as impaired by taking the past default experience into consideration. In addition, Group management considers irrigation and government receivables overdue by more than 365 days as impaired.

Movements on the provision for allowance of trade receivables are as follows:

Movement of allowance for doubtful receivables:	1 January- 31 December 2014	1 January- 31 December 2013
Balance at the beginning of the year	(662,244)	(146,898)
Acquisition of subsidiaries	-	(495,452)
Additions	(149,668)	(34,743)
Amounts recovered during the year	72,131	14,849
Provision charged due to system migration (Note 30)	(154,565)	-
Closing balance	**(894,346)**	**(662,244)**

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NOTE 10 – TRADE RECEIVABLES AND PAYABLES (Continued)

The Group received guarantee letters amounting to TL 626,923 (31 December 2013: TL 758,743) and deposits and guarantees amounting to TL 609,059 (31 December 2013: TL 631,626) as collateral for its electricity receivables.

Trade payables

	31 December 2014	31 December 2013
Payables to suppliers	1,220,873	1,226,712
Boru Hatları ile Petrol Taşıma A.Ş. ("BOTAŞ")	115,952	77,090
	1,336,825	**1,303,802**

Trade payables mainly arise from the Group's electricity purchases made from Türkiye Elektrik Ticaret ve Taahhüt A.Ş. (TETAŞ) and Piyasa Mali Uzlaştırma Merkezi (PMUM), natural gas purchases from Botaş and payables to suppliers related to construction of power plants. At 31 December 2014 and 31 December 2013, trade payables have maturities less than one month.

NOTE 11 – OTHER RECEIVABLES AND PAYABLES

Other current receivables

	31 December 2014	31 December 2013
Income accruals (*)	182,768	89,951
Capital expenditures regarding distribution and requirements (**)	160,637	67,069
Receivables due from liquidated damages	35,000	35,000
Receivables subject to arbitration	18,558	-
Deposits and guarantees given	16,833	17,284
Receivables from personnel	97	304
Reversal of provision for Adana insurance income	-	4,068
Other	34,467	28,622
	448,360	242,298
Less: Provision for impairment of other receivables	(3,123)	(6,192)
	445,237	**236,106**

Other non-current receivables

	31 December 2014	31 December 2013
Income accruals (*)	201,265	169,844
Transmission line receivables (***)	135,676	150,818
Deposits and guarantees given (****)	103,335	67,771
	440,276	**388,433**

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NOTE 11 – OTHER RECEIVABLES AND PAYABLES (Continued)

(*) According to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations the Group's distribution, transmission and meter reading services have revenue caps which cover operating expenses and investment requirements related to distribution and meter reading. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by TEİAŞ. These regulations guarantee a revenue to the Group regardless of the consumption level of subscribers. The underbillings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years. The effects of the underbillings, which means the actual revenue is below the revenue cap set by EMRA, are accounted as income accruals at the Group's consolidated financial statements.

(**) Represents income accruals with regards to the investments subject to unit prices as announced by EMRA. Also includes the expenditures waiting in EMRA approval to be considered in the scope of investments needed to be completed in the upcoming years. Following the capitalization, the amount will be included in the IFRIC 12 model and recognized as financial assets.

(***) The Group constructs energy transmission lines on behalf of TEİAŞ and reflects the cost to TEİAŞ. As of 31 December 2014, receivables from TEİAŞ regarding the construction of transmission lines are mainly related with the Tufanbeyli, Hacınınoğlu, Menge, Arkun, Yamanlı, Kavşakbendi, Çambaşı and Kandil projects. The Group will collect the related amount in equal monthly instalments in maximum of ten years.

(****) The balance represents subscription fees refunded to the subscribers, subscribed before 31 March 2006 for EPS and 24 July 2006 for AEPSAŞ and TOROSLAR EPSAŞ when they leave the system. The balances were paid to the subscribers based on their adjusted amounts by inflation rate as required by EMRA periodically. According to the TOR Agreement signed with TEDAŞ, retail companies (EPS, AEPSAŞ and TOROSLAR EPSAŞ) are obliged to keep deposits refunded with their fair values and the net balance of deposits received and paid will be paid back to TEDAŞ at the end of the license periods.

Other current payables

	31 December 2014	31 December 2013
Payables to Privatization Administration (*)	1,237,732	1,279,401
Taxes and dues payable	110,988	178,081
Deposits and guarantees received (**)	6,805	5,425
Other payable	55,553	54,126
	1,411,078	**1,517,033**

Other non-current payables

	31 December 2014	31 December 2013
Payables to Privatization Administration (*)	1,176,074	2,352,148
Deposits and guarantees received (**)	608,064	630,435
	1,784,138	**2,982,583**

(*)The balance represents the remaining installments of AYEDAŞ, AEPSAŞ, TOROSLAR EDAŞ and TOROSLAR EPSAŞ acquisitions with PPI + 2% interest rate.

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NOTE 11 – OTHER RECEIVABLES AND PAYABLES (Continued)

(**) The Group received deposits from the customers subscribed after 31 March 2006 for EPS and 24 July 2006 for AEPSAŞ and TOROSLAR EPSAŞ upon their subscription on behalf of TEDAŞ and these deposits are initially recorded at their fair values as the subscription fee charged to customers represents the fees announced by EMRA. According to the TOR Agreements signed with TEDAŞ, retail companies (EPS, AEPSAŞ and TOROSLAR EPSAŞ) are obliged to carry the deposits received by their fair values and the net balance of deposits received and paid will be paid back to TEDAŞ at the end of the license period.

NOTE 12 – INVENTORIES

	31 December 2014	31 December 2013
Consumables	94,859	73,910
Materials	6,477	4,573
Other inventory	1,605	795
	102,941	**79,278**

NOTE 13 – PREPAID EXPENSES AND DEFERRED REVENUE

Short - term prepaid expenses

	31 December 2014	31 December 2013
Prepaid expenses	15,014	14,379
Inventory advances given	7,745	7,030
Business advances given	5,673	13,191
Other advances given	314	632
	28,746	**35,232**

Long - term prepaid expenses

	31 December 2014	31 December 2013
Fixed asset advances given	656,799	500,745
Other	1,651	4,213
	658,450	**504,958**

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NOTE 13 – PREPAID EXPENSES AND DEFERRED REVENUE (Continued)

Short - term deferred revenue

	31 December 2014	31 December 2013
Deferred income (*)	86,210	227,398
Advances received	-	12,929
	86,210	**240,327**

Long - term deferred revenue

	31 December 2014	31 December 2013
Deferred income (*)	158,385	68,775
	158,385	**68,775**

(*) According to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulations the Group's distribution, transmission and meter reading services have revenue caps which cover operating expenses and investment requirements related to distribution and meter reading. Moreover, transmission revenue is a complete pass-through of transmission costs as charged by TEİAŞ. These regulations guarantee a revenue to the Group regardless of the consumption level of subscribers. The underbillings or overbillings made by the Group are adjusted by EMRA in the tariffs to be effective in two years. The effects of the overbillings, which means the actual revenue is above the revenue cap set by EMRA, are accounted as deferred income at the Group's consolidated financial statements.

NOTE 14 – DUE FROM SERVICE CONCESSION ARRANGEMENTS

Considering the terms in the service concession arrangement, the Group has recognized the discounted estimated future cash receipts through the expected life of the arrangement, as financial asset. The details of the financial assets recognised under the service concession arrangement are as follows:

	31 December 2014	31 December 2013
Short-term due from service concession arrangements	152,413	142,039

	31 December 2014	31 December 2013
Long term due from service concession arrangements	1,469,922	1,101,072

	31 December 2014	31 December 2013
Gross due from service concession arrangements	3,511,301	3,243,402
Unearned financial income	(1,888,966)	(2,000,291)
Due from service concession arrangements, net	**1,622,335**	**1,243,111**

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NOTE 15 - OTHER ASSETS

Other current assets

	31 December 2014	31 December 2013
VAT receivables	157,070	63,181
Other	32	36
	157,102	**63,217**

Other non- current assets

	31 December 2014	31 December 2013
VAT receivables (*)	428,117	411,947
Other	-	30
	428,117	**411,977**

(*) VAT receivables are mainly related to the projects under construction. These VAT receivables will be offset against VAT payables arising from revenues generated in the future.

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NOTE 16 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2014		31 December 2013	
	(%)	TL	(%)	TL
KOSBAŞ Kocaeli Serbest Bölgesi Kurucu ve İşleticisi A.Ş.	4.00	424	4.00	424
Enerji Piyasaları İşletme A.Ş. (*)	0.67	412	-	-
		836		**424**

(*)Enerjisa Elektrik Enerjisi Toptan Satış A.Ş. became a Group C shareholder of EPİAŞ with 412,408 shares on 10 December 2014.

NOTE 17 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2014	Additions	Disposals	Transfers	Reclassified as assets held for sale	31 December 2014
Cost:						
Land	111,109	644	-	-	(44)	111,709
Land improvements	2,206,042	7,092	-	938,474	(34,663)	3,116,945
Buildings	355,473	-	(1,893)	86,114	(2,237)	437,457
Machinery and equipment	2,934,863	13,967	-	161,916	(34,292)	3,076,454
Spare parts	15,914	9,666	-	-	-	25,580
Motor vehicles	3,802	481	(129)	-	-	4,154
Furniture and fixtures	17,748	4,415	(15)	61	(522)	21,687
Leasehold improvements	1,597	6	(36)	-	-	1,567
Construction in progress	3,444,059	799,243	-	(1,186,565)	(8,575)	3,048,162
	9,090,607	**835,514**	**(2,073)**	**-**	**(80,333)**	**9,843,715**
Accumulated depreciation:						
Land improvements	64,903	64,356	-	-	-	129,259
Buildings	33,914	10,384	(656)	-	(133)	43,509
Machinery and equipment	953,909	127,181	-	-	(32,546)	1,048,544
Motor vehicles	2,321	886	(117)	-	(95)	2,995
Furniture and fixtures	10,792	2,876	(3)	-	(539)	13,126
Leasehold improvements	758	187	-	-	-	945
	1,066,597	**205,870**	**(776)**	**-**	**(33,313)**	**1,238,378**
Net book value:						
Land	111,109					111,709
Land improvements	2,141,139					2,987,686
Buildings	321,559					393,948
Machinery and equipment	1,980,954					2,027,910
Spare Parts	15,914					25,580
Motor vehicles	1,481					1,159
Furniture and fixtures	6,956					8,561
Leasehold improvements	839					622
Construction in progress	3,444,059					3,048,162
	8,024,010					**8,605,337**

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NOTE 17 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2013	Additions	Disposals	Transfers	Impairment (*)	31 December 2013
Cost						
Land	109,351	1,758	-	-	-	111,109
Land improvements	393,448	614	-	1,811,980	-	2,206,042
Buildings	200,751	1,368	-	153,354	-	355,473
Machinery and equipment	2,343,463	17,836	(72)	573,636	-	2,934,863
Spare parts	15,410	504	-	-	-	15,914
Motor vehicles	3,260	854	(333)	21	-	3,802
Furniture and fixtures	14,580	2,960	(10)	218	-	17,748
Leasehold improvements	1,597	-	-	-	-	1,597
Construction in progress	3,192,163	2,791,188	-	(2,539,292)	-	3,444,059
	6,274,023	**2,817,082**	**(415)**	**(83)**	**-**	**9,090,607**
Accumulated depreciation						
Land improvements	40,746	20,168	-	-	3,989	64,903
Buildings	27,299	6,615	-	-	-	33,914
Machinery and equipment	607,254	151,727	(72)	-	195,000	953,909
Motor vehicles	1,988	626	(293)	-	-	2,321
Furniture and fixtures	8,607	2,194	(9)	-	-	10,792
Leasehold improvements	398	360	-	-	-	758
	686,292	**181,690**	**(374)**	**-**	**198,989**	**1,066,597**
Net book value						
Land	109,351					111,109
Land improvements	352,702					2,141,139
Buildings	173,452					321,559
Machinery and equipment	1,736,209					1,980,954
Spare parts	15,410					15,914
Motor vehicles	1,272					1,481
Furniture and fixtures	5,973					6,956
Leasehold improvements	1,199					839
Construction in progress	3,192,163					3,444,059
	5,587,731					**8,024,010**

(*) Under the context of Turkish Accounting Standard Impairment of Assets ("TAS 36"), the Group has identified an impairment loss of TL 195 million in 2013, for Adana, Mersin and Çanakkale power plants and TL 3.9 million for Köprü accident (Note 6).

TL 200,213 of current year depreciation expenses is included in cost of sales and TL 5,657 of it is included in operating expenses (2013: TL 171,818 and TL 9,872 respectively).

Based on the provisions of the finance package signed at 13 June 2008, the property, plant and equipment of GenCo amounting to TL 8,603,447 (31 December 2013: TL 8,022,362) are secured by the Lenders.

Total borrowing costs capitalised in 2014 and 2013 are TL (23,498) (interest expense: TL 88,171, foreign exchange gain: TL (111,669)) and TL 706,611 (interest expense: TL 121,009, foreign exchange loss: TL 585,602) respectively.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.
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NOTE 18 - INTANGIBLE ASSETS

	1 January 2014	Additions	Disposals	Transfers	Reclassified as assets held for sale	31 December 2014
Cost:						
Licences	819,372	360	(3,087)	-	-	816,645
Rights	1,681,554	42	-	-	(949)	1,680,647
Customer contracts and related relationships	4,390,673	-	-	-	-	4,390,673
Goodwill	2,730,031	-	-	-	-	2,730,031
Other intangibles	6,015	1,974	-	-	-	7,989
	9,627,645	**2,376**	**(3,087)**	**-**	**(949)**	**9,625,985**
Accumulated amortisation:						
Licences	15,390	430	-	-	-	15,820
Rights	50,200	68,248	-	-	(152)	118,296
Customer contracts and related relationships	243,047	152,108	-	-	-	395,155
Other intangibles	4,173	182	-	-	-	4,355
	312,810	**220,968**	**-**	**-**	**(152)**	**533,626**
Net book value:						
Licences	803,982					800,825
Rights	1,631,354					1,562,351
Customer contracts and related relationships	4,147,626					3,995,518
Goodwill	2,730,031					2,730,031
Other intangibles	1,842					3,634
	9,314,835					**9,092,359**

	1 January 2013	Additions	Disposals	Transfers	Additions due to entity acquisitions	31 December 2013
Cost:						
Licences	819,062	310	-	-	-	819,372
Rights	162,531	119	-	83	1,518,821	1,681,554
Customer contracts and related relationships	1,162,300	-	-	-	3,228,373	4,390,673
Goodwill	732,807	-	-	-	1,997,224	2,730,031
Other intangibles	4,706	1,309	-	-	-	6,015
	2,881,406	**1,738**	**-**	**83**	**6,744,418**	**9,627,645**
Accumulated amortisation:						
Licences	8,644	6,746	-	-	-	15,390
Rights	27,893	22,307	-	-	-	50,200
Customer contracts and related relationships	164,972	78,075	-	-	-	243,047
Other intangibles	4,048	125	-	-	-	4,173
	205,557	**107,253**	**-**	**-**	**-**	**312,810**
Net book value:						
Licences	810,418					803,982
Rights	134,638					1,631,354
Customer contracts and related relationships	997,328					4,147,626
Goodwill	732,807					2,730,031
Other intangibles	658					1,842
	2,675,849					**9,314,835**

TL 11,540 of current year amortisation expenses is included in cost of sales and TL 209,428 of it is included in operating expenses (2013: TL 7,242 and TL 100,011 respectively).

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NOTE 18 - INTANGIBLE ASSETS (Continued)

Customer contracts and related relationships and transfer of operating rights are separately recognised during the business combination according to TFRS 3.

On 31 March 2006 BEDAŞ and on 24 July 2006, AYEDAŞ and TOROSLAR EDAŞ signed TOR Agreements with TEDAŞ. In accordance with the TOR agreement, TEDAŞ transferred the operating rights of the distribution system, the distribution facilities, the other movables and immovables which are crucial for the operation of the distribution facilities to BEDAŞ until the end of 2036 and to AYEDAŞ and TOROSLAR EDAŞ until the end of 2042. Based on the future cash flows fair value of the TOR agreements are determined. The residual value of TOR after the portion recognized as financial asset which calculated based on TFRS Interpretation 12 (Note 14) is recognized as intangible asset based on TFRS 3.

In recognition of customer contracts and related relationships; relationships with the different customer groups are identified and a fair value for retail customers is estimated by Group management.

Customer contracts and related relationships and TOR amortization is calculated on a straight line basis in a range between 25-30 years and charged to operating expenses.

Goodwill is allocated to the Group's cash-generating units (CGUs) through distribution region privatizations. A region level summary of the goodwill allocation is presented below:

	31 December 2014	31 December 2013
Toroslar Region (Note 7)	1,104,163	1,104,163
Ayedaş Region (Note 7)	893,061	893,061
Başkent Region	732,807	732,807
	2,730,031	**2,730,031**

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NOTE 19 - DERIVATIVE FINANCIAL INSTRUMENTS

The Group entered into the following interest rate swap transaction contracts and foreign exchange forward contracts with banks in order to hedge its interest rate risk and to reduce its exchange rate risk associated with the raw material purchases. Their fair values at 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014		31 December 2013	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest rate swap	-	(248,591)	-	(267,512)
Cross currency swap	-	(8,726)	3,930	-
Foreign exchange forwards	-	(43,332)	963	-
	-	**(300,649)**	**4,893**	**(267,512)**
Short-term	-	(43,332)	963	-
Long-term	-	(257,317)	3,930	(267,512)
	-	**(300,649)**	**4,893**	**(267,512)**

According to the contract, 45% portion of the swap transaction is made with the related party bank of the Group, Akbank T.A.Ş..

Movements in fair value of derivative financial instruments can be analysed as follows:

	1 January- 31 December 2014	**1 January- 31 December 2013**
1 January	(262,619)	(304,434)
Charged to / (recognized in) statement of profit or loss	(50,085)	5,860
Charged to / (recognized in) other comprehensive income	12,055	35,955
31 December	**(300,649)**	**(262,619)**

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NOTE 20 - BANK BORROWINGS

	Weighted average effective interest rate p.a.		Original currency		TL	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Short-term bank borrowings:						
- TRY borrowings	10.85%	8.73%	985,786	1,397,487	985,786	1,397,487
					985,786	**1,397,487**
Short-term portion of long-term bank borrowings:						
-Euro borrowings	5.23%	5.60%	196,659	158,636	554,716	465,833
-TRY borrowings	11.23%	11.21%	54,167	1,730	54,167	1,730
					608,883	**467,563**
Long-term bank borrowings:						
-Euro borrowings	4.36%	4.89%	1,795,248	1,747,985	5,063,856	5,132,957
-TRY borrowings	11.05%	9.69%	2,365,305	585,760	2,365,305	585,760
Total long-term bank borrowings					**7,429,161**	**5,718,717**

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NOTE 20 - BANK BORROWINGS (Continued)

Redemption schedules of long-term bank borrowings at 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	31 December 2013
To be paid between 1-2 years	2,091,976	481,570
To be paid between 2-3 years	1,371,440	1,063,136
To be paid between 3-4 years	1,167,606	810,530
To be paid between 4-5 years	907,841	787,864
To be paid between +5 years	1,890,298	2,575,617
	7,429,161	**5,718,717**

The management believes that the carrying value approximates its fair value.

GenCo:

On 13 June 2008, Genco signed an agreement with International Finance Cooperation ("IFC"), and certain international finance institutions under the coordination of IFC, Akbank T.A.Ş. and European Investment Bank ("EIB") to borrow funds amounting to EUR 1 billion. For the loan amounting to EUR 513 million, which is coordinated by IFC, EUR 495 million of it has a maturity of 12 years and EUR 18 million of it has a maturity of 15 years. EUR 158 million of it is provided by IFC and EUR 355 million of it is provided by several financial institutions under the coordination of IFC. Akbank T.A.Ş. has provided a parallel loan agreement of EUR 352 million which has a maturity of 12 years. EIB has provided the remaining loan amounting to EUR 135 million. The Group has fully utilized the loan amount of EUR 1 billion as of 31 December 2014. Repayments of this loan have started on 15 June 2012 and the remaining debt as of 31 December 2014 is EUR 707 million.

Genco has signed another agreement on 23 December 2010 to borrow funds amounting to EUR 270 million with the participations of Yapı ve Kredi Bankası A.Ş. for EUR 100 million, Akbank T.A.Ş. Istanbul Corporate Branch for EUR 100 million and Finansbank A.Ş. Bahrain Branch for EUR 70 million, for the purpose of financing an energy project of Genco. Genco has utilized the full loan amount as of 31 December 2014. Repayments of this loan have started on 15 December 2014 and the remaining debt as of 31 December 2014 is EUR 254 million.

Genco has signed an agreement on 24 March 2011 with IFC and several international financial institutions which are under the coordination of IFC, Portigon AG (WestLB) and Unicredit, to borrow funds amounting to EUR 700 million for the purpose of financing energy projects of the company. EUR 65 million of the loans is provided by IFC and EUR 515 million of this participation loan is provided by several financial institutions under the coordination of IFC. Proparco has provided EUR 40 million of the loan and TSKB has provided EUR 80 million of the loan. Euro 700 million loan amount is decreased to EUR 560 million with the lenders' consent on and effected on 10 September 2014 and the participation of this loan based on the banks have been updated accordingly. EUR 52 million of the loans is provided by IFC and EUR 412 million of this participation loans is provided by several financial institutions under the coordination of IFC. Proparco has provided EUR 32 million of the loans and TSKB has provided EUR 64 million of the loans. As of 31 December 2014, Genco has utilized EUR 400.6 million. Repayments of this loan have started on 15 December 2014 and the remaining debt as of 31 December 2014 is EUR 389 million.

NOTE 20 - BANK BORROWINGS (Continued)

GenCo (Continued):

Genco signed a loan agreement on 26 April 2012 with European Bank for Reconstruction and Development ("EBRD") amounting to EUR 135 million (EUR 100 million as A Loan; EUR 35 million as B loan) to finance Bares Wind Power Plant. EUR 100 million of the loan is provided by EBRD and EUR 35 million of it is provided by BAWAG. As of 31 December 2014, total loan amount of EUR 135 million has been utilized. Enerjisa Enerji Uretim A.S. and EBRD have agreed to redenominate EUR 85 million of the A Loan into Turkish Lira on 19 September 2013. The remaining amount of the A Loan (EUR 15 million) and the B Loan (EUR 35 million) will remain denominated in Euro.

On 25 July 2012, Genco signed a loan agreement of EUR 750 million with a maturity of 11.5 years with various banks for the financing of Tufanbeyli Thermal Plant. EUR 608 million of this loan, K-Sure Facility Agreement, has been insured by Korea Trade Insurance Corporation (K-Sure). Creditors of the loan are Societe Generale Bank, UniCredit Bank Austria AG, HSBC Bank plc, Raiffeisen Bank International AG, The Bank of Tokyo-Mitsubishi UFJ Ltd., BNP Paribas, Deutsche Bank AG, Natixis. EUR 142 million of this loan, Commercial Facility Agreement, with the participation of HSBC Bank plc, Fortis Bank NV/SA, Akbank T.A.Ş. and Erste Group Bank AG. As of 31 December 2014, EUR 587.1 million loan amount has been utilized.

EEDAŞ:

In September 2014, EEDAS has signed a Bridge Loan Facility Agreement and borrowed TL 480 million. The principal and interest costs will be paid at the end of loan's maturity which is 15 April 2015, with an average fixed interest rate of 10.65%.

In October 2014, EEDAS has signed a Bridge Loan Facility Agreement and borrowed TL 488 million. The principal and interest costs will be paid at the end of loan's maturity which is 15 April 2015, with an average fixed interest rate of 10.58%.

In October 2014, EEDAS has signed a Bridge Loan Facility Agreement and borrowed TL 98 million. The principal and interest costs will be paid at the end of loan's maturity which is 15 April 2015, with an average fixed interest rate of 9.95%.

A loan of TL 300 million was drawn down on 4 March 2014. Repayments commenced on 3 September 2014 and will continue until 4 March 2018. The average effective interest rate on the loan is 10.65% per annum.

A loan of TL 200 million was drawn down on 30 January 2014. Repayments will continue until 30 January 2015. The average effective interest rate on the loan is 10.8% per annum.

A loan of TL 150 million was drawn down on 29 October 2014. Repayments will continue until 30 October 2016. The average effective interest rate on the loan is 10.6% per annum.

A loan of TL 100 million was drawn down on 18 December 2014. Repayments will continue until 19 June 2016. The average effective interest rate on the loan is 10.6% per annum.

A loan of TL 100 million was drawn down on 31 July 2014. Repayments commenced on 30 October 2014 and will continue until 31 December 2016. The average effective interest rate on the loan is 10.5% per annum.

NOTE 20 - BANK BORROWINGS (Continued)

EEDAŞ (Continued):

A loan of TL 100 million was drawn down on 18 December 2014. Repayments will continue until 20 June 2016. The average effective interest rate on the loan is 10.6% per annum.

A loan of TL 80 million was drawn down on 30 January 2014. Repayments commenced on 31 July 2014 and will continue until 30 December 2016. The average effective interest rate on the loan is 13.75% per annum.

In April 2013, the EEDAS has issued a bond and borrowed TL 350 million, as of 31 December 2014 interest rate is 11.96%. The interest costs will be paid every three months until the end of bond's maturity which is 11 April 2016.

As of 31 December 2014, EEDAS has spot loans with zero interest rate (31 December 2013: 0%) amounting to 5.8 million (31 December 2013: TL 2.5 million) which have maturities of 2 days (31 December 2013: 2 day).

As of 31 December 2014, EEDAS has spot loans in order to cover its short term cash requirements, tax and social security payment obligations.with interest rates between 10.20%- 10.70% (31 December 2013: 8.75%- 9.98%) amounting to 391 million (31 December 2014: TL 659.2 million) which have maturities of 2 days (31 December 2013: 2 days).

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NOTE 20 - BANK BORROWINGS (Continued)

Other financial liabilities:

	31 December 2014	31 December 2013
Other financial liabilities	256,913	280,750
	256,913	**280,750**

The other financial liabilities are repayable as follows:

	31 December 2014	31 December 2013
To be paid within 1 year	17,185	24,872
To be paid between 1-2 years	19,204	24,726
To be paid between 2-3 years	19,981	25,999
To be paid between 3-4 years	20,346	26,470
To be paid between 4-5 years	20,407	26,493
To be paid more than 5 years	159,790	152,190
	256,913	**280,750**

As of 31 December 2014 and 31 December 2013, details of short and long term other financial liabilities in terms of currencies are as follows:

		31 December 2014	
Currency Type	**Weighted average effective interest rate**	**Current**	**Non-current**
EUR	4.70%	17,185	239,728
		17,185	**239,728**

		31 December 2013	
Currency Type	**Weighted average effective interest rate**	**Current**	**Non-current**
EUR	4.70%	24,872	255,878
		24,872	**255,878**

Other financial liabilities represent the payables to TEDAŞ for the capital expenditures denominated in EUR.

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NOTE 21 – PROVISIONS

	31 December 2014	31 December 2013
Provision for legal cases [(1)]	149,478	158,851
Provision for water usage right	46,255	1,999
Provision for performance fee [(2)]	1,777	1,215
Provision for termination fee	1,623	-
Provision for TRT energy contribution [(3)]	1,000	1,000
Provision for commitment fee	302	848
Other provisions	634	557
	201,069	**164,470**

(1) Legal claims are set for the probable cash outflows related to the legal disputes. As of 31 December 2014, actual provision amount for the legal claims are determined according to the assesment made by the Group management in which the probability, that the legal cases will be finalized against the Group, is more than 50%.

(2) Consists of the performance fee to be paid in the context of the loan agreement signed on 13 June 2008.

(3) There is a lawsuit filed by TRT against Enerjisa Enerji Üretim A.Ş. before Kocaeli 2nd Commercial Court (2011/530 E.) with the claim of payment TRT fee to be calculated over the system usage fee for the years of 2003-2006. TRT principally claims that Enerjisa pays TRT fee (in amount of TL 2,841 including principal and interest) over the system usage fee for the years of 2003-2006. TRT alleges that the system usage fee was included in the basis for TRT fee and that there was a mistake arisen from its fault in the calculation of TRT fee by not taking into consideration the system usage fee. Genco has booked a provision of TL 1,000 for the principal regarding the lawsuit in its consolidated financial statements.

Movements in the provisions can be analysed as follows:

	1 January-31 December 2014	1 January-31 December 2013
1 January	164,470	30,533
Provision reversed in the current year	(49,440)	(6,573)
Capitalised over property, plant and equipment	303	3,672
Acquisition of subsidiaries	-	130,138
Charged to statement of profit or loss	85,736	6,700
31 December	**201,069**	**164,470**

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NOTE 22 - PROVISIONS FOR EMPLOYEE BENEFITS AND OBLIGATIONS RELATED TO EMPLOYEE BENEFITS

	31 December 2014	31 December 2013
Provision for personnel premium	15,528	10,754
Provision for unused vacation	13,919	12,083
Provision for expat employee expenses	847	3,277
Provisions for employee termination benefit	41,815	54,994
	72,109	**81,108**

Under Turkish Labour Law, the Group 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 (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002 there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TL 3,438.22 (full TL) for each year of service as of 31 December 2014 (2013: TL 3,254.44 (full TL)).

The liability is not funded, as there is no funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees.

TAS 19 "Employee Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly the following actuarial assumptions were used in the calculation of the total liability:

	2014	2013
Discount rate (%)	2.83	3.73
Turnover rate to estimate the probability of retirement (%)	94	94

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. As the maximum liability is revised annually, the maximum amount of TL 3,541.37 (full TL) which is effective from 1 January 2015 (1 January 2014: TL 3,438.22 (full TL)) has been taken into consideration in calculating the reserve for employee termination benefit of the Group.

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NOTE 22 - PROVISIONS FOR EMPLOYEE BENEFITS AND OBLIGATIONS RELATED TO EMPLOYEE BENEFITS (Continued)

Movements in the provision for employee termination benefits during the year are as follows:

	1 January- 31 December 2014	1 January- 31 December 2013
At the beginning of the year	54,994	15,525
Service cost	24,715	7,384
Interest cost	2,062	929
Actuarial loss	67	-
Paid during the year	(40,023)	(61,250)
Liability from acquisition of subsidiaries	-	92,406
At the end of the year	**41,815**	**54,994**

Movements in the provision for personnel bonus, unused vacation and expat employee expenses during the year are as follows:

	1 January- 31 December 2014	1 January- 31 December 2013
1 January	26,114	12,174
Provision paid in the current year	(13,319)	(5,979)
Capitalised over property, plant and equipment	1,884	1,203
Liability from acquisition of subsidiaries	-	12,414
Charged to statement of profit or loss	15,615	6,302
31 December	**30,294**	**26,114**

Obligations related to employee benefits:

	31 December 2014	31 December 2013
Payable to personnel	12,683	26,257
Social security premiums payable	11,586	10,478
	24,269	**36,735**

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NOTE 23 – TAXATION

Assets related with current taxes	31 December 2014	31 December 2013
Prepaid taxes and funds	22,430	37,783
	22,430	**37,783**

Current tax liability	31 December 2014	31 December 2013
Current corporate tax provision	52,015	37,269
Less: Prepaid taxes	(51,870)	(26,738)
	145	**10,531**

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. 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.

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 tax rate in 2014 is 20% (2013: 20%) for the Group.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2014 is 20%. (2013: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, 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.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 – 22 July 2006 is 10% and commencing from 23 July 2006, this rate has been changed to 15% upon the Council of Minister's' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Withholding tax at the rate of 19.8% is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Subsequent to this date, the investments without investment incentive certificates do not qualify for tax allowance.

NOTE 23 – TAXATION (Continued)

Investment Allowance Exemption

The investment allowance application which had been in force for a significant period of time was abolished by Law No.5479 dated 30 March 2006. However, in accordance with the temporary article 69 of the Income Tax Law, income and corporate taxpayers can deduct the following amounts from their income related to the years 2007, 2008 and 2009 as well as the investment allowance amounts they could not offset against 2006 gains which were present as of 31 December 2010, in accordance with the legislation (including the provisions related to tax rates) in force as of 31 December 2010.

a) In the scope of the investment incentive certificates prepared related to the applications before 24 April 2003, investments to be made after 1 January 2006 in the scope of the certificate for the investments started in accordance with the additional 1st, 2nd, 3rd, 4th, 5th and 6th articles prior to the abrogation of Income Tax Law No.193, with Law No.4842.

b) In the scope of the abolished 19th article of Income Tax Law No.193, the investment allowance amounts to be calculated in accordance with the legislation in force at 31 December 2006 for investments which were started before 1 January 2006 and which display an economical and technical integrity.

Tax payers, who had chosen to benefit from their investment allowance rights in the years 2006, 2007 and 2008, had been obliged to apply 30% as corporate tax rate over the tax base if any left after the investment allowance as the corporate tax rate has been decreased from 30% to 20% to be effective from 1 January 2006. 30% corporate tax rate was applicable if an entity had profit more than the investment allowance that can be benefited from, on the other side, tax payers, who had chosen not to use the investment allowance, had been obliged to pay 20% corporate tax according to the new corporate tax law. Utilisation of investment allowance was subject to withholding tax at the rate of 19.8%.

The removal of investment allowance application from the legislation has been taken to court by companies that had carried-forward investment allowance amounts. The Constitutional Court, in the session held on 15 October 2009, repealed the relevant legislation that removed the vested interest of taxpayers on the grounds that it was in contravention of the Constitution. The decision of the Constitutional Court was published in the Official Gazette on 8 January 2010 and has come into effect from that date.

The revoked phrase "only attributable to 2006, 2007 and 2008" stated in Provisional Article 69 of Income Tax Law No: 193 with the effect of Article 5 of Law No: 6009 after having published in the Official Gazette No: 27659 1 August 2010 and the Constitutional Court's issued resolution no: 2009/144 published in the Official Gazette on 8 January 2010 has been revised. The revised regulation allows companies to continue to benefit from the exception of undeductible and carryforward investment incentive due to insufficient earnings irrespective of having any time constraints. However, deductible amount for investment incentive exception to be used in the determination of tax base cannot exceed 25% of the related period's income. For companies making use of investment incentives, income tax rate will be applied as 20% instead of 30% under the related revised regulation.

On 26 July 2013; the Constitutional Court Decision dated 9 February 2012 was announced in the Official Gazette and as per the decision the restriction on the investment incentive amount limited with the 25 per cent of the tax base was abolished. Therefore; the companies have the right to fully utilize the carried forward investment incentives up to their tax base amounts.

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NOTE 23 – TAXATION (Continued)

The taxation on income for the Group is as follows:

	1 January-31 December 2014	1 January-31 December 2013
- Corporate tax	(52,015)	(37,269)
- Deferred tax	186,973	120,168
	134,958	**82,899**

The reconciliation of taxation on income is as follows:

	1 January-31 December 2014	1 January-31 December 2013
Loss before income taxes on income	(301,653)	(550,439)
Tax calculated at enacted income tax rate	60,331	110,088
Non-deductible expenses	(2,848)	(8,888)
Non-taxable income	83	610
Tax losses not recognized as deferred tax asset	(74,249)	(29,070)
Investment incentive	140,840	15,168
Other	10,801	(5,009)
Taxation on income	**134,958**	**82,899**

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated.
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NOTE 23 – TAXATION (Continued)

Deferred taxes

The Group recognises deferred tax assets and liabilities based upon temporary differences arising between their financial statements as reported for TAS purposes and their statutory tax financial statements.

Deferred taxes will be calculated on temporary differences that are expected to be realised or settled based on the taxable income in coming years under the liability method using enacted tax rate of 20% at 31 December 2014 (2013: 20%).

The breakdown of cumulative temporary differences and the resulting deferred tax assets/(liabilities) provided, at 31 December 2014 and 31 December 2013 using the enacted tax rates, are as follows:

	Cumulative temporary differences		**Deferred tax assets/(liabilities)**	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**
Property, plant and equipment and intangible assets	2,572,435	2,246,895	514,487	449,379
Differences arising from customer contracts and transfer of operational rights	(5,550,165)	(5,758,830)	(1,110,033)	(1,151,766)
Due from service concession arrangements	(1,622,335)	(1,243,111)	(324,467)	(248,622)
Unused carry forward tax losses	250,795	213,330	50,159	42,666
Derivative financial instruments	300,649	262,619	60,130	52,523
Provision for employee termination benefits	41,730	54,691	8,346	10,938
Impairment of power plants	195,000	195,000	39,000	39,000
Investment incentive	780,042	75,842	156,008	15,168
Other differences	542,515	541,425	108,503	108,285
	(2,489,334)	**(3,412,139)**	**(497,867)**	**(682,429)**
Transfer to assets classified as held for sale	11,181	-	2,236	-
Deferred tax liabilities-net	**(2,478,153)**	**(3,412,139)**	**(495,631)**	**(682,429)**

At 31 December 2014, the Group recognized deferred tax assets amounting to TL 50,159 for unused carry forward tax losses amounting to TL 250,795 since it was considered as probable that there would be sufficient taxable income in the subsequent periods to utilise such assets based on the forecasts made (2013: TL 42,666 and TL 213,330 respectively). The Group also recognized deferred tax assets amounting to TL 156,008 for investment incentive amounting to TL 780,042 (2013: TL 15,168) and recognized deferred tax assets amounting to TL 2,236 for reclassifying of assets as AHFS (Birkapılı & Gazipaşa) amounting to TL 11,181.

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NOTE 23 - TAXATION (Continued)

The expiration dates of previous years' losses on which deferred tax asset was recognized are as follows:

	31 December 2014	31 December 2013
Expiring in 2 years	90,696	35,706
Expiring in 3 years	5,449	27,795
Expiring in 4 years	154,650	149,829
	250,795	**213,330**

Movements in deferred income taxes can be analysed as follows:

Deferred income tax liabilities, net	31 December 2014	31 December 2013
1 January	(682,429)	(105,858)
Recognized in statement of profit or loss	186,973	120,168
Charged to other comprehensive income (Note 26)	(2,411)	(7,191)
Additions due to entity acquisitions	-	(689,548)
31 December	**(497,867)**	**(682,429)**

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NOTE 24 - SHARE CAPITAL

Total authorised number of ordinary shares of par value Kr 1 each at 31 December 2014 is 889,068,542,000 (31 December 2013 : 799,068,542,000).

The shareholders of the Enerjisa and their historical shareholdings at 31 December 2014 and 31 December 2013 are stated below:

	31 December 2014		31 December 2013	
Shareholders	**Share (%)**	**TL**	**Share (%)**	**TL**
Hacı Ömer Sabancı Holding A.Ş.	50.00	4,445,342	50.00	3,995,342
DD Turkey Holdings S.A.R.L. (E.ON)	50.00	4,445,342	50.00	3,995,342
		8,890,684		**7,990,684**
Adjustment to share capital		(33,312)		(33,312)
Total paid-in capital		**8,857,372**		**7,957,372**

During 2014, the Group increased its capital from TL 7,990,684 to TL 8,890,684 with the amount of TL 900,000.

Share premium

Share premium presented in the consolidated financial statements represents the proceeds obtained by issuing shares above the nominal values during the capital increases following the establishment of the Group.

NOTE 25 - RETAINED EARNINGS AND LEGAL RESERVES

Retained earnings as per the statutory financial statements, other than legal reserve requirements, are available for distribution subject to the legal reserve requirement referred to below.

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

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NOTE 25 - RETAINED EARNINGS AND LEGAL RESERVES (Continued)

Special reserves and accumulated losses as per the statutory financial statements of the Company are such as below:

	31 December 2014	**31 December 2013**
Special reserves	93,611	93,611
Accumulated losses	(13,817)	(16,586)

NOTE 26 - TAX EFFECTS OF COMPONENTS OF COMPREHENSIVE INCOME

	31 December 2014			**31 December 2013**		
	Before tax amount	Tax credit	Net of tax amount	Before tax amount	Tax credit	Net of tax amount
Derivative financial instruments	12,055	(2,411)	9,644	35,955	(7,191)	28,764
Actuarial loss	(67)	-	(67)	-	-	-
			9,577			**28,764**

NOTE 27 - NET SALES

	1 January-31 December 2014	**1 January-31 December 2013**
Revenue from electricity sales and services provided	9,870,718	5,999,691
Distribution revenue	755,583	409,776
Finance income from service concession arrangements	208,758	119,738
Steam sales	62,179	57,942
Other sales	59,131	106,617
	10,956,369	**6,693,764**

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NOTE 28 - COST OF SALES

	1 January- 31 December 2014	1 January- 31 December 2013
Cost of trade goods sold	6,800,727	3,761,440
Raw materials usage	1,056,461	973,001
Theft and losses expenses	715,706	399,433
System usage fees	481,250	359,537
Depreciation and amortisation (Note 17-18)	211,753	179,060
Other	161,661	81,960
	9,427,558	**5,754,431**

NOTE 29 – OPERATING EXPENSES

	1 January- 31 December 2014	1 January- 31 December 2013
Personnel expenses	413,735	243,713
Depreciation and amortisation (Note 17-18)	215,085	109,883
Consultancy expenses	168,894	102,891
Material expenses	91,043	27,235
Provision for doubtful and other receivables	74,468	19,586
Insurance expenses	38,072	25,846
Duties and taxes	26,486	13,599
Communication expenses	19,242	7,437
Security expenses	17,469	9,070
Rent expenses	16,010	9,877
Transportation and travel expenses	9,223	8,262
Maintenance expenses	7,893	8,775
Other	18,564	26,989
	1,116,184	**613,163**

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NOTE 30 - OTHER (EXPENSE) / INCOME FROM OPERATING ACTIVITIES

	1 January-31 December 2014	1 January-31 December 2013
Other income:		
Late payment interest from electricity receivables	83,089	31,006
Foreign exchange gain from other than borrowings	63,191	97,095
Power theft penalties	7,736	4,695
Interest income related to revenue cap regulation - net	5,313	-
Collection of receivables previously written off	4,271	4,068
Insurance income from Köprü accident claim	2,488	3,989
Income from insurance reimbursements	1,568	1,832
Liquidated damages (1)	-	33,013
Other	11,131	7,095
	178,787	**182,793**
Other expenses:		
Foreign exchange loss from other than borrowings	(66,382)	(64,490)
Fair value differences arising from deposits and guarantees	(42,627)	(22,444)
Expense due to system migration (2)	(10,131)	-
Compensation and penalty	(4,814)	-
Impairment on old NGs Plants (Note 17)	-	(195,000)
Interest expense related to revenue cap regulation - net	-	(5,439)
Impairment on Köprü Dam	-	(3,989)
Other	(22,866)	(6,915)
	(146,820)	**(298,277)**

(1) 2013 balance consists of penalty mainly related with the liquated damages for the ministry acceptance delay of construction of Kandil HEPP and Sarıgüzel HEPP.

(2) In 2014, AYEDAŞ, AEPSAŞ, TOROSLAR EDAŞ and TOROSLAR EPSAŞ switched to a new billing, collection and customer relations management system from Abonenet which is integrated with the accounting software and the customer database. With the effect of the system change, these companies were able to reconcile trade receivables, deposits and guarantees received and paid balances periodically to the accounting records following the data cleansing procedures performed. Due to the aforementioned system migration, EEDAS adjusted its trade receivables, deposits and guarantees paid and received accounts as of 31 December 2014 and as a result, charged TL 10,131 of other expense in the statement of profit or loss.

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NOTE 31 - FINANCIAL (EXPENSE) / INCOME, NET

	1 January-31 December 2014	1 January-31 December 2013
Financial income:		
Foreign exchange gain	626,424	61,853
Interest income	73,581	36,695
Other	1,382	633
	701,387	**99,181**
Less: Capitalized over property, plant and equipment	(111,669)	-
	589,718	**99,181**
Financial expenses:		
Interest expense	(940,974)	(455,094)
Foreign exchange loss	(455,360)	(1,093,546)
Other	(27,802)	(18,277)
	(1,424,136)	**(1,566,917)**
Less: Capitalized over property, plant and equipment	88,171	706,611
	(1,335,965)	**(860,306)**

	1 January-31 December 2014	1 January-31 December 2013
Nature of borrowing costs capitalized:		
Interest expense	88,171	121,009
Foreign exchange differences	(111,669)	585,602
	(23,498)	**706,611**

NOTE 32 – ASSETS CLASSIFIED AS HELD FOR SALE

On 10 December 2014, the directors resolved to dispose two of the subsidiaries (Birkapılı and Gazipaşa). Negotiations with several interested parties have subsequently taken place. The assets and liabilities, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position.

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognized on the classification of these operations as held for sale.

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NOTE 32 – ASSETS CLASSIFIED AS HELD FOR SALE (Continued)

The major classes of assets and liabilities comprising the disposal group classified as held for sale are as follows:

a) Birkapılı

	31 December 2014
Property, plant, equipment and intangible assets	12,489
Other assets	2,460
Total assets classified as held for sale	14,949
Trade payables	43
Other liabilities	630
Total liabilities associated with assets classified as held for sale	673
Net assets of disposal group	**14,276**

b) Gazipaşa

	31 December 2014
Property, plant, equipment and intangible assets	35,328
Other assets	3,340
Total assets classified as held for sale	38,668
Trade payables	64
Other liabilities	2,205
Total liabilities associated with assets classified as held for sale	2,269
Net assets of disposal group	**36,399**

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NOTE 33 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

	31 December 2014		
	Currency	Foreign currency amount	Amount TL
Letter of guarantees received	EUR	317,071	894,362
	TL	448,932	448,932
	USD	5,245	12,163
			1,355,457
Letter of guarantees given	TL	3,958,750	3,958,750
	USD	121,710	282,233
			4,240,983

	31 December 2013		
	Currency	Foreign currency amount	Amount TL
Letter of guarantees received	EUR	339,115	995,811
	TL	524,480	524,480
	USD	9,989	21,320
			1,541,611
Letter of guarantees given	TL	4,986,642	4,986,642
	USD	121,710	259,766
	EUR	25	73
			5,246,481

NOTE 33 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (Continued)

GenCo:

The Group entered several loan agreements for bank borrowings (Note 20) and those financial packages require compliance with the following financial covenants:

Total Debt to Equity ratio should not be more than 60:40 at all times
The Net Debt to EBITDA ratio should not be more than 4.0:1 following the Sponsor Support release date (*)
The Historic Total Debt Service Cover ratio to be not less than 1.1:1 following the Sponsor Support release date on any two consecutive interest payment dates (*)

(*) Sponsor Support release date refers to at earliest 3 years after the completion of all of the projects financed, on each Financial Statement delivery date.

At 31 December 2014 the abovementioned ratios are as follows:

Total Debt to Equity ratio: 58:42
Net Debt to EBITDA ratio: 16.56:1 (not yet effective as of 31 December 2014)
Historic Total Debt Service Cover ratio: 0.80:1 (not yet effective as of 31 December 2014)

Moreover, following the execution of the Common Terms Agreement ("CTA") and security agreements regarding on the finance package, Group's following assets are subject to the security regime set forth in the CTA in favour of the Lenders;

- Immoveable Property; all the real property, land sites and buildings and fixtures (excluding furniture) to the land,
- Moveable Property with book value of more than TL 100,000; Commercial Enterprise Pledge is perfected in favour of the Lenders,
- Receivables under the licences and authorizations,
- Contractual Rights, Claims and interests are assigned to the Lenders (any rights claims and interests under Project Documents, Insurances, electricity sale agreements, Reinsurance, Sponsor Support and Share Retention Agreement, letters of credit provided by the construction contractor in favour of the Group.
- Pledge is perfected over the bank accounts of the Group.

The Group further entered in security arrangements in favour of the Lenders with respect to the inter-company loans and hedging documents. Any asset included to the Group's portfolio ("New Asset") will also be subject to the aforementioned security regime. The relevant security over the New Assets will be created periodically.

The Group as lessee

Leasing arrangements

Operating leases relate to forest land, road and mining rights with lease terms of between 3 to 49 years, without an extension option. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

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NOTE 33 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (Continued)

GenCo (Continued):

The Group as lessee (Continued)

Non-cancellable operating lease commitments

Non-cancellable operating lease commitments	**31 December 2014**	**31 December 2013**
No longer than 1 year	2,129	1,072
Longer than 1 year and no longer than 5 years	7,598	4,120
Longer than 5 years	66,021	28,161
	75,748	**33,353**

EEDAŞ:

Investment obligations

Annual expansion, replacement, and improvement investments that are stated in TOR and required to be completed by EEDAŞ have been determined during the preparation of the tariffs. These investments have been included in the first implementation period tariffs approved by EMRA and as a result the EEDAŞ is obliged to make these determined investments. Implementation of these investments is monitored by EMRA by the reports received from EEDAŞ at the end of each year. Some of these investments are subject to unit prices per announced by EMRA. According to the regulations, the EEDAŞ is allowed to make transfers between the years after taking approval of EMRA.

Energy Sales Agreements

EEDAŞ signed Energy Sales Agreements with TETAŞ in order to obtain its energy needs during the transition period. These Energy Sales Agreements have been established based on regulated prices. EEDAŞ is obliged to purchase the energy quantity stated in these agreements. At the current operating conditions and market structure, the Group's energy needs are higher than the contracted quantities and EEDAŞ makes purchases regularly from PMUM. As a result, the Group management does not expect any liability related to the Energy Sales Agreements arising from not fulfilling the requirements of the agreements.

NOTE 34 - EVENTS AFTER THE REPORTING DATE

Group targets to reach 5,000 MW of generation capacity in the mid-term. To identify its priorities in fulfilling this target, GenCo has recently conducted a portfolio optimization study focusing on economies of scale as well as efficient utilization of resources. As a result, GenCo has decided to divest Birkapılı and Gazipaşa run of river hydro assets which are not in line with its long-term portfolio view. Divestment process had been initiated with preparations on 2nd half of 2014 and upon EMRA approval shares of pertaining vehicle companies transferred to new owner on February 2015.

Suçatı HEPP was transferred to EÜAŞ authorised by the Ministry of Energy and Natural Resources on the date of 18 January 2015 which is the expiration date of the concession term in accordance with Concession Agreement signed with the Ministry.

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ENERJISA

Offering of up to 21,259,241,400 Offer Shares
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